

Metin, Ebru

## Article

# Legal design: A catalyst for Environmental Social and Governance (ESG) and sustainable business practices

Scientific Papers of the University of Pardubice, Series D: Faculty of Economics and Administration

### Provided in Cooperation with:

Faculty of Economics and Administration, University of Pardubice

*Suggested Citation:* Metin, Ebru (2024) : Legal design: A catalyst for Environmental Social and Governance (ESG) and sustainable business practices, Scientific Papers of the University of Pardubice, Series D: Faculty of Economics and Administration, ISSN 1804-8048, University of Pardubice, Pardubice, Vol. 32, Iss. 2, pp. 1-10,  
<https://doi.org/10.46585/sp32022106>

This Version is available at:

<https://hdl.handle.net/10419/334833>

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# Legal Design: A Catalyst for Environmental Social and Governance and Sustainable Business Practices

Scientific Papers of the University of Pardubice, Series D: Faculty of Economics and Administration 2024, 32(2), 2106.  
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DOI: 10.46585/sp32022106  
editorial.upce.cz/SciPap

Ebru Metin 

Tallinn University of Technology, Department of Business Administration, School of Business and Governance, Estonia

## Abstract

This paper examines how the application of Stakeholder Theory and legal design can enhance corporate compliance with regulatory requirements, particularly within Environmental, Social, and Governance (ESG) frameworks. By utilizing visual aids, design patterns, plain language, and human-centered design principles, legal design transforms complex legal information into accessible and actionable information, fostering better understanding and decision-making among stakeholders. This approach not only improves regulatory compliance but also aligns with ethical standards and social responsibilities, which enhances stakeholder trust and engagement. Furthermore, the integration of legal design into corporate compliance strategies supports long-term sustainability and digital transformation, contributing to the creation of value for all stakeholders.

## Keywords

Legal Design, ESG, Regulatory Compliance, Digital Transformation, Stakeholder Theory, Sustainability

## JEL Classification

K32, M14, D21, Q01, L21, O32

## Introduction

In recent years, there has been a growing emphasis on the role of Environmental, Social, and Governance (ESG) frameworks in shaping corporate behaviour and ensuring sustainable business practices (Arif et al., 2024; Li et al., 2024; Asif et al., 2023; Chen et al., 2024). These frameworks guide companies in meeting their ethical, environmental, and social responsibilities, thereby aligning their operations with broader societal goals such as those outlined in the Sustainable Development Goals (SDGs) (Ricart & Rey, 2022). However, compliance with ESG regulations, presents significant challenges for corporations while “policy and regulation” being “external drivers” and “macro-level policies and legislation” being “enablers” for sustainable practices (Küttim et al., 2024). Complex legal requirements, varying stakeholder expectations, and the need for transparent governance (Forcadell et al., 2023) create a multifaceted landscape that businesses must navigate to achieve and maintain regulatory compliance (Li et al., 2024; Wai-Khuen et al., 2023). Earlier studies on sustainable and circular practices have highlighted a range of internal and external factors driving organizations, including regulatory policies (Küttim et al., 2024; Hina et al., 2022; Geissdoerfer et al., 2023). In addition to these, regulatory complexity not only create administrative burden on companies but also distracts them from innovation (European Commission, 2024).

ESG frameworks have become increasingly important as companies face strong pressure from stakeholders—including investors, customers, and regulators—to adopt sustainable and responsible practices. Compliance with these frameworks is critical for achieving sustainable governance, as it ensures that companies are held accountable for their impact on the environment, society, and economy. By adhering to ESG standards, companies can mitigate risks, improve operational efficiency, and enhance their long-term viability (Arif et al., 2024; Chen et al., 2024). However, the social dimension of ESG, which includes issues such as labour practices, community engagement, and human rights, often presents unique compliance challenges due to its qualitative nature and the diverse expectations of stakeholders (Garrido-Ruso et al., 2024). However, it is also considered as one of the eight ways leading sustainable corporate growth by Philip and Milton Kotler (2013), whereby socially responsible business practices include implementing changes all levels from employment policy to attention to local and global environment and communication with public (Čech et al., 2019).

Despite the growing emphasis on ESG frameworks, many corporations struggle with regulatory compliance. Traditional approaches to compliance often rely on complex legal texts and formalistic procedures, which can be difficult for non-experts to understand and follow. Additionally, the diverse expectations of stakeholders and the

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## Corresponding author:

Ebru Metin, Akadeemia tee 3, 12618 Tallinn, Estonia  
Email: ebru.metin@taltech.ee

need for transparent governance (Forcadell et al., 2023) further complicate compliance efforts. There is a need for innovative approaches that can simplify legal requirements, enhance stakeholder engagement, and promote ethical governance.

