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DYNAMIC RELATIONSHIP BETWEEN ESG DISCLOSURE AND CORPORATE PERFORMANCE: EVIDENCE FROM ASIAN CAPITAL MARKETS

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Abstract

ESG disclosure has evolved as a vital element of corporate sustainability reporting nevertheless, empirical literature regarding its economic impacts still remains insufficient, particularly in Asian economies. This examination fills this gap by investigating the effect of enhanced ESG disclosure on accounting and market-based performance of publicly listed firms. The study employs panel dataset of 1,406 listed firms with 30,932 firm-year observations from 11 Asian economies, for a period of 22 years from 2002 to 2023. The association between ESG disclosure and corporate performance is studied using two-way fixed-effects panel regression. To guarantee the robustness of the findings, the analysis is supported with robustness tests, panel co-integration analysis, Granger causality tests, and Structural Equation Modelling. The empirical results show that ESG disclosure has a significant positive effect on accounting and market-based performance indicators of firms. It results in improved profitability, market valuation, investor confidence and reduced firms' cost of capital, which implies that transparent sustainability reporting decreases information asymmetry and perceived investment risk. The findings encourage firms to align ESG disclosure into their strategic and governance mechanisms in order to achieve improved performance with reduced costs and strong corporate image. Unlike prior studies that investigate individual countries and employ a single financial indicator of firm performance, this study extends the academic ESG literature by offering cross-country empirical evidence from Asian capital markets with a multidimensional analysis of corporate performance.

Keywords: ESG Disclosure, Corporate Performance, Asian Capital Markets, Panel Data

1. Introduction

In past few years, the evolving demand of stakeholders for transparency and accountability has strengthened firms' concentration on the environmental, social and governance activities. The rising importance of ESG activities has gained prominence among policymakers, stakeholders and researchers worldwide regarding sustainability aspects and the non-financial disclosure by the corporate sector (Helfaya et al., 2023; Mahmood et al., 2019). This non-financial disclosure includes information regarding environmental impacts, human rights, governance structures, sustainability strategies, social obligations and ESG goals of firms, and is presented in sustainability reports of firms other than the financial reports (Aboud & Diab, 2019; Helfaya et al., 2023). For firms to achieve long-term profitability and resilience, it essential to adopt the sustainability practices (El-Bassiouny & Letmathe, 2018). Factors such as evolving regulations,

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increased social pressure and investor expectations have driven the corporate sector in realizing ESG as an essential part of corporate governance which makes firms globally to consider ESG dimensions while making risk management, sustained existence and sustainability strategies (Bamahros et al., 2022; Gangi et al., 2020; Weber, 2023). Raimo et al. (2021) report that the increased reporting of sustainability information leads to the increased financial performance and lower risks, on account of the reduced cost of capital.

In response to the strict guidelines for ESG reporting, set up by the developed economies, businesses are increasingly taking these factors into account while making strategic decisions, which indicates their understanding towards the importance of responsible practices for reducing uncertainty and boosting their own competitive advantage (Amran & Haniffa, 2011; Singhania & Saini, 2023). However, many firms in these markets still consider ESG reporting as an additional cost rather than an opportunity to enhance their competitiveness and long-term value.

Literature shows that businesses that implement strong ESG practices see better long-term financial results, as they are viewed as more open, responsible, and risk-averse (Lin, 2024; Zumente & Bistrova, 2021). Such companies can raise their access to finance by drawing in investors who value sustainability and moral business practices (Gangi et al., 2020). Businesses that reveal their ESG policies perform better financially because investors favour businesses that prefer sustainability in their activities (Giannarakis et al., 2014). In addition, the risks of corruption and poor management in businesses can also be reduced by the implementation of strong governance practices, which will increase their long-term financial stability (El-Bassiouny & Letmathe, 2018).

The academic literature on the link between ESG disclosure and firm performance exhibits various significant limitations. A considerable amount of the empirical literature is focused on North American and European markets Altin et al. (2026); Breuer and Nau (2014); Μουστάκα (2024), while relatively limited cross-country evidence is available for Asian capital markets (Hongming et al., 2020; Naseem et al., 2020; Tarmuji et al., 2016). Previous academic works mostly focus on firms' financial performance whereas, little attention is given to the accounting and stock market-based factors which indicate performance (Ftiti et al., 2024). Finally, the studies focusing on sustainability activities, mostly employ a single dimension of ESG whereas, the comprehensive effect of all three dimensions on firm performance is scare (De Villiers et al., 2011; Naseem et al., 2020). This creates a need for understanding the link between ESG disclosure and corporate performance in Asian context.

