Frontiers in Business, Economics and Management
ISSN: 2766-824X | Vol. 25, No. 1, 2026

Practical Reflections on ESG Construction and CEO Accountability Mechanisms of Enterprises in Emerging Markets under the Framework of Corporate Governance

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Abstract: The rapid growth of the ESG concept in developing nations is an indicator of the global flow of cash for good and a reminder of the inadaptability of institutional transplanting. This article considers the accountability mechanism of senio r executives within the framework of the governance environment of developing markets and the construction of ESG. Morningstar research shows the global sustainable fund assets will hit $3.7 trillion by 2025. Some 56 governments have signed up to the ISSB principles. But study by the MIT Sloan School of Management shows that the ESG ratings of six leading agencies have relatively low consistency for companies in emerging nations. Structural restrictions, such weak rules and poor quality data, can also impede emerging economies. In domestic practice, the 2024 "Guidelines for Listed Companies on Sustainable Development Reporting" released by the CSRC pays greater attention to the procedural compliance requirements, and does not place sufficient restrictions on the substantive decision-making responsibilities of senior executives. The Ministry of Finance issued the 2024 "Corporate Sustainable Disclosure Standards—Basic Guidelines (Trial)" that gives a blueprint for the system using global experience and Chinese characteristics. This study considers that it is crucial to develop a governance loop that aligns "capability, responsibility and incentive" to get out of the situation.

Keywords: ESG development; Executive accountability; Emerging markets; Governance framework; Institutional transplantation; Responsibility reconfiguration.

1. Introduction

The ESG framework integrates environment, society and governance into the corporate evaluation system. In the last decade, it has shifted from a peripheral indicator of responsible investing to a central concern in corporate governance. Emerging markets have done particularly well: the growth rate of capital inflows into ESG products has exceeded the global average for several consecutive years, the proportion of enterprises that have published special reports has continued to increase, and the establishment of ESG committees or the appointment of executives to be responsible for ESG affairs has become increasingly common among large listed companies. However, promotion of the system has not at the same time translated into gains in governance performance. Rating scores are sometimes not connected with the real performance of organisations. Companies have devoted much time to the disclosure process but little to substantive issues such as accountability for and control over their supplier chains and emissions. The accountability system is tough to be effective when there are decision-making errors or lack of competencies. This discrepancy reflects the potential of "institutional dysfunction" in the building of ESG. The inappropriateness of the accountability mechanism is the crucial variable to explain this phenomena.

Based on the analysis of the extant literature, research on ESG concerns in emerging markets is spread on three lines, including the localisation adjustment of disclosure norms, ESG investment performance assessment, and the historical evolution of corporate social responsibility. The analysis of the ESG construction and the mechanism of executive accountability as integrated system is rare. The accountability arrangement functions as an intermediary mechanism between institutional design and behavioural change. The weak strength of ESG goals makes it difficult for them to penetrate the decision-making agenda of the management, and the change in direction may lead firms to pay more attention to symbolic replies than actual improvements. There are systematic disparities in law and law enforcement efficacy, corporate practices, etc., between emerging markets and developed economies. These discrepancies represent institutional barriers to the transfer of the ESG accountability framework [1]. This study addresses the contradiction between ESG construction and executive accountability mechanism in emerging countries and its institutional foundations, and tries to find possible adjustment methods. However, this theoretical logic should be evaluated in conjunction with particular institutional realities in emerging markets.

2. Theoretical Logic of the Accountability Mechanism and Governance Expectations Embedded by ESG

The basic rationale of an executive accountability system is quite simple: to limit the agents' tendency to act in their own self-interest at the expense of the principals. This technique traditionally targeted financial data, including changes in stock prices, the level of return on net assets, and the pace of revenue growth. All these variables are linked in a closed loop [2] as for example how to establish the compensation, how the board of directors monitors and how the stock market reacts. Such was the situation until the advent of ESG. The

responsibility object was not only the stockholders. The investigation started to include elements like employees, communities and the environment which had previously been out of scope of consideration. The time horizon was also extended and underlined the equal necessity of long-term environmental and societal risk management. The connotation of responsibility was expanded from business results to process level, i.e. whether the risk identification system was built, whether internal control was put in place properly, whether the disclosed information could stand the test of verification, and so on, became the areas that accountability needed to cover.

