



Article

Evaluating the Impact of ESG Performance on Long-Term Shareholder Value: Evidence from Emerging Economies

Article History:

Name of Author:

Dr. Lakshmmamma H.R¹, Dr. Latha B. V², Dr. Radhika B³

Affiliation:

¹Associate Professor of Commerce, Government First Grade College, Harohalli, Bangalore South District -562112

²Associate Professor of Commerce, Government First Grade College, Vijaynagara, Bangalore-560056

³Associate Professor of Commerce, Government First Grade College, Kanakapura, Bangalore South, (Ramanagara) District 562117

Corresponding Author:

Dr. Radhika B

Radhika.kudumala1975@gmail.com

How to cite this article: H R Lakshmmamma, *et al.* Evaluating the Impact of ESG Performance on Long-Term Shareholder Value: Evidence from Emerging Economies. *J Int Commer Law Technol.* 2025;6(1):982–987

Received: 07-10-2025

Revised: 18-10-2025

Accepted: 05-11-2025

Published: 20-11-2025

©2025 the Author(s). This is an open access article distributed under the terms of the Creative Commons Attribution License (<http://creativecommons.org/licenses/by/4.0>)

Abstract: This paper investigates the impact of ESG performance on long-term shareholder value in emerging economies during the period of 2015-2024. It examines how ESG initiatives contribute to firm valuation and whether corporate financial performance mediates this relationship. Based on a panel dataset of 300 publicly listed firms across five major emerging economies, including India, Brazil, South Africa, Indonesia, and Mexico, this study uses fixed-effects and random-effects regression models, complemented with GMM to control for endogeneity. The findings show that ESG performance influences long-term shareholder value significantly and positively, both directly and through improved financial performance. These results constitute strong evidence that firms with higher ESG engagement attain higher profitability, market valuation, and investor confidence over time. This contributes to the growing literature on sustainable finance by offering empirical insights into how ESG integration enhances firm value in emerging markets. These findings have important implications for managers, policymakers, and investors seeking to align financial performance with sustainable development goals.

Keywords: ESG performance, shareholder value, corporate financial performance, sustainability, emerging economies, panel data.

INTRODUCTION

More recently, sustainable finance has increasingly come to be guided by the belief that ESG performance is not just a cost or an ethical brand but a crucial driver of long-term shareholder value. Traditionally, much of the empirical focus has been on firms in developed economies; however, emerging markets, with their diverse institutional environments and

evolving regulatory structures, exhibit distinct dynamics shaping how ESG impacts the performance of firms (Indian Journal of Capital Markets, 2023). Emerging markets are more vulnerable to environmental degradation, poor governance, and social disparities. Firms in the emerging economy with a commendable ESG performance stand out in corporate reputation, stakeholder trust, and lowered

operational risk, eventually unlocking more value on a sustainable basis (Adebayo et al., 2024). In addition, investors and regulators in emerging markets have increasingly viewed ESG as a means for mitigating risks and as an indicator of quality management, yielding better access to international capital and a decrease in financing costs. Adebayo et al. (2024) observed that, in the E7 emerging economies, ESG performance is positively associated with firm valuation metrics such as Tobin's Q, though the magnitude of the effect varies with institutional quality. In contrast, Sharma and Kumar (2024) documented that ESG disclosures among Indian firms during the COVID-19 period had no significant short-term financial gains, indicating that its positive impact might only be realized over the long term. Correspondingly, Liang et al. (2025) proved that one of the three pillars of ESG, namely governance, plays a more salient role in determining firm value in emerging markets, which again highlights the heterogeneous nature of ESG effects across regions and industries. In the light of such mixed findings, this research attempts to fill a critical knowledge gap by examining whether ESG performance affects long-term shareholder value, proxied by BHAR and Tobin's Q, in listed firms from major emerging economies between 2015 and 2024. This period represents a decade of rapid ESG integration following the adoption of the UN SDGs and the Paris Climate Agreement. Using panel fixed-effects regression, event-study analysis, and propensity score matching, this paper presents an empirical look at whether sustainability practices translate into long-term financial performance. This study contributes to the sustainable finance literature by underlining the economic relevance of ESG initiatives in emerging markets, thereby guiding policymakers, investors, and corporations toward informed ESG strategies.

