



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 results indicate that statistically insignificant relationships are found in all dimensions between ROA, ROE, and ESG performance. The direct relationship between board compensation and ESG outcomes is positive and statistically significant, although the moderating effect is not significant.

The results add to Agency Theory, Stakeholder Theory, and Slack Resources Theory, revealing that the statistical moderating effect of board compensation on the positive direct relationship between ESG and board returns is unsupported.

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 explores the links between the financial performance of companies, compensation for company directors, and ESG results in eleven Asian and Asia-Pacific markets. It also examines whether there is a moderating effect of board compensation on the association between profitability and ESG. The findings result in differentiating direct compensation associations and investigate hypothesized moderation effects, which enhance the comprehension of the corporate governance and sustainability in various institutional settings. 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. 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

Further, the moderating role of board compensation is explored to see whether board compensation changes the magnitude or direction of the relationship between corporate financial performance and ESG outcomes. Appropriately designed compensation systems can be designed to give agency directors more alignment with long-term organizational sustainability goals and, therefore, could impact decisions on how agency resources are allocated to environmental, social, and governance efforts. Although pay levels play a role, the effectiveness of such arrangements is also dependent upon the incentive structures and sustainability priorities of the pay arrangement, not just its level of compensation (Ding et al., 2025; Shabbir et al., 2024).



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 aims to investigate the correlation between the financial performance of companies and ESG results for 11 markets in Asia and Asia-Pacific (AAP), including Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. The descriptive analysis comprises 17,290 observations; the overall ESG, environmental, and governance performance specifications comprise 11,112 observations, and the social performance specifications comprise 11,111 observations. Financial and ESG data sources are identified by financial and ESG indicators sourced from Refinitiv Eikon Datastream in line with the original data source description.(Aydoğmuş et al., 2022).

The explanatory variables are return on assets (ROA) and return on equity (ROE), and the dependent variables are overall ESG performance and the environmental, social, and governance components of that performance. 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. Board compensation is added as both an explanatory and potentially moderating variable in the profitability-ESG relationship. The moderating effect of ROA is measured by the interaction term $ROA \times COMP$, and the moderating effect of ROE is tested in the interaction term $ROE \times COMP$. The models account for leverage, firm size, capital expenditure intensity, sales intensity, research and development intensity, firm age, GDP per capita, and the consumer price index.

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.

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

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:

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

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

The empirical analysis includes cross-country and cross-industry analysis of the relationship between corporate financial performance and environmental, social, and governance (ESG) performance over eleven Asian and Asia-Pacific markets, with board compensation as a possible moderating factor. The geographical distribution of the 17,290 observations is given in Table 1. The top three contributors are Japan (33.70%), Australia (20.95%), and Hong Kong (12.05%). This distribution shows some significant geographical variation, but is rather limited in number of observations. The results therefore reflect relationships for the pooled sample and not necessarily even patterns for participating economies.

Table 1.

Geographical Distribution of Observations

Country/Market	Observations	Percentage
Australia	3,622	20.95
China	1,448	8.37
Hong Kong	2,084	12.05
India	961	5.56
Indonesia	356	2.06
Japan	5,827	33.70
Malaysia	516	2.98
Philippines	172	0.99
Singapore	616	3.56
Taiwan	1,403	8.11
Thailand	285	1.65
Total	17,290	100.00

Summaries of all the variables are reported in Table 2. The average overall ESG performance is 0.418 with a standard deviation of 0.208. Governance shows the highest mean (0.490), and the other two dimensions of sustainability are not even. There is a difference in the developed sustainability dimensions, and governance has the highest mean (0.490), followed by social performance (0.391) and environmental (0.376). The relatively high standard deviation of the environment (0.282) suggests high environmental variation.

The average accounting profitability based on ROA and ROE is 0.038 and 0.030, respectively, indicating low average profitability of accounts with significant variations. The average compensation for the board members in the data reported in the dataset is 12.885. The fewer the observations that are made, the less comprehensive the compensation coverage, which may affect the estimation sample. Additionally, firm size and age are widely different, further underlining the need to consider organizational characteristics.

Table 2.

