



BEYOND PROFITS: UNVEILING THE ESG–PROFITABILITY NEXUS IN ASIAN MARKETS THROUGH BOARD COMPENSATION

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Abstract

This study is conducted to examine the relationship between overall ESG performance and financial performance through the moderating role of board compensation. By adopting a large panel dataset, this study follows the fixed effect models to examine how ROA and ROE influence on the ESG score as well as each dimension of the ESG, including social, environmental and governance. The study includes two interaction effects to examine whether board compensation strengthens or weakens the connection between corporate financial performance and operational efficiency (ROA) and shareholder returns (ROE). The finding highlight that both metrics are consistent to determine financial performance but also examine its influence on sustainability outcomes, as ROA identify the operational efficiency while ROE explains the shareholder returns. Moreover, the findings suggest that board compensation significantly moderates both relationships. Therefore, this study offers practical and theoretical implications, as it serves as a guide for achieving sustainable value creation through aligning board incentives with organizational goals. In emerging Asian countries, transparent governance and long-term performance evaluation should be encouraged.

Keywords: ROA, Board Compensation, ESG Score, ROE, Asian Countries

1. Introduction

The adoption of the ESG approach by firms over the past decades has progressed from being an issue of ethics to becoming an important factor that adds to the value of a firm, especially in developing economies (Abass et al., 2026). Transparency and responsibilities have changed because of current corporate policy, suggesting that growth is necessary not just for financial benefits, but for sustainability (Rau & Yu, 2023). Moreover, corporate values regulate the firm's long-term commitment to practices of sustainability (Wu et al., 2022). Therefore, the company adopted ESG practices voluntarily because they needed to ensure that their legitimacy and stakeholder relations were good enough to compete with other companies in the motivated environment (Deb et al., 2023). While interest has risen in the correlation between financial performance and environmental, social, and governance, a research gap exists, especially in the case of emerging Asian countries. Mashoene et al. (2025) primarily pay more attention to developed countries without examining emerging markets. DasGupta and Roy (2023) analysed the impact of the Institutional Environment impacts on ESG score. Meanwhile, Liao et al. (2025) elaborated the impact of financial performance on ESG performance in China.

Furthermore, few studies are available regarding the interaction between financial measures such as Return on Equity, Return on Assets, and ESG scores. Previous research has addressed the link between board compensation and sustainable performance, showing the significance of incentives at the board level in



determining ESG results. Abu Afifa et al. (2025) elaborated the influence of board compensation on sustainability performance in Japan and ASEAN-5 countries, showing a significant correlation with overall ESG performance. The study of companies in South Korea demonstrated that outside directors' compensation positively correlated with ESG performance (Jeyhunov et al., 2025). Thus, adequate remuneration can improve the monitoring and advising activities of board members. Shabbir et al. (2024) analysed the relationship between CEO remuneration and sustainable performance in Asian emerging economies, paying particular attention to the role of board and compensation committee characteristics. In addition, Yang et al. (2025) reported about the link between executive compensation and ESG ratings in China is significant for the analysis of the impact of remuneration incentives on ESG results. From the standpoint of agency theory, the appropriate remuneration structure can help align the directors' incentives with the organizational goals (Ding et al., 2025). Nevertheless, the impacts of such incentives will depend on the remuneration structure and its ability to promote long-term value creation rather than financial gain (Dell'Erba & Gomtsyan, 2024). Although compensation and sustainability have attracted increased interest among researchers, there few empirical research regarding the potential moderating impact of board compensation on the link between financial performance and ESG performance. This issue appears particularly important in the context of developing Asian economies, since the varying characteristics of the governance environment, institutional framework, and disclosure policies for sustainability information could affect firms' decisions. Firms that achieve higher financial performance, based on return on assets (ROA) and return on equity (ROE), have sufficient financial resources for implementing activities aimed at protecting the ESG aspects (Migliaccio & Mozzillo, 2025). However, financial performance does not necessarily imply ESG success. The impact of board compensation as a moderator on financial and ESG performance could help extend the existing literature.

