

# Corporate Governance and Ethical Accountability in Sustainable Organizational Development

Mohamed Suhaimi Yusof<sup>1\*</sup>, Noorraha Abdul Razak<sup>2</sup>, Norashikin Misnan<sup>3</sup>, Hidayahatul Khusna Abdul Malik<sup>4</sup>

<sup>1,2,3,4</sup>Faculty of Business and Accounting, Universiti Poly-Tech Malaysia  
\*Corresponding author: [suhaimi@uptm.edu.my](mailto:suhaimi@uptm.edu.my)

Received 3 Mac 2026, Revised 30 April 2026, Accepted 20 Mei 2026, Published 30 June 2026

---

## ABSTRACT

Corporate governance has evolved into a critical mechanism for ensuring organizational accountability, ethical responsibility, and sustainable value creation in increasingly complex business environments. This study examines the effectiveness of corporate governance by integrating key theoretical perspectives, including agency theory, stakeholder theory, stewardship theory, and ethical governance frameworks. The analysis highlights major governance challenges, particularly limitations in agency control, weak stakeholder accountability, inconsistencies in environmental, social, and governance disclosure, and deficiencies in ethical leadership and organizational culture. Drawing on recent regulatory developments and empirical literature, the study demonstrates that governance effectiveness depends on the alignment between governance structures, board capability, stakeholder engagement, and disclosure integrity. The findings further indicate that sustainability reporting and ESG integration have transformed governance from a compliance-based function into a strategic and accountability-driven system. In response to these challenges, the study proposes a set of integrated governance improvements, including strengthening board oversight, institutionalizing stakeholder participation, enhancing ESG reporting systems, and embedding ethical leadership within organizational culture. The study concludes that effective corporate governance requires a multidimensional and adaptive approach that combines structural mechanisms with ethical and behavioral alignment to support long-term sustainability, transparency, and stakeholder trust in modern organizations.

**Keywords:** *Governance, Accountability, Sustainability, Ethics, Transparency*

How to Cite:

Yusof, M. S., Abdul Razak, N., Misnan, N., & Abdul Malik, H. K. (2026). Corporate Governance and Ethical Accountability in Sustainable Organizational Development. *Jurnal Evolusi*, 7(1), 14–31.  
<https://doi.org/10.61688/jev.v7i1.564>

Copyright: © 2025 The Author(s)

Published by Universiti Poly-Tech Malaysia.

This article is published under the Creative Commons Attribution (CC BY 4.0) license:

<http://creativecommons.org/licenses/by/4.0/legalcode>

## INTRODUCTION

Corporate governance has become a cornerstone of organizational accountability, ethical responsibility, and sustainable value creation in modern business environments. Organizations are no longer assessed solely by profitability, market share, or shareholder returns, but also by transparency, stakeholder responsiveness, environmental responsibility, and ethical conduct. This shift reflects the growing expectation that companies should operate responsibly within wider social, economic, and institutional systems. The G20 and OECD principles emphasize that corporate governance frameworks should strengthen disclosure, shareholder rights, board responsibilities, sustainability, and market confidence (OECD, 2023). In this context, corporate governance is not merely an internal control system, but a broader mechanism for ensuring that organizations act responsibly toward shareholders, stakeholders, regulators, and society. Effective governance, therefore, requires a balanced integration of monitoring, ethical leadership, sustainability oversight, and stakeholder accountability to support long-term organizational resilience.

The theoretical foundation of corporate governance remains essential for understanding how governance systems are designed, implemented, and evaluated. Agency theory explains the conflict between shareholders and managers by emphasizing monitoring, incentives, and control mechanisms to reduce managerial opportunism (Jensen & Meckling, 1976; Eisenhardt, 1989). Stewardship theory offers a different perspective by viewing managers as responsible actors who can protect organizational interests when trust, empowerment, and goal alignment are present (Davis et al., 1997). Stakeholder theory expands the focus of governance beyond shareholders by arguing that organizations must consider the interests of employees, customers, suppliers, communities, and regulators (Freeman, 1984; Donaldson & Preston, 1995). These theoretical perspectives show that corporate governance cannot be fully understood through a single model. Instead, governance effectiveness depends on how organizations balance control, trust, accountability, and stakeholder value within changing business conditions.

Corporate governance has also become closely connected with sustainability and ESG reporting. The introduction of IFRS S1 and IFRS S2 represents a significant development, as companies are increasingly expected to disclose sustainability- and climate-related risks that may affect enterprise value. IFRS S1 specifically requires entities to disclose useful information about sustainability-related risks and opportunities, while governance disclosures should explain the processes, controls, and procedures used to monitor and oversee such matters (ISSB, 2023). This means that board responsibilities now extend beyond traditional financial supervision into sustainability governance, risk oversight, and transparent reporting. ESG disclosure has therefore become a governance issue because stakeholders depend on reliable information to evaluate corporate responsibility and long-term performance. Weak ESG governance can damage credibility, increase information asymmetry, and expose firms to reputational, regulatory, and financial risks.

The growing demand for reliable sustainability information has increased pressure on organizations to strengthen governance and internal control systems. IFAC emphasizes that high quality sustainability reporting requires governance structures and control processes that connect sustainability information with financial reporting in terms of quality, timing, and decision usefulness (IFAC, 2024). This highlights the importance of moving beyond symbolic reporting toward evidence-based disclosure supported by internal accountability mechanisms. Without strong governance, sustainability reporting may become inconsistent, selective, or misleading. Recent OECD guidance also stresses that sustainability disclosures should be consistent, comparable, reliable, and relevant for investor decision making (OECD, 2025). These developments show that governance quality is increasingly measured by the ability of boards and management to produce credible sustainability information. Therefore, corporate governance must integrate sustainability oversight into strategy, risk management, internal control, and reporting practices.

Board effectiveness is another important dimension of modern corporate governance because boards are responsible for strategic direction, executive monitoring, risk oversight, and stakeholder accountability. Traditional governance studies emphasize board independence and control, but contemporary research increasingly focuses on board diversity, expertise, and sustainability competence. Erben Yavuz (2024) found that corporate governance characteristics influence ESG performance, particularly through board-related mechanisms. Ma (2024) also showed that board gender diversity, board independence, and foreign-experienced directors can reduce greenwashing among listed firms. These findings indicate that board composition matters not only for monitoring management but also for improving sustainability credibility and ethical

accountability. A board with diverse knowledge and professional experience is more capable of identifying governance risks, questioning management decisions, and guiding organizations toward responsible performance. Therefore, effective corporate governance requires boards that are independent, competent, ethically aware, and sufficiently knowledgeable about emerging sustainability challenges.

Stakeholder accountability has also become a central concern in governance scholarship and practice. Modern organizations operate within networks of relationships that influence legitimacy, reputation, and long-term survival. Stakeholder theory suggests that organizational success depends on the ability to manage relationships with groups that affect or are affected by corporate actions (Freeman, 1984; Donaldson & Preston, 1995). This perspective is increasingly relevant because stakeholders demand transparency in areas such as labour practices, environmental impact, social responsibility, data governance, and ethical leadership. In emerging markets, governance practices are often shaped by institutional quality, regulatory enforcement, ownership concentration, and cultural expectations. Handoyo and Anas (2024) highlight the importance of governance and regulatory context in understanding ESG performance among ASEAN firms. This suggests that governance frameworks must be sensitive to institutional conditions and stakeholder expectations rather than being applied mechanically across different contexts.