Asian economies are increasingly becoming key players in the global market. They formulate a particularly appropriate setting for studying the link between ESG disclosure and firm performance as the region includes economies having significant differences in regulatory frameworks, corporate governance mechanisms, sustainability reporting, institutional quality and investor awareness. The selected sample comprises countries such as Japan, Singapore, Hong Kong, China, South Korea, Indonesia, Taiwan, Thailand, Malaysia, India and Pakistan represent developed, emerging, and frontier markets and provide an important diversity for examining how ESG disclosure contributes to the corporate performance across heterogeneous economic territories.

This study advances the academic body of knowledge in various substantial ways. It offers a detailed cross-country analysis of 11 Asian capital markets, that comparatively remained under-explored despite its growing importance. In addition, it furnishes a comprehensive analysis of corporate performance by incorporating both accounting and market-based indicators. Furthermore, the study extends the stakeholder theory, legitimacy theory, and signalling theory by analysing the impact responsible reporting has on corporate performance. Finally, the observed results of the examination provide real-time implications for all corporate stakeholders such as managers, investors, regulators, and policymakers regarding the promotion of sustainable firm practices while increasing sustainable corporate value.

The subsequent sections of the paper are organized as follows. Section 2 reviews the literature and produces the hypotheses. Section 3 reports the methodology, variable measurement, and econometric models. Section 4 presents the empirical findings and their discussion, while the closing section concludes the study and furnishes future directions.

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2. Literature Review

After the Paris Agreement and the Sustainable Development Agenda 2030, focus of policy makers from all over the world has been shifted toward resource accessibility, efficient resources utilization, prosperity, and a growing work environment (Sadiq et al., 2023). For this purpose, the UN General Assembly in the 2030 Sustainability Agenda came up with 17 sustainable development goals that contain three set of standards ESG to analyse the operations of businesses (Secretary-General, 2023). The focus of ESG is on the attainment of environmental benefits such as fresh water and energy, life under water and sanitation and healthy life of people by equally increasing the profitability of enterprises. It is crucial for a firm not only for creating a brand reputation, but also for its investment decision making process, as it helps investors in analysing the opportunities and risks a firms faces in the market (Balmer, 2001). It assists firms in achieving sustainable financial performance which not only includes protecting the environment but also maximizing corporate profits. In essence, ESG disclosure not only fosters sustainable growth but also helps in taking investment decisions.

The link between ESG reporting and corporate performance has been the most extensively debated topics within the sustainability and corporate governance studies. An increasing volume of research evidence mixed results regarding the link between ESG disclosure and corporate performance. After the synthesis of more than 2000 studies, Friede et al. (2015) came up with a wide range of studies reporting a direct link between ESG reporting and corporate financial outcomes. It is because ESG disclosure facilitates efficient resource utilization, strengthens stakeholder relationships and motivates firms for improved decision-making, which leads towards operational efficiency of firms (Atan et al., 2018). Firms that integrate sustainability practices into their decisions generate stronger governance mechanism and increase financial performance (Al-Kake et al., 2019). Other than financial performance, transparent ESG disclosure also results in reduced uncertainty regarding corporate performance, which enhances shareholders' value (Fatemi et al., 2018). According to the study of Buallay (2019) the link between ESG disclosure and firm outcomes varies substantially due to the particular financial performance measures and the institutional context of firms. McWilliams and Siegel (2001) report that considerable amount of financial and managerial resources are needed for sustainability reporting which results in additional costs and reduce profitability in short-term. Such inconsistencies in findings show that the impact of ESG reporting cannot be generalized across all markets and require further empirical research.

The need for research on ESG issues is of vital importance in context of Asian capital markets, which are characterized by considerable variations in economic development, regulatory frameworks, ownership structures, corporate governance mechanism, and cultural values. Most existing literature in Asian context is focused on examining individual countries, which limits the generalizability of findings across the region (Alsayegh et al., 2020). Moreover, prior literature relies highly on profitability as a measure of corporate performance and limited consideration is given to the multidimensional nature of performance. A detailed cross-country analysis about the link between ESG reporting and corporate performance with respect to Asian capital markets thereby remains limited. Consequently, studying the link between ESG reporting and corporate performance across eleven Asian economies provides important insights about the economic returns of sustainability reporting across diverse institutional and governance contexts.

Theoretical and Conceptual Framework

Increased research on ESG reporting in modern times integrate multiple theoretical frameworks grounded in stakeholder theory, legitimacy theory, signalling theory, institutional theory and resource-based view.

