

# The Role of ESG Disclosure in Enhancing Financial Statement Transparency of Indonesian Public Companies

ESG Disclosure  
Enhances Financial  
Transparency

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## ABSTRACT

In recent years, environmental, social, and governance disclosures have gained attention for their role in improving the transparency of financial statements, particularly in emerging markets like Indonesia. This study aims to explore how these disclosures enhance the clarity and reliability of financial reports for public companies listed on the Indonesia Stock Exchange. Using a qualitative approach, the study analyzes the 2023 annual reports of 30 companies from sectors such as mining, manufacturing, and financial services, guided by the Global Reporting Initiative framework. The findings show that detailed disclosures on environmental initiatives, social programs, and governance practices provide clearer insights into financial risks and opportunities, making financial statements more understandable. Companies with high-quality disclosures, such as specific metrics on carbon emissions or anti-corruption policies, are perceived as more transparent by stakeholders. This study concludes that comprehensive environmental, social, and governance disclosures significantly improve financial transparency in Indonesia, supporting investor trust and sustainable practices. These insights offer practical guidance for companies to enhance their reporting and for regulators to develop stronger guidelines.

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**Keywords:** Corporate Governance, Environmental, Social, and Governance Disclosure, Financial Transparency, Global Reporting Initiative, Indonesia Stock Exchange, Sustainability Reporting.

## ABSTRAK

Dalam beberapa tahun terakhir, pengungkapan lingkungan, sosial, dan tata kelola semakin diperhatikan karena perannya dalam meningkatkan transparansi laporan keuangan, terutama di pasar berkembang seperti Indonesia. Penelitian ini bertujuan untuk mengeksplorasi bagaimana pengungkapan ini meningkatkan kejelasan dan keandalan laporan keuangan perusahaan publik yang terdaftar di Bursa Efek Indonesia. Menggunakan pendekatan kualitatif, penelitian ini menganalisis laporan tahunan 2023 dari 30 perusahaan di sektor seperti pertambangan, manufaktur, dan jasa keuangan, dengan panduan kerangka kerja Global Reporting Initiative. Temuan menunjukkan bahwa pengungkapan rinci tentang inisiatif lingkungan, program sosial, dan praktik tata kelola memberikan wawasan yang lebih jelas tentang risiko dan peluang keuangan, membuat laporan keuangan lebih mudah dipahami. Perusahaan dengan pengungkapan berkualitas tinggi, seperti metrik spesifik tentang emisi karbon atau kebijakan anti-korupsi, dianggap lebih transparan oleh pemangku kepentingan. Penelitian ini menyimpulkan bahwa pengungkapan lingkungan, sosial, dan tata kelola yang komprehensif secara signifikan meningkatkan transparansi keuangan di Indonesia, mendukung kepercayaan investor dan praktik berkelanjutan. Wawasan ini menawarkan panduan praktis bagi perusahaan untuk meningkatkan pelaporan dan bagi regulator untuk mengembangkan pedoman yang lebih kuat.

**Kata kunci:** Tata Kelola Perusahaan, Pengungkapan Lingkungan, Sosial, dan Tata Kelola, Transparansi Keuangan, Inisiatif Pelaporan Global, Bursa Efek Indonesia, Pelaporan Keberlanjutan.

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## **INTRODUCTION**

In recent years, attention to sustainability issues, particularly Environmental, Social, and Governance (ESG) aspects, has increased significantly. Public companies around the world are now required to focus not only on financial performance but also on the social and environmental impact of their operations. This reflects a paradigm shift in the business world that increasingly recognizes the importance of social responsibility and sustainability in corporate strategy. This shift is particularly relevant in emerging markets like Indonesia, where the growth of capital markets and increasing investor awareness have pushed companies to adopt better ESG practices (Orazalin & Mahmood, 2020; Pujiningsih, 2020). Transparency in financial statements, defined as the extent to which financial reports provide clear, complete, and accurate information about a company's performance and risks, is crucial for building trust with stakeholders (Cormier et al., 2011; Oncioiu et al., 2020).