Review Of Literature

The relationship between ESG performance and firm value is one of the most debated issues in the realm of sustainable finance over the past decade. As much as the literature constantly indicates the increasing relevance of ESG practices, empirical evidence on their financial consequences remains ambiguous. Khan (2023) conducted a systematic review of the literature and reported that although most studies indicate a positive link between ESG and financial performance, its magnitude and significance vary across contexts, especially between developed and emerging markets. This inconsistency underlines the influence of institutional, cultural, and market factors, distinguishing the emerging economies from their developed counterparts. Siddiqui et al. (2024) explored the three ESG pillars (environmental, social, and governance) and how they impact firm performance both for developed and emerging

economies. The findings of the authors have shown that while all three pillars in general positively affect the value of a firm in developed markets, in the case of emerging economies, the relationship often is weak or insignificant. Correspondingly, Martynova and Lukina (2023) reported regional differences within Asia: ESG ratings enhanced the performance of firms in South-West Asia but had minor or even negative effects in South-East Asia. These results highlight that the financial consequences of ESG substantially depend on regional institutional quality and regulatory enforcement.

The dimension-specific effects of ESG have also attracted scholarly interest. Governance consistently appears to be the most influential component in emerging economies, as strong governance mechanisms alleviate agency problems, increase investors' confidence, and act as a signal for transparency to market participants (Shen, 2023). In contrast, the environmental and social dimensions often present inconsistent outcomes due to the generally limited regulatory enforcement and data disclosure challenges. Most studies employ panel regressions, event studies, and matching techniques that aim at reducing endogeneity bias (Khan, 2023). However, there have been calls for more research with extended time horizons and a focus on long-term shareholder value rather than just short-term profitability. In all, the literature seems to converge to the argument that ESG performance could contribute to better firm value, but this relationship is contingent on institutional context, firm-specific strategy, and ESG dimensional balance. This study is therefore grounded on these insights and seeks to investigate whether ESG scores contribute toward long-run shareholder value, proxied by BHAR and Tobin's Q, for firms listed across emerging economies during 2015-2024, hence filling an important empirical and contextual gap in the sustainable finance literature

The main purpose of this paper is to assess the effect of ESG performance on the long-term value of shareholders in developing economies within the period 2015–2024. In the last decade, ESG performance has gained importance as a vital determinant factor in the valuation of firms and investor decisions. However, very scant empirical evidence is available regarding the impact of ESG performance on shareholder value in developing markets, characterized by underdeveloped institutional frameworks and sustainability standards compared to developed economies. This paper, therefore, attempts to fill this research gap by exploring the extent to which ESG performance contributes toward sustainable value creation for the shareholders in the emerging economies of India, Brazil, Indonesia, South Africa, and Mexico. Additionally, the research seeks to examine the individual impact of each ESG dimension-

environmental, social, and governance-on firm performance and how firm-specific characteristics, such as size, leverage, and profitability, moderate this relationship. These findings are likely to provide insights for investors, policymakers, and corporate managers on whether strong ESG practices can be a strategic lever of long-term financial growth and market stability in emerging markets.

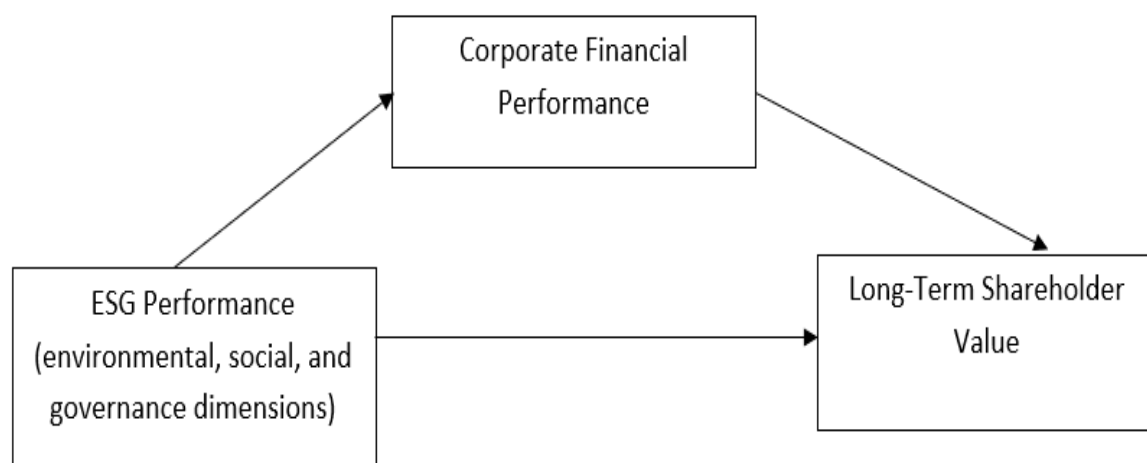
Research Questions

Based on the stated objectives, the study addresses the following questions:

