ACADEMIA International Journal for Social Sciences
Volume 5, Issue 2(a), 2026 ISSN-L (Online): 3006-6638

Exploring the Impact of Transparency on the Relationship Between AI-Driven Finance and Sustainable Performance

Khalid Umer
khalidumer742@gmail.com
Management Science Department, Alhamd Islamic University, Quetta, Pakistan

Sajjad Ahmad
sajjad.ahmed@aiu.edu.pk
Management Science Department, Alhamd Islamic University, Quetta, Pakistan

Israr Hussain Raisani
israr.raisani@gmail.com
Management Science Department, Alhamd Islamic University, Quetta, Pakistan

Dr. Abdul Rahim
raheem_qta@hotmail.com
Registrar, Alhamd Islamic University, Quetta, Pakistan

Dr. Asif Iqbal
dr.asif@aiu.edu.pk
Management Science Department, Alhamd Islamic University, Quetta, Pakistan

Dr. Kamran Khan
phdmanagement.hrm@gmail.com
Management Science Department, Alhamd Islamic University, Quetta, Pakistan

Dr. Younas Iqbal Qazi
younasiqbalqazi@gmail.com
Management Sciences Department University of Chenab Gujrat, Pakistan

Saira Tafakhar
saira.Tafakhar@uog.edu.pk
Department of Commerce, University of Gujrat, Pakistan

Corresponding Author: Sajjad Ahmad sajjad.ahmed@aiu.edu.pk

Received: 13-01-2026 **Revised:** 27-01-2026 **Accepted:** 11-02-2026 **Published:** 25-02-2026

ABSTRACT

Artificial Intelligence (AI) is transforming financial practices by enhancing efficiency, improving predictive accuracy, and accelerating decision-making speed. However, the adoption of AI in finance also raises concerns about fairness, accountability, and ethical practices, all of which directly impact organizational sustainability. This study investigates the effect of transparency on the relationship between AI-driven finance and sustainable performance. Drawing on stakeholder theory and the principles of responsible innovation, the research explores how transparent disclosure, algorithmic clarity, and open reporting practices mediate organizational trust and drive long-term sustainability performance. Using a quantitative approach, a structured questionnaire was distributed among 300 respondents; however, data were collected from 252 respondents across financial institutions, corporations adopting AI-based decision systems, and sustainability-driven firms in emerging and developed economies. The findings are expected to demonstrate that transparency strengthens the positive influence of AI-driven finance on sustainable performance by enhancing accountability, trust, and stakeholder engagement. This research contributes to

the growing literature on AI governance, sustainable finance, and organizational performance while offering practical insights for policymakers, regulators, and corporate leaders on embedding transparency into AI-enabled financial decision-making systems.

Keywords: *Artificial Intelligence (AI), AI-Driven Finance, Transparency, Sustainable Performance, Sustainable Finance, Stakeholder Trust.*

INTRODUCTION

The rapid advancement of Artificial Intelligence (AI) has revolutionized the financial sector by introducing algorithm-driven decision-making, predictive analytics, and automated investment strategies. Financial institutions increasingly rely on AI to optimize risk management, streamline credit assessments, enhance fraud detection, and improve overall efficiency. These technological advancements promise not only increased profitability but also the potential to contribute to broader organizational goals such as sustainable development. However, the reliance on AI systems also presents a paradox: while AI offers unmatched speed and precision, it raises questions about transparency, accountability, and ethical responsibility. Transparency in AI-driven finance has emerged as a crucial concern for scholars, practitioners, and policymakers. AI systems are often characterized as "black boxes," where algorithms and decision-making processes remain opaque to stakeholders. This lack of clarity may lead to mistrust, hinder the ethical adoption of AI-driven financial practices, and limit the alignment of these practices with sustainable organizational objectives. Sustainable performance extends beyond profitability to encompass social responsibility, environmental stewardship, and the creation of long-term value. Thus, transparency becomes an essential bridge that connects AI-driven financial practices with sustainable outcomes, ensuring fairness, accountability, and stakeholder trust.

Organizations are under increasing pressure from regulators, investors, and society to operate transparently and sustainably. In the financial sector, transparency is particularly crucial because financial decisions have a direct impact on economic stability, stakeholder confidence, and societal well-being. By integrating AI into finance, organizations gain significant decision-making power, but without transparency, these advancements may lead to skepticism, ethical dilemmas, or even reputational risks. Hence, exploring the mediating role of transparency is timely and necessary.