The study seeks to consider the gaps in current studies by analysing the impact of the FP of companies on the corporate sustainability performance of companies in terms of the environment, society, and economy in developing South Asian economies. In addition, the study evaluates the moderating impact of board compensation on the impact of financial performance on the corporate ESG performance of firms. The study adds to the current knowledge about the finance–ESG linkage in terms of emerging markets.

2. Literature Review

The link between ESG factors and business performance is a major study in the finance literature. Past studies are based on an intensive exploration of this link to determine whether businesses that have good regulatory systems and allocate their resources efficiently can invest in sustainability and the environment (Xia et al., 2025). The measurement of financial performance using strategies like ROA and ROE usually shows the level of commitment that corporates have towards embracing social responsibility and environmental governance (Shmelev & Gilardi, 2025).

The study highlights the immense role of FP for sustainability performance, and this validates the argument that profitable firms possess enough funds for sustainable operations, employee well-being, and sustainable reporting (Masud et al., 2025). On the contrary, South Asian developed countries lag behind the standard of reporting because of low absorptive capability and high operating costs of the firm, which provides evidence that less profitable firms do not have adequate resources to increase firm and shareholder value (Shmelev & Gilardi, 2025). Additionally, Aydoğmuş et al. (2022) have found that organizational flexibility and sustainability are positively associated with the profitability of the organizations. Further, Micale and Shastry (2025) reported a positive relationship between financial performance and ESG to meet stakeholder expectations about sustainable practices of the firms. On the other hand, although an established connection exists, studies show an indirect relationship between financial performance and ESG, stating that overinvestment in ESG indicates that incremental costs will be high; therefore, the company must invest in reforms. Tang et al. (2026) clearly stated that managers feel pressurized to make maximum profits in the short term. Such strategies become harmful to the outcomes of ESG (Gazi et al., 2024).

According to stakeholder theory, the relationship between the two variables is considered to have a significant contribution because corporates are considered responsible to various stakeholders. Moreover, the



success and growth of the organizations lie in the effectiveness of corporates in dealing with stakeholders' group interests (Islam et al., 2021). Well-established corporates with sound FP will have an effective strategy in allocating resources efficiently within the ESG framework (Aydoğmuş et al., 2022; Wasiuzzaman et al., 2022). However, Resource Slack Theory provides a comprehensive theory as to how organizations benefit from excessive resources financially and how companies invest in environmental and sustainability initiatives for their operations and competitive benefit (Awa et al., 2024). Thus, this suggests that financial flexibility leads to profit margins along with ESG score (Dmytriiev et al., 2021).

Ong et al. (2024) emphasized that Board compensation is a vital corporate governance tool that has significant implications for the strategy, accountability, and dedication of the directors towards long-term sustainability targets. Saeed and Abdul-Karim (2025) elaborated theoretical review that proper compensation schemes will ensure that the incentives of the board members align with the objectives of the organization, thus making it possible to make balanced decisions regarding financial profitability along with environmental and social responsibility. Recently, Shabbir et al. (2024) reported operating firms in nine emerging Asian countries; the importance of governance mechanisms such as the compensation committee in aligning executive compensation to be aligned with sustainability performance was highlighted. A study conducted by Wu et al. (2025) found a positive link between executive compensation and ESG performance among the companies listed in China, and internal control and information disclosure were considered as mechanisms. Similarly, a direct link between ESG scores and Bcomp among listed Indian companies (Ajay et al., 2024). According to N. Zhu et al. (2024), in a rising economy, board compensation plays a significant role because companies must manage their profit levels while meeting growing demands for responsible conduct. However, these conclusions should be treated with caution, as research into executive compensation cannot be readily extrapolated to board compensation owing to the disparities in their responsibilities. In addition, C. Zhu et al. (2024) illustrated that the existence of a significant relationship between compensation and ESG performance does not prove that increased compensation will increase the significance of financial performance for sustainability performance and suggested that the success of the compensation structure may lie in whether the incentives offered by the directors promote long-term ESG goals.

