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ESG Disclosure and Financial Performance: A Systematic Literature Review

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ABSTRACT

The increasing focus on Environmental, Social and Governance (ESG) disclosure has improved scholarly and policy interest in its impact on firm financial performance, but empirical results remain varied and highly context specific. This research uses a systematic literature review (SLR) to synthesize empirical findings on the link between ESG disclosure and firm performance across developed and emerging economies. Following PRISMA guidelines, the review analyses peer-reviewed studies indexed in Scopus and Web of Science (WoS) published between 2020 and 2025. A total of 20 studies are carefully examined to identify common patterns, methodological trends, and research gaps. The results suggest that ESG disclosure generally correlates with better financial outcomes, especially in developed countries where stricter regulations, maturity, and disclosure standards boost the relevance of ESG data. Conversely, evidence from developing nations is more inconsistent, often showing mixed or insignificant effects. When broken down by dimension, governance disclosure consistently correlates with positive financial performance, whereas environmental and social disclosures exhibit more variable, context-dependent effects. Market-based measures tend to be more responsive to ESG disclosures than accounting-based indicators. Overall, the review highlights that the relationship between ESG disclosure and financial performance depends on both internal firm characteristics and external institutional factors, underscoring the importance of moderating influences. This study adds value by offering a comparative, dimension-specific synthesis of ESG disclosure evidence and proposing a structured research agenda, especially for developing and emerging markets.

Keywords: ESG Disclosure; Financial Performance; Emerging Economies; Sustainability Reporting

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INTRODUCTION

In recent years, Environmental, Social, and Governance (ESG) disclosure has gained prominence in corporate reporting, driven by growing concerns about sustainability, social responsibility and long-term value creation. What was once a voluntary, symbolic act has become a standard expectation for companies, especially large, listed ones. Globally, ESG disclosure enables companies to communicate non-financial information to stakeholders, fulfilling societal expectations and demonstrating accountability beyond financial reports (KPMG, 2022). As stakeholder expectations continue to expand, ESG reporting is increasingly viewed as an integral component of corporate governance and strategic management.

The rapid expansion of sustainable and responsible investing has further underscored the importance of ESG disclosure. Global assets under management that incorporate ESG considerations have grown substantially, accounting for a significant share of professionally managed investments worldwide Global Sustainable Investment Alliance (GSIA), 2023. Investors increasingly rely on ESG information to assess firm-level risk exposure, long-term resilience, and ethical conduct, particularly amid climate change, social inequality, and governance failures. Consequently, ESG disclosure is now regarded not only as a reputational management tool but also as an important factor in investment decisions.

Recent regulatory developments have transformed the global ESG reporting landscape. Initiatives such as the International Sustainability Standards Board (ISSB) standards and the European Union's Corporate Sustainability Reporting Directive (CSRD) aim to improve the consistency, comparability, and reliability of sustainability disclosures worldwide (European Commission, 2023; IFRS Foundation, 2023). These initiatives signal a global transition toward more structured and, in many cases, mandatory ESG reporting regimes, particularly in developed economies. In contrast, many developing countries are still strengthening their ESG frameworks, with enforcement mechanisms and institutional capacities varying widely.

Despite the increasing prevalence of ESG reporting, concerns persist regarding the quality, consistency, and credibility of the information disclosed. Differences in reporting standards, data collection methods, and assurance practices contribute to significant variations in ESG disclosures across firms and countries (OECD, 2023). Issues such as selective disclosure and greenwashing further complicate stakeholders' ability to interpret ESG information accurately, raising questions about whether reported sustainability initiatives genuinely reflect corporate practices or serve primarily as strategic signaling mechanisms.

Moreover, the rise of ESG rating agencies and the digitalization of corporate reporting have further complicated the ESG ecosystem. Third-party evaluators translate disclosed information into ESG scores that significantly influence investor perceptions and market behavior. However, methodological differences among rating agencies often lead to inconsistent evaluations of the same firm, highlighting ongoing challenges in measurement reliability and standardization. At the same time, ESG considerations are increasingly embedded within corporate strategies, performance evaluation systems, and executive compensation structures, indicating that ESG disclosure is no longer merely an external communication tool but a strategic component of organizational decision-making.

Against this backdrop, academic research has increasingly explored the relationship between ESG disclosure and firm financial performance. However, empirical findings remain mixed and context dependent. Variations in institutional environments, regulatory rigor, cultural

norms, and market maturity may influence the extent to which ESG disclosure contributes to financial performance. The financial implications of ESG practices may differ between developed and developing economies due to differences in regulatory frameworks, stakeholder expectations, and market conditions. Therefore, a systematic review of the existing empirical literature is necessary to identify consistent patterns, clarify contextual differences, and highlight areas requiring further investigation. Therefore, this study aims to systematically review the empirical evidence on the relationship between ESG disclosure and financial performance. Specifically, the study seeks to: (1) examine the overall relationship between ESG disclosure and financial performance, (2) compare findings across developed and developing countries, and (3) identify key research gaps for future investigation. To achieve these objectives, the study addresses the following research questions: (i) What is the relationship between ESG disclosure and financial performance? (ii) Does this relationship differ between developed and developing countries? (iii) What gaps remain in the current body of knowledge?

LITERATURE REVIEW

ESG Disclosure Concept

ESG disclosure is the transparent reporting of non-financial information on a firm's environmental impact, social responsibility, and governance structures, intended to inform stakeholders about the sustainability and ethical dimensions of corporate activities (Eccles, Ioannou, & Serafeim, 2014; Kotsantonis, Pinney, & Serafeim, 2016). The concept evolved from the Triple Bottom Line (TBL) framework, which holds that corporate performance should be evaluated not only on financial outcomes but also on social equity and environmental stewardship (Elkington, 1997). In the contemporary corporate reporting landscape, ESG disclosure serves two critical functions: it provides accountability to a broad range of stakeholders and signals to capital markets firms' long-term risk management, governance quality, and sustainability orientation (Clark, Feiner, & Viehs, 2015; Connelly et al., 2011).