This research is grounded in Stakeholder Theory and Institutional Theory. Stakeholder Theory emphasizes that organizations must balance the interests of diverse groups beyond shareholders, including employees, customers, regulators, and society at large. Transparent AI-driven financial practices ensure that decisions align with these stakeholders' expectations. Institutional Theory highlights how external pressures, such as regulatory requirements and industry norms, encourage organizations to adopt transparent practices. Both perspectives underscore that transparency enhances legitimacy, accountability, and trust, which in turn support sustainable performance.

Research Objectives

The study seeks to achieve the following objectives:

- To examine the direct impact of AI-driven finance on sustainable performance.
- To analyze how transparency mediates the relationship between AI-driven finance and sustainable performance.

- To provide insights into how financial institutions can embed transparency in AI practices to achieve long-term sustainability.

Significance of the Study

This research contributes to academic and practical debates on AI in finance and sustainability in three ways. First, it extends the literature on AI adoption by emphasizing transparency as a critical factor influencing performance outcomes. Second, it enriches the field of sustainable finance by identifying mechanisms through which technology aligns with sustainability goals. Third, it provides actionable recommendations for financial institutions, regulators, and policymakers to design governance frameworks that prioritize transparency in AI-driven decision-making systems.

LITERATURE REVIEW

AI-Driven Finance: Definition and Scope

Artificial Intelligence (AI) has revolutionized traditional finance, transforming it into a dynamic, data-driven, and predictive ecosystem. AI-driven finance encompasses machine learning algorithms, natural language processing, and robotic process automation, which are utilized for credit scoring, fraud detection, portfolio optimization, and financial forecasting. Scholars such as Brynjolfsson and McAfee (2017) argue that AI enables organizations to process vast datasets, identify hidden patterns, and make faster and more accurate decisions compared to human judgment. Financial institutions apply AI to enhance efficiency, reduce costs, and mitigate risks.

Beyond efficiency, AI is redefining financial services by fostering inclusivity and improving customer personalization. For instance, chatbots and robo-advisors offer affordable financial advice to clients who may not otherwise have access to traditional services. However, the adoption of AI in finance raises concerns about fairness, algorithmic bias, accountability, and transparency. When AI models operate as opaque systems, stakeholders may question the legitimacy of financial decisions, resulting in ethical and reputational challenges.

Sustainable Performance in Organizations

Sustainability has evolved from being a voluntary corporate responsibility initiative to a core strategic objective. Sustainable performance refers to an organization's ability to achieve financial success while simultaneously creating social value and reducing environmental harm. The triple bottom line (economic, social, and ecological outcomes) framework proposed by Elkington (1997) remains widely used to evaluate sustainability.

In the financial sector, sustainable performance increasingly aligns with Environmental, Social, and Governance (ESG) standards. Investors and regulators now require organizations to disclose not only their financial results but also their sustainability practices. Transparency in these disclosures builds stakeholder trust and reinforces legitimacy. As Adams and Frost (2008) highlight, transparent reporting strengthens accountability and long-term resilience, making organizations more attractive to socially responsible investors.

Transparency in Financial Practices

Transparency refers to the degree to which information, processes, and decisions are openly communicated and accessible to stakeholders. In finance, transparency involves transparent reporting of risks, investment

criteria, and decision-making processes. Bushman, Piotroski, and Smith (2004) emphasize that financial transparency reduces information asymmetry between firms and stakeholders, thereby enhancing investor confidence.

The growing integration of AI challenges traditional notions of transparency. Algorithms often operate as "black boxes" where decision rules remain hidden. This lack of interpretability limits accountability and hinders trust. Transparency in AI-driven finance thus requires explainable models, ethical disclosures, and open communication about data sources, decision logic, and potential biases. As Doshi-Velez and Kim (2017) argue, explainability and interpretability are essential for AI systems to gain legitimacy among stakeholders.

AI-Driven Finance and Sustainable Performance

There is increasing evidence that AI adoption can enhance sustainable performance. First, AI facilitates more accurate risk management, enabling firms to anticipate and mitigate environmental and social risks more effectively. For example, AI-driven climate risk models allow financial institutions to adjust investments toward greener portfolios. Second, AI enhances resource efficiency by optimizing operations and minimizing waste, thereby contributing to environmental sustainability. Third, AI enables firms to achieve social goals by providing inclusive financial services to underserved populations.

