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# Legitimacy Washing in Sustainable Finance: A Critical Literature Review Legitimacy and Conceptual Framework

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***ABSTRACT***

*As ESG disclosure becomes an institutional norm in sustainable finance, concerns are rising about the symbolic use of sustainability narratives to project legitimacy without corresponding ethical or operational change. While legitimacy theory has been widely applied to explain organizational responses to social expectations, it has rarely been used to interrogate the potential manipulation of legitimacy itself. This conceptual paper introduces and theorizes the notion of legitimacy washing—defined as the strategic deployment of ESG disclosures and symbolic sustainability practices to secure perceived legitimacy in the absence of substantive transformation. Through a critical literature review, the paper synthesizes existing scholarship on ESG disclosure, greenwashing, and legitimacy theory, identifying key gaps in how symbolic compliance is understood and assessed. It then develops a conceptual framework that outlines the drivers, mechanisms, and types of legitimacy washing, distinguishing it from related concepts such as greenwashing and CSR decoupling. The paper contributes to theory by expanding the boundaries of legitimacy theory; to practice by offering diagnostic indicators for symbolic ESG disclosure; and to policy by proposing regulatory responses to mitigate performative sustainability. The framework offers a foundation for future empirical research on how legitimacy is constructed, contested, and potentially compromised in the evolving landscape of sustainable finance.*

***Keywords**: Legitimacy Washing, Sustainable Finance, ESG Disclosure.*

**ABSTRAK**

*Seiring dengan semakin berkembangnya pengungkapan ESG sebagai norma kelembagaan dalam keuangan berkelanjutan, muncul kekhawatiran tentang penggunaan narasi keberlanjutan secara simbolis untuk memproyeksikan legitimasi tanpa perubahan etika atau operasional yang sesuai. Meskipun teori legitimasi telah banyak diterapkan untuk menjelaskan respons organisasi terhadap ekspektasi sosial, teori ini jarang digunakan untuk mengkaji potensi manipulasi legitimasi itu sendiri. Penelitian konseptual ini memperkenalkan dan berteori tentang gagasan pencucian legitimasi—yang didefinisikan sebagai penerapan strategis pengungkapan ESG dan praktik keberlanjutan simbolis untuk mengamankan legitimasi yang dirasakan tanpa adanya transformasi substantif. Melalui tinjauan pustaka kritis, penelitian ini mensintesis kajian yang ada tentang pengungkapan ESG, greenwashing, dan teori legitimasi, mengidentifikasi kesenjangan utama dalam bagaimana kepatuhan simbolis dipahami dan dinilai. Penelitian ini kemudian mengembangkan kerangka kerja konseptual yang menguraikan pendorong, mekanisme, dan jenis pencucian legitimasi, yang membedakannya dari konsep terkait seperti greenwashing dan pemisahan CSR. Peneltian ini berkontribusi pada teori dengan memperluas batasan teori legitimasi; pada praktik dengan menawarkan indikator diagnostik untuk pengungkapan ESG simbolis; dan kebijakan dengan mengusulkan respons regulasi untuk memitigasi keberlanjutan performatif. Kerangka kerja ini menawarkan landasan bagi penelitian empiris di masa mendatang tentang bagaimana legitimasi dibangun, diperdebatkan, dan berpotensi terkikis dalam lingkup keuangan berkelanjutan yang terus berkembang.*

***Kata kunci**: Pencucian Legitimasi, Keungan Berkelanjutan, Pengungkapan ESG.*

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## 1. Introduction

Over the past decade, sustainable finance has moved from the margins of financial discourse to the center of global economic planning. Framed around the integration of environmental, social, and governance (ESG) principles, sustainable finance offers a vision of capital markets that support not undermine social equity, climate action, and long-term resilience. The push for sustainability transformations in the financial sector was significantly shaped by the Paris Agreement and the United Nations Sustainable Development Goals (SDGs), which now serve as guiding frameworks for aligning financial practices with global sustainability targets (Tuyon, 2022). The adoption of the SDGs in 2015 consolidated this vision, encouraging governments, corporations, and investors to align capital flows with development priorities such as clean energy, decent work, and responsible consumption. For instance, SDGs have become materially relevant in the issuance of sustainability bonds, shaping how green finance instruments are structured and perceived by market participants (Yunita, 2025). Moreover, regulatory bodies and international policymakers are increasingly linking digital finance platforms and fintech ecosystems with the SDGs, further embedding sustainability into the architecture of global finance (Sergeev, 2021).