The environmental pillar (E) of ESG disclosure focuses on firm-level impacts related to climate change, greenhouse gas emissions, pollution control, waste management, and the efficient use of natural resources (Bansal & Roth, 2000; Clarkson et al., 2008). The social pillar (S) encompasses corporate practices related to human rights protection, labor standards, employee health and safety, workforce diversity and community engagement (Aguinis & Glavas, 2012; Carroll, 1999). The governance pillar (G) addresses internal control mechanisms and oversight structures, including board independence and diversity, executive compensation practices, transparency, and the protection of shareholder rights (Aguilera et al., 2008; Shleifer & Vishny, 1997).

ESG Disclosure Quality versus ESG Performance

Although ESG disclosure and ESG performance are closely related, they represent distinct concepts. ESG performance refers to a firm's actual environmental, social, and governance practices, outcomes and sustainability achievements. In contrast, ESG disclosure quality refers to the completeness, credibility, transparency, comparability, and usefulness of the ESG information reported to stakeholders.

A firm may demonstrate strong ESG performance but provide limited disclosure, thereby restricting stakeholders' ability to evaluate its sustainability practices. Conversely, firms may disclose extensive ESG information without corresponding sustainability achievements, a phenomenon often associated with symbolic reporting or greenwashing (Cho & Patten, 2007; Michelon et al., 2015). Consequently, the quantity of ESG disclosure does not necessarily reflect the quality of ESG performance.

This distinction is important when examining financial outcomes because investors and other stakeholders frequently rely on disclosed ESG information as a proxy for underlying sustainability performance. High-quality ESG disclosure enhances transparency, reduces information asymmetry, and increases stakeholder confidence, thereby improving the likelihood that ESG initiatives will be reflected in firm valuation and financial performance (Fatemi et al., 2018). Differences in disclosure quality may therefore contribute to the mixed findings reported in the ESG disclosure–financial performance literature.

Table 1
ESG Disclosure Pillars

ESG Pillar	Core Disclosure Components	Strategic Value Driver
Environmental (E)	Climate risks, Scope 1-3 emissions, resource efficiency, biodiversity impact.	Reduced regulatory risk, operational efficiency, resource cost savings.
Social (S)	Human capital management, product safety, data privacy, community relations.	Brand loyalty, employee productivity, talent attraction, reduced attrition.
Governance (G)	Board structure, audit quality, transparency, executive pay alignment.	Reduced agency costs, investor confidence, long-term stability.

Financial Performance Measures

The literature generally classifies financial performance metrics into two main types: accounting-based (internal) and market-based (external) measures. Accounting-based metrics, such as Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM), capture a company's operational efficiency and profitability as reported in financial statements (Orlitzky et al., 2003; Waddock & Graves, 1997). These indicators are common in corporate sustainability studies because they directly measure managerial effectiveness in using assets and equity to generate income over a specific period. Margolis and Walsh (2003) and Margolis et al. (2009) highlight that accounting-based indicators are among the most frequently used proxies for examining the relationship between corporate social responsibility and financial performance because of their objectivity and accessibility in audited reports. Likewise, Aupperle et al. (1985) and Griffin and Mahon (1997) point out that internal profitability measures offer a clearer link between corporate strategies, including ESG initiatives, and actual operational results.

Recent ESG research has expanded this approach by integrating DuPont analysis, which breaks down ROE into profit margin, asset turnover, and financial leverage. This framework allows for a detailed analysis of how ESG disclosure may influence firm performance. By separating profitability from efficiency and leverage effects, researchers can determine whether ESG activities improve margins through cost savings and pricing strategies, enhance asset utilization through operational innovation, or affect capital structure decisions through improved governance and lower financing costs. Foundational work on the DuPont framework and subsequent empirical studies (e.g., Soliman, 2008; Li et al., 2020; Dal Maso et al., 2020) suggest that ESG engagement may influence specific financial drivers rather than overall

profitability ratios. This decomposition helps distinguish whether ESG impacts arise from operational efficiency, profitability improvements, or capital structure optimization, thereby providing a better understanding of the relationship between ESG and financial performance.

Market-based performance indicators, such as Tobin's Q, stock returns, and risk-adjusted metrics such as the Sharpe ratio, reflect investor expectations regarding a company's future growth and risk profile (McWilliams & Siegel, 2000; Qiu et al., 2016). Unlike accounting metrics, which are rooted in past results, these market measures are forward-looking and quickly incorporate new information into valuation. ESG disclosure can serve as a signaling device that reduces information asymmetry between managers and investors, thereby shaping market perceptions and valuation (Dhaliwal et al., 2011; Eccles et al., 2014). Evidence indicates that companies with strong ESG performance often exhibit higher market valuations and better long-term stock returns, particularly when ESG efforts are well integrated into corporate operations (Clark et al., 2015; Khan et al., 2016).

Additionally, numerous studies show that the market reacts favorably to credible and high-quality ESG disclosures, particularly in regions with strong institutional support and investor protections (Cheng et al., 2014; Fatemi et al., 2018). Transparency in ESG practices is associated with lower costs of equity and debt financing, as investors perceive such companies as less vulnerable to regulatory fines, reputational harm, and systemic risks (El Ghoul et al., 2011; Goss & Roberts, 2011). However, some research finds negligible or negative short-term market responses, particularly when ESG efforts are perceived as costly or merely symbolic rather than genuinely value-adding (Brammer et al., 2006; Aupperle et al., 1985). These mixed results imply that investor reactions may be influenced by the credibility, materiality, and strategic fit of ESG initiatives.

Hence, selecting an appropriate financial performance proxy is vital for accurate empirical results in ESG disclosure research. Accounting metrics can indicate operational gains from ESG initiatives, while market indicators show how investors perceive and incorporate these efforts into firm valuation. Variations in research methods, time frames, industry types, and institutional settings also influence the findings. Thus, using both accounting and market-based measures provides a more comprehensive understanding of the link between ESG and financial performance and clarifies why previous studies sometimes yield differing results.

ESG Disclosure and Financial Performance

Empirical evidence on the relationship between ESG disclosure and financial performance remains inconclusive. A substantial body of literature reports a positive association, suggesting that greater ESG transparency enhances stakeholder trust, reduces information asymmetry, and improves firm value (Alareeni & Hamdan, 2020; Xie et al., 2020). These findings align with stakeholder and resource-based perspectives, which argue that sustainability-related investments create reputational advantages and strengthen competitive positioning.