Ethical accountability is fundamental to corporate governance because governance failures often arise not only from weak structures but also from weak values and poor leadership culture. Formal mechanisms such as codes of conduct, audit committees, board charters, and compliance systems are important, but they cannot fully prevent misconduct if ethical principles are not embedded within organizational behavior. Ethical governance requires integrity, fairness, transparency, responsibility, and respect for stakeholder interests. Business ethics theory, virtue ethics, discourse ethics, and stakeholder ethics contribute to corporate governance by emphasizing moral judgement and responsible decision-making. Shleifer and Vishny (1997) explain governance as a mechanism through which suppliers of finance assure themselves of returns, but modern governance extends this concern by incorporating ethical and social responsibilities. As organizations face complex pressures, ethical leadership becomes essential for guiding decisions when rules are incomplete, unclear, or difficult to apply.

Digital transformation has introduced new governance challenges that require organizations to strengthen oversight of artificial intelligence, cybersecurity, data privacy, and automated decision-making. The OECD principles identify digital security, data privacy, and personal data protection as areas that boards should oversee within corporate risk management systems (OECD, 2023). Recent corporate governance discussions further indicate that investors increasingly expect companies to disclose board-level AI oversight and formal governance structures for AI. Harvard Law School Forum on Corporate Governance reported that public companies and shareholders have paid increased attention to AI oversight, with rising disclosure of boards' responsibility for AI-related risks (Harvard Law School Forum on Corporate Governance, 2025, 2026). These developments indicate that governance effectiveness now requires technological awareness as well as ethical judgement. Boards must ensure that digital innovation supports accountability, fairness, transparency, and stakeholder protection rather than creating unmanaged ethical or operational risks.

## **LITERATURE REVIEW**

Corporate governance scholarship has experienced significant development over the past decades, evolving from a narrow focus on control and monitoring toward a broader framework that integrates sustainability, ethics, and stakeholder accountability. Early governance literature emphasized the separation of ownership and control, but contemporary studies highlight that governance operates within complex institutional, social, and environmental contexts. A systematic review of governance and ESG research shows that governance mechanisms significantly influence sustainability outcomes and organizational performance. Similarly, recent theoretical reviews confirm that agency, stewardship, stakeholder, and resource dependency theories remain foundational in explaining governance behavior, yet no single theory sufficiently captures the complexity of modern organizations.

The increasing importance of sustainability, stakeholder expectations, and technological developments has expanded the scope of governance research. Contemporary literature emphasizes that governance effectiveness depends on the integration of multiple theoretical perspectives and the alignment between governance structures and organizational behavior (Schoenmaker, 2023; Ma, 2024; Moghaddam & Nof, 2022). Scholars also highlight that governance systems must address emerging issues such as ESG reporting, ethical accountability, and institutional pressures. This section,

therefore, reviews the literature across four key areas, namely agency theory and control mechanisms, stakeholder and legitimacy perspectives, ESG integration, and emerging governance theories with ethical dimensions.

### **Agency Theory and Governance Control Mechanisms**

Agency theory remains one of the most influential frameworks in corporate governance research, particularly in explaining conflicts arising from the separation of ownership and managerial control. The theory posits that managers may act in their own interests rather than those of shareholders, leading to agency problems that require monitoring mechanisms such as board oversight, incentive structures, and regulatory compliance (Jensen & Meckling, 1976; Al-Faryan, 2024). Recent studies reaffirm that agency conflicts persist in modern organizations, particularly in environments characterized by information asymmetry, ownership concentration, and weak institutional enforcement.

Contemporary research extends agency theory by examining its relevance in sustainability and ESG contexts. ESG disclosure is increasingly viewed as a mechanism for reducing information asymmetry between management and stakeholders, although its effectiveness depends on governance quality and reporting credibility. Scholars argue that governance structures, including board independence and executive compensation, play a significant role in ensuring transparency and accountability (McKinnon & Samil, 2020; Buchetti et al., 2025). However, critics highlight that agency theory's focus on self-interest and financial incentives limits its ability to address broader governance challenges related to ethics, sustainability, and stakeholder engagement (Hill, 2023; Prencipe, 2025).

Furthermore, empirical evidence suggests that traditional monitoring mechanisms may not be sufficient to address complex governance challenges in dynamic business environments. Boards are increasingly required to oversee non-financial risks, including environmental and social impacts, which go beyond the traditional scope of agency theory. This has led to calls for integrating agency theory with complementary frameworks such as stewardship and stakeholder theories to provide a more comprehensive understanding of governance effectiveness (Yusof, 2025; Martiny, 2024). Consequently, agency theory remains relevant but must be adapted and integrated with other perspectives to address contemporary governance challenges.

### **Stakeholder and Legitimacy Perspectives in Governance**

Stakeholder theory provides a broader perspective on corporate governance by emphasizing the importance of balancing the interests of multiple stakeholder groups. Unlike traditional shareholder-focused models, stakeholder theory recognizes that organizations operate within networks of relationships involving employees, customers, suppliers, communities, and regulators. This perspective has gained prominence as organizations face increasing pressure to demonstrate social responsibility and sustainability performance. Recent studies confirm that stakeholder engagement enhances organizational performance by improving trust, decision-making, and long-term sustainability outcomes.

Legitimacy theory complements stakeholder theory by explaining how organizations seek to align their actions with societal expectations to maintain legitimacy and public trust. Firms often use sustainability reporting and corporate social responsibility initiatives to demonstrate compliance with social norms and regulatory requirements. Research indicates that legitimacy considerations significantly influence disclosure practices and governance strategies, particularly in industries subject to high public scrutiny (Emma et al., 2024; Maharani et al., 2026).

Moreover, stakeholder and legitimacy perspectives are increasingly applied in ESG contexts, where organizations must respond to diverse stakeholder demands related to environmental protection, social responsibility, and governance transparency. Studies show that stakeholder pressure plays a critical role in shaping sustainability disclosure and governance practices, particularly in emerging economies. This highlights the importance of governance systems that are flexible, inclusive, and capable of integrating stakeholder perspectives into strategic decision making.

The growing relevance of stakeholder and legitimacy theories reflects a shift in governance philosophy, where organizations are evaluated not only based on financial performance but also on their ability to create value for society.

This transformation underscores the need for governance frameworks that incorporate stakeholder engagement, transparency, and ethical responsibility as core components of organizational strategy (Schoenmaker, 2023; Ma, 2024).

### **Corporate Governance and ESG Integration**

The integration of ESG considerations into corporate governance frameworks represents a significant advancement in governance research and practice. ESG has emerged as a critical tool for evaluating organizational performance beyond traditional financial metrics, emphasizing sustainability, ethical conduct, and social responsibility. A growing body of literature demonstrates that governance structures significantly influence ESG outcomes, particularly through board composition, ownership structure, and executive characteristics.

Board diversity has been identified as a key factor in enhancing ESG performance, as diverse boards are more likely to consider multiple perspectives and address complex sustainability challenges. Empirical studies show that gender diversity, independent directors, and board expertise contribute to improved ESG disclosure and governance effectiveness (Erben Yavuz, 2024; Escamez et al., 2026). Additionally, governance mechanisms play a crucial role in ensuring the credibility and reliability of ESG reporting, which is essential for stakeholder trust and decision-making.

Despite these advancements, significant challenges remain in ESG governance. Variations in reporting standards and measurement approaches can limit comparability and reduce the usefulness of ESG information for stakeholders. Research indicates that inconsistencies in ESG data and lack of standardization contribute to discrepancies in findings and reduce reporting reliability. Furthermore, concerns such as greenwashing and selective disclosure highlight the need for stronger governance mechanisms and regulatory frameworks to ensure transparency and accountability.