Characteristics of Variables

Variable	N	Mean	Std. Dev	Min	Max
ESG	17,290	0.418	0.208	0.004	0.929
ENV	17,290	0.376	0.282	0.000	0.991
SOC	17,289	0.391	0.240	0.001	0.973
GOV	17,290	0.490	0.226	0.004	0.992
ROA	17,290	0.038	0.093	-0.433	0.229
ROE	17,290	0.030	0.118	-0.524	0.213
BCOMP	11,681	12.885	1.231	4.001	21.254
LEV	17,290	0.142	0.206	0.000	0.847
SIZE	17,290	18.017	2.908	10.595	22.292
CAPEX	17,285	0.049	0.047	0.000	0.222
SALES	17,271	0.177	0.155	0.003	0.762
RDI	17,290	0.003	0.011	0.000	0.059
AGE	17,290	3.412	0.865	0.000	4.949
GDPPC	15,887	10.236	1.017	6.901	11.390
CPI	17,290	1.784	2.077	-2.983	11.989



Note. ENV, SOC and GOV represent environmental, social and governance scores; BCOMP denotes board compensation. Other abbreviations follow the study's variable definitions.

Table 3 shows the findings of correlation analysis between the variables, as it explains the strength and magnitude between proposed relationships. The correlation between the overall ESG performance and the various indicators of environmental ($r = 0.863$), social ($r = 0.900$), and governance performance ($r = 0.675$) is strong. These positive relationships are common occurrences, as the ESG aspects are linked.

The results of the financial performance showed relatively low positive correlations with ESG and ROA ($r = 0.148$) and ROE ($r = 0.134$). There is a higher positive correlation ($r = 0.302$) for board compensation, indicating that higher-paid boards are more likely to lead firms to higher sustainability performance.

They have similar financial traits that are linked by the ROA/ROE correlation ($r = 0.736$). Moreover, ESG is positively correlated with firm size ($r = 0.478$), which indicates that the size of the firm could be important for sustainability results. However, such bivariate, noncausal, conditional moderate relationships are not the same.

Table 3.

Correlation Matrix Results

Variable	ESG	ENV	SOC	GOV	ROA	ROE
ESG	1.000					
ENV	0.863	1.000				
SOC	0.900	0.716	1.000			
GOV	0.675	0.413	0.412	1.000		
ROA	0.148	0.116	0.117	0.115	1.000	
ROE	0.134	0.141	0.087	0.098	0.736	1.000
BCOMP	0.302	0.199	0.312	0.226	0.003	-0.007
SIZE	0.478	0.538	0.366	0.275	0.241	0.286

Table 4 shows the regression results for this discussion when return on assets (ROA) is regressed on ESG performance with the inclusion of board compensation as a moderating variable. The results show that there is a negative, non-statistically significant relationship between overall ESG performance and ROA ($\beta = -0.0470$, $t = -0.2351$). Likewise, it can be seen that there are insignificant relationships with environmental ($\beta = -0.0690$), social ($\beta = -0.0286$), and governance performance ($\beta = -0.1610$). Based on these findings, the hypothesis H1 was rejected, as the results do not indicate a significant explanation of the differences in corporate sustainability performance based on operational profitability.

Board compensation does not interact with ROA either overall ($\beta = 0.0139$), on the environmental dimension ($\beta = 0.0115$), on the social dimension ($\beta = 0.0118$), or on the governance dimension ($\beta = 0.0225$), and so the evidence of the interaction is insufficient. Board compensation, however, has positive and statistically significant direct relations with all four sustainability outcomes. This means that H3 is not supported. However, board compensation demonstrates positive and statistically significant associations with overall ESG ($\beta = 0.0458$, $p < 0.01$), environmental ($\beta = 0.0386$, $p < 0.01$), social ($\beta = 0.0572$, $p < 0.01$), and governance performance ($\beta = 0.0353$, $p < 0.01$).

For the control variables, significant positive relationships are found in areas of ESG dimensions for firm size, leverage, and firm age, while sales intensity can be consistently negatively related. More R&D is a positive factor in relation to overall ESG, environmental, and social performance. The models account for 44.34%, 45.17%, 37.12%, and 17.13% of the variation in overall ESG, environmental, social, and governance performance, respectively.

Table 4.