Stakeholder's theory suggests that firms are accountable to stakeholders along with their shareholders including suppliers, employees, customers, environment and the community (Freeman & Phillips, 2002). According to this theory, companies must report their ESG data in such a way to enhance the interests of these stakeholders which assists the firm in building a long term relationship with them (Clarkson, 1995). According to Boesso et al. (2015) the pressure form stakeholders significantly influences ESG disclosure of companies. Firms that meet the expectations of their stakeholders attract investment opportunities and reduce conflicts

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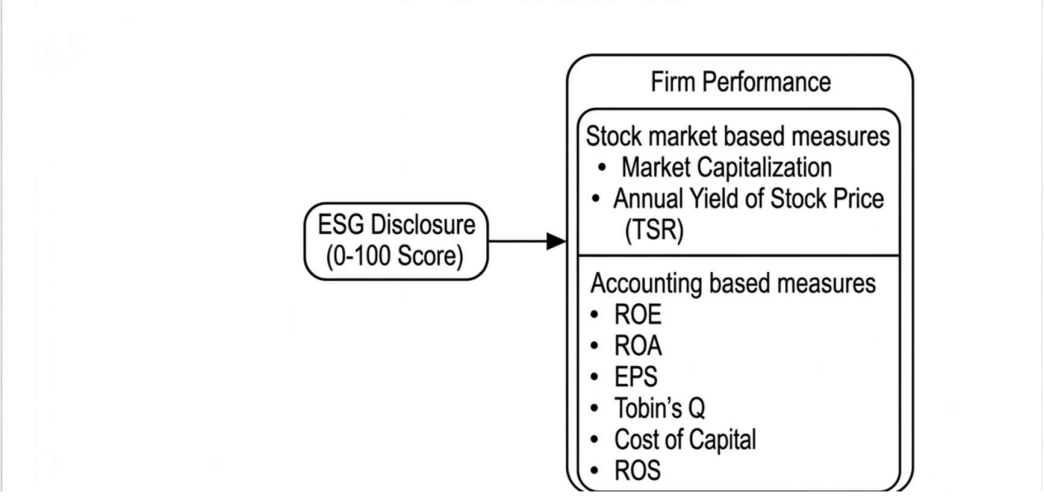
among shareholders which ultimately improves their economic performance (Jones, 1995). Moreover, based on signalling theory firms willingly report their ESG information to the stakeholders in order to signal them that they are sustainable, accountable and well governed. This helps them gain investors trust and continue a healthy relationship with all the stakeholders. This is also related with the legitimacy theory, which states that firms constantly look for legitimizing their practices to ensure that their activities are according to the societal standards (Scott & Meyer, 1994). Firms use legitimacy by showing that their activities adhere to the governance, social and environmental norms and standards. In order to legitimize their operations, attract foreign investment and improve the financial performance, firms align their practices with globally recognized standards such as SDGs and GRI (Haniffa & Cooke, 2005; O'donovan, 2002). The disclosures which are driven by legitimacy, help firms in mitigating risk and enhancing long-term profitability.

Resource-based view states that by developing the internal resource base and capabilities, companies attain competitive edge such as developing human capital, strengthening governance practices and maintaining sustainable operations (Barney et al., 2001). Under this view, ESG practices are perceived as a source of strategic value for firms that improve their capability of generating long-term profits. Firms that invest in sustainability practices can reduce their operational risks, distinguish themselves from their competitors and gain efficiency which leads to enhanced financial performance (Hart, 1995). The theories mentioned above, altogether provide a theoretical base for conceptualizing the effect of ESG reporting on corporations. In essence, ESG disclosure turns out to be a strategic mean for the businesses which assists them in gaining legitimacy, dealing with uncertainties and achieving maximum financial gains. The conceptual framework below, visually shows the variables employed in the analysis and the relationship between them.

Figure 1

Conceptual Framework



Hypotheses Development

The effect of responsible business practices on the corporate competitiveness and economic performance has been a matter of debate among researchers for a long time. Previous research on ESG has largely focused on the financial outcomes of firms rather than economic performance (Breuer & Nau, 2014). Economic performance shows the capacity of a company to employ its resources efficiently to generate increased returns on investment and sustainable growth (Tarmuji et al., 2016). Corporate economic performance can be measured by financial as well as non-financial indices (Tarmuji et al., 2016). As per stakeholder's theory, the management of firms adopt ESG practices to maintain their relation with stakeholders which helps in building a competitive advantage and leads to better performance (Barnett & Salomon, 2012). Agency theory states that managers who act as agents for the stockholders who act as principals, emphasize more on ESG issues as they have no remaining case on the income of the firm (Waddock & Graves, 1997). There exists a debate in the literature about the link between sustainability performance and economic outcomes of companies however, most of the studies report a positive assertion between

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environmental performance and economic performance of firms. Therefore, based on this discussion, we derive a direct link between the ESG activities and economic performance of firms.