For example, in the SATO Corporation case, legal design was used by Castren & Snellman, an international law firm, to transform the company's Code of Ethics into a more user-friendly document. By incorporating visual aids, plain language, and interactive elements, SATO made its ethical guidelines more accessible to employees, increasing compliance and reducing the risk of misunderstandings. This case illustrates how legal design can simplify legal frameworks while ensuring that ethical standards are upheld across the organization (Castren & Snellman, n.d.).

In addition to these, digital transformation enhances legal design by leveraging speculative and proactive approaches. These approaches, applied to digital platforms, enable organizations to anticipate regulatory changes and adapt their ESG strategies. This foresight, powered by digital tools, ensures that legal frameworks are continuously aligned with evolving stakeholder expectations and regulatory landscapes (Ducato et al., 2024)

This paper explores how the integration of Stakeholder Theory and legal design can enhance corporate compliance with ESG frameworks to promote sustainable business practices. By combining the principles of Stakeholder Theory, which emphasizes the importance of engaging with diverse groups affected by corporate activities, with the innovative practices of legal design, which seek to make legal information more accessible and user-friendly, this paper proposes a novel approach to improving ESG compliance and fostering sustainable governance.

The paper is organized as follows: It begins with a literature review of Stakeholder Theory, Legal Design and their intersection with ESG. Next, the paper presents the methodology and results that integrates these theories to propose a new model for enhancing corporate compliance. Finally, the paper continues with a discussion and conclusion with managerial and policy recommendations and suggestions for future research.

## Literature Review

The integration of ESG principles and stakeholder engagement strategies has been widely discussed in the literature (Arif et al., 2024; Garrido-Ruso et al., 2024). Recent research emphasizes the role of transparency and legal design in making ESG frameworks more accessible and actionable for stakeholders (Osiejewicz et al., 2023; Hagan, 2020). It has also been observed that incorporating stakeholder perspectives through participatory approaches improves ESG compliance and fosters trust (Salo-Lahti et al., 2024; Koulu & Pohle, 2024). Moreover, advancements in digital tools such as blockchain and AI have further enabled organizations to streamline ESG reporting and align with sustainability goals (Varriale et al., 2024; Ducato et al., 2024). While these developments are promising, challenges remain in ensuring inclusivity and clarity in ESG strategies, particularly for diverse stakeholder groups (Legal Design Alliance, n.d.; Doherty, 2020). Future research must focus on empirical validation of these approaches and explore how digital transformation can enhance stakeholder engagement and compliance outcomes across different industries.

### **Overview of Stakeholder Theory**

Stakeholder Theory, first proposed by Edward Freeman in 1984, posits that businesses should consider the interests of all parties affected by their operations, not just shareholders (Freeman et al., 2018). This theory has gained traction in the context of corporate governance as organizations recognize the importance of balancing economic, social, and environmental responsibilities to achieve sustainable development (Arif et al., 2024; Freeman et al., 2018). By integrating stakeholder interests into decision-making processes as an extension of the Stakeholder Theory, companies can build trust, foster loyalty, and enhance their reputation, which is crucial for long-term success (Freeman et al., 2018; Mitchell et al; 1997).

In the context of ESG frameworks, Stakeholder Theory emphasizes the need for companies to engage actively with stakeholders, including investors, employees, customers, suppliers, communities, and regulators, to address social and environmental concerns. Effective stakeholder engagement requires transparent communication, inclusive decision-making, and a commitment to ethical practices, all of which contribute to enhanced corporate governance and compliance (Wai-Khuen et al., 2023).

One concrete example is the stakeholder engagement requirement that is brought by the European Union with Corporate Sustainability Due Diligence Directive (CSDDD) where a corporate due diligence duty for large companies is set out. According to this directive, large companies must establish a structured and transparent approach that ensures meaningful participation throughout the due diligence process. This Directive (EU) 2024/1760 involves providing stakeholders with comprehensive, relevant, and accessible information to facilitate consultations while allowing them to request additional information when necessary. Companies must integrate stakeholder engagement at critical stages, such as identifying adverse impacts, developing prevention and corrective action plans, and determining remediation measures. Additionally, they should adopt measures to eliminate barriers to participation, such as addressing language or technical challenges, and safeguard participants against retaliation by ensuring confidentiality or anonymity when required. Where direct stakeholder engagement

is not feasible, consulting credible experts to provide insights is essential. Companies should also leverage multi-stakeholder or industry initiatives to enhance their engagement efforts, ensuring these align with Directive requirements, without substituting engagement with their own employees and representatives. This robust approach ensures compliance with CSDDD obligations while fostering trust, transparency, and collaboration.