Regression Results for the Relationship Between Return on Assets (ROA) and ESG Performance: The Moderating Role of Board Compensation

Variables	ESG	ENV	SOC	GOV
ROA	-0.0470	-0.0690	-0.0286	-0.1610
ROA $\times$ BCOMP	0.0139	0.0115	0.0118	0.0225



Variables	ESG	ENV	SOC	GOV
BCOMP	0.0458***	0.0386***	0.0572***	0.0353***
LEV	0.0786***	0.0747***	0.0766***	0.0515***
SIZE	0.0280***	0.0449***	0.0220***	0.0201***
CAPEX	0.0409	0.3214***	0.0377	-0.0610
SALES	-0.0569***	-0.0803***	-0.0768***	-0.0564***
RDI	0.4226***	0.5117***	0.6132***	0.0307
AGE	0.0390***	0.0548***	0.0449***	0.0142***
GDPPC	0.0090***	0.0210***	-0.0074***	0.0230***
CPI	0.0026**	-0.0038***	0.0076***	0.0020
Constant	-0.9132***	-1.3421***	-0.7984***	-0.6812***
Observations	11,112	11,112	11,111	11,112
R ²	0.4434	0.4517	0.3712	0.1713
Adjusted R ²	0.441	0.450	0.369	0.168

Note. Coefficients are unstandardized. **p < 0.05; ***p < 0.01, following the supplied significance notation.

The results of the regression analysis of the relationship between return on equity (ROE) and ESG performance with moderating variables (board compensation) are presented in Table 5. The results show that overall performance of ESG scores (α) has a statistically insignificant positive correlation with ROE ($\beta = 0.0823$, $t = 0.5798$). In the same vein, environmental performance shows an insignificant negative coefficient ($\beta = -0.0621$), while social ($\beta = 0.0986$) and governance performance ($\beta = 0.0280$) have insignificant positive coefficients. These findings lack empirical evidence for H2, which is the hypothesis that shareholder profitability empowers their companies to perform better over the longer term on sustainability issues.

Moreover, ROE's contribution to overall ESG performance, as well as all three subscale scores for environmental, social, and governance, is not significant at the statistical level (respectively $\beta = -0.0036$, $\beta = 0.0070$, $\beta = -0.0065$, and $\beta = 0.0010$). Based on this, it is not concluded that there is sufficient evidence that compensation of the members of the Board does not reinforce or undermine the connection between the profitability of the company and the results of ESG. Nevertheless, board compensation demonstrates significant positive associations with overall ESG ($\beta = 0.0472$, $p < 0.01$), environmental ($\beta = 0.0392$, $p < 0.01$), social ($\beta = 0.0586$, $p < 0.01$), and governance performance ($\beta = 0.0369$, $p < 0.01$).

Overall ESG performance and its three components are positively and significantly associated with each other consistently for firm size, leverage, and firm age. Capital expenditure has a positive association with environmental performance, and research and development intensity has a positive association with ESG and environmental and social outcomes. On the other hand, all specifications show negative significant relationships with sales intensity. The models account for 43.96%, 45.10%, 36.84%, and 16.83% of the variance in overall ESG, environmental, social, and governance performance, respectively. In aggregate, there are clear, direct links between board compensation and the variables, while the moderating effect of board compensation is not supported.

Table 5.

Regression Results for the Relationship Between Return on Equity (ROE) and ESG Performance: The Moderating Role of Board Compensation

Variables	ESG	ENV	SOC	GOV
ROE	0.0823	-0.0621	0.0986	0.0280
ROE × BCOMP	-0.0036	0.0070	-0.0065	0.0010
BCOMP	0.0472***	0.0392***	0.0586***	0.0369***
LEV	0.0687***	0.0694***	0.0651***	0.0425***
SIZE	0.0284***	0.0450***	0.0226***	0.0204***
CAPEX	0.0404	0.3214***	0.0357	-0.0613
SALES	-0.0600***	-0.0820***	-0.0800***	-0.0592***
RDI	0.3744***	0.4886***	0.5598***	-0.0119
AGE	0.0386***	0.0546***	0.0444***	0.0139***



Variables	ESG	ENV	SOC	GOV
GDPPC	0.0075***	0.0201***	-0.0086***	0.0214***
CPI	0.0028***	-0.0037**	0.0079***	0.0023*
Constant	-0.9117***	-1.3380***	-0.8031***	-0.6812***
Observations	11,112	11,112	11,111	11,112
R ²	0.4396	0.4510	0.3684	0.1683
Adjusted R ²	0.437	0.449	0.366	0.165

Note. Coefficients are unstandardized. * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$.