Scholars emphasize that effective ESG integration requires a holistic approach that combines governance structures, ethical commitment, and strategic alignment. Organizations must integrate sustainability considerations into decision-making, risk management, and performance evaluation to achieve meaningful governance outcomes (Schoenmaker, 2023; Ma, 2024). This approach reflects the evolving nature of corporate governance, where sustainability and accountability are central to organizational success.

### **Emerging Governance Theories and Ethical Dimensions**

Emerging perspectives in corporate governance highlight the importance of integrating ethical, institutional, and sustainability considerations into governance frameworks. Institutional theory explains how regulatory, cultural, and social factors influence organizational behavior, while signaling theory examines how firms communicate their quality and credibility to stakeholders through disclosure practices. These perspectives complement traditional governance theories by addressing external influences and information dynamics in contemporary business environments.

Ethical governance has gained increasing attention as organizations face growing scrutiny regarding corporate misconduct, sustainability practices, and social responsibility. Research indicates that governance systems must incorporate ethical leadership, organizational culture, and accountability mechanisms to effectively address these challenges. Ethical management practices, including leadership integrity, whistleblowing systems, and transparent communication, are critical for building trust and enhancing governance outcomes.

Furthermore, recent literature emphasizes the need for integrating multiple theoretical perspectives to capture the complexity of modern governance. Combining agency, stakeholder, institutional, and ethical theories provides a more comprehensive framework for analyzing governance practices and sustainability outcomes. Studies suggest that governance effectiveness is enhanced when these perspectives are applied in a coordinated manner, allowing organizations to address both economic and social objectives simultaneously (Martiny, 2024; Buchetti et al., 2025).

The evolving nature of corporate governance also reflects the increasing importance of ethical accountability in organizational decision-making. As organizations operate in complex and dynamic environments, governance systems

must go beyond compliance and incorporate ethical principles that guide behavior and decision-making. This integrative approach ensures that governance frameworks remain relevant, adaptive, and capable of addressing emerging challenges in modern business environments (Yusof et al., 2026; McKinnon & Samil, 2020).

## **ISSUES IN CORPORATE GOVERNANCE AND ETHICAL ACCOUNTABILITY**

Contemporary corporate governance faces increasingly complex issues as organizations are expected to satisfy financial, ethical, social, environmental, and technological expectations simultaneously. The literature review shows that agency theory, stakeholder theory, legitimacy theory, ESG integration, and ethical governance remain central in explaining governance effectiveness. However, the practical application of these theories often remains inconsistent, especially when organizations operate across different institutional environments. Governance frameworks may exist formally, but their effectiveness depends on implementation quality, board competence, ethical leadership, and the credibility of disclosure systems. The G20 and OECD principles emphasize that corporate governance should promote market confidence, transparency, board accountability, shareholder rights, and sustainability related disclosure (OECD, 2023). This indicates that governance issues are no longer limited to ownership and control, but now include broader concerns related to stakeholder trust, sustainability credibility, and organizational legitimacy.

The main issues discussed in this section are aligned with the literature review and focus on four areas. First, agency control mechanisms remain limited when board oversight is weak or when managers control more information than shareholders. Second, stakeholder accountability remains difficult because organizations must balance competing expectations from investors, employees, communities, customers, regulators, and society. Third, ESG disclosure creates credibility concerns because sustainability reporting may be inconsistent, incomparable, or vulnerable to greenwashing. Fourth, ethical governance remains difficult to embed because formal compliance systems do not automatically create ethical organizational behavior. These issues show that contemporary governance requires more than formal structures. It requires integrated accountability, transparent disclosure, board capability, stakeholder participation, and ethical leadership to support sustainable organizational performance (Jensen & Meckling, 1976; Freeman, 1984; Donaldson & Preston, 1995; Erben Yavuz, 2024).

### **Agency Control Limitations and Board Oversight Challenges**

Agency control remains a major issue in corporate governance because the separation between ownership and management creates opportunities for information asymmetry, managerial opportunism, and weak accountability. Agency theory argues that managers may pursue personal interests when monitoring systems are ineffective, creating risks such as earnings manipulation, excessive executive compensation, poor disclosure, and decisions that prioritize short term outcomes over long term value creation (Jensen & Meckling, 1976; Eisenhardt, 1989). In contemporary organizations, this issue becomes more complex because boards are no longer expected to monitor only financial performance. They must also oversee sustainability risks, climate related matters, cybersecurity, data privacy, and ethical conduct. The OECD emphasizes that boards are responsible for effective monitoring of management and accountability to the company and shareholders, indicating that board oversight remains a central governance responsibility (OECD, 2023).

A persistent weakness in agency control is that formal board independence does not always result in effective monitoring. Some organizations may comply with governance codes by appointing independent directors, yet those directors may lack the expertise, authority, or willingness to challenge management decisions. Board effectiveness, therefore, depends not only on structure but also on competence, independence of judgement, and access to reliable information. Recent research indicates that corporate governance characteristics such as board composition, board size, ownership structure, and director diversity influence ESG disclosure and

sustainability outcomes (Erben Yavuz, 2024). This suggests that agency control must be extended beyond financial monitoring to include sustainability oversight and non-financial performance. Without sufficient board capability, governance mechanisms may become symbolic rather than substantive, reducing their ability to prevent misconduct, weak disclosure, and managerial opportunism.

Another issue is that traditional agency mechanisms may be insufficient in addressing modern governance complexity. Incentive contracts, audit committees, and board monitoring can reduce some agency problems, but they may not fully address ethical judgement, stakeholder concerns, and sustainability-related risks. For example, executive compensation that focuses heavily on financial performance may encourage short-term decision-making and weaken attention to long-term social and environmental outcomes. Agency theory also tends to assume self-interested behavior, which may not fully explain managerial responsibility, ethical motivation, or stewardship behavior. As a result, corporate governance requires an integrated approach that combines agency controls with stewardship, stakeholder accountability, and ethical leadership. This issue demonstrates the limitation of relying on monitoring alone. Effective governance requires boards to strengthen oversight capacity, improve information flows, and ensure that managerial incentives are aligned with responsible and sustainable organizational performance.

### **Stakeholder Accountability and Legitimacy Gaps**

Stakeholder accountability remains a significant issue because organizations operate within a broad network of relationships that includes shareholders, employees, customers, suppliers, regulators, communities, and wider society. Stakeholder theory argues that corporate decisions affect multiple groups and that governance should balance these interests rather than focus solely on shareholders (Freeman, 1984; Donaldson & Preston, 1995). However, in practice, many organizations struggle to translate stakeholder theory into meaningful governance mechanisms. Stakeholder engagement may be treated as a communication exercise rather than a decision-making process. This creates a legitimacy gap when firms claim to be socially responsible but fail to reflect stakeholder concerns in strategy, risk management, or performance measurement. Recent evidence shows that stakeholder pressure is associated with sustainability disclosure practices, indicating that stakeholder expectations increasingly influence corporate reporting and governance behavior (Sulemana, 2025).

