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ESG Criteria and Corporate Financial Sustainability: An Analysis of the Role, Transparency, and Risk of Greenwashing

Abstract: *This paper analyses the role of ESG (Environmental, Social, Governance) criteria in the context of corporate financial sustainability, with particular emphasis on the phenomenon of greenwashing. The aim of the study is to examine the extent to which the application of ESG principles contributes to long-term business stability, as well as to identify the challenges associated with their implementation. The methodological approach is based on the analysis of relevant scientific and professional literature, combined with a comparative review of various theoretical and practical perspectives. The results indicate that the consistent application of ESG criteria can enhance reputation, reduce risks, and improve financial performance, while inadequate or superficial implementation creates room for greenwashing and undermines investor trust. It is concluded that transparency is a key factor in achieving genuine sustainability and credibility in ESG reporting.*

Keywords: *ESG criteria, financial sustainability, greenwashing, corporate governance, sustainable business*

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INTRODUCTION

In recent years, financial sustainability has evolved from a marginal issue into a key factor for the long-term survival and success of companies. This shift has been driven by the growing awareness of the need to address environmental, social, and governance challenges faced by modern society. Continuous pressure from investors, regulators, consumers, and other stakeholders has led to environmental, social, and governance (ESG) criteria taking a central role in evaluating corporate performance.

ESG criteria represent a holistic approach that enables the assessment of companies across three key dimensions: environment, social responsibility, and governance. In the environmental domain, attention is given to how companies manage carbon emissions, utilize natural resources, and assume responsibility in combating climate change. The social dimension includes the evaluation of working conditions, respect for human rights, and diversity and inclusion among employees, as well as the broader societal impact of products and services on the communities in which companies operate. Governance criteria, on the other hand, focus on the quality and transparency of corporate governance, business ethics, board structure, and anti-corruption practices.

The growing importance of ESG criteria has been driven by global trends promoting greater corporate responsibility. One of the key changes is reflected in shifting investor preferences. In the past, investors primarily sought to maximize short-term financial returns. Today, however, they are increasingly inclined toward investments that generate both financial returns and positive social and environmental impacts. This shift has led to the growth of socially responsible investments and sustainable investment funds, which increasingly incorporate ESG factors into their decision-making processes. A growing body of research suggests that integrating ESG principles into corporate strategies can provide a competitive advantage, including greater resilience during crises, improved access to capital, and reduced operational costs.

Companies that implement ESG standards often achieve better outcomes in risk management. Firms with strong environmental sustainability policies tend to be better prepared for stricter regulations related to emissions and resource consumption, enabling them to avoid penalties and, in some cases, benefit from government incentives. On the other hand, companies that prioritize employee well-being and adopt inclusive policies are generally more successful in retaining talent, which in the long run contributes to higher productivity and lower employee turnover costs.

Despite these advantages, it is important to note that the adoption of ESG criteria also entails certain challenges. This is particularly relevant for companies operating in resource-intensive sectors or in developing economies, where ESG regulations are not yet sufficiently developed. Many companies face difficulties in balancing short-term profitability with the growing pressure to adopt responsible practices that require significant initial investments. However, by overcoming these obstacles and adopting long-term ESG-oriented strategies, companies can improve their reputation and strengthen relationships with stakeholders. Moreover, they often achieve leadership positions in the market. Companies that adopt sustainable and transparent practices tend to demonstrate greater resilience during crises, as evidenced during major global events such as the COVID-19 pandemic. During this period, companies with well-implemented ESG policies adapted more easily and maintained more stable operations, thereby minimizing negative financial impacts.

It is also important to emphasize that the ESG approach plays a significant role in strengthening corporate responsibility in relation to climate change, one of the greatest environmental challenges of the 21st century. Many companies increasingly recognize the inevitability of transitioning to a low-carbon economy (20). At the same time, this transition presents opportunities for innovation and industry leadership. Numerous large corporations have publicly committed to reducing emissions and achieving carbon neutrality. Companies are aware that failure to take proactive measures may result in falling behind in a market where both consumers and investors are paying increasing attention to ESG factors (3).