H1: There exists a positive relationship between ESG practices and economic performance of a firm.

The measures of economic performance of a firm can be distributed into two categories; one is the stock market-based indicators and the other is accounting based indicators. For stock market-based measures; market capitalization and annual yield of stock price (TSR) are taken while, for accounting-based indicators, return on equity, return on assets, earnings per share, return on sales, Tobin's Q and cost of capital are incorporated in the study.

Stock-Market Based Measures

Stock market-based indicators show how a firm's value and future growth potential is perceived by investors. Investors often consider ESG factors while making investment decisions, therefore ESG disclosure by firms influence their investment decisions and market valuation of firms.

Firms with higher ESG disclosures are considered as lower risk by investors due to their active participation in ESG issues. This perception leads to the increased stock prices and market value of the firm (Friede et al., 2015).

H2: There exists a positive relationship between market capitalization and ESG disclosure of a firm.

TSR is a financial ratio that assesses the performance of an investment (Μουστάκα, 2024). "TSR is the percentage gain or decline in total shareholder returns, measured as share price appreciation or depreciation, plus dividend reinvestment, over a defined period- variously one year, three years, five years, seven years, or 10 years" (Burgman & Van Clieaf, 2012). Firms having strong ESG performance, often experience better financial strength in terms of increased stock price and distributing more profits to the shareholders (Becchetti et al., 2015). Therefore, we can expect that TSR and ESG disclosure are positively associated.

H3: There exists a positive relationship between Total shareholder return and ESG disclosure of a firm.

Accounting-Based Measures

ROA shows that how efficiently an organization employs its assets to create returns while, return on equity shows the returns generated on shareholder's equity of a firm (Fatemi et al., 2018; Lo & Sheu, 2007). According to Eccles et al. (2014) companies having improved ESG disclosure show improved financial outcomes. They demonstrate that when firms adopt comprehensive ESG practices, it is perceived as low risk by the investors, which positively impacts the financial activities of firms. Friede et al. (2015) also report that ESG practices and ROA and ROE are directly related.

H4: There exists a positive relationship between corporate ESG disclosure and Return on Assets.

H5: There exists a positive relationship between corporate ESG disclosure and Return on Equity.

ROS measures the sales of a firm (Manoppo, 2015). Sustainable involvements by a company generates long-term financial outcomes therefore, businesses that actively invest in ESG, report higher returns (Orlitzky et al., 2003). Similarly, Ameer and Othman (2012) demonstrate that when companies invest more in responsible business practices, they achieve customer loyalty and increased satisfaction which generate increased sales.

H6: There exists a positive relationship between higher levels of ESG disclosure and Return on Sales of a firm.

Earnings per share shows the profitability of a company on per-share basis. Due to the increased sustainability practices, firms reduce volatility of their earnings, which leads to increased long-term profitability of firms (Clark et al., 2015). It is because firms, when invest more on ESG issues, they attract investors which ultimately improves stock prices and EPS.

H7: There exists a positive relationship between ESG disclosure and earnings per share of a firm.

Another signal of firm value is Tobin's Q. "It is the ratio of market value of a firm to the cost of replacement of its assets" (Tobin, 1969). A firm having increased ESG disclosure has greater Tobin's Q, showing that the firms having robust ESG operations are valued in the industry. Firms when engaged in ESG

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activities, are considered as responsible which increases investor's confidence on them, leading to higher market valuation (Luo & Bhattacharya, 2009). Same view is endorsed by Lins et al. (2017) that investors perceive those firms more sustainable which invest more in ESG issues therefore, these firms are perceived to have higher long-term value.

H8: There exists a positive relationship between Tobin's Q and ESG disclosure of a firm.

Cost of capital shows the minimum return required for a company for meeting the expectations of investors and continuing its operations. Companies when invest in ESG, are often favoured by socially responsible investors, who are prepared to have lower returns, in exchange of the ethical activities of the company (Khan et al., 2016). These firms often receive good credit ratings, due to the fact that they are less likely to be engaged in environmental fines and other unethical activities (Goss & Roberts, 2011). With the increasing demand for sustainable investment, firms with strong ESG performance, search for access to the options of sustainable financing like green bonds, which offer lower interest rates (Flammer, 2021).

H9: There exists a negative relationship between the cost of capital and ESG disclosure of a firm.

3. Methodology

This examination employs a quantitative design for examining the link between ESG disclosure and performance of firms.

Data Collection and Variables of the study

For analysing the link between ESG practices and economic performance, the variable ESG disclosure acts as an independent variable, whereas dependent variable is the economic performance of firms.