Furthermore, Morosan-Danila et al. (2025) reported that companies with high return on assets (ROA) may have more financial means available to allocate to environmental protection, employee welfare, and sustainability activities. Moreover, Aldogan Eklund and Pinheiro (2024) suggested that Adequate board compensation may help directors get more motivated to channel their financial profits into ESG improvement. Nevertheless, board compensation moderating the relationship between operational efficiency and ESG score remains insufficiently explored in the literature discussed above. Thus, this study hypothesizes that the direct moderating link between operational efficiency and ESG scores. Stakeholder Theory and Slack Resources theory is applied in this research to develop hypothetical scenarios while analyzing the effect of financial performance in the form of ROA and ROE on corporate sustainability performance in the light of environmental, social, and economic dimensions. It has been established through many studies that financially strong firms are quite efficient in terms of investment in ESG activities due to slack resources in the company.

H1: ROA has a positive influence on ESG score, measured through ES, SS, and GS

H2: ROE has a positive influence on ESG score, measured through ES, SS, and GS

Moreover, the mediating effect of board compensation is considered, as proper compensation can encourage directors to monitor management and contribute to the long-term sustainability goals of their organizations. Empirical evidence has reported a direct link between outside directors' compensation and South Korean companies' ESG performance (Lee et al., 2024). Similarly, Rongyan et al. (2024) found that executive compensation had a positive relationship with the ESG performance of Chinese listed companies through better internal control and information disclosure. According to Wu et al. (2024) board compensation incentives have positively affected the ESG performance of companies by fostering green innovation and environmental disclosure. However, high executive compensation reduced the impact of these incentives on ESG performance.

H3: Board compensation has a moderating relationship between ROA and ESG performance.



H4: Board compensation has a moderating relationship between ROE and ESG performance

3. Econometric Modelling

This study follows the country–firm level specification, as the study included the South Asian By using the panel data techniques, this study includes the south Asian emerging countries at country level and included corporates from these years over the time period of 2002 to 2023. The included countries are from south Asian. Furthermore, this study examines the relationship between ESG and FP to analyze the differential patterns at the country and firm level. This study treats the overall performance of ESG and its related dimensions, such as social, environmental, and governance, as dependent variables, as data were sourced from the Refinitiv Eikon Data stream, a publicly available source (Aydoğmuş et al., 2022). By including the 597 firms from a total of 6291 observations at the firm-year level, this study follows the panel data strategy for model specification. Overall ESG performance is measured through a composite score based on the annual weighted average of social, environmental, and governance, ensuring high validity and comparability across the dimensions (Shabbir et al., 2024).

The main explanatory variable for this study is ESG performance, which is computed on three dimensions. Environmental performance is defined by Wu et al. (2022) as when global corporations interlink their internal strategies to promote environmental activities that are user-friendly and increase the profitability of the firms. SS indicates when corporates engage for promoting the well-being of individuals and communities through social acts and sustainable workflow, while GS is defined as the extent to which corporates are involved in higher transparency and protection of the shareholders and result in higher competitive advantage within the global market (Veltri et al., 2025).

For measuring the financial side of this study, two important metrics are used, which is consistent with the previous study (Migliaccio & Mozzillo, 2025) for evaluating financial performance, as ROA explains the operational efficiency of the firms while ROE refers to the returns received by shareholders. Moreover, this study includes board compensation as a boundary condition, analysing the association between FP and ESG. However, to control for the issue of heterogeneity, the study includes different control variables, as mentioned in the results section.