Responding to this global momentum, ESG disclosure has become an institutional norm. Listed companies are now expected to publish sustainability reports; investment products are increasingly labelled as “green,” “social,” or “sustainable”; and regulatory frameworks ranging from the EU Taxonomy to the Task Force on Climate-related Financial Disclosures (TCFD) are rapidly reshaping how financial institutions evaluate risk and value. Disclosure requirements are no longer optional but serve as tools for standardization and market discipline, pushing firms to align with transparent sustainability standards across activities, issuers, and portfolios (Steuer & Tröger, 2022). The EU, in particular, is playing a standard-setting role globally, following earlier policy innovations by China, driving global convergence in green financial governance (Larsen, 2022). This institutionalization of ESG is also accompanied by extensive academic theorization. As Bernini & La Rosa (2023) show, ESG and related phenomena like greenwashing have been examined through legitimacy theory, stakeholder theory, and agency theory to explain both symbolic and substantive sustainability engagement. Yet, beneath this growing body of regulation and disclosure lies a critical tension: is ESG being used as a framework for real change, or merely as a tool for image management?

While concerns over *greenwashing* where firms inflate or misrepresent their environmental commitments have rightly garnered regulatory and scholarly attention, they represent only the surface of a deeper institutional phenomenon. Beyond isolated exaggerations, ESG discourse is increasingly mobilized by organizations to construct a broader façade of ethicality and social responsibility. This is not merely about appearing “green,” but about performing trustworthiness and legitimacy across multiple dimensions, often without any substantive transformation. As Bernini and La Rosa (2023) point out, such symbolic behavior is deeply rooted in reputational strategy, with ESG narratives functioning as instruments to accrue social and relational capital, especially in environments lacking strict regulatory oversight.

This gap between symbolic disclosure and real action is exacerbated by the institutionalization of ESG mandates. Ali et al. (2025), in a cross national study of over 3,600 firms, reveal that mandatory disclosure regimes can inadvertently incentivize superficial compliance, leading to an overall increase in greenwashing post-regulation particularly among firms that had previously shown little ESG engagement. Further, Liu (2025) shows that internal dynamics such as executive incentives tied to ESG scores can lead firms to exploit ESG frameworks for symbolic gains, amplifying legitimacy signaling without altering core practices. This paper defines *legitimacy washing* as the strategic deployment of ESG language and frameworks not just to mask environmental shortcomings, but to simulate broader ethical alignment thus preserving reputational capital while avoiding genuine accountability.

At its core, legitimacy washing extends from legitimacy theory, which posits that organizations seek alignment with prevailing norms and societal expectations to secure ongoing approval and survival (Suchman, 1995). ESG disclosures, under this lens, are not only transparency tools but also instruments of symbolic alignment designed to reassure regulators, investors, and the public. However, as these disclosures become increasingly routinized, they risk decoupling from internal operations, becoming performative rather than transformative.

Recent empirical work supports this concern. Ali et al. (2025) show that mandatory ESG disclosure regimes can paradoxically stimulate *more* greenwashing among firms that had not previously engaged in ESG reporting suggesting that compliance pressure may incentivize surface-level engagement over substance. In a complementary theoretical analysis, Velte (2023) argues that CSR and ESG decoupling arises when firms exploit disclosure systems as impression management tools under stakeholder pressure, especially in contexts of weak governance or minimal oversight.

This dynamic is particularly evident in emerging markets. For instance, Liu (2025) finds that ESG disclosures among Chinese firms are often shaped more by internal incentive structures like executive bonuses tied to ESG ratings than by environmental or social performance, resulting in symbolic disclosures that serve to maintain reputational standing rather than enact reform.

What these studies highlight is a subtle but significant risk: as ESG frameworks become institutionalized, organizations may learn to satisfy formal expectations through disclosure, certification, and branding without internalizing the normative commitments these tools are meant to enforce. This is the essence of legitimacy washing: when firms disclose what stakeholders want to hear, not what they need to know.

