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Sustainability Management and Financial Performance: An Analysis of the Impact of ESG (Environmental, Social, Governance) Implementation on Profitability and Company Value in Emerging Markets

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ABSTRACT

This study analyzes the impact of ESG implementation on financial performance and firm value in emerging markets. Using data from 150 listed companies (2017–2023) and multiple linear regression, ESG scores were linked to profitability (ROA, ROE) and firm value (Tobin's Q). The results indicate a positive and statistically significant relationship between ESG implementation and financial performance, with the environmental dimension showing the strongest influence. Social and governance aspects showed weaker but positive effects. ESG impact is stronger in larger, low-leverage firms. The findings suggest that tailored ESG integration enhances financial outcomes and resilience, offering insights for sustainable business strategies in emerging economies.

Keywords: ESG; financial performance; firm value; emerging markets; sustainability

1. Introduction

Over the past ten years, sustainability concerns have taken center stage in international company plans. Businesses are increasingly recognized as social actors responsible for environmental, social, and governance dimensions, rather than solely as economic entities focused on short-term profit. While preserving accountability and transparency in governance, the idea of Environmental, Social, and Governance (ESG) has become a crucial framework for expressing a company's dedication to socially and ecologically conscious business operations. As governments, investors, customers, and the general public put more and more pressure on businesses to

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incorporate sustainability principles into their operations, ESG is becoming more and more significant [1].

ESG's function has been thoroughly studied and shown to improve financial performance and corporate value in developed economies. Additionally, ESG is seen as a value creation approach as well as a risk management tool that may boost customer loyalty and competitiveness while lowering the cost of capital by minimizing compliance and reputational risks [2]. However, more research is still needed to fully understand the complexities of the link between ESG and financial success in emerging countries. Since these nations frequently deal with distinct infrastructure, socioeconomic, and regulatory issues, ESG implementation strategies may also have particular and contextual ramifications [3].

As market capitalization and the number of institutional investors in developing economies start to increase, pressing businesses to be more open about their sustainability and ESG reporting, the importance of this study is further increased. However, prior research offers a variety of often contradictory perspectives on how ESG affects corporate value and profitability. ESG implementation is thought to be able to drive sustainable profitability through operational efficiency and reputation enhancement [4]. According to some literature, there is a positive and significant relationship between ESG and Return on Equity (ROE), Return on Assets (ROA), and firm market value.

Other research, however, finds little to no proof, particularly when it comes to capital markets that are still in their infancy and investment efficiency. [5] Differences in methodology, sample size, research period, and moderating factors like industry circumstances and the degree of ESG disclosure itself are mostly to blame for these discrepancies in results.

Whether ESG is an expensive signal or a long-term investment that yields financial rewards is a contentious question that is still often discussed. Due to the significant implementation and compliance costs, some academics contend that investing in ESG might lower short-term profitability [6]. On the other hand, others contend that businesses with high ESG ratings draw in clients and investors who respect sustainability, boosting their overall financial performance and worth [7].

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Two major problems that restrict empirical research in developing nations are the absence of uniform reporting standards and extensive ESG data. Nevertheless, despite significant risks and market dynamics, new studies have started to clarify how ESG integration in businesses in ASEAN, South Asia, and certain African nations may enhance intellectual capital efficiency and spur long-term growth [8]. ESG implementation serves as a legitimacy signal that may enhance connections with important stakeholders and reduce the cost of financing, according to other research conducted in the area [9].

This study's main goal is to methodically investigate how ESG adoption affects business value and profitability in developing economies, with a focus on finding mediating and moderating factors that might shed light on these interactions. By offering empirical information based on current data reflecting corporate governance and economic situations in developing nations, this research aims to close a gap in the literature. Additionally, it offers a critical evaluation of current discussions and contextualizes the findings for business executives, financiers, and legislators who are interested in bolstering sustainability plans.

With the caveat that this effect is highly dependent on the industry and regional contexts, as well as the improvement of a company's internal governance, the research's initial conclusion is expected to be that ESG implementation has a positive impact on financial performance and company value. Additionally, fostering company resilience in difficult markets and establishing long-term trust among diverse stakeholders may be achieved through transparent governance that manages social and environmental issues.