From a regulatory perspective, ESG criteria are becoming an integral part of legal frameworks across different regions of the world. In Europe, the Sustainable Finance Disclosure Regulation (SFDR) has introduced new requirements for ESG reporting. In the United States, the Securities and Exchange Commission (SEC) requires publicly listed companies to provide greater transparency regarding climate-related risks. These changes are not only aimed at improving transparency and comparability but also reflect a new perception of the role of companies in society.

From a global standpoint, the pressure to align business practices with the United Nations Sustainable Development Goals (SDGs) represents an additional driver for the adoption of ESG criteria. The SDGs provide companies with a framework to measure their contribution to addressing global challenges such as poverty, climate change, quality education, and gender equality. Companies that align their objectives with the SDGs not only contribute to a more equitable and sustainable world but also enhance their reputation and stakeholder relationships. In the long term, this alignment can have a positive impact on financial performance.

The aim of this paper is to analyze the role of ESG criteria in shaping corporate financial sustainability. Special attention is given to the risks associated with greenwashing practices and the challenges companies face in implementing sustainable business models. In order to better understand the interdependence between non-financial performance and long-term economic value, a synthesis of existing theoretical and empirical findings is conducted.

Given the clearly defined objective, the main research question is: how do ESG criteria influence corporate financial sustainability, and to what extent does greenwashing undermine the credibility of ESG reporting and market perception?

The contribution of this paper lies in the integration of various theoretical approaches that link ESG criteria, corporate governance, and financial performance. Additionally, the paper identifies key contradictions in the literature, particularly in the context of the conflict between short-term profitability and long-term sustainability. It also highlights research gaps related to the standardization of ESG reporting and the authenticity of sustainable practices.

METHODOLOGICAL FRAMEWORK OF THE RESEARCH

This paper represents a narrative literature review based on the analysis of relevant scientific and professional sources in the fields of ESG criteria, financial sustainability, and greenwashing practices. The aim of the methodological approach was not to conduct a formal systematic review, but rather to synthesize key theoretical perspectives, current research findings, and dominant thematic trends in contemporary literature.

The literature was collected from electronic databases, including Scopus and Web of Science, using keywords such as: ESG criteria, greenwashing, financial sustainability, sustainability, ESG reporting, and corporate governance, both individually and in various combinations.

The analysis included studies published in the period from 2010 to 2025, with particular emphasis on recent research reflecting current trends in corporate reporting and sustainable business practices. The selection of studies was based on their relevance to the research topic, academic validity, and citation frequency in the scientific literature.

The analytical approach was qualitative, involving thematic categorization of the identified studies into several key areas: the role of ESG criteria in financial sustainability, the issue of greenwashing, the conflict between short-term and long-term business objectives, the costs of transitioning to sustainable models, and the transparency of corporate governance.

This approach enabled the identification of key patterns in the literature, as well as the recognition of research gaps relevant for the further development of this field.

AUTHENTICITY OF ESG REPORTING AND THE PHENOMENON OF GREENWASHING

Greenwashing represents a highly complex phenomenon that not only affects a company's credibility but also undermines the trust of consumers and investors in ESG reports (12, 33). Studies indicate that companies resort to greenwashing due to pressure from financial markets to demonstrate short-term results (12). This pressure leads many companies to embellish their reports. Instead of investing in genuinely sustainable practices, some companies choose to modify their disclosures in order to meet the expectations of consumers, investors, and other stakeholders, thereby creating a gap between what is reported and what is actually practiced.

On the other hand, some studies emphasize that greenwashing constitutes a marketing strategy designed to capitalize on the growing demand for sustainable products and services (16, 39). This is particularly evident in the energy sector and the fast-moving consumer goods sector (32). In this context, companies respond to investor pressure; however, greenwashing is also driven by the perception that portraying a "green image" can attract more investors and generate higher revenues. Such practices not only erode trust in companies but also contribute to broader confusion regarding which companies are genuinely committed to sustainability.

With regard to regulatory frameworks for ESG reporting, the literature presents divergent views. Some studies suggest that appropriate regulation and increased transparency in ESG reporting can mitigate greenwashing practices (9, 15). Conversely, other research indicates that, despite stringent regulations, companies continue to find ways to manipulate information (26). Therefore, although regulation plays a crucial role in enhancing the reliability of reports, it may be insufficient if companies do not adopt a genuinely ethical approach to sustainability. A review of the literature also shows that greenwashing may be encouraged by the lack of clear standards in ESG reporting (28, 34). The problem is further exacerbated by the diversity of approaches and metrics used to measure environmental and social impacts, which leads to confusion. This, in turn, enables some companies to overstate their sustainability performance without being detected.