Recent developments in sustainable investment, as explored by Talan et al. (2024), expand Stakeholder Theory by proposing a holistic value addition (HVA) framework. This approach emphasizes that businesses should not only aim for financial returns but also focus on creating value for a wider set of stakeholders, including employees, communities, and nature. By integrating ESG strategies into their core operations, companies can contribute to sustainable development while meeting the broader expectations of all stakeholders. The HVA framework suggests a more interconnected approach, wherein the environmental, social, and governance aspects are treated as interdependent pillars, aligning with the needs of diverse stakeholders. This integration helps businesses move beyond mere compliance to co-create sustainable and mutually beneficial outcomes for all parties involved, including those beyond traditional financial stakeholders.

Moussa and Elmarzouky (2024) further supports the critical role of stakeholder engagement within ESG frameworks, particularly in terms of financial performance. Their study highlights how ESG disclosures influence a company's cost of capital, demonstrating that firms with higher levels of ESG reporting can reduce information asymmetry and foster trust with investors. This relationship is moderated by corporate governance, suggesting that strong governance mechanisms enhance the credibility of ESG reporting and reduce financial risks. As companies adopt robust ESG practices, their enhanced transparency contributes to stakeholder trust and can lead to lower financing costs, illustrating the financial benefits of integrating ESG principles with Stakeholder Theory (Moussa & Elmarzouky, 2024).

Khamisu, Paluri, and Sonwaney (2024) offer insights into the critical role that stakeholder perspectives play in ESG implementation. Their study emphasizes that diverse stakeholders, including employees, investors, customers, and regulators, are key drivers in implementing ESG practices successfully. The authors identify firm characteristics, financial performance, and environmental performance as fundamental elements for successful ESG adoption. The researchers also highlight the importance of stakeholder engagement in addressing these factors, noting that effective collaboration with stakeholders enhances transparency and accountability, which are essential for meeting ESG goals. This further reinforces the importance of integrating stakeholder demands into corporate strategies to improve environmental and governance outcomes (Khamisu et al., 2024).

### ***Introduction to Legal Design***

Legal design is an interdisciplinary approach that applies principles of human-centered design to the field of law to create legal documents, services, and systems that are more accessible, understandable, and user-friendly (Hagan, n.d.). According to the Stanford Legal Design Lab's approach which is led by Hagan, this method has five iterative steps – Discover, Synthesize, Build, Test, Evolve– (Hagan, n.d.) which enables the implementers to have a deep understanding of the needs of the users and even gives opportunities to users to participate in different stages of the legal design process. This approach involves actively engaging with stakeholders to understand their perspectives, preferences, and challenges, and then designing legal solutions that address these insights. By prioritizing the user experience, legal design ensures that legal information is not only accessible but also actionable (Hagan, 2020), empowering stakeholders to make informed decisions and comply with legal requirements.

However, according to the Legal Design Alliance, legal design is solely not an approach for enabling desirable outcomes but also an approach to prevent the causes of problems from arising and developing into conflict and disputes (Legal Design Alliance, n.d.). This is a reflection of Proactive/Preventive Law approach where the aim is not only preventing and resolving legal problems, but also enable people to realize their commercial or personal goals (Barton et al., 2021). This approach also enables legal communication, services and solutions to be more “functional, useful and usable” (Haapio et al., 2021)

The role of legal design in making legal information accessible is crucial, particularly in the context of regulatory compliance and stakeholder engagement. Traditional legal documents are often criticized for being overly complex, dense, and difficult to understand, which can hinder compliance and create barriers to access for stakeholders. Legal design addresses these challenges by reimagining how legal information is presented and communicated while enabling businesses to also take the abovementioned “proactive approach” (Haapio et al., 2021).

By incorporating visual aids, design patterns (Rossi et al., 2019), plain language (Doherty, 2020), and human-centered design principles, legal design transforms complex legal information into formats that are easier to read, navigate, and apply. This not only improves comprehension and reduces the cognitive burden on stakeholders but also enhances their ability to comply with legal requirements and make informed decisions. In doing so, legal design contributes to a more transparent, equitable, and effective legal system that better serves the needs of all stakeholders (Hagan, n.d.).