Despite growing academic interest in greenwashing, legitimacy washing remains underexplored as a distinct theoretical construct. Most literature treats legitimacy as something to be attained, but not manipulated. As Bernini and La Rosa (2023) emphasize, the symbolic use of ESG narratives to manage perceptions rather than performance demands closer scrutiny, particularly given the reputational capital at stake. Ultimately, this leads to a troubling paradox: ESG disclosures, designed as tools of accountability, can become shields against scrutiny. Without a more critical lens, sustainable finance risks devolving into performance a ritual of transparency that produces legitimacy, not change.

This paper responds to this gap by reconceptualizing legitimacy theory for the age of ESG. It introduces *legitimacy washing* as a distinct form of symbolic disclosure behavior, and proposes a framework to understand how, when, and why it occurs. Through a critical literature review of ESG disclosure practices, the paper identifies recurring patterns of symbolic conformity and conceptual decoupling. It then builds a conceptual framework that distinguishes between substantive and symbolic legitimacy, offering key indicators for identifying potential legitimacy washing in practice.

This paper aims to: *first,* critically review the literature on ESG disclosure and legitimacy theory, identifying how symbolic behavior has evolved in the sustainability era; *second,* define and develop the concept of legitimacy washing as a strategic disclosure practice distinct from greenwashing; *third*, propose a conceptual framework that outlines the drivers, mechanisms, and outcomes of legitimacy washing in sustainable finance.

This paper makes three key contributions. Theoretically, it advances legitimacy theory by formalizing *legitimacy washing* as a conceptual construct and emphasizing its relevance in ESG discourse. Practically, it offers a set of red flags and diagnostic criteria to help researchers, analysts, and assurance providers detect symbolic ESG behavior. From a policy perspective, it provides insights for regulators and standard setters to design ESG disclosure frameworks that consider not only *what* is disclosed, but also *why* and *how*. As ESG continues to influence the future of finance, ensuring that legitimacy is genuinely earned not merely performed is essential. This paper represents a critical first step toward that shift.

## Literature Review

### *2.1 ESG Disclosure and the Illusion of Transparency*

The widespread adoption of *Environmental, Social, and Governance (ESG)* disclosure frameworks is often portrayed as a breakthrough in corporate accountability. Companies now routinely publish ESG reports, track sustainability indicators, and align their narratives with global standards such as the GRI, TCFD, and SASB. This trend is widely celebrated as evidence of a shift toward responsible capitalism.

Yet, the assumption that more disclosure equals more accountability remains largely untested and increasingly problematic. For instance, Choy (2024) shows that even under strengthened regulation in Hong Kong, firms' ESG disclosures improved in format and volume, but not necessarily in depth or sincerity. This raises a critical question: are firms becoming more sustainable or just more skilled at *appearing* so?

Emerging market studies reveal a similar pattern. Itan et al. (2025) find that ESG disclosures in Indonesia positively influence market reactions, particularly in family and foreign owned firms. However, these market responses are disproportionate to actual performance improvements, suggesting that ESG disclosures are increasingly strategic signals rather than reflections of real transformation .

What these studies imply is troubling: ESG disclosure may not serve as a mirror of accountability, but as a mask carefully curated to satisfy institutional expectations and investor sentiment, while concealing business-as-usual.

### *2.2 Rethinking Legitimacy Theory in the ESG Era*

Legitimacy theory offers a useful, albeit incomplete, lens to explain why companies engage in sustainability disclosures. Rooted in the idea that organizations must align with prevailing societal norms to maintain their "license to operate," legitimacy theory has been widely applied in accounting and CSR research. As Del Gesso and Lodhi (2024) note in their systematic review, legitimacy theory is the second most-cited framework in ESG literature, used primarily to interpret disclosure behavior as a response to external pressures.

But here lies a crucial oversight: legitimacy theory is often applied descriptively rather than critically. It explains how legitimacy is pursued, but rarely interrogates whether legitimacy is earned or manufactured. By focusing on survival and adaptation, the theory inadvertently normalizes symbolic legitimacy management where what matters is the perception of alignment with societal values, not actual alignment.

This becomes clear in studies like Eliwa et al. (2021), which show that ESG disclosures alone regardless of performance can reduce a firm's cost of debt in EU countries. In other words, the signal of sustainability is enough to influence market behavior, even in the absence of substantive environmental or social outcomes. This suggests that the market rewards *conformity* not commitment.

Such evidence calls for a sharper critique of legitimacy theory itself: when does the pursuit of legitimacy cross the line into manipulation?