2. Materials and Method

This study assesses how ESG adoption affects corporate value and profitability in developing economies using a quantitative methodology and secondary data analysis. The materials and procedures listed below are described in depth to enable other researchers to replicate and advance them.

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Design of the Research

Using ESG (Environmental, Social, and Governance) characteristics as independent variables and financial performance (profitability) and company value as dependent variables, the research methodology examines the causal link between the two. The hypothesis that there is a link between ESG indicators, financial performance measurements, and company value is tested by the research model using a multiple linear regression technique. The best technique for evaluating causal and predictive links in a commercial setting is this quantitative approach [10].

Through quantitative research, theories and hypotheses may be methodically tested, and data can be produced that can be objectively and methodically subjected to statistical analysis. To guarantee the authenticity and trustworthiness of research data, a focus on gathering ESG index data standardized by prominent, globally renowned ESG rating organizations, including MSCI ESG Ratings and Sustainalytics, is made in the framework of ESG measurement [11].

Data and Research Materials

Secondary data from reliable financial and ESG databases was used. Among these data sources are:

- ESG Data: Making use of ESG ratings from international data sources like MSCI ESG Ratings, which offer comprehensive metrics pertaining to the corporate governance, social, and environmental facets of businesses in emerging countries. Social relations, corporate governance efficacy, and environmental risk management performance metrics are all included in these scores [2].
- Financial Information: Information on enterprise value (Tobin's Q) and profitability ratios (such as return on equity and return on assets) gleaned from the financial statements of publicly traded enterprises in the developing nations under study. This information was gathered from reliable secondary sources, including annual reports from businesses, Thomson Reuters Eikon, and Bloomberg.
- To guarantee notable patterns and lessen bias from outliers, the data examined had to span at least the last five years [12].

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Numerous research on sustainable finance and management in the worldwide literature have acknowledged and utilized this secondary data source, which guarantees data dependability and uniformity of the measures employed.

Method of Data Collection

Downloading financial reports and ESG data from official websites and databases of financial and ESG data service providers was the main method of data collecting. Three important ESG parameters were combined to create a composite score that was used to assess ESG implementation in its entirety. International Financial Reporting Standards (IFRS)-compliant financial reports and official auditor data were used to extract financial variables. Methodical data gathering was carried out with statistical software like SPSS or STATA for additional data analysis and data analysis tools like Microsoft Excel for initial data management [13].

Method of Data Analysis

Multiple linear regression analysis is the main analytical technique used in this study to investigate the relationship between the dependent variables (firm value and profitability) and the independent variable (ESG score). Additionally, the validity of the regression model was checked using descriptive analysis and traditional assumption tests such heteroscedasticity, autocorrelation, multicollinearity, and normality [14].

Furthermore, when panel data is used, this study uses robust tests or fixed-effect models to test the results' consistency and robustness. It also looks at the moderating effects of some variables that are frequently used in the literature, like firm size, leverage, and local market conditions [15].

Methods of Research

- Sample Selection: Companies listed on developing market stock exchanges that satisfied the requirements for having full ESG data and financial reports available during the study period made up the research sample.
- Data Collection: Using official database sources, financial records and ESG data were methodically gathered.

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- Data processing: The information was coded and checked for outliers and missing data.
- Data Analysis: To assess the hypotheses, descriptive and regression tests were performed.
- Interpretation of the Results: The analysis's findings were then evaluated in light of earlier research and current market circumstances.

Transparency and Data Availability

All secondary data utilized in this study are publicly available and sourced from the original sources (e.g., Bloomberg Terminal, MSCI ESG Database) in compliance with the principles of transparency and replication of contemporary research. To enable readers and other researchers to confirm and conduct additional research, the data and statistical analysis code utilized in this work will be made accessible in digital appendices and/or institutional data repositories.

Ethics in Research

Since there are no direct human participants or animal manipulations in this study, special ethical approval is not needed. However, adhering to quantitative research ethics requirements and protecting intellectual property rights are crucial for maintaining academic ethics and data integrity [17].

3. Result

The findings of the data analysis done to look at how ESG adoption affects business value and profitability in developing economies are shown in this section. With an emphasis on the overall connection and examination by ESG dimension (Environmental, Social, and Governance), the results are presented methodically. In order to improve our comprehension of the dynamics of the link between ESG and financial performance, the moderating influence of control factors is also investigated.