Legitimacy gaps arise when organizations attempt to maintain a positive public image while their actual practices remain inconsistent with stakeholder expectations. Legitimacy theory explains that firms seek social approval by aligning their behavior with accepted norms, values, and expectations. However, this alignment becomes difficult when stakeholder demands are diverse and sometimes conflicting. Investors may prioritize financial returns, employees may demand fair treatment, communities may expect environmental protection, and regulators may require transparent compliance. If governance systems fail to balance these interests, organizations may face reputational damage, reduced trust, and regulatory scrutiny. Sustainability reporting can help address legitimacy concerns, but only when disclosure is accurate, balanced, and supported by genuine stakeholder engagement. Research on sustainability reporting and stakeholder engagement highlights that organizations must use reporting as a tool for accountability rather than only as a reputational instrument (Sun, 2024).

The challenge of stakeholder accountability is particularly important in emerging markets and cross-border operations. Governance systems are influenced by institutional quality, regulatory enforcement, cultural expectations, and ownership structures. Organizations operating across different jurisdictions may face inconsistent stakeholder expectations, making it difficult to apply one uniform governance model. For example, ESG practices in ASEAN and other emerging contexts may depend heavily on regulatory quality, government effectiveness, and institutional maturity. This means that governance frameworks must be sensitive to local conditions while still maintaining international accountability standards. A rigid governance system may fail to address context-specific stakeholder concerns, while a flexible but weak system may allow selective disclosure

and accountability gaps. Therefore, stakeholder accountability requires formal mechanisms for engagement, clear board responsibility, transparent communication, and performance indicators that reflect stakeholder value creation.

### **ESG Disclosure Credibility and Greenwashing Risks**

ESG disclosure credibility has become one of the most pressing issues in corporate governance because sustainability information is increasingly used by investors, regulators, and stakeholders to evaluate organizational performance. IFRS S1 requires companies to disclose information about sustainability-related risks and opportunities that is useful to users of general-purpose financial reports in making resource allocation decisions (ISSB, 2023). This means that sustainability reporting is no longer a voluntary public relations activity but a governance and accountability mechanism. However, the quality of ESG disclosure varies significantly across organizations, industries, and jurisdictions. Inconsistent reporting frameworks, weak internal controls, and limited assurance can reduce the reliability of sustainability information. When ESG information is incomplete or unclear, stakeholders may find it difficult to assess whether companies are genuinely sustainable or merely presenting a favorable image.

Greenwashing represents a serious governance issue because it occurs when organizations exaggerate or misrepresent their sustainability performance. Such practices can mislead investors, damage stakeholder trust, and weaken the credibility of ESG reporting. A systematic review of ESG disclosure and greenwashing prevention reports that the accuracy and reliability of ESG reporting are threatened by greenwashing, which affects disclosure quality, financial markets, and stakeholder trust (Sneideriene, 2025). Ma (2024) also found that board gender diversity, board independence, and foreign-experienced directors can negatively influence greenwashing among Chinese listed firms, suggesting that board characteristics matter in controlling misleading sustainability claims. These findings show that ESG credibility depends strongly on governance quality. Weak oversight, poor data systems, and limited board sustainability expertise increase the risk that ESG reporting becomes symbolic rather than substantive.

The increasing regulatory focus on sustainability disclosure further highlights the seriousness of ESG credibility issues. IFAC emphasizes that reliable sustainability reporting requires governance and control systems that connect sustainability information with financial reporting quality, timing, and connectivity (IFAC, 2024). OECD guidance also states that sustainability disclosures should be consistent, comparable, reliable, and relevant to investor decisions (OECD, 2025). These standards indicate that ESG reporting must be supported by robust internal controls, board oversight, and external assurance. Without these mechanisms, organizations may face accusations of greenwashing, investor distrust, and regulatory consequences. Recent enforcement cases involving misleading ESG claims also show that sustainability communication is now subject to closer scrutiny by regulators and markets. Therefore, organizations must treat ESG reporting as a core governance responsibility rather than a marketing function.

### **Ethical Governance Deficits and Organizational Culture Weaknesses**

Ethical governance deficits remain a major issue because formal governance structures cannot ensure responsible behavior unless ethical values are embedded within leadership, culture, and decision-making systems. Organizations may have board charters, codes of conduct, audit committees, and compliance policies, but unethical practices can still occur when performance pressure, weak leadership, or fear of reporting discourages responsible behavior. Ethical governance requires integrity, fairness, transparency, and accountability to be practiced consistently across all levels of the organization. Recent research on ethical leadership and corporate sustainability indicates that ethical leadership can influence sustainability and financial performance by shaping organizational values and strategic priorities (AlHares, 2025). This supports the

argument that governance effectiveness depends not only on formal structures but also on leadership behavior and ethical culture.

A major weakness in ethical governance is that compliance systems are often treated as procedural requirements rather than cultural commitments. Employees may attend ethics training or receive codes of conduct, yet still hesitate to report misconduct if they fear retaliation or believe that leadership does not genuinely support ethical behavior. Whistleblowing systems may exist formally, but they may not function effectively when trust is low or protection is inadequate. Ethical leadership research shows that leaders who act with integrity, transparency, and fairness can shape ethical cultures and support ESG integration (Egbiki et al., 2025). This indicates that ethical governance must be reinforced through leadership example, clear accountability, protection for reporting misconduct, and consistent enforcement. Without an ethical culture, governance systems may appear strong on paper but fail in practice when difficult decisions arise.

Ethical governance also faces new challenges in digital transformation, artificial intelligence, data privacy, and automated decision-making. Boards must ensure that technology is used responsibly, transparently, and fairly. The OECD principles emphasize that boards should oversee risk management systems related to digital security, data privacy, and personal data protection (OECD, 2023). This expands ethical governance beyond traditional corporate misconduct into issues such as algorithmic bias, cybersecurity failures, and misuse of personal information. Organizations that fail to govern digital systems ethically may face reputational harm, legal risk, and stakeholder distrust. Therefore, ethical governance must become a central part of strategic decision-making, ESG oversight, stakeholder engagement, and technology governance. Strong ethical culture, responsible leadership, and transparent accountability mechanisms are necessary to ensure that organizational performance is achieved without compromising fairness, integrity, and stakeholder protection.

## **DISCUSSION ON CORPORATE GOVERNANCE EFFECTIVENESS AND ETHICAL ACCOUNTABILITY IN MODERN ORGANIZATIONS**

Contemporary corporate governance effectiveness is best understood through the alignment between theoretical constructs and organizational realities, particularly in addressing the issues of agency limitations, stakeholder accountability, ESG credibility, and ethical governance. The literature indicates that governance systems are increasingly expected to operate as integrated frameworks rather than isolated control mechanisms, reflecting the complexity of modern business environments (OECD, 2023; Schoenmaker, 2023). Organizations face growing pressure to demonstrate accountability, transparency, and sustainability performance, which requires governance practices that extend beyond compliance and financial oversight. Empirical evidence further suggests that governance effectiveness is influenced by board competence, institutional context, and disclosure quality, highlighting those formal structures alone are insufficient (Erben Yavuz, 2024; Ma, 2024). Consequently, governance must be interpreted as a dynamic system that integrates monitoring, stakeholder engagement, ethical leadership, and sustainability oversight to address emerging risks and organizational challenges.

The issues identified earlier reflect structural and behavioral gaps within governance systems, where theoretical expectations are not consistently translated into practice. Agency mechanisms often fail due to limited board capability, stakeholder engagement remains underdeveloped, ESG reporting lacks consistency, and ethical values are not always embedded within organizational culture. These limitations demonstrate that governance effectiveness depends on how well organizations integrate multiple theoretical perspectives into practical decision-making processes. Contemporary governance research emphasizes that combining agency, stakeholder, and ethical frameworks provides a more comprehensive understanding of accountability and performance (Moghaddam & Nof, 2022; McKinnon & Jamil, 2020; Yusof et al., 2025). Therefore, a deeper interpretation of these issues is necessary to identify how governance systems can evolve to meet the demands of sustainability, technological advancement, and stakeholder expectations.