For data analysis, this study employs OLS regression as a baseline model to examine the association between variables. The empirical specification for this study is explained through fixed effects OLS regression analysis. Thus, the equation expresses the baseline model.

$$\begin{aligned} ESG_{it} &= \beta_0 + \beta_1 ROA_{it} + \beta_2 Controls_{it} + \mu_i + \lambda_t + \varepsilon_{it} \\ ESG_{it} &= \beta_0 + \beta_1 ROE_{it} + \beta_2 Controls_{it} + \mu_i + \lambda_t + \varepsilon_{it} \end{aligned}$$

The equation expresses the variable measurement, as financial performance is assessed through two metrics. To express the moderating role of board compensation, the model is specified as follow:

$$\begin{aligned} ESG_{it} &= \beta_0 + \beta_1 FP_{it} + \beta_2 Comp_{it} + \beta_3 (ROA \times Comp)_{it} + \beta_4 Controls_{it} + \mu_i + \lambda_t + \varepsilon_{it} \\ ESG_{it} &= \beta_0 + \beta_1 FP_{it} + \beta_2 Comp_{it} + \beta_3 (ROE \times Comp)_{it} + \beta_4 Controls_{it} + \mu_i + \lambda_t + \varepsilon_{it} \end{aligned}$$

Financial metrics are used separately to assess the moderating effect and the baseline effect on ESG performance. Python is used to clean the data, and the panel is constructed using the Pandas Package. Moreover, the linear regression models are run through Stata.

4. Results and Analysis

Summaries of all the variables are reported in Table 1. The table highlights the description and characteristics of the variables that are included in this sample. The study involves the Asian economies, as the mean value for ESG score is 0.44 with an SD value of 0.208, highlighting the moderate variations in the sample size; however, it explains the significance. Moreover, governance indicates a mean score of 0.503, which is higher across all the dimensions, indicating firms often focus on the environmental dimension more than any other. On the other hand, the findings highlight that ROA has mean value of 0.035 with SD 0.103



and ROE show the means value of 0.24 with SD value of 0.103, indicating that the sample is highly different across the dimensions. For board compensation, the mean value is 13.693 with a SD value of 2.628, which explains that financial outcomes are different because the governance and institutional frameworks are different across the economies. Lastly, the control variables also show average differences, which highlight that the sample dataset is highly relevant.

Table 1

Characteristics of Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
ESG Score	55,900	.44	.208	.001	.958
ES	55,858	.359	.29	0	.992
SS	55,857	.445	.238	.001	.986
GS	55,871	.503	.224	.001	.995
ROA	55,900	.035	.103	-.433	.229
ROE	55,900	.024	.122	-.524	.213
Bcomp	45,229	13.693	1.146	2.225	26.322
LEV Ratio	55,900	.252	.241	0	.847
FS	55,900	16.345	2.628	10.595	22.292
CAPEX	55,844	.047	.046	0	.222
Sales	55,755	.154	.162	.003	.762
RDI	55,900	.004	.013	0	.059
FA	55,900	3.218	.933	0	5.852
GDP PC	54,497	10.393	1.034	6.901	11.803
CPI	55,900	2.558	2.378	-4.478	14.715

Note. ES = environmental score, SS = social score, GS = governance score, Bcomp = board compensation, LEV = leverage, FS = firm size, CAPEX = capital expenditure, FA = firm age, CPI = consumer price index, GDP PC = GDP per capita.

Table 2 shows the findings of correlation analysis between the variables, as it explains the strength and magnitude between proposed relationships. The results reveal that ESG score shows positive correlation with individual dimensions such as ES ($r^* = 0.867$), social ($r^* = 0.891$), and GS ($r^* = 0.677$). Similarly, financial metric (ROA) indicate the positive connection ($r^* = 0.151$) with ESG score, explaining the argument that when corporates earn higher profits their investment toward sustainability practices also increases. Moreover, the financial metric ROE shows significant correlation ($r^* = 0.117$) with ESG score. Similarly, BComp, as a moderating condition, shows a positive connection with overall ESG score ($r^* = 0.248$). In terms of control variables, FS shows the strongest association with ESG score ($r^* = 0.424$), and firm age also indicates a low correlation ($r^* = 0.286$). Overall, the results indicate that ESG has different correlations with different variables, indicating the strength and magnitude of the variables. The strongest connection between variables is absent in this study, but the dataset is suitable for conducting regression analysis.