In addition to simplifying legal texts, possibility-driven design—proposed by Salo-Lahti and Haapio (2024)—advocates for envisioning and realizing new possibilities for sustainable business practices. This approach allows

companies to design legal frameworks that not only meet current regulatory requirements but also drive innovation and sustainability by exploring what could be achieved in the future. For example, through responsible AI and automation, legal design can facilitate real-time compliance checks and align companies' contracts with evolving ESG standards.

Osiejewicz et al. (2023) emphasize the importance of clear and understandable legal communication in the European Union, specifically focusing on how legal design principles can enhance the transparency and accessibility of legal texts. Their research underscores that legal design is not only about making legal documents visually appealing but also ensuring that they are logically structured and easy to comprehend for non-experts. The authors highlight that laws written in overly complex language create barriers between the state and its citizens (Osiejewicz et al., 2023).

Wszolek (2024) expands on the role of legal design as an agent of social change, proposing that it not only enhances the readability of legal documents but also plays a crucial part in democratizing access to legal systems. He argues that by using inclusive and participatory design methods, legal design can decentralize traditional legal processes and create more accessible legal services for underrepresented groups. This approach aligns with the broader goals of sustainability and equity, ensuring that legal solutions are designed not just for efficiency but also for societal impact. Legal design, therefore, becomes a tool for fostering long-term systemic changes by addressing social inequalities through better communication and more user-friendly legal frameworks (Wszolek, 2024).

### ***Intersection of Stakeholder Theory, ESG and Legal Design***

In context of this paper, Stakeholder Theory and legal design, while originating from different disciplines, share a common goal: to foster transparency, inclusivity, and trust in ESG compliance of businesses. This theory advocates for a more holistic approach to corporate decision-making, emphasizing ethical practices, sustainability, and accountability to a broad range of stakeholders. Effective stakeholder engagement can significantly enhance a company's ESG performance by fostering transparency, accountability, and trust (Soras & Christopoulos, 2023). Engaging stakeholders ensures that diverse perspectives and concerns are considered in corporate decision-making, leading to more sustainable and ethical practices (Freeman et al., 2018). For instance, studies have shown that companies with proactive stakeholder engagement strategies tend to perform better on ESG metrics, as they are more likely to anticipate regulatory changes, mitigate risks, and adapt to evolving social expectations (Forcadell et al., 2023 ; Arif et al., 2024).

Sulkowski and Jebe (2022) suggest that proactive law and governance strategies can further enhance the integration of ESG principles with Stakeholder Theory. By adopting a proactive approach, companies can anticipate regulatory challenges and design systems that promote transparency and compliance before issues escalate into conflicts. Proactive legal strategies, such as early stakeholder engagement and clear ESG reporting mechanisms, allow organizations to not only meet their compliance obligations but also build stronger relationships with stakeholders. This alignment enhances both regulatory outcomes and stakeholder trust, making legal design a key component in the successful implementation of ESG frameworks. These proactive governance measures reduce the fragmentation in ESG reporting systems and promote a more streamlined approach, ultimately benefiting both businesses and their stakeholders (Sulkowski & Jebe, 2022).

Furthermore, Weber-Elżanowska (2020) emphasizes that corporate purpose is undergoing a profound transformation due to evolving societal values around sustainability. She argues that sustainability-influenced stakeholderism is becoming an essential framework for redefining corporate purpose, potentially shifting away from the traditional shareholder primacy model. This shift is propelled by societal pressures for corporations to adopt more sustainable business practices and is further supported by legal mechanisms, such as safety valves in private law, which align corporate actions with societal values. As a result, corporate law may increasingly need to accommodate sustainability as a core consideration in shaping corporate governance and decision-making (Weber-Elżanowska, 2020).

Beyond these, legal design can help companies in stakeholder engagement in many ways: Firstly, metrics and indicators play a pivotal role in assessing ESG performance, and legal design can simplify their presentation, making them comprehensible to all stakeholders. By translating technical data into visual formats or dashboards, companies can ensure that stakeholders understand and engage with performance outcomes effectively (Koulu & Pohle, 2024). Secondly, multi-stakeholder initiatives offer a collaborative platform for addressing ESG challenges, and legal design ensures consistency and transparency in stakeholder engagement across these platforms. By standardizing consultation procedures and incorporating stakeholder feedback into governance strategies, businesses can enhance trust and accountability (European Union, 2024). Thirdly, barriers such as language diversity, technical literacy, and access to information often hinder effective stakeholder engagement. Legal design addresses these challenges by creating multilingual, visually intuitive, and easily accessible legal frameworks that accommodate diverse stakeholder needs, thereby fostering inclusivity and reducing participation barriers (Osiejewicz et al., 2023).