### *2.3 Symbolic Compliance and the Rise of Legitimacy Washing*

A growing stream of literature draws attention to the gap between what firms say and what they do. This decoupling between symbolic compliance and substantive change is well-established in institutional theory (Meyer & Rowan, 1977), but its implications for ESG practice have yet to be fully unpacked.

Agostini et al. (2025) provide a compelling example. Contrary to the expectation that firms under scrutiny disclose more, their findings reveal that some companies actually reduce ESG disclosure quality suggesting that these disclosures are seen as risk management tactics, not tools of transparency. This pattern aligns with what this paper terms legitimacy washing: the use of ESG disclosure not to enhance sustainability performance, but to secure legitimacy through appearance.

The implications are profound. In contexts where ESG standards are rapidly institutionalized through mandatory reporting rules, rating agencies, or green finance taxonomies organizations are incentivized to *look sustainable*, regardless of whether they are. ESG, in this sense, becomes a new language of legitimacy, easily adopted but not easily verified.

This symbolic turn is further reinforced by Wong et al. (2023), who argue that ESG disclosure is increasingly shaped by *strategic posturing*. Companies adopt the right vocabulary, align with global narratives, and cite SDGs in reports, but stop short of making changes to core strategy or governance. Here, legitimacy becomes a communicative asset, crafted through narrative rather than grounded in ethics.

### *2.4 What the Literature Isn't Saying (But Should)*

While terms like *greenwashing* and *CSR decoupling* have gained traction, legitimacy washing as a broader, cross-dimensional phenomenon remains largely absent from the discourse. This is not just a semantic gap; it reflects a deeper theoretical blind spot. Few studies distinguish between types of legitimacy (pragmatic, moral, cognitive), or examine how ESG disclosures selectively target each type to create a facade of responsibility (Suchman, 1995).

Moreover, most studies treat disclosure volume or adherence to frameworks as proxies for ethical behavior. Rarely do they ask: *to what extent does ESG reporting reflect genuine organizational transformation?* Or: *how can we differentiate between firms that are truly committed and those that are merely compliant?*

This silence matters. Without clear conceptual boundaries, symbolic sustainability practices are normalized—and worse, rewarded. The literature, in some ways, becomes complicit in the very legitimacy construction it seeks to study.

### *2.5 Reframing the Problem: Toward a Critical Conceptual Lens*

In light of these gaps, this paper proposes that we need to reclaim legitimacy theory as a critical framework, not just a descriptive one. Rather than asking *how* firms pursue legitimacy, we must ask *whether* they do so ethically and substantively.

To that end, the concept of legitimacy washing is introduced as a distinct phenomenon that captures the strategic, symbolic use of ESG to construct perceived alignment with societal values *without corresponding accountability or action*. It extends beyond greenwashing by encompassing broader social and governance dimensions, and emphasizes the constructed, rather than earned, nature of legitimacy in the ESG era.

The next section develops a conceptual framework that integrates this idea, offering tools to identify legitimacy washing, understand its drivers, and distinguish it from authentic sustainability engagement.

## 3. Conceptual Framework: Understanding Legitimacy Washing in Sustainable Finance

The expansion of ESG frameworks across global markets has not only redefined how firms engage with stakeholders, but also how they construct and maintain legitimacy. While legitimacy theory provides a robust foundation to interpret organizational behavior under social pressure (Suchman, 1995), it remains largely underutilized in critically examining how symbolic sustainability practices can become tools for strategic deception. This section introduces legitimacy washing as a distinct theoretical construct and offers a conceptual framework to analyze its forms, drivers, and implications.

### *3.1 Defining Legitimacy Washing*

Legitimacy washing refers to the strategic use of ESG disclosures, sustainability narratives, and symbolic gestures to maintain or enhance organizational legitimacy without commensurate ethical or operational change. It is distinct from greenwashing in its scope: whereas greenwashing focuses narrowly on environmental misrepresentation, legitimacy washing encompasses environmental, social, and governance dimensions and targets multiple legitimacy types (pragmatic, moral, cognitive).

In contrast to CSR decoupling, which typically highlights the gap between CSR rhetoric and core practices, legitimacy washing is broader and intentional emphasizing the instrumental manipulation of legitimacy itself as an asset.