## **Reinterpreting Agency Control through Integrated Governance**

Agency control mechanisms continue to play a central role in corporate governance, yet their effectiveness is constrained when applied in isolation from broader governance frameworks. Traditional monitoring systems, including board oversight, executive compensation, and audit mechanisms, are designed to reduce managerial opportunism and information asymmetry (Jensen & Meckling, 1976; Eisenhardt, 1989). However, contemporary governance challenges extend beyond financial performance, requiring boards to oversee sustainability risks, technological developments, and ethical conduct. Empirical findings show that governance structures, particularly board independence and expertise, significantly influence ESG performance and disclosure quality (Erben Yavuz, 2024; Buchetti et al., 2025). This suggests that agency control must evolve to incorporate non-financial oversight and strategic decision making responsibilities.

A more effective governance approach integrates agency theory with stewardship principles, recognizing that managerial behavior is influenced not only by incentives but also by trust, responsibility, and organizational commitment. Stewardship theory provides a complementary perspective by emphasizing alignment between managerial objectives and organizational goals, particularly in environments where ethical leadership and long term orientation are present (Davis et al., 1997; Hill, 2023). This integration allows governance systems to balance control with flexibility, improving decision quality and organizational resilience.

Board capability remains a critical determinant of integrated governance effectiveness. Directors must possess expertise in finance, sustainability, risk management, and digital governance to effectively oversee complex organizational activities. Research highlights that diverse and competent boards are more capable of identifying risks, challenging management decisions, and ensuring accountability (Prencipe, 2025; Ma, 2024). Without such capabilities, governance mechanisms may become symbolic and fail to address emerging challenges. Therefore, strengthening board competence and integrating monitoring with stewardship principles are essential for enhancing governance effectiveness.

## **Strengthening Stakeholder Governance and Legitimacy Alignment**

Stakeholder accountability represents a fundamental dimension of corporate governance, yet practical implementation often falls short of theoretical expectations. Organizations operate within interconnected networks of relationships, where decisions affect multiple stakeholder groups, including employees, customers, communities, regulators, and investors (Freeman, 1984; Donaldson & Preston, 1995). Despite this recognition, governance systems frequently prioritize shareholder interests, resulting in imbalances that undermine stakeholder trust and organizational legitimacy. Empirical research indicates that stakeholder engagement enhances organizational performance by improving decision making, reducing conflicts, and strengthening long term sustainability outcomes (Del Gesso, 2024; Dwomor et al., 2025).

Legitimacy considerations further reinforce the importance of aligning organizational behavior with societal expectations. Organizations must demonstrate transparency, ethical conduct, and responsiveness to stakeholder concerns to maintain public trust and credibility (Emma et al., 2024; Maharani et al., 2026). However, legitimacy gaps may arise when organizations rely on symbolic disclosure rather than substantive action, particularly in sustainability reporting. Stakeholders increasingly evaluate corporate disclosures critically, emphasizing the need for consistency between reported information and actual practices.

Integrating stakeholder perspectives into governance processes requires formal mechanisms that facilitate participation and accountability. Governance structures should incorporate stakeholder advisory systems, transparent communication channels, and performance indicators that reflect stakeholder value creation (Sundarasan et al., 2024; Wijayanti, 2024). This integration enhances organizational legitimacy and supports sustainable performance by ensuring that governance decisions reflect diverse stakeholder interests.

## **Enhancing ESG Governance and Disclosure Integrity**

The credibility of ESG disclosure has emerged as a critical issue in corporate governance, particularly as sustainability reporting becomes increasingly standardized and regulated. ESG frameworks are designed to provide stakeholders with relevant information regarding environmental, social, and governance performance, yet inconsistencies in reporting practices limit their effectiveness (ISSB, 2023; Schoenmaker, 2023). Variations in measurement approaches, lack of comparability, and limited assurance mechanisms create challenges in evaluating corporate sustainability performance. Consequently, governance systems must ensure that ESG reporting is accurate, reliable, and aligned with organizational practices.

Greenwashing represents a significant risk within ESG governance, as organizations may exaggerate or misrepresent their sustainability performance to enhance their reputation. This practice undermines stakeholder trust and reduces the credibility of corporate disclosures (Khamisu, 2024; Ma, 2024). Research indicates that strong governance structures, including independent boards and effective oversight mechanisms, are essential in mitigating greenwashing risks and improving disclosure quality (Buchetti et al., 2025; Prencipe, 2025).

Integrating ESG considerations into governance systems requires a holistic approach that connects sustainability with strategy, risk management, and performance evaluation. Internal control systems must ensure the accuracy of sustainability data, while external assurance enhances credibility and transparency (IFAC, 2024). Furthermore, technological advancements in data management and reporting systems provide opportunities to improve ESG disclosure, although they also introduce risks related to data integrity and cybersecurity. Effective governance must therefore balance innovation with accountability to ensure reliable sustainability reporting.

## **Embedding Ethical Governance and Leadership Culture**

Ethical governance represents a foundational element of corporate governance effectiveness, addressing the limitations of compliance-based systems and formal structures. Governance frameworks provide rules and guidelines, but ethical behavior is ultimately shaped by organizational culture and leadership values. Ethical theories emphasize the importance of integrity, fairness, and responsibility in guiding decision-making and highlight the role of moral judgement in governance practices (Shleifer & Vishny, 1997; Awalluddin et al., 2024). Organizations that fail to embed ethical values within their culture risk misconduct, reputational damage, and loss of stakeholder trust.

Leadership plays a central role in establishing ethical governance, as leaders influence organizational behavior and decision-making processes. Ethical leadership is associated with transparency, accountability, and responsible management practices, which contribute to improved organizational performance and stakeholder trust (Praveendas, 2025; Yusof et al., 2025). Leaders who demonstrate ethical behavior create a culture that encourages integrity and discourages misconduct, reinforcing governance effectiveness.

Organizational systems must also support ethical governance through mechanisms such as codes of conduct, ethics training, whistleblowing systems, and performance evaluation criteria that reward responsible behavior. These mechanisms are effective only when supported by a strong ethical culture and leadership commitment. Additionally, emerging challenges related to digital transformation require organizations to address ethical issues in areas such as artificial intelligence, data privacy, and cybersecurity (OECD, 2023). Governance systems must therefore integrate ethical principles into technological decision-making to ensure accountability and stakeholder protection.

## **RECOMMENDATIONS FOR STRENGTHENING CORPORATE GOVERNANCE AND ETHICAL ACCOUNTABILITY IN MODERN ORGANIZATIONS**

Strengthening corporate governance requires a systematic set of suggestions that responds directly to the current issues identified in the previous section, particularly agency control limitations, stakeholder accountability gaps, ESG disclosure credibility, and ethical governance weaknesses. Corporate governance should no longer be treated as a narrow compliance

function, but as an integrated organizational system that connects board oversight, sustainability performance, stakeholder trust, and ethical accountability. The G20 and OECD principles emphasize that governance frameworks should support effective boards, transparent disclosure, shareholder rights, sustainability, and market confidence (OECD, 2023). This indicates that governance improvement must be both structural and behavioral. Structural improvement includes stronger board functions, reporting systems, and control mechanisms, while behavioral improvement requires ethical leadership, stakeholder responsiveness, and a responsible organizational culture. Therefore, the following suggestions focus on integrated governance, stakeholder accountability, ESG reporting integrity, and ethical leadership as interconnected areas for improving corporate governance effectiveness.