Table 2

Correlation Matrix Results

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 ESG Score	1.000														
2 ES	0.867	1.000													
3 SS	0.891	0.723	1.000												
4 GS	0.677	0.412	0.396	1.000											
5 ROA	0.151	0.162	0.096	0.117	1.000										
6 ROE	0.117	0.127	0.081	0.082	0.729	1.000									
7 B Comp	0.248	0.143	0.276	0.176	-0.011	-0.010	1.000								
8 LEV Ratio	0.123	0.094	0.145	0.056	-0.135	-0.127	0.218	1.000							
9 FS	0.424	0.478	0.329	0.248	0.201	0.223	-0.059	-0.055	1.000						



Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
10 CAPEX	-0.067	-0.017	-0.086	0.006	0.055	0.015	-0.051	-0.039	-0.022	1.000					
11 Sales	-0.147	-0.195	-0.087	-0.133	-0.224	-0.133	-0.027	-0.210	-0.203	-0.158	1.000				
12 RDI	0.070	0.010	0.115	0.009	-0.154	-0.106	0.092	0.090	-0.076	-0.130	0.297	1.000			
13 FA	0.286	0.299	0.239	0.162	0.113	0.081	0.038	-0.049	0.224	-0.064	-0.100	0.023	1.000		
14 GDP PC	0.007	-0.029	0.030	-0.010	-0.043	-0.017	0.236	0.140	-0.224	-0.130	0.084	0.118	-0.002	1.000	
15 CPI	0.008	-0.009	0.009	0.036	0.019	0.021	-0.012	-0.104	-0.002	0.085	-0.050	0.067	-0.024	-0.444	1.000

Table 3 reports the results of the fixed-effects regression and moderation effect, explaining the role of return on assets on ESG as the baseline and $ROA \times Bcomp$ as the interaction effect. The findings suggest that the financial metric has directly interlinked with ESG score ($\beta = -0.6561$, $*p* < 0.01$), indicating that when corporates have enough resources, they produce better financial outcomes by using sustainable products and spend on the welfare of the society, but when their resources decrease, it directly impacts the sustainability outcomes (DasGupta & Roy, 2023). Similarly, the individual dimensions of ESG also show a direct influence on FP, which highlights that firms with higher sustainability reporting and greater resources result in higher sustainability outcomes, which increase the operational capability of the firms. Additionally, the findings show the significant influence of LEV ratio ($\beta = 0.0666$, $*p* < 0.01$) and FS ($\beta = -0.0330$, $*p* < 0.01$) on overall ESG performance. Overall, the model fit explains 33.62% variations in the ROA model.

In terms of interaction effects, the study shows a significant influence of board compensation on overall ESG ($\beta = 0.0587$, $*p* < 0.01$), ES ($\beta = 0.1055$, $*p* < 0.01$), SS ($\beta = 0.0344$, $*p* < 0.01$), and GS ($\beta = 0.0512$, $*p* < 0.01$), indicating the moderating role of Bcomp in the model. Overall, the model highlights the significant and positive role of each dimension with ROA, as operational efficiency is interlinked with the sustainability outcomes. This indicates that the model is satisfactory and reliable, which aligns with the theoretical and empirical evidence, explaining when firms have higher operational capacity and enough resources along with offer the compensation and incentives to their board, resulting in higher sustainability outcomes.