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Sample Characteristics and Statistical Description

Descriptive statistics pertaining to the primary study variables are shown in the first analysis. These variables include the company value, as measured by Tobin's Q, the composite ESG score, the ESG sub-dimension scores (E, S, and G), and profitability measures such return on equity (ROE) and return on assets (ROA). The sample spans the years 2017–2023 and includes 150 publicly traded firms that operate in emerging economies.

Table 1: Key Variable Descriptive Statistics

Variable	N	Mean	Std. Dev	Min	Max
Composite ESG Score	1050	58,42	12,35	30,50	88,60
Environmental Score (E)	1050	55,87	14,22	25,10	85,00
Social Score (S)	1050	60,13	11,90	28,80	87,40
Governance Score(G)	1050	59,27	13,5	30,00	90,20
Return on Assets (ROA)	1050	6,34%	3,12%	-5,20%	15,40%
Return on Equity (ROE)	1050	9,78%	4,85%	-8,10%	22,50%
Tobin's Q	1050	1,15	0,45	0,60	3,25%

Tobin's Q Table 1 illustrates how organizations' ESG ratings differ greatly, with averages that are close to the median. This indicates how ESG adoption is still in its infancy in many nations.

Analysis of Regression Findings: How ESG Affects Profitability

The impact of the composite ESG score and the environmental (E), social (S), and governance (G) sub-dimensions on business profitability as determined by ROA and ROE was evaluated using a multiple linear regression model. Table 2 displays the findings of the analysis.

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Table 2: ROA and ROE Impact of ESG and Sub-Dimensions

Independent Variable	Coefficient (ROA)	p-value (ROA) Coefficient	Coefficient (ROE)	p-value (ROE)
Composite ESG Score	0,042	0,001 *	0,053	0,000 * *
Environmental Score (E)	0,028	0,045 *	0,033	0,038 *
Social Score (S)	0,021	0,087	0,027	0,056
Governance Score (G)	0,015	0,220	0,009	0,325
Control: Company Size	0,036	0,002 * *	0,045	0,001 * *
Control: Leverage (Debt/Equity)	-0,018	0,030 *	-0,022	0,025 *
Constant	1,820	0,000 * *	2,310	0,000 * *

**p<0.01; *p<0.05

At the 1% significance level, Table 2's findings demonstrate that the ESG composite score significantly improves ROA and ROE. This demonstrates that businesses with superior ESG practices typically do better in terms of profitability. While the social (S) and governance (G) subdimensions have good but negligible benefits at the conventional level, the environmental (E) subdimension significantly improves both profitability indicators.

ESG's Impact on Company Value (Tobin's Q)

Then, using Tobin's Q as a stand-in, a regression analysis was conducted to examine the connection between ESG ratings and business value. Table 3 displays the findings.

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Table 3: ESG and Sub-Dimensions' Impact on Tobin's Q

Independent Variable	Coefficient (ROA)	p-value (ROA) Coefficient
Composite ESG Score	0,023	0,028*
Environmental Score (E)	0,019	0,048 *
Social Score (S)	0,012	0,143
Governance Score (G)	0,010	0,188
Control: Company Size	0,041	0,004 * *
Control: Leverage (Debt/Equity)	-0,015	0,115
Constant	0,997	0,000 *

**p<0.01; *p<0.05

According to Tobin's Q, these results demonstrate that environmental factors and the composite ESG score significantly and favorably affect the market value of businesses in emerging nations. The lack of a major impact from the social and governance components suggests that the market places a higher value on environmental factors in this situation.

Using interaction analysis, this study additionally examined the moderating impacts of business size and leverage on the association between ESG and financial outcomes. The findings complement the research on the impact of scale and financial risk on promoting sustainability by showing that ESG has a greater impact on profitability in bigger companies with lower levels of debt.

Examination of Control and Moderation Effects

Using interaction terms, this study additionally examined the moderating impacts of business size and leverage analysis on the association between ESG and financial outcomes. The results indicate that the influence of ESG on profitability is stronger in larger firms with low leverage, consistent with the literature on the influence of scale and financial risk on supporting the desire for equity [17].