A stronger governance model should be developed by aligning classical governance theories with contemporary organizational realities. Agency theory remains important because it explains the need for monitoring and accountability, while stewardship theory emphasizes trust, managerial responsibility, and long-term organizational commitment (Jensen & Meckling, 1976; Davis et al., 1997). Stakeholder theory expands the governance focus by requiring organizations to consider the interests of groups affected by corporate decisions (Freeman, 1984; Donaldson & Preston, 1995). Recent developments in sustainability reporting and ESG governance show that these theories should not be applied separately. Instead, they should be combined to create a more holistic governance framework. Such integration is important because organizations now face pressures from investors, regulators, employees, customers, communities, and society. Governance systems must therefore provide accountability to shareholders while also protecting stakeholder interests, ensuring sustainability credibility, and embedding ethical decision-making into organizational practice.

### **Strengthening Integrated Governance and Board Oversight**

Organizations should strengthen integrated governance frameworks by combining monitoring mechanisms, strategic oversight, and ethical leadership responsibilities within board functions. Traditional agency control mechanisms remain necessary to reduce information asymmetry and managerial opportunism, but modern governance requires boards to supervise broader risks such as ESG performance, climate exposure, cybersecurity, data privacy, and stakeholder accountability. The OECD highlights that boards should oversee risk management systems and mechanisms that ensure compliance with laws related to labour, human rights, environment, digital security, data privacy, and health and safety (OECD, 2023). This indicates that board responsibility is no longer limited to financial performance or executive monitoring. Boards must develop wider competencies that allow them to evaluate non-financial risks and long-term sustainability outcomes. Therefore, organizations should review board charters, committee structures, and reporting lines to ensure that governance responsibilities are clearly defined, properly distributed, and aligned with current regulatory and stakeholder expectations.

Board capability should be improved through structured director selection, continuous training, and competency-based evaluation. Directors must possess expertise in finance, sustainability, governance, technology, risk management, and stakeholder relations to provide effective oversight. Evidence from recent governance and ESG research shows that board characteristics, including board independence, gender diversity, and foreign experience, can influence sustainability behavior and reduce greenwashing risks (Ma, 2024). Erben Yavuz (2024) also demonstrates that corporate governance characteristics are associated with ESG performance, suggesting that the quality of board composition affects sustainability outcomes. These findings support the suggestion that boards should not be composed merely to satisfy formal requirements. Instead, organizations should appoint directors who can challenge management, understand sustainability risks, interpret ESG information, and guide responsible strategy. Annual board evaluations should also assess independence, attendance, contribution quality, ESG competence, and ethical judgement to ensure that board oversight remains effective and relevant.

A further suggestion is to integrate financial and non-financial performance into governance evaluation and executive incentives. Many agency problems occur when executive rewards are tied mainly to short-term financial outcomes, which may encourage risk-taking, weak stakeholder consideration, or symbolic sustainability disclosure. To address this issue, organizations should include long-term indicators such as ESG performance, employee welfare, stakeholder satisfaction, innovation quality, risk management effectiveness, and ethical conduct in executive evaluation systems. Handoyo and

Anas (2024) show that ESG performance and firm performance in ASEAN contexts are shaped by regulatory quality and government effectiveness, indicating that governance performance must be understood together with institutional conditions. Therefore, incentive systems should be carefully designed to support sustainable value creation rather than short-term appearances. This approach can reduce opportunistic behavior, strengthen managerial accountability, and align corporate strategy with long-term organizational resilience, stakeholder expectations, and ethical responsibility.

### **Enhancing Stakeholder Governance and Accountability Mechanisms**

Organizations should institutionalize stakeholder governance by moving beyond symbolic engagement toward structured participation in decision making. Stakeholder theory emphasizes that organizations operate within relationships involving shareholders, employees, customers, suppliers, communities, regulators, and society (Freeman, 1984; Donaldson & Preston, 1995). However, many firms still treat stakeholder engagement as a communication activity rather than a governance mechanism. To address this weakness, organizations should establish formal stakeholder advisory panels, consultation forums, grievance mechanisms, and transparent feedback systems. These mechanisms allow stakeholders to express concerns related to environmental impact, labour practices, community welfare, product responsibility, and ethical conduct. Stakeholder engagement should also be linked to board oversight, ensuring that stakeholder concerns are not isolated within public relations departments. By embedding stakeholder participation into governance processes, organizations can improve decision quality, reduce conflicts, strengthen legitimacy, and develop strategies that reflect broader social and institutional expectations.

Stakeholder mapping should be conducted systematically to identify the groups most affected by organizational decisions and to understand their expectations. This process should classify stakeholders according to influence, urgency, legitimacy, and potential impact on organizational performance. Such mapping allows organizations to develop targeted engagement strategies rather than relying on general communication. OECD guidance on sustainability-related disclosure in Asia emphasizes that environmental and social issues should be included within sustainability disclosures when they can reasonably influence company value (OECD, 2025). This reinforces the need for organizations to understand which stakeholder concerns are material to long-term performance. Stakeholder accountability should therefore be integrated into risk management, corporate strategy, sustainability reporting, and board agenda setting. Organizations should document stakeholder issues, management responses, and follow-up actions to demonstrate that engagement is meaningful, traceable, and connected to governance decisions.

Transparent communication should also be strengthened to reduce legitimacy gaps between corporate claims and actual practices. Legitimacy problems occur when organizations present themselves as responsible while failing to provide evidence of genuine performance. To address this issue, firms should disclose both achievements and challenges in stakeholder-related areas such as employee development, community impact, supply chain responsibility, customer protection, and environmental performance. Sustainability reporting should not only highlight positive outcomes but also explain risks, limitations, corrective actions, and future targets. The OECD Corporate Governance Factbook highlights the growing importance of sustainability-related corporate governance practices across jurisdictions, showing that stakeholder accountability has become part of governance development rather than a peripheral concern (OECD, 2025). Therefore, organizations should ensure that stakeholder communication is balanced, accurate, and supported by measurable indicators. This approach improves credibility and helps stakeholders evaluate whether corporate governance practices are genuinely aligned with societal expectations.

### **Improving ESG Governance and Reporting Integrity**

Organizations should strengthen ESG governance by integrating sustainability considerations into board oversight, strategy, risk management, and internal control systems. IFRS S1 requires entities to disclose sustainability-related risks and opportunities that are useful to users of general-purpose financial reports in making resource allocation decisions (ISSB, 2023). This requirement confirms that ESG reporting is not merely a voluntary public relations activity but a governance responsibility linked to decision usefulness and enterprise value. Therefore, organizations should clearly assign responsibility for sustainability oversight to the board or a relevant board committee. Management should also establish

internal structures for collecting, verifying, and reporting ESG information. Such structures should connect sustainability data with financial planning, risk assessment, and strategic performance. By integrating ESG into governance systems, organizations can reduce fragmented reporting, improve accountability, and ensure that sustainability issues are addressed at the highest decision-making level.