Table 3

Regression Result via Fixed Effects and Moderation Results: The Role of ROA on ESG Score

VARIABLES	(1) ESG score	(2) ES	(3) SS	(4) GS
ROA	-0.6561*** (-7.6404)	-1.2990*** (-11.7943)	-0.3382*** (-3.1266)	-0.5809*** (-5.3291)
ROA $\times$ Bcomp	0.0587*** (9.3064)	0.1055*** (12.9960)	0.0344*** (4.3260)	0.0512*** (6.4129)
Bcomp	0.0395*** (42.8413)	0.0331*** (28.2224)	0.0492*** (45.3219)	0.0322*** (30.0893)
LEV ratio	0.0666*** (15.8121)	0.0901*** (15.0242)	0.0980*** (19.9518)	-0.0004 (-0.0850)
FS	0.0327*** (83.0466)	0.0499*** (92.6334)	0.0300*** (64.4666)	0.0204*** (42.2631)
CAPEX	-0.0330* (-1.9106)	0.1264*** (5.3340)	-0.0829*** (-4.1272)	0.1357*** (6.1569)
Sales	-0.0571*** (-11.1048)	-0.1007*** (-13.9936)	-0.0324*** (-5.1311)	-0.0859*** (-12.7980)
RDI	0.3222*** (4.9484)	0.2306** (2.5342)	0.8219*** (10.3047)	-0.1933** (-2.3043)
FA	0.0352*** (37.9913)	0.0510*** (39.8243)	0.0349*** (32.2359)	0.0197*** (17.1415)
GDP PC	-0.0013 (-1.2893)	-0.0049*** (-3.6109)	-0.0027** (-2.2924)	0.0026** (2.1272)
CPI	-0.0046*** (-8.0800)	-0.0123*** (-16.1037)	-0.0040*** (-5.5717)	0.0024*** (3.4770)
Constant	-0.7647***	-1.0754***	-0.8516***	-0.3538***



VARIABLES	(1) ESG score	(2) ES	(3) SS	(4) GS
	(-37.6572)	(-38.1410)	(-34.0846)	(-13.9803)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Observations	44,499	44,499	44,498	44,494
R-squared	0.3362	0.3447	0.2728	0.1316
Adj R ²	0.336	0.344	0.272	0.131

Note. ES = environmental score, SS = social score, GS = governance score, Bcomp = board compensation, LEV = leverage, FS = firm size, CAPEX = capital expenditure, FA = firm age, CPI = consumer price index, GDP PC = GDP per capita. * $p < .05$. ** $p < .01$. *** $p < .001$.

Table 4 reports the findings of baseline and moderation effect, explaining the role of ROE on ESG as the baseline and $ROE \times Bcomp$ as the interaction effect. The findings suggest that ROE has a direct and negative influence on the overall ESG score ($\beta = -0.4620$, * $p < 0.01$), ES ($\beta = -0.7890$, * $p < 0.01$), SS ($\beta = -0.3991$, * $p < 0.01$), and GS ($\beta = -0.2783$, * $p < 0.01$), indicating that when corporates have enough resources and shareholder returns, they better use sustainable products which depend on the welfare of the society, but when their resources decreases, it direct impact highlight on the sustainability outcomes (Yu & Xiao, 2022). Similarly, the individual dimensions of ESG also show a positive and significant influence on FP, which highlights that firms with higher sustainability reporting, shareholder returns, and greater resources result in higher sustainability outcomes, which increase the operational capability of the firms. Additionally, the findings show the significant influence of LEV ratio ($\beta = 0.0588$, * $p < 0.01$) on overall ESG performance. Other control variables have significant link with ESG. Overall, the model fit explains 33.13% variations in the ROE model.