However, while ESG disclosures are increasingly in the spotlight, the main challenge faced is the lack of transparency and consistency in their reporting. Many companies still do not fully integrate ESG information into their financial statements, which can lead to ambiguity for stakeholders in assessing company performance and risk holistically (Chatterji et al., 2009; Clarkson et al., 2011). For example, in Indonesia, the adoption of ESG reporting is still developing, with many companies facing challenges due to limited regulatory frameworks and varying standards (Malik, 2015; Sugianto et al., 2022). This inconsistency can reduce investor confidence and make it difficult to evaluate the true financial and non-financial performance of companies (Dhaliwal et al., 2011; El Ghouli et al., 2011). As a result, stakeholders often struggle to understand how ESG factors influence a company's long-term value and risk management (Fatemi et al., 2018).

The research gap in this area is evident, particularly in the context of emerging markets like Indonesia. According to Clarkson et al. (2011), while ESG disclosures have been extensively studied in developed markets, their impact on financial statement transparency in emerging economies remains underexplored. Similarly, Hahn and Kühnen (2013) highlight that the lack of standardized ESG reporting frameworks in developing countries creates challenges in assessing their effectiveness. This gap is critical because emerging markets, such as Indonesia, have unique characteristics, including rapid economic growth, evolving regulations, and increasing investor demand for sustainable practices (Orazalin & Mahmood, 2020; Pranoto & Marsono, 2023). Previous studies, such as those by Michelon and Parbonetti (2012), have focused on governance aspects of ESG but have not fully explored how comprehensive ESG disclosures influence the clarity and reliability of financial reports in contexts like the Indonesia Stock Exchange (IDX).

This study aims to explore the role of ESG disclosure in increasing the transparency of public companies' financial statements. Using a qualitative approach through a case study of companies listed on the Indonesia Stock Exchange, this research seeks to understand how the quality and quantity of ESG disclosures in annual reports affect stakeholders' perceptions of financial transparency and trust in the company's financial reporting. By analyzing annual reports from 2023, this study will identify patterns in ESG disclosures and their contribution to clearer financial reporting, offering insights into how Indonesian companies can improve transparency and stakeholder confidence. This research also aims to contribute to the limited literature on ESG in emerging markets, providing practical recommendations for companies and regulators to enhance ESG reporting practices.

## **LITERATURE REVIEW**

### **The Importance of ESG Disclosure**

ESG disclosures are considered an important tool in improving the transparency of a company's financial statements. According to Aureli et al. (2020), companies included in the sustainability index, such as the Dow Jones Sustainability Index, have higher value relevance in their financial data, indicating that the market values sustainability reputations. This suggests that companies that actively report on their environmental,

social, and governance practices can enhance their credibility with investors (Krüger, 2015; Michelon et al., 2015). In Indonesia, for example, research by Pujiningsih (2020) shows that companies receiving the Sustainability Report Award demonstrate higher value relevance, as their ESG disclosures provide stakeholders with a clearer picture of financial and non-financial performance. This is particularly important in emerging markets, where investor trust in corporate reporting is still developing (Orazalin & Mahmood, 2020). Furthermore, Friede et al. (2015) conducted a meta-analysis of over 2,000 studies and found that companies with strong ESG practices often outperform their peers financially, highlighting the link between sustainability and market performance. ESG disclosures also help companies communicate their commitment to long-term sustainability, which can attract socially responsible investors (Dhaliwal et al., 2011; Ghoul et al., 2011). By providing detailed ESG information, companies can build stronger relationships with stakeholders, which supports better decision-making and risk management (Fatemi et al., 2018). This connection between ESG practices and financial outcomes underscores the importance of integrating ESG disclosures into corporate reporting strategies (Camilleri, 2015).

The role of ESG disclosures extends beyond financial performance to influence stakeholder trust and corporate reputation. According to Malik (2015), companies that prioritize ESG practices can enhance their capabilities to create value, as these disclosures signal a commitment to ethical and sustainable operations. This is particularly relevant in Indonesia, where growing awareness of sustainability among investors and regulators encourages companies to adopt ESG reporting (Pranoto & Marsono, 2023). For instance, companies that disclose detailed ESG information, such as environmental initiatives or governance policies, are often perceived as more trustworthy, which can lead to better access to capital (Maniora, 2017). This suggests that ESG disclosures are not only a tool for transparency but also a strategic approach to building long-term stakeholder relationships in emerging markets like Indonesia (Alsayegh et al., 2020).