An additional factor facilitating the presentation of exaggerated information is the lack of external auditing, particularly in areas where regulatory frameworks are weak or underdeveloped. Moreover, some studies argue that the authenticity of ESG reporting does not depend solely on the existence of clear standards but also on the organizational culture within the company itself (7). When sustainability is perceived merely as a bureaucratic requirement or a market trend, companies tend to adopt a superficial approach to ESG criteria rather than integrating them into their core corporate strategy. This ultimately leads to the emergence of greenwashing practices, as companies seek to satisfy external expectations without implementing substantive changes in their operations.

Furthermore, when examining the relationship between greenwashing and governance structures, it can be observed that companies with strong governance frameworks and transparent internal control mechanisms are less likely to engage in greenwashing (36). This is because management in such companies is more committed to accountability and long-term value creation. This finding challenges the notion that greenwashing is purely an external strategy and highlights the importance of strengthening internal governance as a means of ensuring the authenticity of ESG reporting.

It is also important to emphasize that greenwashing can influence the perception of financial markets (27). When investors detect greenwashing practices, they may "penalize" companies by reducing their market value. This creates an incentive for companies to be more transparent and authentic in their ESG reporting, as the reputational risk associated with greenwashing can have significant financial consequences. It can therefore be concluded that this perspective introduces an economic dimension that adds a new level of complexity to the debate on the authenticity of ESG reporting.

INTERTEMPORAL CONFLICT: SHORT-TERM PROFITABILITY VERSUS LONG-TERM SUSTAINABILITY

The primary objective of companies is to maximize shareholder value, which has traditionally been interpreted as the imperative to achieve the highest possible financial returns within the shortest possible time frame (24). Consequently, investments in sustainability—often associated with additional costs and delayed returns—are perceived as obstacles to achieving this objective. In many industries, such a short-term-oriented approach has been dominant, particularly in those characterized by rapid production cycles and high expectations of immediate profitability (e.g., retail and technology sectors).

This perspective reflects the dominant paradigm of shareholder capitalism, in which company value is measured exclusively through financial performance, while the social and environmental contexts of business operations are largely neglected. In the literature, this approach is often interpreted as establishing a dichotomy between sustainability and profitability, representing one of the central points of ongoing academic debate.

In contrast, literature also presents an alternative theoretical framework through the concept of shared value (11, 30, 41). This concept seeks to establish a link between a company's economic success and its positive impact on the environment and society. Companies that integrate sustainability principles into their strategies not only contribute to environmental protection and the improvement of social conditions but are also better positioned to achieve long-term economic value (41). In this context, the initial costs associated with sustainability should not necessarily be viewed as a burden but rather as investments that generate long-term economic benefits. This challenges the assumption of an inherent trade-off between short-term profitability and sustainability.

Such a perspective introduces significant theoretical shifts, primarily by redefining the relationship between economic and non-economic objectives, suggesting that they are not necessarily competing but potentially complementary. However, the question remains to what extent this concept can be applied in industries facing strong pressure for short-term performance.

This issue is further reinforced by arguments suggesting that excessive focus on short-term returns may undermine corporate resilience and ultimately jeopardize long-term financial performance (1, 5). Companies that sacrifice sustainability for immediate gains are significantly more exposed to future risks, including regulatory sanctions, reputational damage, and increased exposure to operational and financial risks (5). In this sense, sustainability is increasingly viewed in contemporary literature not merely as an ethical or philanthropic choice, but as a strategic tool for risk management and long-term value creation. Rather than being optional, it is seen as a rational risk management strategy that enhances a company's adaptability and resilience in conditions of market turbulence and global crises.

Accordingly, the focus of analysis in the literature is shifting from a normative to a strategic level. This implies that sustainability becomes an integral component of risk management and long-term value creation, rather than an additional obligation. Implicitly, this challenges the short-term logic of profit maximization, highlighting its negative externalities.