However, several studies report mixed or conditional relationships. For example, the financial benefits of ESG disclosure appear to vary according to industry characteristics, ownership structure, firm size, and institutional environment (Jasni & Zulkifli, 2024; Kriengsuntikul & Banchuenvijit, 2025). In some contexts, ESG disclosure may enhance market valuation while exerting limited influence on accounting-based performance measures such as ROA and ROE.

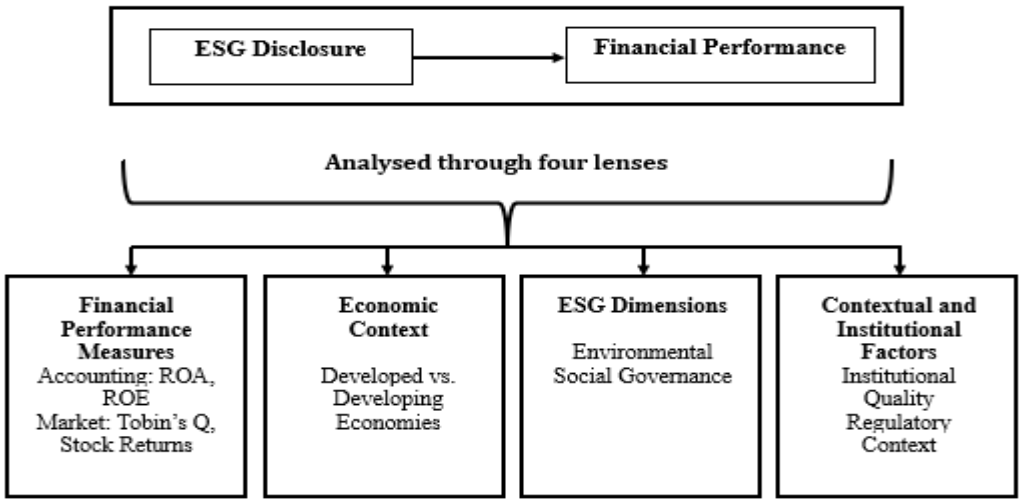
Conversely, a smaller stream of literature documents insignificant or negative relationships between ESG disclosure and financial performance (Zainuddin et al., 2024). These studies argue that ESG initiatives may involve substantial implementation costs, particularly in developing economies where regulatory support, investor awareness, and sustainability-related capabilities remain limited.

Overall, the literature suggests that the relationship between ESG disclosure and financial performance is highly context dependent. Differences in institutional quality, regulatory frameworks, ESG measurement approaches and performance proxies may explain the inconsistent findings reported across studies. This inconsistency highlights the need for a systematic synthesis of the existing evidence.

This review is guided by an analytical framework that examines the relationship between ESG disclosure and financial performance through four key lenses. First, studies are categorized according to economic context (developed versus developing economies). Second, the review distinguishes between accounting-based and market-based financial performance measures. Third, the analysis considers the individual ESG dimensions (Environmental, Social, and Governance) to identify dimension-specific effects. Finally, the review evaluates the role of contextual and institutional factors that may influence the relationship between ESG disclosure and financial performance.

The framework enables a structured comparison of empirical findings and facilitates the identification of recurring patterns, inconsistencies and research gaps within the literature.

Figure 1
Analytical Framework for Reviewing the Relationship between ESG Disclosure and Financial Performance through Four Lenses



THEORETICAL BACKGROUND

Stakeholder theory argues that firms must consider and balance the interests of various stakeholder groups, including investors, employees, customers, regulators, suppliers, and local communities. This theory is to ensure long-term sustainability and value creation (Freeman, 1984) rather than focusing solely on shareholder wealth maximization. The theory emphasizes managing relationships and addressing stakeholder expectations as a strategic priority. Within

this framework, ESG disclosure enhances transparency, reduces information asymmetry, and strengthens trust between firms and their stakeholders. By openly communicating environmental, social, and governance practices, companies can build reputational capital, foster stakeholder loyalty, and mitigate risks of regulatory penalties, reputational damage, or consumer boycotts (Clarkson et al., 2008; Fatemi et al., 2018). Consequently, ESG reporting is viewed as a strategic tool that supports long-term firm performance by aligning corporate actions with stakeholder interests.

Legitimacy theory emphasizes the broader social contract between organizations and society. It suggests that companies aim to operate in accordance with societal norms, values, and expectations to maintain their "license to operate" (Suchman, 1995). In this view, ESG disclosure acts as a tool for legitimacy, showing that a company's activities meet social and environmental standards. This motivation is especially strong in environmentally and socially sensitive sectors, where public attention is high, and not adhering to societal norms could threaten a company's survival (Deegan, 2002; Cho & Patten, 2007). Therefore, ESG reporting helps manage public perception, respond to institutional demands, and reinforce legitimacy. While stakeholder theory focuses on managing relationships with specific groups, legitimacy theory highlights the need for societal approval to sustain business operations.

From an agency theory perspective, ESG disclosure primarily functions as a governance and monitoring mechanism to reduce information asymmetry between managers (agents) and shareholders (principals) (Jensen & Meckling, 1976). In modern corporations, managers may have incentives to pursue personal objectives, such as enhancing their reputations or securing short-term performance bonuses, that do not necessarily align with shareholders' long-term interests. Enhanced ESG disclosure increases transparency regarding non-financial risks, sustainability initiatives, and governance structures, thereby enabling investors to monitor managerial behavior more effectively. This transparency can curb managerial opportunism and limit symbolic ESG engagement, or "greenwashing," in which sustainability activities are overstated for impression-management purposes (Healy & Palepu, 2001; Michelon et al., 2015). In this sense, ESG reporting reduces agency costs, strengthens accountability, and aligns managerial decisions with long-term shareholder value.

In contrast, the Resource-Based View (RBV) conceptualizes ESG-related practices and disclosures as strategic investments in valuable intangible resources that can generate sustained competitive advantage (Barney, 1991). ESG initiatives may foster the development of firm-specific capabilities, including innovation capacity in sustainable technologies, strong stakeholder relationships, enhanced employee engagement, and a culture of ethical governance. When these resources are valuable, rare, inimitable, and non-substitutable, they can differentiate firms from competitors and contribute to superior long-term performance (Hart, 1995; Surroca et al., 2010). Under the RBV lens, ESG disclosure is not merely a reporting obligation but a reflection of embedded organizational strengths that enhance resilience, adaptability, and long-term value creation.