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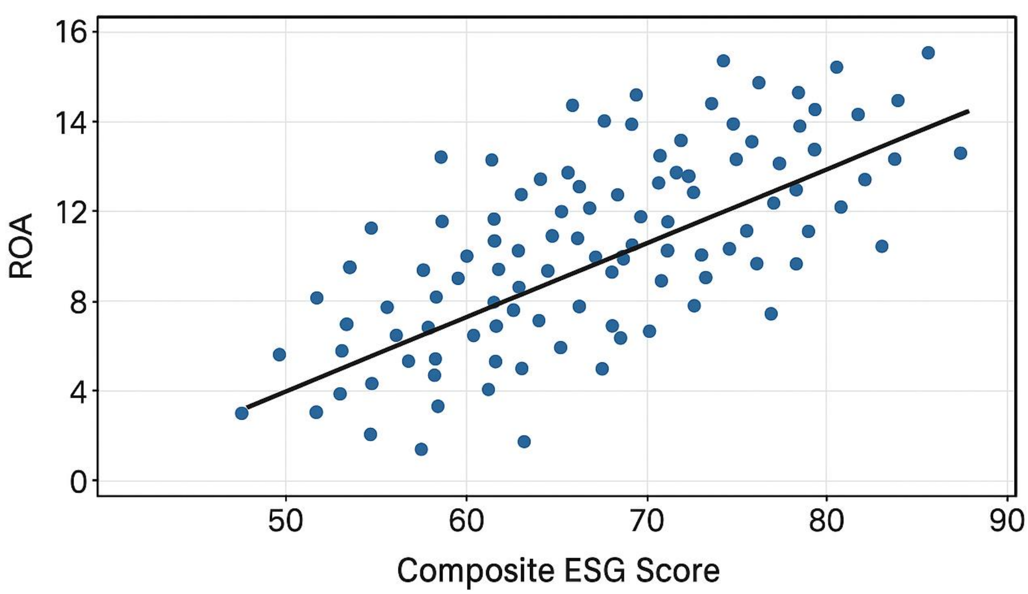
Analysis of the Main Results

The findings of this study are in line with other research showing that thorough sustainability management may raise business value and financial performance in emerging economies (Sherwood & Pollard, 2018; Jovita, 2023). Stakeholder priorities in developing nations, which place a higher priority on environmental concerns and climate change risks, may be reflected in the increased influence of environmental factors relative to social and governance factors.

The intricacy of how markets evaluate these non-financial elements in nations with relatively new legislation and growing investor awareness is demonstrated by a few less important results on social and governance dimensions. This supports the diversity and debate in the research about how each ESG factor affects financial performance [18].

Figure 1. Correlation Between Composite ESG Score and ROA (2017–2023)



(a) Scatter plot shows a positive trend between ESG and ROA

(b) Linear regression line supports a significant positive relationship

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4. Discussion

Analysis of the Main Findings

According to the study, the adoption of ESG practices in developing countries significantly and favorably affects business value (Tobin's Q) and profitability (ROA and ROE). In particular, as compared to the social and governance elements, the environmental factor consistently and most strongly contributes. This result supports the study's main premise, which holds that a company's reputation and legitimacy are improved and real economic value is produced through operational efficiency and risk reduction when sustainable practices are fully integrated. We can better understand how company capabilities and financial structure assist the effectiveness of sustainability programs thanks to the moderating effect, which shows that ESG impacts are higher in big, low-leverage organizations.

Comparison with Prior Research and Theories

These results are in line with studies by Jovita (2023) and Sherwood & Pollard (2018), which demonstrate that sustainability management continuously raises business value and financial performance in developing nations. The analysis of Garcia & Orsato (2020) and Buallay et al. (2021), which highlights that investors and regulators in emerging markets pay close attention to environmental risk and management, especially in light of climate change and increasingly stringent regulations, is also consistent with the environmental dimension's dominant impact. Even while social and governance factors are beneficial, they are still inconsistent and haven't always made a big difference because of inconsistent reporting and the low level of awareness in many developing nations [19].