The debate between Freeman and Friedman provides a deeper, normatively grounded philosophical insight into the nature of this conflict (17, 19). According to Friedman, a company has only one social responsibility—to maximize profits for its shareholders. He further argues that any shift toward sustainability or social responsibility objectives represents a distraction that may reduce economic efficiency (19). In contrast, Freeman developed stakeholder theory, according to which companies must consider the interests of all relevant stakeholders in their decision-making processes—not only shareholders, but also employees, local communities, and the environment (17). Although this approach may initially appear normatively idealistic, it has gained substantial theoretical and practical recognition in recent decades, partly due to growing societal expectations for companies to operate more responsibly and sustainably.

The juxtaposition of these perspectives clearly highlights the theoretical divide between the shareholder and stakeholder models of corporate governance. The former prioritizes financial efficiency, while the latter introduces a multidimensional approach to value that encompasses social and environmental dimensions (25). Based on the above, it can be concluded that the conflict between short-term profitability and long-term sustainability is not necessarily inherent. Rather, it may arise from dominant governance paradigms and decision-making time horizons. Therefore, future research, as well as business practice, should focus on developing integrative models that enable the simultaneous achievement of economic and social objectives.

HIDDEN COSTS OF THE TRANSITION TO SUSTAINABLE BUSINESS MODELS

The transition to sustainable business models entails significant organizational and financial costs, particularly in relation to employee training and the adaptation of internal processes. An additional challenge is employee resistance to change, which can increase overall implementation costs and slow down the transition process. Companies therefore face the challenge of ensuring that all employees accept and adhere to new corporate objectives. The process of retraining and developing organizational awareness represents a complex and financially demanding component of the transition (2).

Regulatory costs constitute one of the key factors shaping the dynamics of the transition toward sustainable business models. The adoption of stricter sustainability standards at both national and international levels often requires unplanned operational adjustments and additional financial investments. The literature indicates that small and medium-sized enterprises are particularly affected by the increase in administrative costs associated with regulatory compliance (10). This results in additional financial burdens that are often not anticipated at the initial stages of the transition process (18).

In addition, it is important to highlight differences in the perception of the long-term profitability of sustainable business models. Empirical studies suggest that such models can generate returns on investment through improved operational efficiency and enhanced customer loyalty. However, these benefits are often neither immediately measurable nor visible in the short term (31, 40). The transition itself may take several years before tangible effects become evident, which creates significant pressure on short-term financial performance and may negatively influence investor perception (14, 37, 45).

Furthermore, the literature suggests that the costs of transforming supply chains toward more sustainable alternatives are often systematically underestimated. Companies also face significant challenges in identifying suppliers that meet new sustainability standards. This frequently leads to increased input costs and short-term supply disruptions (22, 43).

TRANSPARENCY OF CORPORATE GOVERNANCE AND THE QUALITY OF ESG PRACTICES

The results of a study conducted by Tamimi and Sebastianelli, which examines the level of transparency among companies included in the S&P 500 index, indicate that corporate governance practices are the most transparent compared to environmental and social dimensions (46). The study shows that factors such as gender diversity on the board of directors and CEO duality have a direct impact on ESG reporting outcomes (4, 38). Empirical findings further suggest that larger companies tend to achieve higher levels of transparency. This underscores the importance of corporate governance and ESG disclosure in enabling a more comprehensive evaluation by stakeholders.

The governance dimension represents a fundamental pillar of ESG transparency, as the quality of governance structures directly influences the scope and reliability of disclosed information. This confirms that without a strong system of corporate governance, full transparency in other ESG dimensions cannot be achieved. However, the literature frequently criticizes approaches that focus solely on the quantity of disclosures without considering the quality and reliability of ESG data (6, 21). One proposed solution is the application of mathematical models that integrate these factors, allowing for a more precise assessment of transparency. According to such models, many publicly listed companies have not yet developed standardized and reliable systems for measuring ESG transparency (6). This results in significant inconsistencies in the comparability of corporate reports.

These findings point to a major methodological challenge in contemporary ESG reporting, namely that the sheer volume of disclosed information does not guarantee its relevance or credibility. Consequently, the focus is shifting toward the development of more sophisticated metrics that incorporate qualitative aspects of reporting.