## **Methods**

The research methodology employed in this study is primarily a qualitative analysis based on the review of existing literature. The focus of the study is to explore the intersection of Stakeholder Theory and legal design and how their integration can enhance corporate compliance with Environmental, Social, and Governance (ESG) frameworks. To achieve this, the study draws upon a range of academic and industry sources, including peer-reviewed journal articles, conference papers, and reports available on Scopus. The literature review (Snyder, 2019) aimed to identify key themes, trends, and insights regarding stakeholder engagement practices, ESG compliance, and the application of legal design in regulatory contexts.

The process involved searching the Scopus database using relevant keywords such as "Stakeholder Theory," "ESG," "legal design," "corporate compliance," and "stakeholder engagement." The search for "Stakeholder Theory" and "ESG" yielded a total of 213 documents, of which 197 were published within the last five years. The search for "legal design" yielded a total of 308 documents, of which 198 were published within the last five years. The search for "Stakeholder Theory" and "legal design" yielded zero documents.

**Table 1.** Scopus literature review results in the last five years.

Keywords	Number of Results (2019-2024)
"Stakeholder theory" and ESG	197
"Legal design"	198
"Stakeholder theory" and "legal design"	0
"Corporate compliance"	149
"Stakeholder engagement" and ESG	99
"Stakeholder engagement" and "legal design"	1

**Source:** author's own compilation.

The selected documents were analysed to synthesize findings related to the impact of stakeholder engagement on ESG compliance and the benefits of legal design in regulatory contexts. A thematic analysis was conducted, where the themes of transparency, accountability, and inclusivity were identified in fostering stakeholder trust and improving compliance outcomes. Specifically, a keyword co-occurrence analysis was applied to understand the intellectual structure and thematic evolution of the field. The methodological framework aligns with the principles outlined by key bibliometric researchers (e.g., Donthu et al., 2021). Keyword co-occurrence analysis highlighted dominant themes and emerging trends. These methods ensure comprehensive insights into the research landscape, enabling a detailed understanding of the themes relevant to ESG and stakeholder engagement.

This approach was selected because it is uniquely suited to exploring the interdisciplinary nature of the study, which combines Stakeholder Theory, ESG, and legal design. These fields are complex and interconnected, requiring a method that can uncover relationships and trends within different parts of the academic literature. Keyword co-occurrence analysis allow certain thematic clusters (Table 1, Table 2) providing an insightful overview of the research landscape. This approach was particularly valuable in addressing the study's objective to map how legal design can enhance ESG strategies and stakeholder engagement.

While this study provides insights into the intersection of Stakeholder Theory and legal design, it is not without limitations. Firstly, the research is based on a qualitative analysis of existing literature, which may be subject to biases in the selection and interpretation of sources. Especially a wider search and selection of articles selected for legal design to support the arguments in this paper. Additionally, the scope of the research was limited to documents available on Scopus, which, while comprehensive, may not include all relevant studies, particularly those published in non-English languages or in less widely circulated journals. Finally, as the study is conceptual in nature, it does not include empirical data or case studies to validate the proposed integration of Stakeholder Theory and legal design, suggesting the need for future research to empirically test the concepts discussed.

## Results

The results of this study emphasize the role of legal design and stakeholder engagement in enhancing Environmental, Social, and Governance (ESG) compliance. According to the ISO 26000:2010 – Guidance on social responsibility, social responsibility is defined as "the responsibility of an organisation for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour" (International Organisation for Standardization, 2010). As part of this responsibility, stakeholder engagement involves dialogue between the organisation and one or more of its stakeholders (International Organisation for Standardization, 2010). This guidance also states that "a fair and proper process" based on engaging the most relevant stakeholders should be developed. In addition to this, the purpose of the engagement should be understood clearly, and stakeholders need to have necessary information and understanding to make their decisions.

One of the key findings from this study is integrating stakeholder interests into corporate strategies, while balancing it with the shareholder interests, is vital for achieving sustainable governance (Mason & Simmons, 2014). Companies that actively engage with their stakeholders can better identify their needs and expectations, leading to more informed decision-making (Kujala et al., 2022). This alignment can be facilitated through legal design, which provides tools for effective communication and collaboration among stakeholders. By ensuring that stakeholder voices are heard and considered, organizations can enhance their ESG performance and build stronger relationships with their communities (Freeman et al., 2018; Forcadell et al, 2023).