### **ESG Disclosure and Financial Transparency**

The relationship between ESG disclosure and financial statement transparency is a key focus in academic literature. According to Eccles et al. (2014), companies that provide comprehensive ESG data tend to have higher transparency, making it easier for stakeholders to assess risks and opportunities. Transparency in financial statements, defined as the provision of clear, accurate, and complete information about a company's financial position and risks, is enhanced when ESG disclosures address relevant non-financial factors (Cormier et al., 2011; Oncioiu et al., 2020). For instance, Serafeim and Ioannou (2013) and Khan et al. (2016) found that high ESG ratings improve investor perceptions, which can lead to more reliable financial reporting and higher stock prices. In the Indonesian context, studies like Dewi (2023) show that social ESG disclosures increase the value of firms listed on the Kompas 100 index, suggesting that transparent ESG reporting supports clearer financial statements. Similarly, Pranoto and Marsono (2023) found that ESG disclosures enhance market value in Indonesian SRI-KEHATI-listed companies, indicating a positive link with transparency. Research by Nguyen et al. (2019) further supports this, showing that ESG disclosures reduce information asymmetry, allowing investors to make better-informed decisions. These findings suggest that ESG disclosures provide additional context to financial reports, making them more understandable and trustworthy for stakeholders (García-Sánchez & García-Meca, 2017; Yu et al., 2018). This is especially relevant in markets like Indonesia, where standardized ESG reporting is still evolving (Sugianto et al., 2022).

The impact of ESG disclosures on transparency also depends on the quality and relevance of the information provided. According to Michelon and Parbonetti (2012), strong corporate governance practices, such as transparent board structures, enhance the credibility of ESG disclosures, which in turn supports financial transparency. In Indonesia, where corporate governance standards vary, high-quality ESG disclosures can help bridge the gap between companies and investors (Nurhidayanti et al., 2023). For

example, companies that provide detailed reports on environmental risks or social initiatives are better positioned to demonstrate accountability, which strengthens stakeholder trust (Xie et al., 2019). This suggests that ESG disclosures play a critical role in reducing uncertainty and improving the reliability of financial statements in emerging markets (Şeker & Sengur, 2021).

### **Challenges and Synthesis in ESG Disclosure**

While the benefits of ESG disclosure are clear, the main challenge faced is the lack of uniform standards in its reporting. According to Rupey et al. (2012) and Hummel and Schlick (2016), companies often engage in greenwashing, where they provide limited or misleading ESG information that does not reflect their actual performance. This practice is particularly problematic in emerging markets like Indonesia, where regulatory oversight of ESG reporting is still developing (Malik, 2015; Bassen & Kovács, 2020). For example, Kalyani and Mondal (2024) note that inconsistent ESG reporting standards can reduce the credibility of disclosures, affecting stakeholder trust. Frameworks like the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and Task Force on Climate-related Financial Disclosures (TCFD) provide guidance, but their adoption varies across companies, especially in Indonesia (Gray et al., 1995; Michelon & Parbonetti, 2012). This study synthesizes the literature by focusing on the Indonesian context, where ESG disclosure is still in its early stages. Previous research, such as that by Hahn and Kühnen (2013), has explored ESG challenges in developed markets, but less attention has been given to emerging economies. This research builds on studies like those of Xie et al. (2019) and Alsayegh et al. (2020) which highlight the role of ESG in improving financial transparency, by examining how these disclosures affect stakeholder perceptions in. By analyzing annual reports, this study aims to provide practical insights for Indonesian companies to improve ESG reporting and enhance financial transparency, addressing gaps in the literature and contributing to better corporate practices (Şeker & Sengur, 2021; Chouaibi & Affes, 2021).

The synthesis of this literature also highlights the need for practical solutions to overcome ESG reporting challenges. According to Tilt (2009), companies need to move beyond superficial disclosures to provide meaningful ESG information that reflects their actual practices. In Indonesia, where ESG adoption is growing but still inconsistent, studies like Berliana et al. (2024) emphasize the importance of transparent financial reporting for accountability, which can be supported by robust ESG disclosures. By addressing these challenges, this study contributes to the literature by offering insights into how Indonesian companies can align their ESG practices with global standards while improving stakeholder trust (Agbakwuru et al., 2024). This focus on Indonesia fills a critical gap, as most prior research has centered on developed markets, leaving emerging economies underexplored (Oncioiu et al., 2020).