In terms of interaction effects, the study shows a significant influence of board compensation on overall ESG ($\beta = 0.0379$, * $t = 6.1187$, * $p < 0.01$), environmental performance ($\beta = 0.0612$, * $t = 7.6332$, * $p < 0.01$), social performance ($\beta = 0.0336$, * $t = 4.6566$, * $p < 0.01$), and governance performance ($\beta = 0.0233$, * $t = 3.0750$, * $p < 0.01$), indicating the moderating role of Comp in the model. Overall, the model highlights the significant and positive role of each dimension with ROE, as shareholder returns is interlinked with the sustainability outcomes. This indicate that model is satisfactory and reliable which align with the theoretical and empirical evidence, explain when firms have higher received shareholder returns and enough rescuers along offer the compensation and incentives to their board, resulting in higher sustainability outcomes.

Table 4

Baseline Regression Results and Moderation Regression Results: The Role of ROE on ESG Performance

VARIABLES	(1) ESG score	(2) ES	(3) SS	(4) GS
ROE	-0.4620*** (-5.5334)	-0.7890*** (-7.3358)	-0.3991*** (-4.1064)	-0.2783*** (-2.7153)
ROE $\times$ Bcomp	0.0379*** (6.1187)	0.0612*** (7.6332)	0.0336*** (4.6566)	0.0233*** (3.0750)
Bcomp	0.0410*** (44.5992)	0.0356*** (30.3730)	0.0498*** (46.7584)	0.0338*** (32.0887)
LEV ratio	0.0588*** (13.9733)	0.0819*** (13.6603)	0.0918*** (18.7239)	-0.0072 (-1.4103)
FS	0.0331*** (82.9112)	0.0505*** (92.6609)	0.0304*** (64.4057)	0.0208*** (42.5106)
CAPEX	-0.0287* (-1.6478)	0.1298*** (5.4543)	-0.0789*** (-3.9091)	0.1393*** (6.3067)
Sales	-0.0728*** (-14.5215)	-0.1187*** (-16.9486)	-0.0449*** (-7.2640)	-0.0993*** (-14.9885)
RDI	0.2460***	0.1389	0.7675***	-0.2634***



VARIABLES	(1) ESG score	(2) ES	(3) SS	(4) GS
	(3.7525)	(1.5131)	(9.6206)	(-3.1309)
FA	0.0359***	0.0519***	0.0354***	0.0204***
	(38.6966)	(40.4739)	(32.7014)	(17.7018)
GDP PC	-0.0010	-0.0044***	-0.0026**	0.0029**
	(-1.0145)	(-3.2354)	(-2.1779)	(2.3238)
CPI	-0.0047***	-0.0124***	-0.0040***	0.0024***
	(-8.1255)	(-16.1392)	(-5.5916)	(3.3892)
Constant	-0.7885***	-1.1187***	-0.8612***	-0.3786***
	(-38.5743)	(-39.4292)	(-34.5159)	(-15.0095)
Year FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Observations	44,499	44,499	44,498	44,494
R-squared	0.3313	0.3415	0.2703	0.1285
Adj R ²	0.331	0.341	0.270	0.128

Note. ES = environmental score, SS = social score, GS = governance score, Bcomp = board compensation, LEV = leverage, FS = firm size, CAPEX = capital expenditure, FA = firm age, CPI = consumer price index, GDP PC = GDP per capita. * $p < .05$. ** $p < .01$. *** $p < .001$.

These result highlight that fixed effect and moderation effects are important to consider for making investment in ESG practices and higher financial performance. The study supports all the hypotheses, as the baseline results are significant between the proposed relationships. The moderating role of board compensation is also significant between ROA, ROE and overall ESG performance.