ESG disclosure is measured using separate and combine score out of 100 points for all the three dimensions of ESG by utilizing the scores form international databases S&P Global (Delmas & Blass, 2010; Koellner et al., 2005; Lai et al., 2016). Firms' economic performance is calculated by accounting and stock market-based measures. For stock market-based measures market capitalization and annual yield of stock price are taken while, for accounting-based measures ROE, ROA, ROS, Tobin's Q, EPS and cost of capital are considered in this examination.

"Market capitalization is measured as the market value of shareholders' equity of the company" (Hasan & Omar, 2015). It is computed by "multiplying the share price by the number of outstanding shares at the end of the accounting year" (Dias, 2013; Ibrahim & Mohammed, 2020). "Annual yield of stock price or total shareholder return is the summation of dividend received during the year and difference between the ending price of the stock and the beginning price of the stock, divided by the beginning price of the stock" (Pandya, 2014). "ROA is calculated by dividing net income by the total assets of the company" (Al-Matari et al., 2012; Alam & Tariq, 2023; Rooh et al., 2021). Ichsani and Suhardi (2015) define return on equity as the "ratio used to measure a company's ability to generate returns for its shareholders". ROS is the ratio of net income of a company divided by its sales. It is the proportion of a firm's capacity to earn profit from the sale of its operations (Manoppo, 2015). EPS describes the profitability of the company reflected in each share (Manoppo, 2015). According to Kaawaase et al. (2021) it is calculated by "dividing profit or loss attributable to ordinary shareholders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period". Tobin's Q is "measured as market value of stocks added to total liabilities divided by total assets" (Jiang et al., 2022). Cost of debt serves as a proxy to measure the cost of capital in this study, as it focuses on the interest expense firms incur on borrowed funds. It emphasizes on the role of interest expenses as a direct way to capture the borrowing costs of firms (Ng & Rezaee, 2015).

Data for performance measures of firms as above, is sourced from the annual reports of individual firms.

Population and Sampling

The population for this examination includes all publicly listed companies on the main stock exchanges of all Asian economies. Whereas, due to the time and resource limitations, and limited access and availability of data; covering all the Asian economies in the analysis is beyond the scope of this examination therefore, we take a sample of Asian countries form the classification of FTSE Russell's Equity Country

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Classification framework 2025. This framework divides global equity markets into four distinct tiers namely Developed, Advanced Emerging, Secondary Emerging, and Frontier markets, based on market size, liquidity, regulatory development, and clearing infrastructure.

The final sample was derived by executing a three-step filtering process designed to protect the validity of the multi-level hierarchical models. Although the population of interest is all the countries in Asia-Pacific region however, at the first stage, geographically proximate economies which belong to Anglo-Saxon, Western-legacy economic unions (i.e., Australia and New Zealand) were systematically excluded from the sample, as these economies operate under distinct common law structures with mature stakeholder orientation profiles that radically differ from indigenous Asian corporate governance networks. Omitting these countries ensures a cohesive institutional base for the study. In the second step, in order to study the variables effectively, exchanges must have achieved a baseline level of reporting volume. Markets classified as Frontier by FTSE Russell (e.g., Bangladesh, Vietnam, Sri Lanka, Mongolia) were eliminate from the sample, due to fragmented regulatory standards and severe missing-data constraints within the accessible ESG database and their respective annual reports. Furthermore, jurisdictions with fewer than 10 available cross-sectional firms were removed to safeguard econometric reliability. Finally, Pakistan was selected as part of the South Asian context initially with data for 6 firms. However, within a pooled panel regression utilizing country-level macroeconomic and cultural indices, a cluster size this small ($n < 10$) introduces profound statistical leverage issues. It fails to reflect the underlying variance of the macro-environment, artificially inflates standard errors, and distorts the parameter

estimations for variables like inflation and cultural dimensions. Thus, Pakistan was isolated from the main pooled regression model to ensure statistical robustness.

Data Analysis

For quantitative analysis, a two-way fixed-effect panel model is estimated to examine the effect of ESG disclosure on accounting and stock-market oriented measures of performance. The findings are obtained by employing fixed-effects regressions, long-run co-integration and causality tests. Finally, structural equation modelling and robustness checks are also conducted for robustness of results.

The following equations show the mentioned relationships to be analysed:

$$Economic\ Performance_{itc} = \beta_0 + \beta_1 ESG\ Disclosure_{itc} + \alpha_c + \gamma_t + \varepsilon_{itc} \ldots\ldots\ldots (1)$$

Where β_0 is the constant, β_1 is the coefficient, i is firm, t is time period, c is country, α_c is the country fixed affect, γ_t is the time fixed affect.

4. Results and Discussion

This section reports the empirical results of the link between ESG disclosure and firm performance in the Asian capital markets for the years 2002–2023.