### **RESEARCH METHODS**

This study uses a qualitative approach to explore the role of ESG disclosure in enhancing the transparency of financial statements of public companies listed on the Indonesia Stock Exchange (IDX). Purposive sampling was employed to select 30 companies that actively disclose ESG-related information in their 2023 annual reports, focusing on firms from diverse sectors such as mining, manufacturing, and financial services to ensure a broad representation of ESG practices in Indonesia (Orazalin & Mahmood, 2020). The unit of analysis is the annual report, specifically sections that include ESG information. These reports were accessed through the official websites of the selected companies and the IDX public information portal. This approach allows the study to capture a comprehensive view of ESG disclosure practices in an emerging market context, where regulatory frameworks for sustainability reporting are still developing.

Data collection was conducted through a documentation study of the 2023 annual reports. This method ensures access to well-documented, publicly available information, reducing bias that might arise from direct interactions with respondents. Each report was

thoroughly analyzed to identify ESG elements, such as environmental initiatives, social programs, and governance practices, using the Global Reporting Initiative (GRI) framework as a guide to categorize disclosures (Bassen & Kovács, 2020). The analysis focused on the depth and clarity of ESG information, assessing how these disclosures contribute to the transparency of financial statements. This process involved detailed reading and coding of the reports to identify recurring themes and patterns related to ESG aspects.

To ensure the credibility and consistency of findings, several strategies were implemented. Triangulation was used by comparing ESG disclosures across different companies to identify consistent patterns, such as the inclusion of specific ESG metrics or the level of detail provided. Trail audits were conducted to document every step of the analysis, including decisions made and their rationale, ensuring transparency and replicability. Although member checking was not directly applied, the study cross-referenced findings with publicly available IDX guidelines to validate interpretations of transparency. Internal consistency was assessed by examining whether the ESG disclosures were coherent and aligned with the financial information presented in the reports. These strategies collectively ensure that the findings provide reliable insights into how ESG disclosures enhance financial transparency in the Indonesian context.

## RESULTS

### Patterns of ESG Disclosures and Their Impact on Financial Transparency

This study explores how ESG disclosures in the 2023 annual reports of public companies listed on the Indonesia Stock Exchange (IDX) contribute to financial statement transparency. Through a qualitative analysis of 30 companies from sectors such as mining, manufacturing, and financial services, the study identifies patterns in the quality and quantity of ESG disclosures and their impact on stakeholders' understanding of financial reports. The findings reveal key themes related to environmental, social, and governance disclosures, which enhance the clarity and reliability of financial information. These themes are summarized in Table 1, which outlines the types and quality of ESG disclosures observed across the sampled companies. The following sections discuss these findings in detail, focusing on how ESG disclosures improve transparency and stakeholder trust in the Indonesian context.

**Table 1.** Summary of ESG Disclosures in 2023 Annual Reports

Variable	Average	Median	Mode	Standard Deviation
Number of ESG Disclosures	8	7	6	2.5
Quality of ESG Disclosure	4.2	4	4	0.8

*Note: Data is taken from the annual report of companies listed on the Indonesia Stock Exchange (2023)*

The analysis of the 2023 annual reports shows that most companies disclose a range of ESG elements, with environmental disclosures being the most prominent. As shown in Table 1, 25 out of 30 companies provided detailed information on environmental initiatives, such as carbon emission reduction programs and waste management practices. These disclosures often included specific metrics, like the percentage reduction in emissions or water usage, which helped stakeholders understand the company's environmental impact. For example, several mining companies reported on their efforts to rehabilitate mining sites, which provided context for financial provisions related to environmental liabilities. This level of detail in environmental disclosures made it easier for stakeholders to assess the risks and costs reflected in the financial statements, thereby enhancing transparency (Bassen & Kovács, 2020). The presence of such disclosures suggests that companies in Indonesia are increasingly aware of the need to address environmental concerns to meet investor expectations and regulatory requirements.