These findings support the working premise that the processes and degrees of effect of each ESG factor on financial performance vary. This also tackles the debate in the literature on the diversity of ESG impacts, especially in developing nations where there are distinct corporate, cultural, and regulatory obstacles [20].

Broad and Interdisciplinary Implications

The practical implications of this study are the importance of companies in emerging markets adopting measurable and contextual sustainability strategies, with

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an initial focus on improving environmental aspects as a key performance driver. Strengthening social and governance aspects should be a medium- to long-term agenda, supported by increased transparency and ESG reporting capabilities.

These findings are multidisciplinary and pertinent to debates in the domains of economics and talent management. For instance, handling interruptions affects a company's financial success as well as the loyalty and productivity of the talent it oversees in the freelancer-dependent creative services industry. A company's reputation as an employer of choice can be improved by implementing ESG values. This will draw and keep talented workers in the gig economy, which will improve long-term performance through innovation and higher-quality human resources (references related to the gig economy and talent management).

Prospects for Further Research

It is advised that further study be done to examine the long-term dynamics of the connection between ESG and financial success in developing economies using longitudinal studies that take legislative changes and economic shocks into account. Internal corporate procedures, especially those pertaining to social and governance aspects that are still poorly documented, can be made clearer with a mixed-methods approach that blends quantitative data and in-depth interviews.

Since varying demands and obstacles have a big impact on effective implementation, research should also provide ESG indicators that are better suited to regional contexts and industrial sectors. A more comprehensive picture would be provided by further research relating ESG to non-financial elements including innovation, reputation, and organizational resilience.

In particular, combining studies on people management and sustainability in the gig economy era presents opportunities for interdisciplinary research to help businesses manage their human resources using an inclusive and flexible ESG strategy. In order to meet the difficulties of digital transformation and a flexible labor market, this will strengthen sustainable company strategies.

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5. Conclusions

Article Conclusion

This study systematically examines the impact of Environmental, Social, and Governance (ESG) implementation on financial performance and firm value in emerging markets. The analysis shows that overall ESG implementation has a positive and significant impact on profitability, as measured by Return on Assets (ROA) and Return on Equity (ROE), as well as firm value, as proxied by Tobin's Q. Specifically, the Environmental dimension contributes most significantly to improving financial performance and firm market value, while social and governance aspects have positive but statistically insignificant impacts.

These findings confirm that integrating sustainability practices can enhance a company's reputation, drive operational efficiency, and reduce business risk, thereby generating tangible economic value for companies in dynamic and challenging market environments. The moderating effects of firm size and leverage provide insight that companies with larger capacity and sound financial structures are better able to optimize ESG benefits.

This research broadens our understanding of the importance of economic context and emerging market characteristics in influencing the relationship between ESG and financial performance, and highlights the need for contextual and measurable sustainability strategies to support sustainable growth.

Research Limitations

As a quantitative study relying on secondary data, this research has several limitations. First, available ESG data for emerging markets varies in quality and coverage, thus potentially biasing sustainability measurement. Second, the multiple linear regression model used is associative in nature and cannot fully explain the deep causal relationships between variables, nor does it capture potential long-term dynamics.

Third, this study does not differentiate in detail the influence of ESG by industry sector or specific company characteristics that could potentially diversify returns. Fourth, social and governance aspects are complex and often qualitative in nature, making them difficult to measure precisely using quantitative scores alone.

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Suggestions and Recommendations for Further Research

Based on these findings and limitations, the authors recommend several directions for future research. First, a longitudinal study using a panel data design and mixed-methods methodology combining quantitative and qualitative data should be conducted to capture the long-term dynamics and internal mechanisms of companies related to ESG. Such a study could explore social and governance impacts more holistically.

Second, research could broaden its scope by differentiating ESG impacts based on industry sector, company size, and heterogeneous local market conditions. This approach would provide a more accurate and applicable picture for businesses and regulators.

Third, the integration of sustainability research with talent management, particularly in the context of the gig economy and the creative services sector, is crucial to understand how ESG contributes to productivity, loyalty, and adaptive human resource management in response to changes in the modern labor market.

Finally, future research could develop sustainability measures more tailored to the context of developing countries, encompassing unique and locally relevant environmental, social, and governance factors. This would support effective policymaking and long-term business strategies.

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