Decoupling Symbolic ESG Compliance from Operational Integration: A Multi-Site Empirical Analysis of Greenwashing Mechanisms in Mid-Cap Manufacturing Firms

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Abstract. This study investigates the structural divergence between symbolic ESG disclosure practices and substantive operational integration within mid-cap manufacturing enterprises across three emerging economies. Drawing on institutional theory and neo-institutional isomorphism, the research employs a mixed-methods design combining quantitative panel data analysis (n = 214 firm-years, 2019–2023) with semi-structured executive interviews across 18 organizations. Findings reveal that coercive regulatory pressures predominantly drive surface-level compliance, while normative and mimetic pressures correlate positively with deeper operational embedding of sustainability metrics. Mediation analysis indicates that internal governance maturity significantly moderates the decoupling effect. The study contributes a scalable diagnostic framework enabling auditors and institutional investors to differentiate authentic ESG integration from performative signaling, with material implications for stakeholder accountability and capital allocation efficiency.

Keywords: ESG decoupling, greenwashing mechanisms, institutional isomorphism, sustainability governance, non-financial disclosure, stakeholder accountability, mid-cap manufacturing, coercive isomorphism, panel data analysis

Introduction

The accelerating institutionalization of Environmental, Social, and Governance (ESG) reporting standards has fundamentally altered the governance landscape for publicly listed and privately held manufacturing enterprises alike. Between 2020 and 2025, the proliferation of mandatory non-financial disclosure mandates—including the European Union's Corporate Sustainability Reporting Directive (CSRD), the U.S. Securities and Exchange Commission's climate-related disclosure rules, and analogous frameworks across Southeast Asian capital markets—has created an unprecedented regulatory environment in which ESG compliance has become a precondition for sustained market access. Yet a growing body of empirical evidence raises a troubling paradox: as formal ESG reporting rates have approached near-universal adoption in many sectors, independently verified improvements in operational sustainability outcomes have lagged significantly behind, suggesting that compliance and genuine integration are systematically decoupled phenomena. Decoupling, as theorized within neo-institutional sociology, refers to the organizational practice of maintaining a formal policy facade that satisfies external legitimacy demands while preserving internal operational routines that contradict stated commitments. In the context of corporate sustainability governance, this manifests through selective metric disclosure, materiality boundary manipulation, third-party audit capture, and the strategic deployment of qualitative narratives that obscure quantitative underperformance. Such mechanisms—collectively indexed under the broader construct of greenwashing—impose substantive costs on capital markets, distort stakeholder decision-making, and erode the long-term institutional credibility of ESG as a governance instrument. Despite considerable theoretical advancement, the literature remains fragmented with respect to the organizational-level antecedents that either facilitate or inhibit decoupling behavior in mid-cap manufacturing contexts. Large-cap multinational corporations have attracted disproportionate scholarly attention, partly due to data availability, leaving a critical empirical gap concerning firms that collectively account for a substantial share of industrial-sector emissions and supply chain governance risk. Furthermore, existing studies rarely integrate both quantitative firm-level panel data and qualitative process-tracing methodologies, limiting causal inference regarding the mechanisms through which institutional pressures translate—or fail to translate—into operational change. This paper addresses these gaps through a theoretically grounded, multi-site empirical investigation conducted across manufacturing clusters in Vietnam, Colombia, and Morocco—three jurisdictions selected for their divergent regulatory regimes, ESG maturity levels, and integration into global value chains. The study proceeds as follows: Section 2 reviews the theoretical foundations of institutional isomorphism and decoupling as applied to sustainability governance. Section 3 details the mixed-methods research design, sampling strategy, and analytical procedures. Section 4 presents quantitative panel findings alongside qualitative process-tracing evidence. Section 5 develops the diagnostic decoupling framework and discusses its implications for auditing practice, investor due diligence, and regulatory design. Section 6 concludes with limitations and directions for future cross-jurisdictional research.

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