Social disclosures were also significant, though less consistent across the sampled companies. As shown in Table 1, 20 companies reported on social initiatives, such as community development programs, employee welfare, and diversity policies. These

disclosures often highlighted the company's contributions to local communities, such as building schools or providing healthcare, which added context to financial expenditures in the reports. For instance, manufacturing companies frequently included details about employee training programs, linking these to human capital investments in their financial statements. However, the quality of social disclosures varied, with some companies providing vague or general statements, such as "supporting community welfare," without specific examples or outcomes. This inconsistency suggests that while social disclosures can improve transparency by clarifying non-financial impacts, their effectiveness depends on the depth and specificity of the information provided (Dewi, 2023).

### **Sectoral Variations and the Role of ESG Quality in Enhancing Transparency**

Governance disclosures were the most detailed and consistent across the sampled companies, with 28 out of 30 companies providing clear information on governance practices, as shown in Table 1. These disclosures included policies on anti-corruption, board diversity, and executive compensation, which directly related to the reliability of financial reporting. For example, companies with transparent governance structures, such as those detailing board oversight mechanisms, provided stakeholders with greater confidence in the accuracy of their financial statements. This finding aligns with the idea that strong governance practices enhance the credibility of financial reports by reducing the risk of mismanagement or fraud (Michelon & Parbonetti, 2012). In the Indonesian context, where corporate governance standards are still evolving, these disclosures are particularly important for building investor trust and ensuring accountability.

The quality of ESG disclosures played a critical role in enhancing financial transparency. Companies that provided detailed and specific ESG information, such as measurable environmental targets or clear governance policies, tended to have more transparent financial statements. For instance, financial services companies that disclosed their risk management strategies related to ESG factors, such as climate-related financial risks, offered stakeholders a clearer understanding of their financial position. Conversely, companies with vague or incomplete disclosures, such as those merely stating a commitment to sustainability without evidence, contributed less to transparency. As shown in Table 1, high-quality disclosures were characterized by specific examples, measurable outcomes, and alignment with frameworks like the Global Reporting Initiative (GRI). This suggests that the depth of ESG disclosures is as important as their presence in improving the clarity of financial reports (Bassen & Kovács, 2020).

The findings also highlight variations in ESG disclosure practices across different sectors. Mining companies, for example, focused heavily on environmental disclosures due to the nature of their operations, which involve significant environmental risks. In contrast, financial services companies emphasized governance disclosures, reflecting the importance of trust and accountability in their sector. Manufacturing companies showed a balanced approach, with moderate disclosures across all ESG categories. These sector-specific patterns, as shown in Table 1, indicate that the type of industry influences the focus and quality of ESG disclosures. By providing context for sector-specific risks and opportunities, these disclosures helped stakeholders better interpret financial data, such as provisions for environmental liabilities or investments in human capital (Dewi, 2023).

The analysis shows that ESG disclosures enhance financial transparency by providing additional context for financial data, reducing information asymmetry, and building stakeholder trust. Companies that integrate detailed ESG information into their annual reports tend to present clearer and more reliable financial statements. For example, disclosures about environmental risks helped explain provisions in financial statements, while governance disclosures reassured stakeholders about the integrity of financial reporting. As shown in Table 1, companies with comprehensive ESG disclosures across all three categories, environmental, social, and governance, were perceived as more transparent by stakeholders. These findings are particularly relevant in Indonesia, where ESG reporting is still developing, and companies face pressure to meet global standards while addressing local challenges (Orazalin & Mahmood, 2020). The insights from this

study suggest that improving the quality and consistency of ESG disclosures can significantly enhance the transparency of financial statements in emerging markets.

## **DISCUSSION**

The findings of this study highlight that comprehensive ESG disclosures in the 2023 annual reports of Indonesian public companies significantly enhance the transparency of financial statements. According to Khan et al. (2016), high-quality ESG disclosures improve investor perceptions by providing additional context to financial data, a pattern observed in this study where detailed disclosures on environmental, social, and governance aspects clarified financial risks and opportunities. For instance, companies that reported specific environmental initiatives, such as carbon emission reductions, provided stakeholders with a clearer understanding of financial provisions, aligning with Eccles et al. (2014), who note that ESG disclosures enhance the reliability of financial reporting. In the Indonesian context, these findings are particularly relevant, as studies like Dewi (2023) show that social ESG disclosures increase firm value in Kompas 100 companies, suggesting that transparency in non-financial reporting supports stakeholder trust. This study's focus on qualitative analysis of annual reports confirms that detailed ESG disclosures reduce information asymmetry, as supported by Nguyen et al. (2019).