This problem has been discussed many times in the theoretical community. The stakeholder theory holds that the executive decision-making power is a kind of societal consent, and the premise for power establishment is to consider the interests of all parties. According to the institutional theory, the ESG accountability is a process of incorporating external demands from the outside into the governance system. As society increasingly expects corporations to do more than simply make money, the distinction between legal requirement and moral responsibility is inevitably blurred. ISSB split the disclosure system of the IFRS S1 standard into four components, including governance, strategy, risk management and indicators and targets. More clarification is needed on who is monitoring and how the management is split in terms of governance. In theory, if the number of ESG goals increases, the responsibility structure must be modified correspondingly. In fact, worldwide standards and local practices are moving in this direction. But a design that is logically sound does not mean that it will run smoothly in practice. The question is whether these instruments of accountability can be put in place and have actual effects. Some local companies are getting involved, too. In the evaluation, Haifeng International set the weight of ESG indicators as 20%; Fosun International incorporated the ESG performance into the performance system of the executive director and CEO, accounting for 10% [3].

But generally these strategies are used in a couple of huge companies. But the image changes when you look at it from the vantage point of the broadening rising market. The accountability mechanism can only work well if there are trustworthy information flows, a functioning judicial system and adequately functioning regulations in the stock market. And those elements are still absent in many emerging markets. But in fact, no matter how excellent the theoretical concept, it often gets diluted or even undercut. Indeed, there is a study demonstrating that mandatory disclosure may promote shallow compliance in the face of law enforcement that cannot keep pace with it. We shall below investigate in particular how this contradiction has been further compounded by the institutional constraints of emerging markets.

3. The Paradox of ESG Localization in the Context of Emerging Markets

The main reason for resistance to ESG accountability systems in developing markets is the disparity in the institutional framework between these economies and developed markets. The first problem is the lack of capacity to enforce regulations. Enterprises in emerging markets often have challenges such as poor data availability, weak law enforcement systems and incomplete regulatory structures, ISSB director Ndidi Nnoli-Edozien adds. All these factors combined make it substantially more difficult to execute ISSB standards. Empirical research also suggests that when regulation is weakly enforced, mandatory disclosure may give rise to symbolic responses. Companies can meet their disclosure responsibilities in form but fail to deliver governance improvements in substance. Thus the strength of the external control over the behaviour of managers is reduced. The faults of information collection and power balance also restrict the internal responsibility, so that it is impossible to play a substitute function independently. Another limitation is the relationship between government and business—not to mention the challenges with regulatory enforcement.

We also have to analyse the corporate/government relationship. In developing countries, the distribution of key resources such as land, finance and project approvals is marked by a high degree of bureaucratic discretion. How much of these resources is secured is largely a function of the degree of involvement between government and business. Maintaining the political-business relationship consumes a considerable portion of executives' time and energy, pushing meaningful advances in ESG performance to the back burner [4]. In fact, ESG compliance rules are often subordinated to the local government's growth priority orientation in case of dispute. Organisations have utilised ESG compliance as a strategic tool for operational convenience rather than an active acknowledgement of sustainable development.

But delving deeper, there are structural weaknesses in the ESG grading system. GRI, SASB, TCFD etc. disclosure frameworks and MSCI, Sustainalytics etc. rating systems are all driven and shaped by international organisations or developed market institutions, internalising the premise of mature institutional environment. When applied to emerging markets, the rating outcome is likely to reflect "the extent of deviation from the ideal template" rather than the actual level of enterprises in their actual governance situation [5]. For instance, regarding board diversity, international rules prioritise gender ratio and independence, yet family control and interpersonal networks are important for the administration of emerging markets. This is a dimension that is always inappropriate to overlook. The mismatch puts management in a bind in reacting to the pull of international rating standards and responding to the actual requirements of local operations. Under this double pressure, the cheapest way is generally to go through the motions of meeting the criteria, with actual reforms in governance continually postponed.

4. Mismatch of Responsibilities and Capability Gaps in Executive Accountability Practices

Such contradictory needs are visible from two perspectives: accountability focus and accountability blind spots.

The current ESG accountability framework is based on the quality and timeliness of information exchange. The "Guidelines for Listed Companies' Sustainable Development Reports" released by China Securities Regulatory Commission in 2024 includes rules on information sharing, but the actual execution still has a limited scope of third-party verification. Wind ESG data shows that among the A-share enterprises that have released their own ESG reports, less than 280 organisations have received third-party verification in 2025, with a verification rate of only 5.68%. A-share ESG

disclosure is developing from "superficial compliance" to "substantive management", the China Securities Journal observed.