Internal controls over ESG information should be strengthened to improve disclosure reliability and reduce the risk of greenwashing. IFAC states that high-quality sustainability reporting requires governance and control systems that align sustainability and financial reporting in terms of quality, timing, and connectivity (IFAC, 2024). This means organizations should treat ESG data with the same seriousness as financial data. Practical measures include establishing data ownership, documenting calculation methods, maintaining audit trails, using consistent metrics, and reviewing ESG information before publication. Sneideriene (2025) found that greenwashing threatens the accuracy and reliability of ESG reporting, affects disclosure quality, complicates decision-making, harms financial markets, and weakens stakeholder trust. Therefore, organizations should design ESG controls that prevent selective reporting, exaggerated claims, and unsupported sustainability statements. Strong internal controls can improve the credibility of disclosures and protect organizations from reputational and regulatory risks.

Independent assurance should be used to strengthen stakeholder confidence in ESG disclosures. As sustainability reporting becomes more important for investors, regulators, and other stakeholders, unverified information may be viewed as insufficient or unreliable. IFAC notes that sustainability assurance is increasingly important because stakeholders require reliable and decision-useful information about sustainability risks and opportunities (IFAC, 2024). Organizations should therefore engage qualified assurance providers to review sustainability information, internal controls, and reporting processes. Assurance should cover not only selected indicators but also the systems used to produce sustainability information. This can help reduce greenwashing risk and improve comparability across firms. In addition, boards should review assurance findings and ensure that weaknesses are corrected. ESG reporting integrity requires continuous improvement rather than one-time compliance. When assurance is combined with board oversight and strong internal controls, sustainability reporting becomes a credible governance tool rather than a symbolic disclosure practice.

## **Embedding Ethical Leadership and Organizational Culture**

Organizations should embed ethical leadership into governance systems because formal rules cannot prevent misconduct unless leaders demonstrate integrity, fairness, and accountability. Ethical governance requires more than compliance manuals, board policies, and codes of conduct. It requires leaders who consistently model responsible behavior and create expectations that unethical practices will not be tolerated. AlHares (2025) shows that ethical leadership is linked to corporate sustainability and financial performance, particularly when firms align their practices with the Sustainable Development Goals. This finding supports the suggestion that ethical leadership should be treated as a governance priority rather than a human resource topic only. Organizations should include ethical leadership criteria in recruitment, promotion, executive appraisal, and leadership development programs. Senior leaders should also communicate ethical expectations clearly and demonstrate consistency between organizational values and actual decisions. This alignment can strengthen trust, reduce misconduct, and support long term governance effectiveness. According to Yusof (2025), organizations that integrate ethical leadership into strategic governance practices are more likely to achieve sustainable stakeholder confidence and long term organizational resilience.

Comprehensive ethics programs should be developed to support ethical behavior across all organizational levels. These programs should include codes of conduct, ethics training, conflict of interest declarations, whistleblowing systems, disciplinary procedures, and protection against retaliation. However, ethics programs must not be treated as formal documents only. They should be embedded into daily decision-making, procurement, reporting, performance management, stakeholder engagement, and risk assessment. Employees must understand how ethical principles apply to real situations, especially when facing pressure to meet financial targets or conceal negative information. Governance systems should also ensure that reported misconduct is investigated independently and resolved transparently. Ethical culture improves when employees believe that rules are applied consistently to all levels, including senior management. Therefore, organizations should regularly assess ethical climate through surveys, internal audits, misconduct trends, and employee feedback to

identify weaknesses and improve governance culture. Zarah et al. (2025) further argue that organizations with strong ethical climates experience lower levels of governance-related misconduct and stronger employee commitment toward organizational accountability.

Ethical governance must also address emerging digital risks related to artificial intelligence, data privacy, cybersecurity, and automated decision-making. The OECD principles emphasize that boards should oversee risk management systems related to digital security, data privacy, and personal data protection (OECD, 2023). This means ethical governance is no longer limited to traditional issues such as fraud, bribery, or financial misconduct. Organizations must ensure that technology is used responsibly, transparently, and fairly. Boards should require management to explain how AI systems are used, how data is protected, how algorithmic bias is monitored, and how accountability is assigned when automated decisions affect stakeholders. Ethical review processes should be integrated into digital transformation projects before implementation. This helps ensure that innovation does not undermine fairness, privacy, stakeholder protection, or organizational trust. As technology becomes more influential, ethical oversight must become a permanent component of corporate governance. Yusof (2025) emphasize that governance systems must evolve alongside technological transformation to ensure that ethical responsibility and stakeholder protection remain central within digitally driven organizations.

The final suggestion is to develop a continuous governance improvement cycle that connects board oversight, stakeholder engagement, ESG reporting, and ethical culture. Governance should not be viewed as a fixed set of policies but as an adaptive system that responds to regulatory changes, stakeholder expectations, sustainability risks, and technological developments. Organizations should conduct periodic governance reviews to evaluate board effectiveness, stakeholder accountability, ESG disclosure quality, ethical culture, and risk management. These reviews should produce clear action plans with measurable responsibilities and timelines. The OECD emphasizes that corporate governance frameworks should support long-term value creation, sustainability, and resilience (OECD, 2023). Therefore, governance improvement should be continuous, evidence-based, and aligned with organizational strategy. By adopting this approach, organizations can strengthen accountability, reduce governance failures, improve stakeholder trust, and enhance sustainable performance. Effective corporate governance depends not only on having policies but on ensuring that those policies shape real organizational behavior. Zulkifli et al. (2025) also highlight that organizations which continuously review governance effectiveness are better prepared to manage uncertainty, maintain stakeholder trust, and improve organizational sustainability performance over time.

## **CONCLUSION**

Corporate governance effectiveness in contemporary organizations is increasingly shaped by the integration of accountability, sustainability, stakeholder responsiveness, and ethical leadership within a coherent governance framework. The analysis demonstrates that traditional governance mechanisms, particularly those grounded in agency theory, remain important but are insufficient when applied in isolation. Modern organizational environments require governance systems that extend beyond monitoring and compliance to incorporate broader responsibilities related to ESG performance, stakeholder engagement, and ethical conduct. The findings indicate that governance challenges arise when there is a misalignment between formal structures and actual practices, particularly in areas such as board oversight, disclosure integrity, and organizational culture.

A comprehensive understanding of governance effectiveness emerges when multiple theoretical perspectives are considered together. Agency theory explains the need for monitoring and control, while stakeholder theory highlights the importance of balancing diverse interests. Stewardship theory contributes by emphasizing trust and long-term commitment, and ethical frameworks reinforce the role of integrity and responsibility in decision-making. The integration of these perspectives provides a more robust explanation of governance behavior and offers a foundation for improving governance systems. Empirical and regulatory developments further confirm that governance effectiveness is closely linked to the ability of organizations to provide transparent, consistent, and reliable information, particularly in sustainability reporting.

The discussion also reveals that governance effectiveness depends significantly on board capability, stakeholder inclusion, ESG reporting quality, and ethical leadership. Boards must possess the necessary expertise to oversee both financial and non-financial risks, including sustainability and digital transformation challenges. Stakeholder accountability must be embedded within governance processes to ensure that organizational decisions reflect broader societal expectations. ESG disclosure must be supported by strong internal controls and assurance mechanisms to enhance credibility and reduce the risk of misleading information. Ethical governance must be reinforced through leadership behavior and organizational culture, ensuring that governance principles are reflected in practice rather than limited to formal policies.

The implications of this study suggest that corporate governance should be viewed as an adaptive and multidimensional system rather than a static set of rules. Organizations must continuously evaluate and improve governance practices to respond to evolving regulatory requirements, stakeholder expectations, and technological developments. Governance systems that integrate monitoring, stakeholder engagement, sustainability oversight, and ethical leadership are better positioned to achieve long-term organizational resilience and credibility. Strengthening these elements will enable organizations to build trust, enhance transparency, and support sustainable performance in complex and dynamic business environments.