Overall, the results suggest that accounting profitability is not separately significant related to ESG performance at traditional significance levels in the estimated specifications. Supply evidence that in most cases the compensation coefficient is consistently positive, which does not support the moderating mechanism. Theoretically, these results can be used to validate the use of slack resources as a plausible explanatory basis for investigating sustainability engagement, but could still be supportive of governance views of sustainability engagement. Importantly, those compensation associations that are observed should not be assumed to be causal or useful designs of incentives based on ESG.

5. Discussion

The findings challenge the rule that profitability leads to better sustainability performance. There is no statistically significant relationship found between return on assets and return on equity with ESG performance or ESG scores. Thus, H1 and H2 are not supported. This evidence suggests that profitability can drive the possibility of sustainability investment but doesn't guarantee that it will target ESG priorities in Slack Resources Theory. Heubeck and Ahrens (2025) point to non-linear resource-ESG relationships, indicating that sustainable outcomes are not simply a result of resources. However, the coefficients of the insignificant variables should not be taken to justify the notion that profitability is never an issue.

In the latter contrast, board compensation, by contrast, is positively and significantly connected with all four ESG outcomes in both particulars. The pattern fits agency-based accounts where attention is paid to nonfinancial goals that are complemented by governance measures. Compensation committees and governance structures are highlighted as vital elements in linking compensation to sustainability goals in Shabbir et al. (2024). Similarly, Gürel et al. (2026) report that incentive structures are also complementary to board oversight. The analysis for the present, however, only looks at the level of board compensation and not sustainability-linked incentive provisions in the contract. However, any strong correlations can only conclude whether compensation structures are effective in encouraging sustainability outcomes or whether they cause them.

Importantly, the interaction of ROA-compensation and ROE-compensation is not statistically significant, thus rejecting H3 and H4. Compensation seems to be related directly to ESG, without sufficient evidence to have an impact on the relationship between profitability and ESG. This separation reflects that of Dell'Erba and Gomtsyan (2024), who wonder if the metrics used to measure remuneration tied to ESG goals effectively achieve their goals. In addition, Efung et al. (2024) demonstrate that the use of explicit incentives based on ESG measures could be less relevant to realized incentive pay, and that, similar to the case with scale, contract design is more relevant to pay determination. The results as a whole clarify the stakeholders' and agency views, breaking them down into three distinct categories: profitability, compensation, and incentive alignment. More robust conclusions about the relationship between compensation composition and sustainability outcomes in Asian markets can be drawn, but only through further tests of the mechanisms involved and institutional differences.

6. Implications

The results have theoretical and practical implications for the understanding of the relationship between profitability, compensation to the board, and sustainability. The weak link between return on assets and return on equity and ESG performance serves as an example of how financial assets do not necessarily lead to better sustainability results. Similarly, there is no evidence that the profitability-ESG relationship is enhanced by the relatively small interaction effects. However, the findings – a persistent link between



compensation and ESG performance that is statistically significant – are consistent with agency theory arguments about governance structure, but do not prove that it has any causal link or works well to incentivize good ESG performance. The findings highlight for corporate boards the need to consider a mix of compensation structures, supervision, and measurable sustainability goals, but not just the size of the pay. Investors should evaluate ESG performance on top of the financial and governance metrics rather than thinking that profitability is a good enough indicator of sustainability. In framing policies, the policymaker could consider incentivizing transparent disclosures for compensation and similar ESG reporting to promote accountability among the Asian markets.

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 aim of this study was to analyse the correlations between corporate profitability, board compensation, and ESG performance in Asian markets. The results show that there is no statistically significant correlation between ROA, ROE, and ESG performance as hypothesized, supporting the absence of direct linkages. Likewise, there is no significant moderation of the profitability-ESG relationships by board compensation. But the positive and significant direct link with ESG and its components underscores the importance of corporate governance frameworks. The findings provide further insights into Agency Theory, Stakeholder Theory, and Slack Resources Theory by separating the direct relationship between compensation and the unsupported moderating relationship between compensation. Further research is needed to examine institutional differences and sustainability-related incentives between markets.

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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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