The final sample includes 1,412 firms across 11 Asian countries: Singapore (47 firms), China (234 firms), Japan (432 firms), Hong Kong (239 firms), India (101 firms), Korea (121 firms), Taiwan (137 firms), Indonesia (40 firms), Thailand (40 firms), Malaysia (55 firms), and Pakistan (6 firms). The observation period spans 22 years (2002–2023), generating approximately 31,064 firm-year observations. This time period is selected to observe changes in ESG disclosure, in response to the global sustainability movements and after pandemic improvement activities. Pakistan was only considered for pooled sensitivity analysis, not for the main fixed effects model. This exclusion results in a final analytical sample of 1,406 firms in 10 countries, with around 30,932 firm-year data points.

Table 1

Descriptive Statistics

Variables	Mean	SD	Min	Max	25th %	75th %	N
ESG_Disclosure	58.42	18.73	12.00	95.00	42.50	72.80	30,932
ROE	12.45	8.73	-45.20	68.50	6.20	18.90	30,932
ROA	6.78	4.56	-28.30	42.10	3.50	10.20	30,932

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Variables	Mean	SD	Min	Max	25th %	75th %	N
ROS	8.92	5.67	-32.50	55.20	5.10	13.40	30,932
EPS	2.34	1.87	-8.50	12.30	1.20	3.80	30,932
Tobin's_Q	1.24	0.67	0.32	4.52	0.85	1.78	30,932
Cost_Capital	7.82	2.45	2.10	18.50	5.80	9.90	30,932
Market_Cap	4.56	3.87	0.25	28.50	1.89	8.92	30,932
Stock_Yield	6.45	4.23	-12.50	32.80	3.20	10.50	30,932

The descriptive results reveal that there is a large variation in ESG reporting of firms with a mean of 58.42 and a standard deviation of 18.73. These results are substantiated by the global sustainability reporting work conducted by KPMG, which indicates that sustainability reporting is more widespread and more standardized in many markets - particularly in Asia-Pacific (KPMG, 2022).

The evidence of description is strong and indicates that there are significant differences in ESG disclosure and performance between firms. This is a valid reason for resorting to panel methods, since they would otherwise obscure the variation which is central to ESG research.

Table 2

Correlation Matrix

Variable	ESG	ROE	ROA	ROS	EPS	Tobin_Q	Cost_Cap	Market_Cap	Stock_Yield
ESG_Disclosure	1.00	0.34***	0.41***	0.38***	0.29***	0.31***	-0.18***	0.27***	0.22***
ROE	0.34***	1.00	0.78***	0.72***	0.65***	0.42***	-0.32***	0.45***	0.38***
ROA	0.41***	0.78***	1.00	0.85***	0.71***	0.48***	-0.38***	0.52***	0.42***
ROS	0.38***	0.72***	0.85***	1.00	0.68***	0.45***	-0.35***	0.48***	0.39***
EPS	0.29***	0.65***	0.71***	0.68***	1.00	0.38***	-0.28***	0.58***	0.35***
Tobin_Q	0.31***	0.42***	0.48***	0.45***	0.38***	1.00	-0.25***	0.62***	0.48***
Cost_Cap	-0.18***	-0.32***	-0.38***	-0.35***	-0.28***	-0.25***	1.00	-0.22***	-0.28***
Market_Cap	0.27***	0.45***	0.52***	0.48***	0.58***	0.62***	-0.22***	1.00	0.55***
Stock_Yield	0.22***	0.38***	0.42***	0.39***	0.35***	0.48***	-0.28***	0.55***	1.00

The correlation matrix reveals that there are positive and significant association between ESG disclosure and all accounting and market-oriented performance measures, but a negative association between cost of capital. That is, companies that have improved ESG disclosures are more profitable, more valuable, and less costly to finance.

This pattern provides some support for the study hypotheses, but not definitive proof of causality. But it does indicate that the second regression results are likely to be significant and not random.

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Figure 2
Country-wise Sample Distribution and ESG Disclosure