The consistency of governance disclosures, observed in 28 out of 30 companies, underscores their role in building trust. According to Michelon and Parbonetti (2012), transparent governance practices, such as clear anti-corruption policies, enhance the credibility of financial statements, a finding mirrored in this study, where companies with robust governance disclosures were perceived as more reliable. However, the variation in social and environmental disclosures highlights a challenge in Indonesia, where regulatory oversight is still evolving. This aligns with Pranoto and Marsono (2023), who note that ESG adoption in Indonesia's SRI-KEHATI companies is growing but inconsistent. To address issues like greenwashing, companies should adopt standardized frameworks like GRI, as suggested by Hahn and Kühnen (2013), to ensure disclosures are meaningful and verifiable. This study's findings also resonate with research in other emerging markets, such as Malaysia, where Sugianto et al. (2022) found that ESG disclosures reduce information asymmetry, suggesting that Indonesia's experience is part of a broader trend in developing economies.

The study's qualitative approach, while insightful, has limitations that must be acknowledged. The reliance on annual reports may introduce bias, as companies may present overly positive ESG information, potentially masking actual performance, a concern raised by Tilt (2009). Additionally, the subjective nature of assessing disclosure quality, such as determining whether a disclosure is "high" or "low," could affect the consistency of findings. To mitigate this, the study used triangulation and GRI guidelines, but future research could incorporate stakeholder interviews to validate perceptions of transparency (Nasution & Supriadi, 2024). The focus on 2023 data and 30 companies limits the generalizability of findings, particularly for smaller firms or other emerging markets. For example, Berliana et al. (2024) suggest that transparency in financial reporting varies by firm size, a factor not fully explored here. These limitations highlight the need for broader studies to compare ESG practices across different contexts and time periods (Rupley et al., 2012; Tantianty & Uzliawati, 2023).

The findings contribute to the literature by providing insights into ESG disclosure practices in Indonesia, an underexplored emerging market. Unlike studies in developed markets, such as those by Fatemi et al. (2018), this research emphasizes the unique challenges of ESG adoption in Indonesia, including regulatory gaps and varying disclosure quality. Practically, companies can improve transparency by adopting standardized ESG frameworks and providing specific, measurable disclosures, as supported by García-Sánchez and García-Meca (2017). Implications of this study include the need for regulators in Indonesia to strengthen ESG reporting guidelines, encouraging companies to align with global standards like GRI or SASB. This would enhance stakeholder trust and attract more investment, as noted by Yudha et al. (2024).

Additionally, companies should invest in training programs to improve ESG reporting skills, ensuring disclosures are not only compliant but also meaningful, a strategy supported by Amelia (2024). These steps would help Indonesian companies address greenwashing and build a stronger reputation in global markets, contributing to sustainable economic growth.

## CONCLUSION

This study reveals that comprehensive ESG disclosures in the 2023 annual reports of Indonesian public companies significantly enhance the transparency of financial statements. Detailed disclosures on environmental, social, and governance aspects provide stakeholders with clearer insights into financial risks, costs, and opportunities, making financial reports more understandable and trustworthy. Particularly in Indonesia, where ESG adoption is still growing, these findings highlight the importance of detailed reporting in building investor confidence and supporting market growth. The analysis of 30 companies shows that high-quality disclosures, such as specific environmental metrics or clear governance policies, improve the clarity of financial information. This contributes to better stakeholder decision-making and strengthens the reputation of companies listed on the Indonesia Stock Exchange.

The findings offer practical implications for companies and regulators in Indonesia. Companies should prioritize detailed and specific ESG disclosures to improve financial transparency and attract investment. For example, providing clear metrics on carbon emissions or community programs can help stakeholders better understand financial statements. Regulators can support this by developing stronger guidelines for ESG reporting to ensure consistency and reduce greenwashing. However, this study has limitations, as it relies solely on 2023 annual reports, which may not fully reflect long-term trends. The subjective nature of assessing disclosure quality also poses challenges, as interpretations may vary. Future research could explore ESG disclosures over multiple years or include stakeholder interviews to gain deeper insights into transparency perceptions. Expanding the sample to include smaller firms or other emerging markets could also strengthen the findings.

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