**Table 2.** Thematic analysis showing rising trends of transparency, accountability and inclusivity.

Theme(s)	Source(s)	Key Insights	Relevance to Stakeholder Trust and Compliance
Transparency	<ul style="list-style-type: none"> <li>- Arif et al. (2024) [Uploaded: Arif - ESG Disclosures]</li> <li>- Osiejewicz et al. (2023)</li> <li>- Castillo-Merino &amp; Rodríguez-Pérez (2021)</li> </ul>	<ul style="list-style-type: none"> <li>- Transparency in ESG disclosures reduces earnings risk (Arif et al.).</li> <li>- Clear and plain legal language improves accessibility (Osiejewicz et al.).</li> <li>- Legal origin shapes ESG performance by enforcing clearer rules in civil-law countries (Castillo-Merino).</li> </ul>	<ul style="list-style-type: none"> <li>- Transparency builds stakeholder confidence in corporate ESG practices.</li> <li>- Clear legal communication ensures accessibility and enhances compliance.</li> </ul>
Accountability	<ul style="list-style-type: none"> <li>- Garrido-Ruso et al. (2024) [Uploaded: ESG and Performance]</li> <li>- Osiejewicz et al. (2023)</li> <li>- Ullmann (1985) Reconceptualization</li> </ul>	<ul style="list-style-type: none"> <li>- Firms with structured ESG reporting show improved risk mitigation (Garrido-Ruso et al.).</li> <li>- Legal frameworks ensure organizational accountability through clear responsibilities (Osiejewicz et al.).</li> <li>- Strategic posture influences ESG accountability (Ullmann).</li> </ul>	<ul style="list-style-type: none"> <li>- Accountability mechanisms enhance trust by ensuring organizations take responsibility for ESG goals.</li> </ul>
Inclusivity	<ul style="list-style-type: none"> <li>- Salo-Lahti et al. (2024)</li> <li>- Hagan (2020)</li> <li>- Sabirali &amp; Mahalakshmi (2023)</li> <li>- Koulu &amp; Pohle (2024)</li> </ul>	<ul style="list-style-type: none"> <li>- Proactive legal design fosters participatory approaches in ESG decision-making (Salo-Lahti et al.).</li> <li>- Legal design prioritizes user-centered frameworks to include diverse stakeholder perspectives (Hagan).</li> <li>- Inclusivity in governance is essential for comprehensive ESG strategies (Sabirali &amp; Mahalakshmi).</li> <li>- Inclusivity strengthens decision-making by incorporating multiple perspectives (Koulu &amp; Pohle).</li> </ul>	<ul style="list-style-type: none"> <li>- Inclusive frameworks ensure all stakeholders' views are respected, fostering collaboration and trust.</li> </ul>

**Source:** author's own compilation.

Even though the use of legal design for stakeholder engagement is rarely find its way into the literature (Lupica & Grant, 2021), there are significant opportunities for businesses to engage with stakeholders in terms of their ESG compliance processes. Toivonen and De Francisco (2024) state that "Involving users in the legal design process as problem solvers and co-designers allows them to pursue agency and autonomy, the right to decide for themselves" which allows participatory approach to be applied by the businesses.

The research further finds that legal design is a proactive tool that aligns governance strategies with stakeholder expectations and regulatory requirements. Drawing on Mulligan and Bamberger's (2018) concept of "governance-by-design," this study shows that embedding legal design into corporate governance helps organizations anticipate risks and ensure compliance before issues escalate into disputes. Legal design not only simplifies legal frameworks but also builds stakeholder trust through transparent communication and clear legal documentation, thus promoting long-term sustainability (Mulligan & Bamberger, 2018).

Digital transformation, particularly through AI and automation, plays a pivotal role in legal design by simplifying complex ESG regulations. AI-powered tools can generate tailored legal documents, automate compliance checks, and facilitate real-time stakeholder engagement, making legal processes more transparent and accessible (Ducato et al., 2024)

Legal design plays a vital role in this value creation process by enabling organizations to communicate their commitments and progress transparently. By fostering an environment of trust through clear and accessible legal information, companies can enhance their reputation and stakeholder loyalty. This trust is essential for long-term

sustainability and can lead to increased stakeholder engagement and support for corporate initiatives. Legal design not only simplifies legal documents but also strategically engages stakeholders by making legal requirements more accessible and actionable, thereby improving ESG performance and fostering trust (Bird & Evans, 2024).