5. Discussion

This study examines the relationship between the overall ESG score the firms and FP within the context of Asian markets. The study includes board compensation as a boundary condition between ESG and FP. The results highlight that there is a significant influence of FP on corporate overall sustainability performance. The study by Koundouri et al. (2022) found that non-financial reporting standards provides information to investors on corporate, increases sustainability practices, returning in higher overall outcomes, as study critically examine companies with good ESG performance have always the food financial conditions to be reported. The results of the current study highlight that ESG and financial performance are interlinked, but developing countries are not align with the global reporting standards and ESG disclosure, which restrains higher FP (Ding et al., 2025). In relevance with the board compensation, these findings suggest the positive and significant moderating effect between ESG performance and FP. This is consistent with the previous evidence by Aldogan Eklund and Pinheiro (2024), which found that corporate bodies that offer higher CSR-based compensation and incentives to their board and offer compensation to CEOs tended to have better ESG performance, as boards consistently work on ESG practices. In relevance with the theoretical argument, the findings of this study explain that when boards of directors, managers, investors and other members of board are properly incentivized, resulting in corporate success and competitive advantage. Instead, environmental management, social, and proper corporate governance need to be integrated as strategic plans. Jeyhunov et al. (2025) highlights the board diversity which does not include the inclusion females in the board but also compensation of the board matters. This indicates that higher compensation and incentives of boards is interconnected with FP. Therefore, the findings of this study provide significant contribution and guideline to the corporates and policymakers in making higher investment in ESG practices.

6. Implications

Implications of the research findings are also very important. From a theoretical perspective, the current study contributes to slack resources and stakeholder theory by showing how profit margins and board incentives affect ESG performance. Operational efficiency and Stakeholder shares shows the ability of the company to invest in emerging sustainability, while board incentives highlight the importance of corporate governance in achieving both financial and ESG objectives in emerging markets.



Practically it helps boards of directors, managers, investors, and policy-makers to understand that profitability alone cannot be used as the only criterion of corporate success. Instead, environmental management, social responsibility, and proper corporate governance need to be included in companies' strategic plans. Thus, for investors and other parties, this study can serve as a guide for achieving sustainable value creation through aligning board incentives with organizational goals. In emerging Asian countries, transparent governance and long-term performance evaluation should be encouraged.

7. Limitations and Future Directions

Some limitations exist in this study, as recognized by researchers. The major limitations concern the quality and annual ESG reporting in Asia. While gathering information, ESG reporting in the chosen countries is still uneven because of the high disparities in companies' reporting practices (Zainudin et al., 2026). Such developing economies are behind in making annual ESG disclosures. This topic is extremely relevant to Pakistan as it signifies how few of the companies in the stock market are disclosing their ESG information. It can therefore lead to the problem of selection bias. Another limitation of the study is that the effects of board compensation on corporate sustainability outcomes are not studied separately for fixed board remuneration, performance-based incentives, and sustainability-based incentives. The study conducted by Chen et al. (2026) showed that the inclusion of ESG criteria in executive compensation contracts increased the sustainability results of corporations. Similarly, Figueiredo et al. (2025) and Veltri et al. (2025) found the efficiency of the system may depend on the incentive system itself. Further studies can consider the impact of fixed remuneration for boards and sustainable incentives on the interaction between different variables like ROA, ROE, and ESG outcomes. It will be interesting to see if board independence, ownership concentration, and country-specific governance rules affect the relationships under consideration. Moreover, longitudinal and cross-country studies may show whether compensation systems lead to the continuous improvement of ESG results.

8. Conclusion

The study elaborated the interconnection between FP and ESG scores within Asia, specifically the impact of ROA and ROE and the moderate effect of board remuneration. The results show impacts of board remuneration is significant for both ROA–ESG and ROE–ESG associations, indicating the significance of governance incentives for the transition from financial performance to sustainability performance. These results contribute to the previous literature by considering the complementary nature of profitability and governance in terms of engaging companies in ESG activities. On the practical side, the study suggests that firms should consider adopting good remuneration policies and integrating their financial goals with environmental and social considerations.

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Conflict of Interest

The authors declare that they have no conflicts of interest.

Data Availability Statement

The data supporting the findings of this study are available from the corresponding author upon reasonable request.

Author Contributions

Muhammad Ali Shah contributed to the conceptualization, methodology, data analysis, and manuscript preparation. Dr. Ayesha Rehan supervised, critically reviewed, and revised the manuscript. Both authors approved the final manuscript.

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