METHODOLOGY

This study adopts a systematic literature review (SLR) to synthesise empirical evidence on the relationship between ESG disclosure and corporate financial performance. The review was conducted and reported with reference to the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) 2020 Statement developed by Page et al. (2021). The PRISMA

2020 framework provides a structured approach to documenting the identification, screening, eligibility assessment, and inclusion of relevant studies, thereby enhancing the transparency, consistency, and reproducibility of the review process.

The study selection process comprised four stages: identification, screening, eligibility assessment and inclusion. Predefined inclusion and exclusion criteria were applied to ensure that the selected studies were relevant to the research objectives and methodologically appropriate for qualitative synthesis.

Stage 1: Identification
The literature search was conducted using two established academic databases, Scopus and Web of Science (WoS), which provide extensive coverage of peer-reviewed research in accounting, finance, sustainability and business management. The search was performed on January 2026 using predefined keywords related to ESG disclosure and financial performance. The search terms were applied to the title, abstract and keyword fields using the Boolean operators AND and OR. The following search string was employed:

("ESG disclosure" OR "sustainability disclosure" OR "environmental social governance disclosure") AND ("financial performance" OR ROA OR ROE OR "Tobin's Q" OR "firm value" OR "stock returns").

The search strategy was designed to capture empirical studies examining ESG disclosure in relation to accounting based and market-based measures of corporate financial performance. The initial database search yielded a total of 550 records across Scopus and Web of Science.

Stage 2: Screening
During the screening stage, duplicate records retrieved from the two databases were removed, and the remaining records were evaluated against the predefined inclusion and exclusion criteria. The screening criteria were established to ensure consistency in selecting relevant academic literature. Studies were considered for further assessment if they were published between 2020 and 2025, written in English, published in peer reviewed journals and employed an empirical research design. Conference papers, book chapters, review articles, non-English publications and publications falling outside the specified period were excluded.

Table 2
Inclusion and Exclusion Criteria

Criteria	Inclusion	Exclusion
Publication period	2020 – 2025	Publications outside the specified period
Language	English	Non-English publications
Publication type	Peer reviewed journal articles	Conference papers, book chapters, and other ineligible publication types
Research design	Empirical studies	Review articles and purely conceptual studies
Research focus	ESG disclosure and corporate financial performance	Studies unrelated to the relationship under investigation
Level of analysis	Firm-level analysis	Macroeconomic or policy level studies without firm level empirical analysis

Following duplicate removal and preliminary screening, a total of 235 records were removed or excluded, leaving 315 articles for full-text eligibility assessment.

Stage 3: Eligibility Assessment
The remaining 315 articles underwent full-text assessment to determine their relevance to the research objectives and compliance with the established eligibility and quality assessment criteria. Particular attention was given to the conceptualisation of ESG disclosure, the measurement of corporate financial performance, the appropriateness of the research design, and the transparency of the analytical procedures. Articles were excluded during this stage if they:

i. Did not explicitly examine ESG disclosure as an independent variable.
ii. Did not incorporate firm-level financial performance indicators, such as return on assets (ROA), return on equity (ROE), Tobin's Q, firm value, or stock returns.
iii. Focused primarily on macroeconomic, policy-level, or conceptual discussions without relevant firm-level empirical analysis.
iv. Failed to satisfy the established quality assessment criteria, particularly in terms of methodological suitability, theoretical relevance, or measurement transparency.

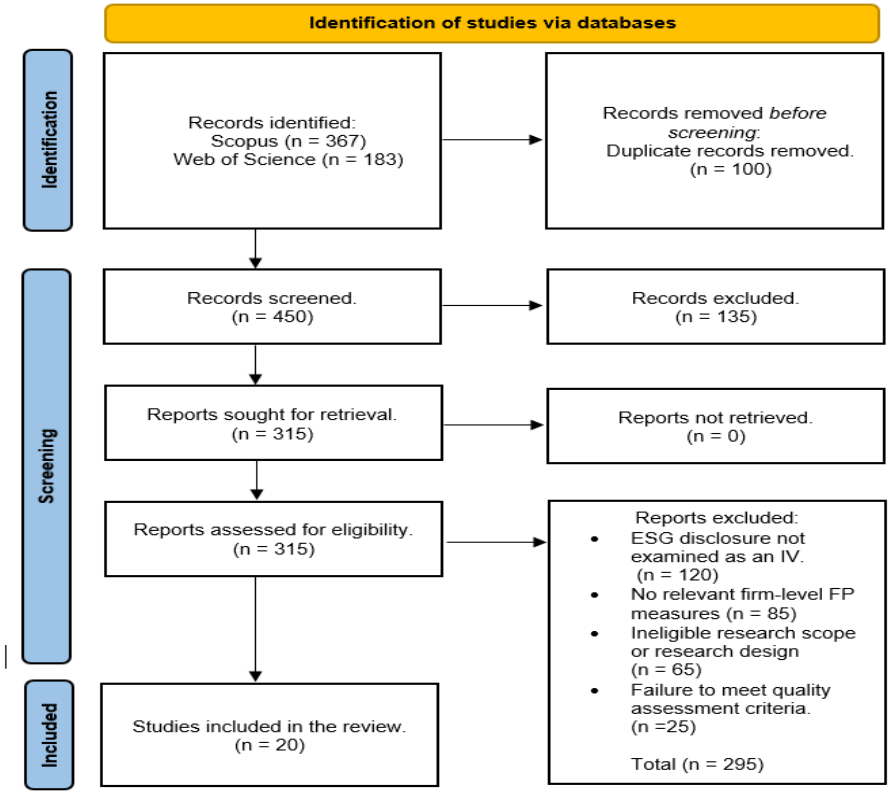
Table 3 presents the quality assessment criteria employed during the full-text assessment.

Table 3
Quality Assessment Criteria

Criterion	Assessment Focus
Publication Quality	Whether the article was published in a peer-reviewed academic journal.
Theoretical Relevance	Whether the study established a clear conceptual or empirical linkage between ESG disclosure and corporate financial performance.
Methodological Rigor	Whether the research design and analytical techniques were appropriate for addressing the research objectives.
Measurement Transparency	Whether the operationalisation and measurement of ESG disclosure and financial performance variables were clearly reported.