Some organisations have the phenomenon of "emphasizing transparency but disregarding governance", the positioningof ESG strategy is too low and the participation of top management is limited, said Ernst & Young Partner Zhang Xiaorui. Similarly, Shanghai University of Finance and Economics conducted an in-depth study of 2,478 ESG reports and obtained the similar conclusion that the information disclosure "focuses on grand narrative but misses out on specific measures" [6]. There is a big disparity between the evaluation index and the genuine hazard of the firm.

There is also a shift in the focus of accountability and an accountability blind hole. Under the current structure, the breadth of the accountability barely covers the substantive governance needs of the executives in the ESG area—environment and social responsibility. If the assessment system relies heavily on the voluntary disclosure of firms, then the disclosure behaviour is likely to be the reputation management, rather than the actual responsibility. Another sometimes overlooked issue is the professional competence of CEOs, that is, if they understand and effectively manage ESG risks. The current framework does not provide the proper evaluation mechanism [7].

In fact, more and more corporations are outsourcing the preparation of ESG reports to third-party institutions. Executives are starting to focus on the ESG concerns, pushing them toward the approval and signing stage. The hollowing out of professional competence progressively erodes the substantive basis of accountability. When the executive level is only involved in ESG issues as signer and approver, accountability loses its most critical function—the review and correction of the decision-making process itself. The purpose of accountability is to ensure that executives are thinking about the environmental and social risks of the enterprise, not just ensuring that the report is on time. The formal perfection cannot conceal the basic hollowness.

An accountability mismatch has a number of repercussions. ESG construction has been an expense of compliance, not a generator of value, and the accountability demand has been reduced to the technical challenge of sharing information. It's clear rating agencies and corporations look at different things. These issues are not separate but are all connected by a similar thread: the breakdown of the incentive compatibility mechanism. The difference is that ESG accountability practices are not consistent among enterprises in developing markets.

5. The Endogenous Logic of Governance Imbalance: The Breakdown of Incentive Compatibility

Responsibility directs behaviour decisions by allocating responsibilities. Where the accountability signal is not embedded in the decision-making logic of the company, the expected consequences are not obtained, and even contradictory behaviours may develop.

ESG performance has a direct financial impact in terms of access to funding. ESG has become a critical question for market access and long-term competitiveness, said Wang Yao, director of the International Institute of Green Finance at the Central University of Finance and Economics. The People's Daily Overseas Edition also commented that ESG is the passport for Chinese firms to go abroad. Deloitte's Hu Jianyu also noted, ESG performance is closely related to the capital market. This external pressure results in executives seeing ESG development as a means of access to finance, not a means of value generation. Operationally, Liu Guohua of Ernst and Young concluded that there are three obstacles for small and medium companies, lack of funds, lack of talents and lack of market incentives [8]. In the short term, the product premium cannot absorb the expense of ESG compliance, hence there is a cognitive gap between the capital market and the product market. The underlying economic logic of formal compliance is that CEOs rationally respond to the requirement to make sufficient disclosures while capital is available, and to reduce investment when costs are apparent.

There is also a discrepancy in the time axis. The ESG investment assessment cycle of 3-5 years is contradictory to the current executive assessment cycle of 1-3 years, said Zhang Bohui, from The Chinese University of Hong Kong, Shenzhen (CUHK-Shenzhen). ESG takes 5-10 years to take effect, and the market patient capital cycle is mainly 3-5 years, said Tang Zipei of Orient Securities. Long-term investment in ESG resource allocation is missing as middle-level managers are assessed on an annual basis, and the tenure of CEOs is three years [9]. Even if the leaders are keen to push for the ESG transformation, the stringent constraints of the evaluation cycle and the norms of resource allocation inside the organization will make long-term value give way to short-term measurements.

The more profound difficulty is the division between assigning blame and sharing capacity. The implicit logic of the current accountability system is that the pressures and the assigned ESG requirements of CEOs can create organisational reform. But the firm is lacking of senior ESG expertise, China National Radio reported. The differences in ratings are more obvious in rising countries, as pointed out earlier, which means the data basis and reporting system are fragile. The greater the requirement for accountability, the more likely CEOs are to accomplish simply what is necessary (formal standards) when the supply of professional capacity is insufficient. Strengthening accountability is just strengthening formality. This paradox is indicative of the underlying difficulties in the architecture of the organization.