Definition (proposed):
*Legitimacy washing is the deliberate construction of perceived alignment with sustainability norms through symbolic ESG practices aimed at securing or preserving organizational legitimacy, without corresponding internal accountability or performance.*

### *3.2 Theoretical Foundation: Legitimacy Theory*

Building on Suchman's (1995) typology, organizations pursue three forms of legitimacy:

- Pragmatic legitimacy: Based on self-interested exchanges with stakeholders.
- Moral legitimacy: Rooted in normative approval of organizational actions.
- Cognitive legitimacy: Based on taken-for-grantedness and inevitability.

Firms may target these types through different ESG tactics:

**Table 1. Types of ESG Tactics**

| Legitimacy Type | Targeted ESG Practice | Risk of Legitimacy Washing |
|---|---|---|
| Pragmatic | Emphasizing ESG for investor value, cost of capital reduction | ESG used to attract capital without reform |
| Moral | Highlighting DEI policies, green projects, SDG alignment | Symbolic commitments with little implementation |
| Cognitive | Citing global standards, publishing GRI/TCFD-compliant reports | Institutional mimicry without internalization |

Rather than earning legitimacy through performance, legitimacy washing reflects the instrumental targeting of these legitimacy types through surface-level ESG adoption.

### *3.3 Drivers of Legitimacy Washing*

The proposed framework identifies several interrelated drivers that incentivize legitimacy washing:

1. Regulatory Pressures Without Enforcement Mandatory ESG disclosures with weak enforcement mechanisms often encourage *form over substance* (Choy, 2024).
2. Reputational Risk Management Firms under stakeholder pressure may prioritize *quick wins* in ESG perception rather than long-term change (Agostini et al., 2025).
3. Market Incentives for ESG AppearanceEvidence shows that ESG disclosure reduces cost of capital regardless of actual performance (Eliwa et al., 2021), creating incentives for image-driven behavior.
4. Institutional IsomorphismOrganizations mimic peers' ESG strategies to maintain cognitive legitimacy, regardless of relevance or authenticity (Wong et al., 2023).
5. Lack of Assurance and VerificationMany ESG reports remain unaudited or externally unverified, enabling strategic exaggeration (Del Gesso & Lodhi, 2024).

### *3.4 Mechanisms of Legitimacy Washing*

Legitimacy washing operates through symbolic mechanisms embedded in ESG disclosures and communications. The framework identifies four core mechanisms:

**Table 2. Mechanisms of Legitimacy Washing**

| Mechanism | Description |
|---|---|
| Symbolic Reporting | Use of technical ESG language without integration into strategy or operations |
| Overemphasis on Disclosure | Focusing on metrics, ratings, and formats while neglecting governance reform |
| Narrative Framing | Strategic use of stories and case studies to shape stakeholder perception |
| Selective Transparency | Highlighting positive ESG aspects while omitting controversies or trade-offs |

These mechanisms enable firms to project legitimacy in ways that are difficult to challenge especially when external assurance is limited or when stakeholders lack ESG literacy.

### *3.5 Distinguishing Legitimacy Washing from Related Concepts*

To avoid conceptual overlap, the framework clarifies how legitimacy washing differs from related constructs:

| Concept | Focus | Scope | Intentionality |
|---|---|---|---|
| Greenwashing | Environmental claims | Environmental dimension only | Often implicit |
| CSR Decoupling | Gap between talk and action | CSR-related practices | Can be structural |
| Legitimacy Washing | Constructed legitimacy | ESG + institutional legitimacy | Explicit/Strategic |

Legitimacy washing is therefore not simply poor ESG performance or reporting inconsistency. It is a strategic behavior aimed at creating legitimacy through symbols, narratives, and disclosure, in response to external legitimacy threats or opportunities.

### 3.6 Implications for Research and Practice

This conceptual framework opens multiple avenues for future empirical research:

- How can legitimacy washing be measured quantitatively in ESG disclosures?
- What are the organizational conditions that make legitimacy washing more likely?
- Can ESG assurance mechanisms reduce its prevalence?
- How do rating agencies and investors differentiate between symbolic and substantive ESG efforts?

Practically, this framework can support ESG auditors, analysts, and regulators in identifying *red flags* in disclosures such as overuse of technical jargon, one-sided reporting, or ESG strategies detached from corporate governance.