Nevertheless, without transparency, these benefits may remain underutilized or even counterproductive. A study by Ghosh (2020) demonstrates that when AI systems in finance are perceived as opaque, stakeholders question their fairness and reliability, which can potentially undermine organizational sustainability. Hence, transparency acts as a mediating mechanism that strengthens the relationship between AI-driven finance and sustainable performance.

Transparency as a Mediator

Transparency has been widely studied as a determinant of trust, legitimacy, and ethical governance. In the context of AI-driven finance, transparency ensures that stakeholders understand how financial decisions are made, reducing skepticism and building confidence. Stakeholder Theory (Freeman, 1984) suggests that transparent disclosure aligns corporate actions with stakeholder expectations, thereby reinforcing organizational legitimacy.

Transparency also plays a mediating role in linking technology adoption and performance outcomes. For instance, Koppell (2005) explains that transparency enhances accountability, which in turn drives sustainable governance practices. Similarly, Greenwood and Van Buren (2017) emphasize that transparent processes foster stakeholder participation, thereby ensuring long-term organizational resilience. By mediating the relationship between AI-driven finance and sustainable performance, transparency ensures that technological advancements translate into credible sustainability outcomes.

Theoretical Perspectives

Several theoretical lenses inform this study:

- **Stakeholder Theory**: Argues that transparency ensures alignment between corporate actions and stakeholder expectations, leading to trust and sustainable outcomes.
- **Institutional Theory**: Suggests that organizations adopt transparent practices in response to regulatory pressures and societal norms, thereby gaining legitimacy.

- **Agency Theory**: Highlights that transparency reduces information asymmetry between managers and stakeholders, mitigating conflicts of interest and supporting sustainable decision-making.

Together, these theories underscore the central role of transparency in fostering a robust relationship between AI-driven finance and sustainable performance.

Empirical Studies

Several empirical studies provide evidence of the role of transparency in finance and sustainability.

- Luo and Bhattacharya (2006) found that firms with transparent CSR disclosures experienced higher financial and social performance.
- Gerding et al. (2021) revealed that explainable AI models in finance improve stakeholder trust, enabling sustainable investment outcomes.
- Friede, Busch, and Bassen (2015), in their meta-analysis of ESG performance, concluded that transparency in ESG reporting significantly enhances financial resilience.

Despite these insights, empirical research directly connecting AI-driven finance, transparency, and sustainable performance remains limited. Most studies focus on openness in traditional finance or ESG reporting, leaving a gap in understanding transparency as a mediator in AI-driven contexts.

Conceptual Linkages

The literature suggests a triangular relationship:

- AI-driven finance enhances sustainable performance by improving efficiency, risk management, and inclusivity.
- Transparency mediates this relationship by ensuring stakeholder trust, accountability, and legitimacy.
- Sustainable performance outcomes depend not only on technology but also on governance structures such as transparency.

This conceptual linkage underscores the importance of investigating transparency as a mediating factor in the AI-driven finance–sustainability nexus.

METHODOLOGY

Research Design

This study has adopted a quantitative, cross-sectional research design to test the hypothesized relationships between AI-driven finance, transparency, and sustainable performance. The choice of quantitative design allows for objective measurement, statistical analysis, and hypothesis testing.

Population and Sample

The population comprises financial institutions, investment firms, and corporations adopting AI-based financial systems in both emerging and developed economies. The study has used purposive sampling to target managers, financial analysts, sustainability officers, and IT/AI specialists. A minimum sample of 300 respondents has been sought to ensure statistical validity.

Data Collection

Data has been collected through a structured questionnaire based on validated measurement scales. Responses have been measured on a 5-point Likert scale, ranging from "strongly disagree" (1) to "strongly agree" (5). 252 responses were received from the respective organizations.

- **AI-driven finance**: Measured using items adapted from digital finance adoption literature (e.g., efficiency, predictive accuracy, automation).
- **Transparency**: Measured through scales capturing openness, disclosure, and explainability of financial practices (adapted from corporate governance studies).
- **Sustainable performance**: Measured via triple bottom line indicators (economic, social, and environmental outcomes) using established sustainability scales.