6. Moving towards a Governance Loop of Capability, Responsibility, and Motivation

The ESG accountability mechanism needs to be designed differently to correct this problem. Emerging markets should develop a governance framework, consistent with their particular institutional conditions, to integrate "capability—responsibility—motivation" in a mutually helpful manner.

First, accountability has to be made possible. Executives must have the relevant competences to support ESG duties before taking them on. Specifically, industry-specific ESG data standards and accounting guidelines should be put in place to ease the disclosure difficulty for small and medium-sized enterprises; regional ESG knowledge-sharing platforms should be constructed to alleviate the problem of lack of professional talent; in terms of regulation, the safe harbour approach can be implemented. The ESG disclosure roadmap was finalised in July 2026, which will be a valuable reference, and non-compliant disclosures will not be subject to fines for

the first three reporting years except for greenwashing; Disclosure of scope 3 emissions is delayed by 3 years. Safe harbour principles apply to forward-looking information and estimates; oversight in the first phase is more about guidance than sanctions. For accountability to be effective it is required that firms are able to reach accountability [10].

Second, we must shift the focus of accountability. It is mainly if the report is complete or not at present. It should be more about the reasonableness of the decision itself, in the future. Enterprises should share ESG data and explain how ESG risk enters the strategic decision-making process, what criteria executives use to make judgements on significant subjects, and how internal supervision discovers and corrects decision deviations. The advantage of this method is that it does not depend just on the quality of data to make a judgement, but can more truly reflect the actual state of an enterprise's ESG governance.

Finally, we have to think about the real decision-making logic of developing market firms. The ESG assessment cannot be simply appended to the existing incentive structure, but should be assessed simultaneously with economic indicators such as return on capital, market share, innovation input-output ratio, etc., and incorporate ESG goals within the business. This can be done by taking ESG risk management capability as an evaluation dimension for promotion and providing positive incentives for long-term value creation [11]. Establishing a collective action mechanism at the industry level through peer pressure and collaboration to reduce the compliance costs of individual enterprises. Promoting the development of local ESG rating systems to make the assessment standards more in line with the actual situation of emerging markets. When ESG moves from external compliance requirements to internal value drivers, accountability may play its appropriate role. The essential point of this shift is whether the institutional architecture can be consistent with the real decision-making logic of organisations.

7. Conclusion

The actual experiences of ESG creation in emerging markets suggest that the tension between institutional transplanting and local adaptation is prevalent. The idea of ESG is intriguing in theory, but it becomes problematic when it pertains to emerging markets. Weak legal enforcement, too tight links between politics and industry, and evaluation criteria imposed from the outside are all causes of this complexity. Taken together, these three constraints provide a gap between the real impact of the accountability mechanism and the initial design of the system.

The divergence mostly manifests itself in the responsibility focus. People are too busy with contractual tasks and forget the public and capacity responsibilities. The capital market and product market knowledge of ESG is fragmented, short-term performance evaluations and long-term value creation are opposed, and the intensity of accountability is not tied to the professional capability basis. The interplay of these three elements drives executives to seek symbolic compliance instead of actual development. And this is the root cause of the "institutional dysfunction" in ESG construction. Therefore, the approach for progress is not to continue to increase the severity of accountability. The importance is to set up a proper system foundation for the development stage of emerging markets. The framework is expected to include capacity building, accountability for decisions and incentive compatibility, but implementation would depend on coordinated efforts of regulatory agencies, exchanges, industry associations and corporations. The endeavour of a single entity is unlikely to bear fruit.

The study in this paper is based mostly on public sources and institutional writings. It doesn't discuss how ESG responsibility works at the micro-level of individual firms. There are huge disparities in institutions between different emerging markets. This research is focused on common challenges and cross-border comparisons need to be reinforced. The operating environment of the accountability mechanism is evolving rapidly as ESG disclosure shifts from voluntary to mandatory. Future studies can further investigate the micro-operation and the institutional evolution in these two directions. At the micro level, one can examine variances in accountability practices across different firms in the same industry. The dynamic effects of changes in the institutional environment on accountability effectiveness can be studied at the macro level.

In the end, the question of whether ESG can take root in emerging countries is a question of whether it can be made to fit the local business rationale.

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