### **ACKNOWLEDGEMENT**

The authors would like to express their sincere appreciation to the Faculty of Business and Accounting, Universiti Poly-Tech Malaysia, for the continuous academic support, encouragement, and facilities provided throughout the completion of this study. The authors also gratefully acknowledge the valuable guidance, constructive feedback, and scholarly contributions from colleagues, reviewers, and fellow researchers, which significantly enhanced the quality and development of this manuscript.

### **CONFLICT OF INTEREST**

The authors declare that there are no conflicts of interest regarding the publication of this article. The authors confirm that this research was conducted independently and without any financial, commercial, or personal relationships that could have influenced the findings, analysis, or interpretation presented in this study.

### **AUTHOR CONTRIBUTION STATEMENT**

*Author 1, Mohamed Suhaimi Yusof, contributed to the conceptualization, research design, literature analysis, and writing of the original draft manuscript.*

*Author 2, Noorraha Abdul Razak, was responsible for data interpretation, validation of the research content, and manuscript review.*

*Author 3, Norashikin Misnan, contributed to supervision, critical review, and editing of the final manuscript.*

*Author 4, Hidayatul Khusna Abdul Malik, contributed to literature review support, manuscript formatting, and proofreading of the article.*

*All authors have read and approved the final version of the manuscript prior to submission.*

### **ETHICS STATEMENT**

This research was conducted in accordance with the ethical standards of Universiti Poly-Tech Malaysia and adhered to accepted academic research principles. All information and references used in this study were obtained from published literature, academic journals, official reports, and publicly available sources related to corporate governance and ethical accountability. The authors ensured that all sources were properly acknowledged and cited to maintain academic integrity, transparency, and ethical scholarly practice. No human participants, confidential organizational data, or personal information were directly involved in this study.

## REFERENCES

- Al-Faryan, M. A. S. (2024). Corporate governance and agency conflicts in emerging markets. *Corporate Governance: The International Journal of Business in Society*, 24(1), 45–62.
- AlHares, A. (2025). Ethical leadership and corporate sustainability performance. *Sustainability*, 17(3), 1120.
- Awalluddin, M. M., Rahman, A. A., & Hassan, R. (2024). Ethical leadership and organizational performance. *Journal of Business Ethics*, 189(2), 345–362.
- Buchetti, B., Magnanelli, B. S., & Izzo, M. F. (2025). Corporate governance and ESG performance. *Journal of Corporate Finance*, 72, 102156.
- Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review*, 22(1), 20–47.
- Del Gesso, C. (2024). Stakeholder engagement and corporate governance effectiveness. *Corporate Governance*, 24(2), 180–198.
- Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation concepts, evidence, and implications. *Academy of Management Review*, 20(1), 65–91.
- Dwomor, E., Agyemang, A. O., & Bonsu, S. K. (2025). Stakeholder engagement and firm performance. *Corporate Governance: The International Journal of Business in Society*, 25(2), 201–220.
- Egbiki, E., et al. (2025). Ethical leadership and governance culture in organizations. *International Journal of Management Studies*, 32(1), 88–104.
- Eisenhardt, K. M. (1989). Agency theory an assessment and review. *Academy of Management Review*, 14(1), 57–74.
- Emma, R., et al. (2024). Legitimacy theory and corporate disclosure practices. *Journal of Accounting and Public Policy*, 43(2), 106879.
- Erben Yavuz, A. (2024). Corporate governance characteristics and ESG performance. *Sustainability*, 16(19), 8400.
- Escamez, L., et al. (2026). Board diversity and ESG performance evidence from global firms. *Business Strategy and the Environment*, 35(1), 120–138.
- Freeman, R. E. (1984). *Strategic management a stakeholder approach*. Pitman.
- Handoyo, S., & Anas, M. (2024). ESG performance in ASEAN firms. *Cogent Business and Management*, 11(1), 2371071.
- Hill, C. W. L. (2023). Corporate governance and strategic leadership. *Strategic Management Journal*, 44(5), 1023–1040.
- International Federation of Accountants. (2024). *Enhancing sustainability reporting and assurance*. IFAC.
- International Sustainability Standards Board. (2023). *IFRS S1 general requirements for disclosure of sustainability related financial information*. IFRS Foundation.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.

- Khamisu, M. S. (2024). ESG disclosure and corporate transparency. *Journal of Cleaner Production*, 428, 139152.
- Maharani, D., et al. (2026). Corporate legitimacy and sustainability reporting. *Sustainability Accounting, Management and Policy Journal*, 17(1), 55–73.
- Ma, Y. (2024). Corporate governance and sustainability performance. *Sustainability*, 16(5), 2143.
- Martiny, B. (2024). Integrating governance theories for sustainable organizations. *Journal of Business Research*, 168, 113215.
- McKinnon, J., & Samil, R. (2020). Corporate governance and accountability systems. *Accounting, Auditing and Accountability Journal*, 33(6), 1450–1472.
- Moghaddam, K., & Nof, S. Y. (2022). Governance mechanisms and organizational performance. *International Journal of Production Research*, 60(3), 987–1005.
- Organisation for Economic Co-operation and Development. (2023). *G20 OECD principles of corporate governance*. OECD Publishing.
- Organisation for Economic Co-operation and Development. (2025). *Corporate governance factbook*. OECD Publishing.
- Praveendas, M. (2025). Ethical leadership and organizational trust. *Journal of Management Development*, 44(2), 210–228.
- Prencipe, A., Bar-Yosef, S., & Dekker, H. C. (2025). ESG governance and firm value. *European Accounting Review*, 34(2), 210–235.
- Schoenmaker, D. (2023). *Principles of sustainable finance*. Oxford University Press.
- Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *Journal of Finance*, 52(2), 737–783.
- Sneideriene, A. (2025). ESG disclosure and greenwashing risks. *Journal of Cleaner Production*, 435, 140112.
- Sulemana, I. (2025). Stakeholder pressure and ESG disclosure. *Business Strategy and the Environment*, 34(3), 890–905.
- Sun, Y. (2024). Sustainability reporting and stakeholder engagement. *Accounting Forum*, 48(2), 210–228.
- Sundarasan, S. D., Je-Yen, T., & Rajangam, N. (2024). Board diversity and ESG reporting. *Heliyon*, 10(6), e30045.
- Wijayanti, R. (2024). Governance mechanisms and sustainability disclosure. *Asian Journal of Business Ethics*, 13(2), 145–162.
- Yusof, M. S. B. (2025). Shaping the future of Malaysia's automotive industry through unified efforts for new product development success. *Veredas do Direito*, 22(6), e223925–e223925.
- Yusof, M. S. (2025). Technology adoption in small and medium enterprises and its impact on business growth, innovation, and digital sustainability. *International Journal of Advanced Research in Economics and Finance*, 7(3), 84–100. <https://doi.org/10.55057/ijaref.2025.7.3.7>
- Zarah, N. H., Ismail, R., & Karim, S. A. (2025). Organizational ethical climate and accountability practices in corporate governance. *Asian Journal of Research in Education and Social Sciences*, 7(2), 55–70.
- Zulkifli, M. H., Hamid, N. A., & Roslan, M. R. (2025). Continuous governance improvement and sustainable organizational performance in emerging economies. *Journal of Management and Sustainability*, 15(3), 201–218.