Stage 4: Inclusion of Studies
A total of 20 peer-reviewed empirical studies fulfilled all the predefined inclusion and quality assessment criteria and were retained for the final qualitative synthesis. These studies constitute the final analytical sample of this systematic literature review. The selected studies provide empirical evidence on the relationship between ESG disclosure and corporate financial performance across diverse institutional settings, geographical contexts, industries and methodological approaches. Figure 2 illustrates the complete study selection process, from the initial identification of 550 records to the final inclusion of 20 empirical studies, in accordance with the PRISMA 2020 reporting framework (Page et al., 2021). The diagram provides a visual representation of the number of records retained and excluded throughout the review process.

Figure 2
PRISMA 2020 Flow Diagram of the Study Selection Process



Source: Adapted from Page et al. (2021)

Table 4 provides a numerical summary of the study selection process, documenting the number of records identified, removed, assessed, excluded, and included throughout the four stages of the systematic literature review.

Table 4
PRISMA Study Selection Process

PRISMA Stage	Description	Record (n)
Identification	Records identified through database searching (Scopus and Web of Science) using predefined keywords	550
Screening	Records removed or excluded through duplicate removal and preliminary screening	235
Eligibilty	Full-text articles assessed for eligibility	315
Eligibility	Full-text articles excluded following eligibility and quality assessment	295
Inclusion	Empirical studies included in the qualitative synthesis	20

Data Extraction and Qualitative Synthesis

The 20 selected empirical studies were subjected to a structured qualitative synthesis to examine the relationship between ESG disclosure and corporate financial performance. The synthesis focused on the institutional and geographical settings, research designs, ESG disclosure measurements, financial performance indicators and reported empirical findings of the selected studies.

A comparative approach was employed to identify recurring patterns, similarities, differences, and inconsistencies across studies. Particular attention was given to variations in ESG disclosure measurement, accounting-based and market-based financial performance indicators, and institutional contexts that may explain differences in the reported relationships. This approach facilitated the identification of existing research gaps and potential directions for future research on ESG disclosure and corporate financial performance.

FINDINGS

This section presents the results of the systematic literature review based on the final set of empirical studies. The findings are organized into five thematic areas: (1) overall ESG disclosure and financial performance evidence, (2) performance measure–specific results, (3) comparative insights between developed and developing economies, (4) ESG dimension-specific effects and (5) identified research gaps with future research opportunities. Results are reported descriptively and comparatively.

The Relationship between ESG Disclosure and Financial Performance

Table 5
Summary of Empirical Evidence

Direction of Relationship	Number of studies	Percentage	Representative Studies
Positive	13	65	Alareeni & Hamdan (2020); Bressan & Du (2025); Nguyen et al. (2025); Ihsani et al. (2023)
Mixed/ Conditional	5	25	Jamal et al. (2021); Jasni & Zulkifli (2024); Kriengsuntikul & Banchuenvijit (2025)
Negative/ Insignificant	2	10	Duque-Grisales & Aguilera-Caracuel (2021); Zainuddin et al. (2024)
Total	20	100	

The summary of empirical evidence indicates that most reviewed studies report a positive association between ESG disclosure and financial performance, with approximately two-thirds (2/3) of the literature documenting positive financial outcomes. This dominant positive trend suggests that ESG disclosure is generally perceived as value-relevant by markets and stakeholders, supporting arguments that enhanced transparency and sustainability reporting can strengthen firm performance. However, many studies report mixed or conditional results, highlighting that the relationship between ESG disclosure and financial performance depends on contextual factors like firm traits, industry differences, and research method choices. A smaller number of studies show negative or insignificant effects, highlighting that there is no guaranteed financial benefit from ESG disclosure. Overall, these results suggest a varied and context-specific relationship, supporting the idea that while ESG disclosure can often lead to

better financial performance, its impact is not consistent or guaranteed across different situations.

Beyond the descriptive distribution of findings, the predominance of positive relationships between ESG disclosure and financial performance supports Stakeholder Theory and Legitimacy Theory. From a stakeholder perspective, ESG disclosure enhances transparency, strengthens stakeholder trust, and reduces information asymmetry, thereby contributing to improved financial outcomes. Similarly, Legitimacy Theory suggests that firms use ESG reporting to demonstrate alignment with societal expectations and regulatory requirements, thereby enhancing reputation and long-term organizational sustainability. The findings indicate that firms that disclose ESG-related information are more likely to be perceived as responsible and trustworthy by investors, customers, and regulators, thereby creating value through improved stakeholder relationships and enhanced legitimacy.

However, the presence of mixed and insignificant findings suggests that the financial benefits of ESG disclosure are not universal. The effectiveness of ESG reporting appears to depend on contextual factors such as institutional quality, regulatory enforcement, industry characteristics, and the credibility of disclosed information. This observation highlights that ESG disclosure should not be viewed as an automatic driver of financial performance but rather as a strategic mechanism whose effectiveness depends on both internal organizational capabilities and external institutional conditions. Furthermore, the variation in findings may reflect differences in ESG disclosure quality rather than ESG performance itself. While some firms provide comprehensive and credible ESG disclosures that accurately reflect underlying sustainability practices, others may engage in symbolic reporting with limited substantive commitment. Consequently, stakeholders may respond differently to ESG disclosures depending on their perceived credibility and informational value, which may contribute to the inconsistent financial outcomes reported across studies.

ESG Disclosure and Financial Performance Relationship Varies Across Different Financial Performance Measures

Figure 3 shows the distribution of empirical findings on the relationship between ESG disclosure and financial performance across various performance measures.