Furthermore, ESG transparency not only improves public perception but also increases firm value by reducing information asymmetry between investors and companies (49). Empirical studies indicate that ESG transparency can positively influence market valuation, as reflected in indicators such as Tobin's Q. It is argued that companies with higher levels of transparency enjoy greater investor trust, which is reflected in higher market valuations (49). These findings suggest that transparency is not merely a normative imperative but also a mechanism for value creation, thereby reinforcing the integration of ESG principles into corporate strategic management.

However, it is important to note that the literature does not present a unified view regarding the positive effects of ESG transparency. Some studies show that, although transparency is crucial for attracting capital, it may also have a negative impact on firm valuation

(8). These results indicate that higher levels of ESG transparency in certain sectors may be associated with lower market valuations, suggesting a reverse market reaction in industries with high ESG risks. In such cases, transparency may reveal weaknesses rather than strengthen investor confidence (14).

These findings highlight the contextual nature of ESG transparency, where its effects are conditioned by industry characteristics and the level of risk exposure. In this sense, transparency can function as a two-way signal, simultaneously enhancing trust while exposing vulnerabilities.

The literature also identifies management tenure as an additional influencing factor (35). It is argued that managers with longer tenures are more likely to adopt conservative and less transparent ESG reporting strategies. Conversely, changes in management often lead to improvements in the quality of ESG disclosures, suggesting that governance structures tend to increase transparency in order to enhance market perception (23).

These findings confirm the importance of internal organizational dynamics in shaping ESG practices, indicating that transparency is not solely driven by external pressures but also by leadership changes and strategic priorities. In this context, ESG transparency represents a multidimensional phenomenon determined by a combination of governance structures, regulatory frameworks, market expectations, and industry-specific characteristics. Therefore, future research should focus on developing integrated models that simultaneously capture both quantitative and qualitative aspects of transparency, as well as their differentiated effects on corporate performance.

MULTINATIONAL COMPANIES AND WORKING CONDITIONS IN GLOBAL SUPPLY CHAINS

Research indicates that many companies, particularly in the textile and food industries, have adopted sustainable sourcing practices. However, these measures remain limited, as they often cover only a small number of key inputs and suppliers (48). Many companies focus primarily on ensuring minimum labor rights and compliance with national legislation. Nevertheless, such voluntary initiatives fail to comprehensively address systemic issues in global supply chains. These findings point to a selective implementation of sustainable practices, which represents a significant ESG risk for companies. Focusing on the most visible segments of the supply chain may lead to reputational and regulatory consequences, especially when hidden issues at lower tiers become subject to public or investor scrutiny.

When examining labor management strategies, it is important to note that they are often based on the relationship between multinational companies and consumers, rather than between workers and the company itself. This structure creates a so-called governance vacuum, increasing both operational and reputational risks for multinational corporations. In such cases, actual working conditions remain largely outside effective oversight, resulting in limited control over ESG performance at lower levels of the supply chain. At the same time, many multinational companies avoid direct responsibility for poor working conditions in these segments. This consumer-oriented approach reduces the capacity of voluntary initiatives to substantially improve labor conditions in global supply chains (13). It highlights a structural problem of accountability, where formal compliance with standards does not necessarily translate into substantive improvements in working conditions.

This paper builds on existing literature to suggest that inadequate working conditions in global supply chains constitute a significant social risk within the ESG framework. Phenomena such as forced labor further increase reputational and regulatory risks, which may have direct implications for a company's market value and access to capital. It is important to emphasize that supply chains cannot be separated from issues of labor exploitation, particularly in the case of forced labor (29). Within supply chains, market dynamics often incentivize inadequate working conditions, and contemporary labor practices such as modern slavery are deeply embedded in the business models of multinational corporations (44). The persistence of such conditions in many cases highlights the gap between corporate social responsibility standards and actual business practices. This suggests that the problem lies not only in the implementation of standards but also in the underlying logic of global production systems that generate and reproduce inequalities.

From the perspective of global production networks, the relationships between multinational companies and workers are crucial for understanding labor inequalities within supply chains (42). When companies relocate production beyond national borders, the bargaining power of workers in production facilities diminishes, leading to further deterioration of already precarious working conditions. These findings indicate a power asymmetry within global supply chains, enabling the transfer of ESG risks to lower tiers while limiting the accountability of lead firms.