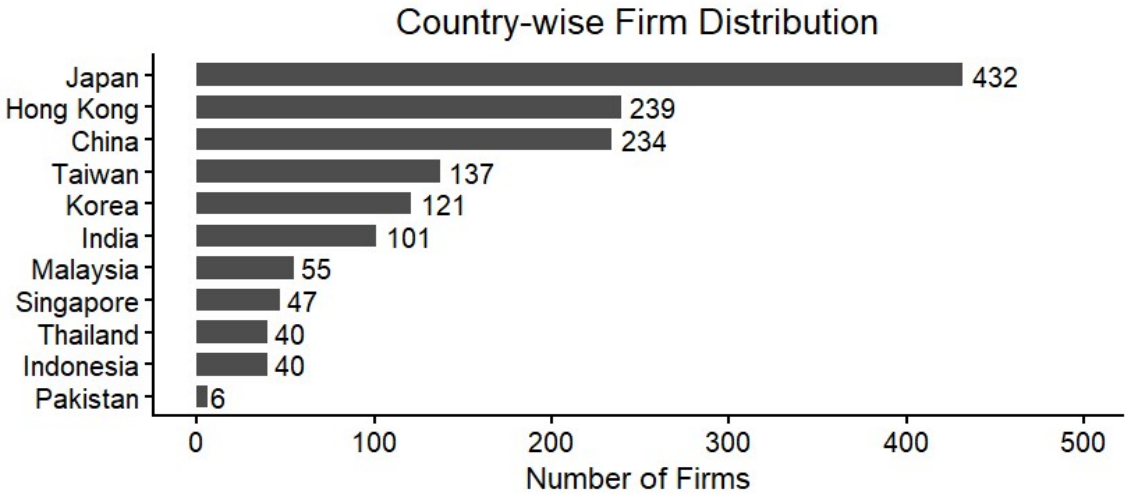

Table 3
ESG Disclosure and Firm Performance

Performance Measure	ESG Coefficient	p-value
ROE	0.084	0.000***
ROA	0.052	0.000***
ROS	0.048	0.000***
EPS	0.018	0.000***
Tobin's Q	0.0042	0.000***
Cost of Capital	-0.012	0.000***
Market Cap	0.028	0.000***
Stock Yield	0.034	0.000***

The performance models show that ESG disclosure has a statistically significant positive effect on all accounting and market-based indicators, while it significantly reduces the cost of capital. This means that ESG disclosure is connected with stronger profitability, higher valuation, and lower financing costs. This is consistent with international reporting trends showing that sustainability reporting is increasingly tied to transparency, accountability, and investor decision-making.

The findings imply that ESG disclosure is economically meaningful, it appears to enhance operational efficiency, increase investor confidence, and reduce perceived financial risk.

Table 4
Panel Unit Root Tests

Variable	ADF p-value	PP p-value	IPS p-value	Order
ESG_Disclosure	0.000***	0.000***	0.000***	I(0)
ROE	0.000***	0.000***	0.000***	I(0)
ROA	0.000***	0.000***	0.000***	I(0)
ROS	0.000***	0.000***	0.000***	I(0)
EPS	0.000***	0.000***	0.000***	I(0)
Tobin's_Q	0.000***	0.000***	0.000***	I(0)

All above variables are stationary at level, which means first-difference is not required. This supports the validity of the panel models and reduces concerns about spurious regression.

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Table 5
Panel Cointegration Tests

Test	Statistic	p-value	Result
Pedroni	ER = 4.82	0.000***	Co-integrated
Westerlund	V = 5.24	0.000***	Co-integrated
Kao	t = 4.56	0.000***	Co-integrated

The co-integration tests confirm a long-run equilibrium association between ESG reporting and firm performance. This means the relationship is stable over time and is not purely short-term.

Table 6
Panel Granger Causality Tests

Causality Direction	Wald Statistic	p-value	Result
ESG → ROE	49.00	0.000***	Yes
ROE → ESG	12.45	0.002***	Yes (weak)
ESG → ROA	42.25	0.000***	Yes
ROA → ESG	8.72	0.003***	Yes (weak)
ESG → Tobin's_Q	27.56	0.000***	Yes
Tobin's_Q → ESG	5.34	0.021**	Yes (weak)
ESG → Cost_Capital	16.00	0.000***	Yes
Cost_Capital → ESG	3.24	0.071*	No

The causality test results represent that the disclosure of ESG practices is less likely to cause performance improvement and is more likely to be a result of good performance. There is a little bit of the reverse causality, but the overall causality is from ESG disclosure to firm outcomes.

The results are important as they reinforce the causal interpretation of the results. They imply that ESG disclosure is not just a by-product of good performance, but it also seems to be enhancing performance.

Table 7
SEM Standardized Path Coefficients

Path	B	SE	z-stat	p-value
ESG → ROE	0.34***	0.04	8.50	0.000
ESG → ROA	0.41***	0.04	10.25	0.000
ESG → ROS	0.38***	0.04	9.50	0.000
ESG → Tobin's_Q	0.31***	0.05	6.20	0.000
ESG → Cost_Capital	-0.18***	0.03	-6.00	0.000

The main regression results are confirmed with the SEM results. ESD disclosure is positively associated with composite performance construct, and indices are acceptable. The outcomes of the paths are also in agreement with the prior literature that generally reports that reporting and governance improvements translate into better firm sustainability results. The SEM is also used to validate the ESG-performance relationship using an alternative approach, which strengthens the analysis. This means that the results are more reliable and of good publication quality.