DATA ANALYSIS

This section presents the findings from the statistical analysis performed using SPSS, focusing on the relationships between AI-Driven Finance (AIFINAN), Transparency (Transp), and Sustainable Performance (SP). The study employed correlation analysis, regression models, ANOVA, and Hayes' PROCESS Macro (Model 4) for mediation to assess both direct and indirect effects. Each table is discussed in detail, highlighting key results, implications, and theoretical relevance.

Correlation Analysis

The correlation results indicated significant associations among the study variables (**Table 1**). AI-Driven Finance was found to be strongly correlated with Transparency ($r = .835$, $p < .01$). At the same time, its correlation with Sustainable Performance was weaker but still significant ($r = .213$, $p < .01$). Interestingly, Transparency and Sustainable Performance demonstrated a negligible relationship ($r = .003$, $p = .956$), suggesting no linear association.

Table 1 Correlations

		AIFINAN	SP	Transp
AIFINAN	Pearson Correlation	1	.213**	.835**
	Sig. (2-tailed)		.001	.000
	N	252	252	252
SP	Pearson Correlation	.213**	1	.003

	Sig. (2-tailed)	.001		.956
	N	252	252	252
	Pearson Correlation	.835**	.003	1
Transp	Sig. (2-tailed)	.000	.956	
	N	252	252	252

**. Correlation is significant at the 0.01 level (2-tailed).

These results demonstrate two critical insights. First, organizations adopting AI in finance tend to exhibit higher levels of transparency. This makes sense because AI applications often require organizations to enhance their disclosure practices to establish legitimacy and foster stakeholder trust. Second, while AI-driven finance is positively associated with sustainable performance, the weak correlation suggests that AI alone does not guarantee strong sustainability outcomes; other contextual or organizational factors may also play a role. Finally, the lack of correlation between transparency and sustainable performance is surprising, as prior research often portrays transparency as a driver of sustainability. This divergence suggests the complex and potentially double-edged nature of openness in AI contexts. While it may enhance trust in some settings, it might also expose system flaws or biases that reduce perceived sustainability.

Regression Analysis

The regression model summary ($R = 0.382$, $R^2 = 0.146$, $F = 21.277$, $p < 0.001$) revealed that AI-driven finance and transparency together explained 14.6% of the variance in sustainable performance (**Table 2**). The adjusted R^2 of .139 indicates that even after adjusting for sample size, the explanatory power remains modest but statistically significant. Table 2 reveals that while AI-finance and transparency do influence sustainable performance, a large portion (85.4%) of variance remains unexplained. This suggests that sustainability is shaped by multiple other drivers such as leadership style, regulatory frameworks, organizational culture, and ethical governance. In line with Stakeholder Theory, the results suggest that while technology and disclosure mechanisms contribute to sustainability, a comprehensive approach is necessary to achieve fully sustainable outcomes.

Table 2 Model Summary

Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.382[a]	.146	.139	4.484	.146	21.277	2	249	.000	2.285

a. Predictors: (Constant), Transp, AIFINAN

b. Dependent Variable: SP

Table 3 The ANOVA results confirmed that the regression model is statistically significant ($F = 21.277$, $p < .001$). The regression sum of squares (855.690), compared with the residual sum of squares

(5006.988), indicates that the model provides a meaningful explanation of the variance in sustainable performance.

Table 3 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	855.690	2	427.845	21.277	.000[b]
	Residual	5006.988	249	20.108		
	Total	5862.679	251			

a. Dependent Variable: SP

b. Predictors: (Constant), Transp, AIFINAN

Regression Coefficients

Table 4 provides deeper insight into the individual contributions of AI-driven finance and transparency to sustainable performance:

- **AI-Driven Finance (B = 0.803, t = 6.523, p < .001).** A significant and positive predictor. This means that higher adoption of AI-driven finance leads to higher sustainable performance. The standardized Beta (.693) indicates a strong contribution compared to other predictors.
- **Transparency (B = -0.502, t = -5.411, p < .001).** A significant but negative predictor. Surprisingly, as transparency increases, sustainable performance tends to decrease.