## Discussion

The integration of legal design principles into corporate ESG strategies has the potential to significantly enhance stakeholder engagement, compliance, and long-term sustainability. Legal design simplifies complex legal frameworks, making them more accessible to stakeholders and promoting transparent communication (Compagnucci et al., 2024). This accessibility is critical, as it allows organizations to engage meaningfully with stakeholders, who are key drivers in the success of ESG initiatives considering regulations as “external drivers” (Küttim et al., 2024).

One of the central themes emerging from this study is the importance of using legal design to foster dialogue with stakeholders. By employing user-friendly legal documents and interactive platforms, organizations can ensure that stakeholders have a clear understanding of corporate policies and legal requirements (Rossi, 2019; Duric et al., 2023). This engagement not only empowers stakeholders to actively participate in decision-making processes but also builds trust by making the legal frameworks more inclusive and understandable.

Furthermore, the participatory nature of legal design allows organizations to tailor their compliance strategies to better reflect the needs and concerns of diverse stakeholder groups (Mulligan & Bamberger, 2018). Legal design encourages organizations to involve stakeholders early in the design process, ensuring that their input is considered and that the resulting legal documents are relevant and effective. By adopting this approach, organizations can enhance their ability to anticipate potential risks and address stakeholder concerns before they escalate, improving both compliance outcomes and stakeholder relations.

Additionally, legal design encourages a proactive approach (Kaave, 2023) to ESG compliance. Rather than responding to issues as they arise, companies can use legal design to anticipate and mitigate risks, aligning their legal strategies with stakeholder expectations and regulatory requirements. This proactive stance promotes a culture of compliance that resonates with stakeholder values and fosters a more collaborative and trust-based relationship between businesses and their stakeholders.

The use of digital tools to implement legal design is another critical area of discussion. Technology plays an essential role in enhancing the application of legal design principles, allowing organizations to create interactive, real-time platforms for stakeholder engagement. These digital platforms facilitate continuous feedback and collaboration, enabling companies to adapt their ESG compliance strategies to evolving regulatory landscapes and stakeholder expectations. By leveraging digital tools, businesses can streamline compliance processes, making them more efficient, transparent, and responsive (Ducato et al., 2024).

However, it is also important to note that digital transformation is not only simplifying legal frameworks but also actively contributing to achieving sustainability goals. For example, AI, blockchain, and IoT technologies can track and verify ESG data in real time, ensuring compliance with environmental standards while fostering transparency and accountability in corporate governance (Varriale et al., 2024). These technologies play a crucial role in optimizing processes, enhancing resource efficiency, and reducing environmental impact. By integrating these tools, businesses can not only meet regulatory requirements but also drive more sustainable practices across industries. This synergy between digital transformation and sustainability highlights how technology becomes a key enabler of responsible business practices, aligning corporate objectives with the Sustainable Development Goals (SDGs) (Ducato et al., 2024; Varriale et al., 2024).

The balance between legal frameworks and technological systems is essential for effective ESG compliance. Legal design patterns bridge this gap by translating legal concepts into digital tools that are both legally sound and user-friendly, ensuring stakeholders can navigate and comply with complex ESG regulations efficiently (Koulu & Pohle, 2024).

While the integration of Stakeholder Theory and legal design presents significant opportunities, there are still challenges to address. One limitation of this study is its reliance on qualitative literature, which may introduce biases and lacks empirical validation. Future research should focus on empirical studies to test the effectiveness of legal design in enhancing ESG compliance and stakeholder engagement. Case studies could offer practical insights into how these strategies are being implemented in various industries and their impact on corporate governance and sustainability.

In conclusion, the synthesis of Stakeholder Theory and legal design provides a promising framework for improving corporate ESG compliance. By making legal information more accessible and engaging stakeholders in the compliance process, organizations can foster transparency, accountability, and trust. Moving forward, the incorporation of digital tools and empirical research will be crucial in validating and refining this approach, ensuring its effectiveness in promoting sustainable business practices and ethical governance.

## Conclusion

### ***Managerial Recommendations***

Businesses can incorporate AI (Rane et al., 2024) and blockchain (Almadadha, 2024) technologies to streamline compliance processes, track ESG data in real time, and ensure transparency in reporting. These technologies can help automate complex regulatory requirements and provide real-time feedback, enhancing both efficiency and accountability. By integrating proactive legal design with AI tools, businesses can not only meet their current compliance needs but also prepare for a sustainable future. As Salo-Lahti and Haapio (2024) suggest, possibility-driven design allows companies to explore new ways of aligning their legal frameworks with emerging sustainability goals, creating a more resilient and forward-thinking approach to ESG compliance.