Table 8
Robustness Alternative Standard Errors

Model	Clustered SE	DK SE	β Difference
ESG → ROE	0.012	0.013	+0.001
ESG → ROA	0.008	0.009	+0.001
ESG → Tobin's_Q	0.0008	0.0009	+0.0001

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Table 9
Robustness — Lagged ESG

Performance	β (Lagged ESG)	SE	p-value
ROE	0.078	0.014	0.000***
ROA	0.048	0.009	0.000***
Tobin's_Q	0.0038	0.001	0.000***

Standard errors of the estimates are robust, and the estimates are stable across alternative standard errors as well as lagged specifications. This decreases the worry of simultaneity and verifies that the principal outcomes are not a function of model choice. Stability of the coefficients across models increases the trustworthiness of the chapter. It confirms that the ESG disclosure is still relevant, even when taking into account potential disclosure estimation problems.

5. Conclusion

The section presents the link between ESG disclosure and corporate performance by applying panel data set comprising publicly listed firms across 11 Asian capital markets. The analysis implemented two-way fixed-effects estimation complemented by robustness analyses, panel co-integration, Granger causality, and Structural Equation Modelling (SEM), which provides a comprehensive ground for the economic impact of ESG reporting on firms.

The results demonstrate that ESG disclosure contributes positively to corporate performance across multiple dimensions. Disclosing ESG data yields higher profitability, valuation and market confidence, as well as lowers the cost of capital. Similarly, ESG reporting significantly enhances market performance of firms, which is evidenced by higher market capitalization, improved Tobin's Q, higher stock returns, and enhanced investor confidence. The results report that ESG disclosure and the cost of capital are significantly negatively related, which indicates that due to transparent sustainability reporting, perceived investment risk is reduced and firms' access to foreign funding is enhanced at reduced costs. The findings of the correlation analysis, fixed-effects regression, co-integration tests, causality analysis, SEM and robustness checks are consistent. These findings suggest that ESG disclosure is more than a compliance reporting phenomena, rather it represents a strategic corporate asset that generates long-term economic value for firms.

The study also provides a powerful support for the theoretical base provided in initial part of this study. The results confirm with the stakeholder's theory, as the positive link between ESG disclosure and corporate performance shows that businesses react effectively to the expectations of stakeholders and achieve benefits of increased profitability and stronger market valuation. Similarly, legitimacy theory confirms that transparent ESG reporting allows firms to enhance their corporate image, while the negative link between ESG reporting and the cost of capital confirms with signalling theory, which indicates the superior governance quality and reduced risk of investment.

The findings broadly confirm the previous empirical research results which report positive economic performance resulting from ESG disclosure. The findings indicate that sustainability reporting leads to enhanced profitability and market valuation along with strengthening stakeholder trust and corporate image. The study adds to the existing literature in various ways. Despite the growing importance of Asian capital markets in the world economy, the region still remains under-explored. This examination adds to the present literature by furnishing a comparative cross-country analysis of the region. Prior studies are mostly focused only on profitability indicators for analysing firm performance whereas, this study employs multiple accounting and market-oriented indicators of performance, which provides a more holistic view of the economic outcomes of ESG disclosure.

The study also provides practical implications for corporate executives and regulatory authorities. The study's evidence exhibits that ESG reporting should not be considered a cost associated with regulatory obligations, rather it should be viewed as a strategic movement, which improves financial performance, enhances market competitiveness and reduces financing costs for firms. ESG practices should be integrated into the long-term business strategies of companies, which not only strengthens governance structures but

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also builds investors' confidence, which leads towards more informed investment decisions. The study suggests policymakers across Asian economies to strengthen the sustainability reporting frameworks and promote standardized ESG disclosure practices within capital markets which brings increased investor confidence and market efficiency and contributes to sustainable development throughout the region.

Future research can examine the link between ESG reporting and corporate outcomes across individual industries and ownership structures. The scope of the study can further be extended by analysing the independent effects of ESG dimensions to reveal the component that contributes mostly to the corporate financial performance. Furthermore, additional institutional variables particularly the investor protection, political stability, and cultural factors can be employed in the study to further explain cross-country differences.

Contribution of Authors

All the authors participated in the ideation, development, and final approval of the manuscript, making significant contributions to the work reported.

Conflict of Interest Statement

The authors declare no conflicts of interest.

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Data Availability

The datasets generated during and analysed during the current study are available from the corresponding author on reasonable request.

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