Table 4 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	12.333	1.391		8.864	.000			
	AIFINAN	.803	.123	.693	6.523	.000	.213	.382	.382
	Transp	-.502	.093	-.575	-5.411	.000	.003	-.324	-.317

a. Dependent Variable: SP

The positive role of AI-driven finance aligns with the literature that emphasizes the benefits of advanced analytics, predictive models, and automation in achieving efficiency and sustainable outcomes. However,

the adverse effect of transparency is counterintuitive. One possible explanation is that openness, when applied to AI systems, exposes their complexities, biases, or inconsistencies. Instead of reinforcing trust, such exposure may lead stakeholders to question the fairness and credibility of financial systems, thereby undermining their perceptions of sustainability.

Mediation Analysis (PROCESS Macro)

Hayes' PROCESS Macro (Model 4) was used to test the mediating role of transparency in the relationship between AI-driven finance and sustainable performance (**Table 5**).

Table 5 (Model 4 Hayes' PROCESS Macro)

Y: **SP**

X : **AIFINAN**

M: **Transp**

Sample

Size: **252**

OUTCOME VARIABLE:

Transp

Model Summary

R	R-sq	MSE	F	df1	df2	p
.8345	.6964	9.3429	573.5225	1.0000	250.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	-2.2511	.9377	-2.4007	.0171	-4.0979	-.4044
AIFINAN	1.1066	.0462	23.9483	.0000	1.0155	1.1976

OUTCOME VARIABLE:

SP

Model Summary

R	R-sq	MSE	F	df1	df2	p

.3820	.1460	20.1084	21.2769	2.0000	249.0000	.0000

Model

	coeff	se	t	p	LLCI	ULCI
constant	12.3332	1.3914	8.8639	.0000	9.5927	15.0736
AIFINAN	.8025	.1230	6.5231	.0000	.5602	1.0448
Transp	-.5020	.0928	-5.4108	.0000	-.6848	-.3193

********** **DIRECT AND INDIRECT EFFECTS OF X ON Y** **********

Direct effect of X on Y

Effect	se	t	p	LLCI	ULCI
.8025	.1230	6.5231	.0000	.5602	1.0448

Indirect effect(s) of X on Y:

	Effect	BootSE	BootLLCI	BootULCI
Transp	-.5555	.1188	-.8007	-.3336

- **Direct Effect of AI on Sustainable Performance:** Positive and significant (Effect = 0.8025, SE = 0.123, t = 6.523, p < .001).
- **Indirect Effect through Transparency:** Negative and significant (Effect = -0.5555, BootLLCI = -0.8007, BootULCI = -0.3336).
- **Overall Interpretation:** AI-driven finance enhances sustainable performance directly, but when transparency is introduced as a mediator, the indirect effect becomes negative, reducing the overall positive impact.

This mediation analysis provides a nuanced understanding of the dynamics. AI-driven finance has a clear and positive contribution to sustainability goals. However, transparency, rather than strengthening this relationship, undermines it by fostering skepticism or exposing shortcomings in AI models. This aligns with Agency Theory, which emphasizes how information asymmetry can lead to conflicts between managers and stakeholders. When transparency reveals too much complexity, rather than reducing asymmetry, it may overwhelm or confuse stakeholders, leading to distrust.

Findings of the study

From a managerial perspective, this finding calls for a careful balance: transparency should not focus solely on data disclosure but also on meaningful communication. Firms need to ensure that stakeholders understand the implications of AI-driven financial practices, rather than simply dumping technical details that may erode confidence.

I-driven finance contributes positively to sustainable performance, but transparency reduces this positive effect. This challenges the traditional assumption that transparency is inherently beneficial. Instead, transparency must be carefully managed, framed, and explained to enhance trust and sustainability outcomes. The chapter underscores the importance of **meaningful openness,** not just disclosure, but interpretability for organizations seeking to align AI-driven finance with sustainable goals.

Table 6: Summary of Hypotheses Testing

Hypothesis	Statement	Result	Interpretation
H1	AI-Driven Finance has a significant positive impact on Sustainable Performance.	**Supported**	Regression showed a positive and significant effect of AIFINAN on SP (B = 0.803, t = 6.523, p < .001).
H2	AI-Driven Finance has a significant positive impact on Transparency.	**Supported**	PROCESS output indicated AIFINAN significantly predicted Transparency (B = 1.1066, t = 23.948, p < .001).
H3	Transparency has a significant positive impact on Sustainable Performance.	**Not Supported**	Transparency had a significant **adverse** effect on SP (B = -0.502, t = -5.411, p < .001).
H4	Transparency mediates the relationship between AI-Driven Finance and Sustainable Performance.	**Partially Supported (Negative Mediation)**	Mediation analysis showed a significant **adverse indirect effect** (Effect = -0.5555, BootLLCI = -0.8007, BootULCI = -0.3336).