Furthermore, companies may employ legal design to simplify legal documentation (Barton et al., 2022), making it more accessible to stakeholders. This will foster clearer communication, improve decision-making, and enhance stakeholder trust by ensuring that compliance requirements are easier to understand and act upon. Examples would include developing visual aids (e.g., infographics, flowcharts) to present legal and ESG requirements clearly or the use of design patterns to structure information hierarchically and making it more digestible.

It would be also very useful if companies actively involve stakeholders in the co-creation (Loureiro et al., 2020) of legal documents and compliance strategies. This participatory approach will ensure that stakeholder concerns are addressed early in the process, leading to better alignment between business practices and stakeholder expectations. Examples would include the use co-creation workshops or participatory design sessions to gather insights on stakeholder expectations and applying human-centered design principles to map out stakeholder journeys and pain points. It would be also possible to consider creating interactive digital tools (e.g., web portals or apps) to allow stakeholders to interact with legal documents, ask questions, and provide input and using design thinking to co-create value-adding ESG initiatives in collaboration with stakeholders.

### ***Policy Recommendations***

Policymakers can encourage the use of digital tools, such as AI and blockchain, to enhance regulatory compliance frameworks. By incentivizing the adoption of these technologies, regulators can ensure that compliance processes are more efficient and transparent. However, it would be also essential them to provide guidelines for ethical use of such technologies.

Governments and international bodies can work towards standardizing ESG reporting requirements across industries. This will reduce the regulatory burden on companies, allowing them to focus more on innovation and sustainable practices rather than navigating complex, fragmented regulations. Well-designed ESG data standards (Cort & Esty, 2020) can enhance the reliability of metrics that support various emerging reporting and disclosure frameworks. This improvement fosters greater confidence among investors and other stakeholders, enabling them to distinguish genuine sustainability insights from irrelevant information.

To maximize the benefits of legal design and digital transformation, policymakers can foster collaboration between them (Mulholland, 2018) and legal professionals, technologists, and business leaders. This will ensure that legal frameworks are continuously updated to reflect technological advancements and evolving stakeholder expectations. According to Mulholland (2018), cooperative processes must integrate inclusivity, transparency, and mutual trust to effectively align policy-making with stakeholder needs, thereby enhancing the implementation of sustainable development goals.

### ***Limitations***

Despite the contributions of this study, several limitations must be acknowledged. First, this paper is conceptual in nature and is based on a qualitative review of existing literature. As such, it does not include empirical data or case studies to validate the proposed conceptual framework. Additionally, the scope of the research was limited to articles and reports available in English, potentially overlooking relevant studies in other languages. Finally, while the study explores the intersection of Stakeholder Theory and legal design, it does not extensively analyse industry-specific applications, which may limit the generalizability of the findings.

### ***Future Research***

Future research should focus on empirically testing legal design's impact on ESG compliance across various industries through case studies or experiments that explore how legal design simplifies complex regulations and enhances stakeholder engagement. Additionally, the role of emerging technologies, such as AI and blockchain, in transforming legal design and improving compliance warrants further examination. Cross-cultural studies would also provide valuable insights into how legal design functions in different regulatory environments, while research on its application to small and medium enterprises (SMEs) could address the unique challenges these organizations face in meeting ESG requirements. Moreover, sustainability reporting represents another area where legal design can play a pivotal role, particularly in simplifying and clarifying data for stakeholders. The effectiveness of participatory legal design methods, such as workshops and co-creation, in increasing engagement and compliance should also be explored. Lastly, integrating digital transformation with legal design to improve ESG compliance through real-time feedback and collaboration platforms is a promising direction for future research.

In conclusion, the integration of legal design and stakeholder theory represents a transformative and novel approach to corporate ESG compliance and sustainable business practices. This paper is unique in bridging the gap between legal innovation and management theory, offering practical solutions to the challenges businesses face in navigating complex regulatory environments. By making legal frameworks more accessible and engaging, organizations can foster deeper stakeholder trust and transparency, aligning business operations with evolving regulatory and societal expectations. As this field continues to develop, the collaboration between legal professionals, technologists, and business leaders will be crucial in realizing the full potential of legal design in ESG governance. Ultimately, the intersection of these disciplines promises not only to enhance compliance but also to drive innovation and sustainability.

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