These findings indicate that inequalities within supply chains are not incidental, but structurally embedded, requiring deeper institutional and regulatory interventions.

The literature also examines the role of the International Labour Organization (ILO) in global labor governance, noting that the expansion of supply chains has weakened traditional models of state-based labor regulation (47). The inability of states to effectively enforce labor laws within global supply chains has created a need for new governance models. In this context, international actors such as the ILO could play a leading role in defining standards for improved working conditions. However, this approach faces significant challenges due to power asymmetries within supply chains.

Based on the above, it can be concluded that multinational companies play an ambivalent role. Although they formally promote sustainability and responsible practices, their operational strategies often contribute to the reproduction of problematic working conditions. Therefore, future efforts should focus on strengthening accountability mechanisms across the entire supply chain, with particular emphasis on lower tiers where the risks of exploitation are the highest.

CONCLUSION

This paper aims to provide a critical analysis of the relationship between ESG criteria and the financial sustainability of companies, with a particular focus on the implications of greenwashing practices. The findings indicate that ESG criteria are not merely a peripheral aspect of corporate governance, but rather a key framework shaping long-term resilience, access to capital, and the market valuation of companies.

The literature review confirms that the consistent integration of ESG principles contributes to improved risk management, reduced information asymmetry, and increased investor confidence. However, these effects are neither universal nor automatic. Their realization depends on the depth of ESG implementation, the institutional environment, and the quality of corporate governance. These findings challenge the simplified assumption of a linear and unambiguous positive impact of ESG factors on financial performance.

The paper particularly emphasizes that greenwashing represents a structural problem within the contemporary ESG framework, rather than an isolated issue of individual companies. The lack of standardized metrics, fragmented regulatory regimes, and limited external verification create opportunities for companies to instrumentalize ESG narratives. Such practices enable reputational positioning without substantive changes in business models. Greenwashing not only undermines the credibility of individual reports but also destabilizes investor trust in ESG as an evaluation system.

The contribution of this paper lies in the systematization and critical reinterpretation of existing theoretical and empirical findings, with particular emphasis on identifying key contradictions in the literature. The study highlights the tension between short-term profitability and long-term sustainability, as well as the contextual nature of ESG transparency effects. Additionally, it problematizes current approaches to measuring ESG performance and points to the need for developing integrated models that simultaneously capture both quantitative and qualitative dimensions of sustainability.

A limitation of the paper stems from its methodological nature and reliance on secondary sources, without empirical validation of the presented claims. Despite these limitations, the paper provides a relevant analytical framework that can serve as a foundation for future empirical research.

Future research should focus on the quantitative testing of the relationship between ESG performance and financial outcomes, the development of standardized and comparable indicators of ESG transparency, as well as a deeper analysis of institutional and governance determinants of ESG authenticity.

In conclusion, ESG criteria have the potential to redefine the paradigm of corporate governance and company valuation, but only with improvements in regulatory frameworks, the standardization of reporting, and a clear distinction between genuine sustainability and its symbolic representation.

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ESG kriterijumi i korporativna finansijska održivost: Analiza uloge, transparentnosti i rizika od „grinvošinga"

Apstrakt: Ovaj rad analizira ulogu ESG (Environmental, Social, Governance) kriterijuma u kontekstu korporativne finansijske održivosti, sa posebnim naglaskom na fenomen „grinvošinga" („zelenog pranja"). Cilj studije je da se ispita u kojoj meri primena ESG principa doprinosi dugoročnoj stabilnosti poslovanja, kao i da se identifikuju izazovi u vezi sa njihovom primenom. Metodološki pristup zasniva se na analizi relevantne naučne i stručne literature, kombinovanoj sa uporednim pregledom različitih teorijskih i praktičnih perspektiva. Rezultati pokazuju da dosledna primena ESG kriterijuma može poboljšati reputaciju, smanjiti rizike i poboljšati finansijske performanse, dok neadekvatna ili površna primena stvara prostor za „grinvošing" i podriva poverenje investitora. Zaključeno je da je transparentnost ključni faktor u postizanju istinske održivosti i kredibiliteta u ESG izveštavanju.

Ključne reči: ESG kriterijumi, finansijska održivost, „grinvošing", „zeleno pranje", korporativno upravljanje, održivo poslovanje