## 4. Implications and Future Research Directions

The introduction of *legitimacy washing* as a conceptual lens sheds new light on the symbolic nature of ESG disclosures and offers a foundation for rethinking how legitimacy is constructed and potentially manipulated within sustainable finance. While ESG frameworks aim to enhance accountability and transparency, they can also create incentives for strategic misrepresentation, especially when disclosure is rewarded without regard to substantive change. This section outlines the theoretical, practical, and policy implications of the proposed framework and identifies pathways for future empirical research.

### *4.1 Theoretical Implications*

This paper contributes to the development of legitimacy theory in three significant ways.

First, it introduces the concept of legitimacy washing as a distinct theoretical construct that explains how firms engage in *deliberate symbolic ESG disclosures* to manufacture legitimacy without making substantive organizational changes. This represents an evolution from previous applications of legitimacy theory, which often positioned symbolic behavior as a passive, reactive strategy. The evidence increasingly suggests otherwise: symbolic ESG behavior is frequently strategic and deliberate, particularly when firms face intense legitimacy pressures. For example, Liu (2025) found that Chinese firms with executives from banking backgrounds were more likely to exaggerate ESG disclosures in order to inflate legitimacy and enhance executive compensation demonstrating how *symbolic legitimacy* can be intentionally engineered for instrumental gain.

Second, the framework deepens the application of Suchman's (1995) typology by linking ESG strategies to pragmatic, moral, and cognitive forms of legitimacy. Rather than treating legitimacy as a singular construct, this approach allows for a more nuanced understanding of how different audiences are targeted through distinct disclosure strategies whether through investor-oriented ESG metrics (pragmatic), social impact narratives (moral), or alignment with global standards (cognitive).

Third, the framework challenges the implicit assumption that disclosure equals accountability a bias found in much of the ESG literature. By showing how disclosures can serve as communicative shields, the paper positions legitimacy theory as a critical, rather than merely explanatory, framework.

### *4.2 Practical Implications*

For practitioners, particularly ESG analysts, sustainability consultants, and corporate boards the legitimacy washing framework provides a practical lens for identifying potentially misleading ESG disclosure practices. These practices often include an overemphasis on narrative framing rather than measurable performance, selective transparency where only positive outcomes are highlighted while trade-offs or risks are omitted, high-volume but low-specificity reporting, and a lack of third-party assurance or verifiable ESG metrics. Such patterns may signal symbolic legitimacy strategies, particularly in organizations facing reputational risk or navigating regulatory transitions. Liu (2025), for example, found that ESG disclosures among Chinese firms are frequently shaped by executive incentives tied to ESG ratings, leading to inflated yet superficial claims designed to maintain reputational standing rather than deliver real sustainability outcomes.

The risks of legitimacy washing extend beyond disclosure quality. Wang, Gao, and Sun (2025) developed a deep-learning-based greenwashing index and demonstrated that firms engaging in symbolic ESG behavior not only obscure material sustainability risks but also undermine their capacity for innovation and long-term value creation. Their study highlights how greenwashing, while effective in generating short-term legitimacy gains, can impair firms' adaptability and stakeholder trust in the long run (Wang et al., 2025). This is reinforced by Sneideriene and Legenzova (2025), who emphasize that greenwashing compromises the reliability of ESG information and erodes the decision making capabilities of investors and regulators, further calling into question the quality of sustainability data that markets increasingly rely upon.

From a corporate governance perspective, this paper warns against treating ESG as a mere communications or branding function rather than a strategic imperative. When ESG narratives are decoupled from operational change, they function as reputational shields temporarily effective, but fragile under scrutiny. In an era of growing stakeholder skepticism, such performative approaches may ultimately backfire, exposing firms to reputational damage, regulatory backlash, and the erosion of legitimacy they sought to manufacture in the first place. The legitimacy washing framework thus offers not only a diagnostic tool for identifying symbolic compliance but also a governance warning: without substantive accountability, ESG can become a managed illusion rather than a marker of ethical transformation.

### *4.3 Policy and Regulatory Implications*

The growing risk of legitimacy washing presents urgent challenges for ESG standard-setters and policymakers. As ESG frameworks become more standardized, they risk being co-opted as tools of symbolic legitimacy production, rather than mechanisms for accountability. This concern is not theoretical: Lokuwaduge and De Silva (2022) argue that the lack of regulatory oversight, fragmented frameworks, and the absence of mandatory third-party assurance have created a fertile ground for ESG misrepresentation.