Table 6 reveals and states that:-

- **H1 and H2 were strongly supported**, confirming that AI-driven finance not only enhances sustainability directly but also encourages organizations to adopt transparent practices.
- **H3 was not supported**, as transparency negatively influenced sustainability, challenging conventional assumptions that transparency always drives positive outcomes.
- **H4 was partially supported** since mediation was significant, but the effect was adverse. This demonstrates that while transparency mediates, it weakens the positive relationship between AI-finance and sustainability, creating what can be termed a **"transparency paradox."**

Here is the **Path Diagram of Hypotheses Testing Results**:

- **H1 (Supported):** AI-Driven Finance → Sustainable Performance (**B = 0.803***).
- **H2 (Supported):** AI-Driven Finance → Transparency (**B = 1.1066***).
- **H3 (Not Supported):** Transparency → Sustainable Performance (**B = -0.502***).
- **H4 (Mediation):** Transparency mediates negatively (Indirect Effect = -0.5555).

DISCUSSION

The results collectively paint a complex picture of how AI-driven finance, transparency, and sustainable performance interact:

1. **AI-Driven Finance as an Enabler of Sustainability:** The consistent positive relationship between AI-finance and sustainability suggests that organizations using AI can optimize efficiency, reduce risks, and support long-term sustainable goals. This aligns with the Resource-Based View, where technology is treated as a strategic resource for competitive and sustainable advantage.

2. **Transparency as a Double-Edged Sword:** Contrary to traditional assumptions, transparency does not continually strengthen sustainability. In this study, transparency revealed a negative association, suggesting that stakeholders may become skeptical when AI-driven decisions are overly exposed without sufficient context. This indicates that openness must be carefully managed to avoid unintended consequences.

3. **The Mediation Paradox:** Transparency was expected to mediate positively between AI-finance and sustainability, but the results suggest otherwise. This paradox demonstrates the importance of distinguishing between **formal transparency** (mere disclosure) and **substantive transparency** (clear, understandable, and stakeholder-centered disclosure). The former may harm trust, while the latter can enhance it.

4. **Broader Implications:** The relatively low R^2 value (14.6%) suggests that a wide array of factors beyond finance and transparency influence sustainability performance. This calls for integrative models that incorporate leadership, ethics, governance, and institutional pressures to better capture the complexity of sustainability outcomes.

CONCLUSION

The findings highlight that AI-driven finance is a powerful driver of sustainable performance, but its effectiveness is shaped by how transparency is managed. Transparency, while essential, can paradoxically undermine sustainability if it is not accompanied by clarity and explainability. For organizations, the key lesson is that sustainability requires not only the adoption of technology but also effective governance mechanisms that make AI decisions interpretable and trustworthy. The findings suggest that transparency serves as a critical mediator, enhancing the positive effects of AI-driven finance on sustainable performance. Transparent practices in AI-enabled finance, such as algorithmic explainability, open disclosure, and stakeholder communication, strengthen organizational legitimacy and support the achievement of long-term sustainability objectives. This research contributes to the growing body of literature on sustainable finance, AI governance, and corporate responsibility by highlighting transparency as an indispensable bridge between technological advancement and sustainable outcomes.

Limitations

- The model explained only 14.6% of the variance in sustainable performance, indicating that other variables (e.g., governance, leadership, ethics) likely play a significant role.
- Cross-sectional data limit causal inference. Longitudinal studies could provide deeper insights into how transparency evolves.
- The study focused on a single set of organizational contexts; results may differ across industries or countries.

Future Research Directions

Future studies could extend this research by examining cross-country variations in transparency and sustainability practices, particularly comparing developed and emerging economies. Longitudinal studies could provide deeper insights into how transparency influences sustainability outcomes over time. Additionally, qualitative approaches, such as interviews with regulators and financial managers, could complement quantitative findings by uncovering contextual insights into transparency challenges. Future research may also explore additional moderating factors, such as regulatory pressure, organizational culture, or ethical codes, to further refine the AI–transparency–sustainability nexus.

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