Figure 3

ESG Disclosure and Financial Performance Evidence by Performance Measure

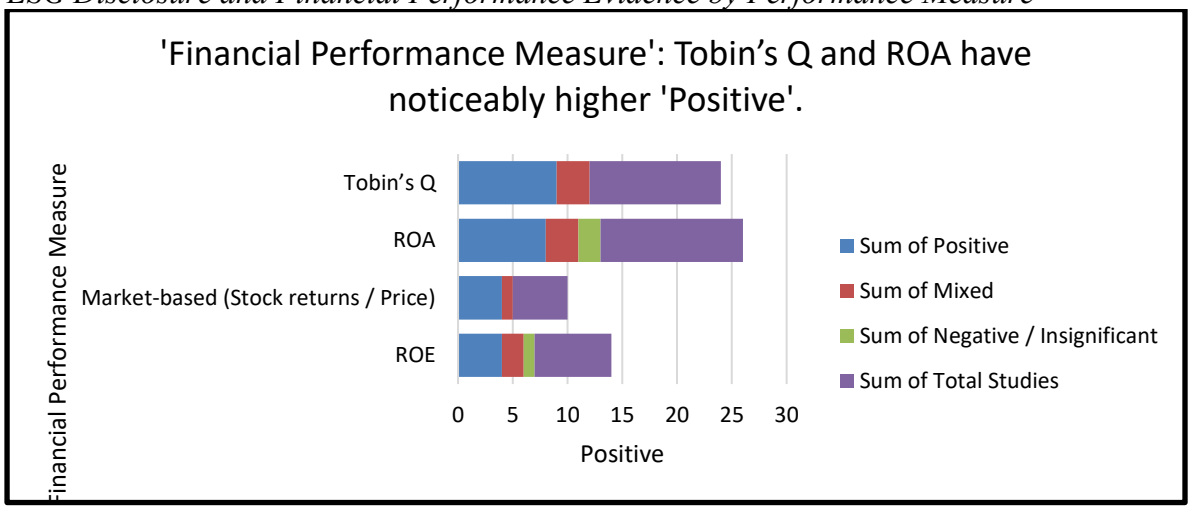


Figure 3 illustrates the distribution of empirical findings on the relationship between ESG disclosure and financial performance across different categories of performance measures. The figure indicates that the strength and direction of the relationship between ESG and financial performance vary with the type of financial proxy employed. By categorizing findings according to accounting-based measures (such as ROA and ROE) and market-based measures (such as Tobin's Q and stock returns), the figure provides a comparative overview of how ESG disclosure outcomes are reflected in different dimensions of firm performance. This visual distribution underscores the methodological importance of selecting performance proxies in empirical ESG research.

The evidence suggests that valuation-based measures, particularly Tobin's Q, yield a relatively higher proportion of positive findings than mixed or insignificant results. This pattern indicates that capital markets may respond more consistently to ESG disclosure, incorporating sustainability-related transparency into firm valuation and growth expectations. Investors may interpret ESG reporting as a signal of lower long-term risk exposure, stronger governance, and improved resilience against environmental and social disruptions. In contrast, accounting-based measures such as ROA and ROE demonstrate a more varied distribution of findings. While several studies report positive associations, others identify mixed or insignificant effects, suggesting that operational profitability may be influenced by firm-specific factors, implementation costs, or short-term financial pressures associated with ESG initiatives.

Furthermore, performance indicators such as stock returns and price-based measures, although generally associated with positive outcomes, appear in fewer studies in the reviewed sample. This may indicate limited empirical coverage rather than weaker ESG effects. Stock performance is often influenced by broader market volatility, macroeconomic conditions, and investor sentiment, which can obscure the direct impact of ESG disclosure. Overall, Figure 1 reinforces the notion that the relationship between ESG disclosure and financial performance is context-dependent and sensitive to measurement choices. Variation across performance proxies helps explain the mixed findings reported in prior literature and underscores the need to use multiple financial indicators to gain a more comprehensive understanding of ESG's economic implications.

ESG Disclosure and Financial Performance between Developed and Developing Economies

The relationship between ESG disclosure and financial performance cannot be fully understood without accounting for institutional and economic differences. Developed and developing economies operate under distinct regulatory environments, capital market structures, governance systems, and stakeholder expectations, all of which may influence how ESG disclosure is implemented and valued. Consequently, the effectiveness and financial implications of ESG reporting may vary significantly across these contexts. A comparative perspective is therefore essential to capture the structural differences that shape corporate sustainability practices and their economic outcomes.

Figure 4

Comparative Insights: Developed vs Developing Economies

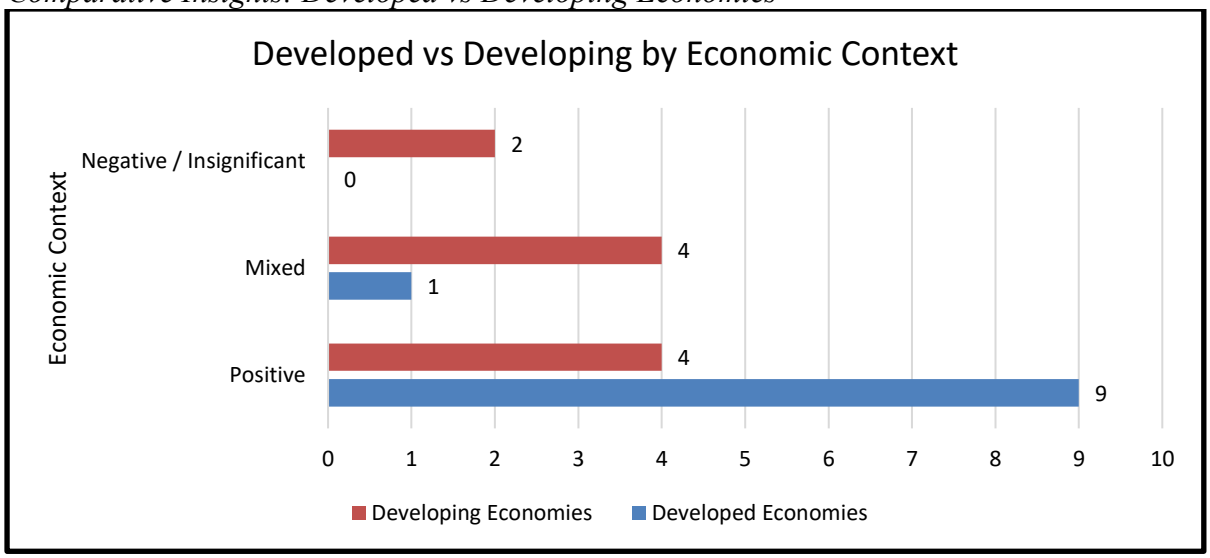


Figure 4 presents a comparative analysis of empirical findings across developed and developing economies, highlighting notable differences in the consistency and direction of the relationship between ESG disclosure and financial performance. In developed economies, the results are overwhelmingly positive, with nine out of ten (9/10) studies documenting a significant positive association and only one study reporting mixed findings. Importantly, none of the reviewed studies in developed markets report negative or insignificant effects. This strong consistency suggests that ESG disclosure in developed contexts is generally well-integrated into corporate governance systems and capital market structures. The presence of robust regulatory frameworks, standardized reporting requirements, active institutional investors, and higher levels of stakeholder awareness likely enhances the credibility, comparability, and reliability of ESG information. As a result, investors may place greater trust in ESG disclosures, translating sustainability transparency into tangible valuation and performance benefits.