To address these risks, regulatory bodies and global standard-setters should:

1. Require independent assurance of ESG disclosures, especially in high-impact sectors;
2. Develop indicators that measure ESG sincerity, such as alignment between reporting and board-level accountability;
3. Mandate disclosure of failures, ethical dilemmas, and trade-offs, not just positive impact;
4. Penalize deceptive sustainability claims, either through securities regulation or reputational sanction.

Such reforms would help shift ESG from a symbolic exercise to a substantive discipline, restoring public trust and aligning sustainability practices with real-world outcomes.

### *4.4 Future Research Directions*

While the framework presented in this paper is conceptual, it offers fertile ground for empirical expansion. First, future research should focus on operationalizing legitimacy washing through measurable indicators. This may include developing scoring models that capture the gap between ESG disclosures and actual performance or using content analysis to detect symbolic language in sustainability reporting. Sundarasen et al. (2024), in their bibliometric analysis across G7 and non-G7 countries, emphasize that the performance-disclosure gap remains a critical space for identifying legitimacy manipulation particularly in institutional contexts where enforcement is weak.

Second, sectoral and cross-country comparisons could illuminate how legitimacy washing manifests differently depending on industry pressures and regulatory environments. For instance, do extractive industries or state-owned enterprises engage more in symbolic disclosure to mitigate public scrutiny?

Are firms in non-G7 or emerging markets more prone to disclosure decoupling due to institutional voids?

Third, a deeper understanding of stakeholder perception is needed. While investors and rating agencies play a central role in shaping ESG narratives, it remains unclear whether they can reliably distinguish between symbolic and substantive disclosures. Mixed market reactions to greenwashing suggest this remains a contested terrain.

Fourth, longitudinal studies are essential to track how legitimacy washing evolves over time particularly following regulatory shifts, ESG rating changes, or corporate controversies. Understanding the dynamics of how firms adapt or double down on symbolic strategies could provide insight into whether legitimacy washing is a transitional or entrenched practice.

Finally, future studies should assess the financial and reputational consequences of legitimacy washing. While some evidence suggests greenwashing can offer short-term financial benefits, such as improved market access or reduced capital costs, the long-term risks particularly reputational damage and regulatory penalties are underexplored. For example, Kiran et al. (2024) find that while symbolic ESG efforts may improve corporate financial performance in the short term, the lack of authenticity can ultimately reduce stakeholder trust and innovation capacity.

### *4.5 Reframing the ESG Discourse*

This paper ultimately calls for a more critical approach to ESG scholarship and practice. The institutionalization of ESG has created a powerful new arena of legitimacy construction—but one that is vulnerable to symbolic co-optation. Legitimacy, once assumed to reflect ethical alignment, may increasingly reflect communicative prowess.

If sustainable finance is to fulfill its promise, then both theory and practice must evolve. Scholars must interrogate not just *how* legitimacy is built, but *whether* it is deserved. Regulators must ensure that sustainability claims are not just credible but verifiable. And firms must recognize that in a transparent, connected world, legitimacy can no longer be manufactured it must be earned.

## 5. Conclusion

As ESG practices become increasingly institutionalized, the need to differentiate between genuine sustainability efforts and symbolic legitimacy strategies is more urgent than ever. This paper introduces *legitimacy washing* as a critical extension of legitimacy theory, providing a framework to understand how firms use ESG disclosures and narratives to project compliance without enacting real change. We argue that symbolic ESG behavior is not merely reactive or incidental, but often a deliberate strategy to gain various forms of legitimacy. The paper shifts legitimacy theory from describing how legitimacy is pursued to critically examining how it is constructed and at times, manipulated.

The proposed framework outlines the mechanisms, drivers, and red flags of legitimacy washing, distinguishing it from related concepts like greenwashing and CSR decoupling. It contributes to theory by formalizing legitimacy washing as a distinct construct; to practice by offering tools to assess ESG disclosure authenticity; and to policy by recommending substance-focused ESG regulation. Looking ahead, we call for empirical studies on disclosure sincerity, stakeholder perception, and cross-sector comparisons. In an era of rising sustainability expectations, symbolic compliance may offer short-term gains, but only substantive accountability builds lasting trust.

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