In contrast, evidence from developing economies shows a more fragmented and heterogeneous pattern. While four (4) studies report positive financial outcomes associated with ESG disclosure, an equal number find mixed or conditional relationships, and two (2) studies documents negative or insignificant effects. This distribution indicates that ESG disclosure does not uniformly translate into financial gains in developing contexts. Several structural factors may explain this variability. Developing economies often face weaker institutional enforcement, lower regulatory rigor, limited assurance mechanisms, and uneven reporting standards, which can undermine the perceived credibility of ESG disclosures. Additionally, capital markets in these economies may be less mature, with lower levels of investor activism and sustainability-oriented investment strategies. Consequently, ESG disclosure may not consistently serve as a strong signaling mechanism or may be viewed as symbolic rather than substantive.

The divergence between developed and developing economies underscores the moderating role of institutional quality and market maturity in shaping the effectiveness of ESG disclosure. In developed settings, ESG transparency appears to be embedded within broader governance and accountability systems, enabling firms to realize clearer financial benefits. In developing contexts, however, the financial impact of ESG disclosure seems more contingent on firm-

specific characteristics, industry dynamics, and the strength of local regulatory environments. These findings indicate that ESG disclosure outcomes are heterogeneous and strongly influenced by economic, institutional, and market structures. Therefore, cross-country comparisons are essential for advancing a more context-sensitive understanding of how and when ESG disclosure contributes to improved financial performance.

The divergence in findings between developed and developing economies further reinforces the importance of institutional context in shaping ESG outcomes. The stronger and more consistent positive relationships observed in developed economies support the assumptions of Stakeholder and Legitimacy Theories, where well-established regulatory frameworks, stronger investor protection mechanisms, and greater stakeholder awareness increase the value relevance of ESG information. In such environments, ESG disclosure serves as a credible signal of corporate responsibility and long-term sustainability.

In contrast, the mixed findings reported in developing economies suggest that ESG disclosure alone may be insufficient to generate financial benefits when institutional support, regulatory enforcement, and reporting quality remain uneven. This finding implies that the effectiveness of ESG disclosure is moderated by broader institutional and market conditions. Consequently, future research should move beyond examining direct ESG–performance relationships and place greater emphasis on contextual factors that may strengthen or weaken the financial impact of ESG disclosure.

Financial Performance Implications of Individual ESG Disclosure Dimensions (Environmental, Social and Governance)

While aggregate ESG scores provide a broad indication of a firm's sustainability orientation, they may conceal important differences in how each pillar (Environmental [E], Social [S], and Governance [G]) influences financial outcomes. Each dimension operates through distinct mechanisms, engages different stakeholder groups, and may generate financial effects over varying time horizons. For instance, environmental initiatives often relate to regulatory compliance and operational risk management; social initiatives are closely tied to stakeholder relationships and reputational capital; and governance practices directly affect managerial accountability and oversight structures. As such, examining the ESG dimensions separately allows for a more nuanced and theoretically informed assessment of their financial implications.

In response to this need for disaggregated analysis, Table 6 presents a synthesis of empirical findings on the individual financial performance implications of the Environmental, Social, and Governance disclosure dimensions. The table highlights the distribution of positive, mixed or conditional, and negative or insignificant relationships across the three pillars, thereby illustrating the extent of variation in their observed financial effects.

Table 6
The financial performance implications of individual ESG Dimensions

ESG Dimension	Positive Relationship	Mixed / Conditional	Negative / Insignificant	Representative Studies
Environmental (E)	6	4	4	Chen & Xie (2022); Ihsani et al. (2023)
Social (S)	5	5	3	Jamal et al. (2021)
Governance (G)	8	2	2	Alareeni & Hamdan (2020); Jasni & Zulkifli (2024); Kriengsuntikul & Banchuenvijit (2025)

The synthesis presented in Table 6 demonstrates that the financial implications of ESG disclosure are not uniform across the Environmental, Social, and Governance pillars; instead, they vary in both direction and consistency. Governance (G) disclosure emerges as the most consistently positive dimension, with eight studies reporting a significant positive relationship with financial performance, whereas only a small proportion indicate mixed or insignificant effects. This pattern reinforces the argument that governance mechanisms such as board independence, transparency in executive compensation, internal controls, audit quality, and shareholder protection have a direct and observable impact on firm efficiency and risk management. Strong governance structures reduce agency conflicts, enhance monitoring effectiveness, and improve strategic oversight, thereby fostering investor confidence and lowering the cost of capital. The relatively robust findings across different economic contexts suggest that governance disclosure is often perceived as credible and materially relevant to firm valuation, particularly in markets where institutional quality and regulatory expectations emphasize accountability.

Environmental (E) disclosure, while still showing a considerable number of positive findings (six studies), also shows a more balanced distribution of mixed and insignificant outcomes. This suggests that the financial benefits of environmental transparency may depend on contextual and industry-specific factors. In developed economies, where environmental regulations are stringent and carbon-related risks are closely monitored, proactive environmental disclosure may signal effective risk mitigation, operational efficiency, and a long-term commitment to sustainability. Such signals can enhance a firm's reputation and valuation. However, in developing economies, where enforcement mechanisms may be weaker and environmental compliance costs potentially burdensome, the immediate financial returns from environmental initiatives may be less evident. Additionally, environmental investments often entail substantial upfront expenditures on cleaner technologies or emission-reduction systems, which may suppress short-term profitability and contribute to mixed empirical results.

Social (S) disclosure shows the greatest variability, with five positive findings, five mixed or conditional outcomes, and three insignificant results. This dispersion suggests that social initiatives such as employee welfare programs, diversity and inclusion policies, community engagement, and customer protection measures may yield more indirect or long-term financial effects. Unlike governance reforms, which often affect internal efficiency, or environmental compliance, which addresses regulatory risks, social initiatives frequently generate intangible assets such as reputational capital, employee loyalty, and brand strength. These benefits may take longer to materialize and be harder to quantify with traditional financial metrics. Furthermore, the materiality of social factors may vary substantially across industries and cultural contexts, affecting the strength of observed associations. Overall, the evidence in Table 5 indicates that aggregated ESG scores may obscure dimension-specific dynamics. A

disaggregated approach is therefore crucial for capturing the nuanced, context-dependent financial impacts of each ESG pillar, enabling a more precise and theoretically grounded interpretation of ESG disclosure outcomes.

The stronger and more consistent influence of governance disclosure compared to environmental and social disclosure can be interpreted through the lens of Agency Theory. Governance mechanisms such as board oversight, transparency, accountability, and shareholder protection directly address agency conflicts and information asymmetry between managers and investors. As a result, governance-related disclosures are more readily translated into investor confidence and improved financial outcomes.

Conversely, the mixed findings associated with environmental and social disclosures may be explained by the Resource-Based View (RBV). Investments in environmental sustainability and social responsibility often generate intangible assets such as reputational capital, stakeholder trust, innovation capability, and employee commitment. However, these benefits may take longer to materialize and depend on a firm's ability to effectively translate sustainability initiatives into competitive advantages. Consequently, environmental and social disclosures tend to exhibit more context-dependent financial effects than governance-related disclosures.

Research Gaps and Future Research Opportunities

A further limitation concerns the potential for publication bias in the reviewed literature. Although the review initially identified 550 records, only 20 studies met the inclusion and quality assessment criteria. While this rigorous screening process enhanced methodological consistency and comparability, it may also have reduced the diversity of perspectives captured in the review. Restricting the sample to peer-reviewed journal articles published in English between 2020 and 2025 may have excluded relevant evidence from conference proceedings, working papers, book chapters, and non-English publications. Furthermore, studies reporting insignificant or negative ESG–financial performance relationships may be less likely to be published, potentially resulting in an overrepresentation of positive findings.

The substantial reduction from 550 records to 20 final studies also reflects the limited number of empirical investigations that explicitly examine ESG disclosure, rather than broader ESG performance measures, in relation to firm-level financial outcomes. Although this approach strengthened conceptual consistency, it highlights the need for a larger and more diverse body of ESG disclosure research. Future systematic reviews may benefit from incorporating additional databases, grey literature, and broader publication sources to reduce potential publication bias and provide a more comprehensive understanding of the ESG disclosure–financial performance relationship.

CONCLUSION & IMPLICATIONS

This systematic literature review synthesizes empirical evidence on the relationship between ESG disclosure and financial performance across developed and developing economies. Overall, the findings indicate that ESG disclosure is generally associated with positive financial outcomes, particularly in developed markets with stronger regulatory frameworks, standardized reporting systems, higher institutional quality, and more active investor oversight. In these environments, ESG information is more likely to be perceived as credible, comparable,

and decision-useful, thereby enhancing its value relevance in capital markets. By contrast, evidence from developing economies is more fragmented and inconsistent, with studies reporting positive, mixed, and insignificant results. These disparities underscore the contextual sensitivity of ESG disclosure effectiveness and reinforce the view that institutional maturity, enforcement mechanisms, and disclosure credibility significantly shape financial outcomes. Furthermore, the review shows that ESG effects are not uniform across dimensions; governance disclosure consistently exhibits stronger and more stable financial associations, whereas environmental and social disclosures yield more variable and context-dependent results.

From a theoretical standpoint, the findings underscore the need to integrate moderating variables to better explain variation in ESG disclosure outcomes. Existing studies often treat the relationship between ESG and financial performance as linear and universal, overlooking the complex interplay between firm-level capabilities and external institutional pressures. Distinguishing between internal moderators, such as governance quality, financial slack, ownership concentration, strategic orientation, and firm size, and external moderators, such as regulatory enforcement strength, institutional development, industry sensitivity, and market sophistication, can provide deeper explanatory clarity. Incorporating these boundary conditions into empirical models would help reconcile inconsistent findings and advance theory development by aligning ESG research more closely with agency theory, stakeholder theory, institutional theory, and the resource-based view. Methodologically, future research should also prioritize disaggregated ESG analyses, differentiate between disclosure quantity and quality, and employ longitudinal designs that capture both short-term market responses and long-term performance trajectories.

The practical implications of this review are equally significant. For policymakers and regulators, the findings underscore the need to strengthen ESG disclosure standards, improve enforcement mechanisms, and enhance assurance practices to increase reporting credibility, particularly in developing economies where institutional constraints persist. For firms, the evidence suggests embedding ESG disclosure within core governance systems and supporting it with genuine organizational capabilities, rather than treating it as a symbolic or compliance-driven activity. Strategic integration of ESG into corporate decision-making, risk management, and performance evaluation frameworks is more likely to yield sustainable financial benefits.

Despite these contributions, several limitations should be acknowledged. First, the review was restricted to studies indexed in Scopus and Web of Science (WoS), which may have excluded relevant research published in other databases. Second, the review focused exclusively on peer-reviewed journal articles published in English between 2020 and 2025, potentially introducing publication bias through the exclusion of conference papers, book chapters, working papers, grey literature, and non-English publications. Third, although 550 records were initially identified, only 20 studies met the inclusion and quality assessment criteria. While this rigorous screening process enhanced methodological consistency and ensured the inclusion of high-quality empirical evidence, the relatively small final sample may limit the generalisability of the findings and may not fully capture the diversity of perspectives within the broader ESG literature. Therefore, the findings should be interpreted within the context of these methodological constraints.

Notwithstanding these limitations, this review provides a structured and theory-informed synthesis of the ESG disclosure–financial performance literature. For scholars, the review outlines a research agenda that calls for context-sensitive, theory-driven, and moderator-based

approaches. Future studies may benefit from incorporating broader data sources, additional databases, and alternative forms of evidence to further strengthen understanding of how ESG disclosure contributes to firm financial performance across diverse institutional settings. Advancing ESG research in this direction will not only refine our understanding of when and how ESG disclosure generates financial value but also contribute to more robust, policy-relevant, and globally inclusive sustainability scholarship.

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CONFLICT OF INTEREST STATEMENT

The author declares that there are no conflicts of interest regarding the publication of this study.

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