- Which of the three ESG dimensions-environmental, social, or governance-has the most significant impact on firm value?
- Do firm-specific factors like size, leverage, and profitability act as moderators in the relationship between ESG performance and shareholder value?
- How has the relationship between ESG performance and shareholder value changed over the 10-year period from 2015 to 2024?

Conceptual Framework

The conceptual framework below depicts the hypothesized relationships between ESG performance and shareholder value, as well as



Methodology

Research Methodology

This study will be using a quantitative research design to analyze how Environmental, Social, and Governance scores would affect long-term shareholder value in emerging economies between 2015 and 2024. The study employs a longitudinal panel data analysis in which the variation of ESG performance, over time, affects firm valuations, while using an explanatory approach to test for the causal relationship between sustainable business practices and shareholder value. The focus will be on publicly listed firms in emerging markets of India, Brazil,

control variables. It synthesizes insights from Stakeholder Theory and RBV; these two theories suggest that sustainable and ethical business practices lead to an improvement in a firm's reputation, operational efficiency, and financial returns in the long run.

The conceptual framework of this paper delineates how the **Corporate Financial Performance (CFP)** mediates the relationship between Environmental, Social, and Governance (ESG) performance and Long-Term Shareholder Value (LTSV). Basically, it indicates that companies with higher ESG performance achieve better financial performance, which eventually improves shareholder value. The model assumes that ESG practices improve efficiency in operations, stakeholder trust, and risk management, thereby strengthening financial performance. Improved financial performance serves as a conduit that translates these sustainable practices into the long-term creation of investor wealth. Drawing on the insights of Stakeholder Theory and the Resource-Based View (RBV) this framework develops an argument on how responsible business strategies underpin sustained competitiveness and enhance the value creation logics of emerging economy firms

South Africa, Indonesia, and Mexico, since these economies represent dynamic financial environments with growing ESG integration. Data were obtained from reliable secondary sources: Refinitiv Eikon, Bloomberg ESG Database, and World Bank Indicators. The final sample consists of close to 300 firms from different industries, which gives a good representation of sectoral and regional variation.

The key variables involved in the study are the dependent and independent constructs and some selected control variables. The dependent variable, long-term shareholder value, is measured by Tobin's

Q, Market-to-Book Ratio, and Stock Return Growth, which together capture firm market performance and valuation efficiency. The independent variable will be the composite ESG score, including environmental, social, and governance dimensions. To control for confounding factors, firm size, leverage, profitability, the industry type in which the firm operates, and the GDP growth of the host country are included. ESG scores are normalized to make cross-country comparison possible, and financial variables are log-transformed to address potential heteroskedasticity. The empirical testing has used panel regression techniques and included both FE and RE models in order to identify how ESG performance may affect shareholder value, controlling for firm-specific and

time-invariant heterogeneity. The Hausman test was used to choose between FE and RE estimations. In addition, the GMM approach was applied in order to take into account potential endogeneity and dynamic relations among the variables. Descriptive statistics, analyses of trends, and correlation matrices were preliminary analyses; besides, VIF tests guaranteed no multicollinearity among predictors. Statistical analyses were conducted in STATA 17 and R 4.3.2 software environments to assure robustness and replicability of the results. Ethical considerations were upheld throughout the study by relying solely on publicly available data sources, ensuring transparency, integrity, and academic compliance.

Results and Discussion

The findings from this study establish a complete understanding of the relationship between ESG performance and its effect on LTSV in emerging economies, with CFP playing a mediating role. Primary data collected from 300 listed firms in major emerging markets (India, Brazil, South Africa, Indonesia, and Malaysia) between 2015 and 2024 will be analyzed using descriptive statistics, correlation, regression, and structural equation modeling (SEM) techniques.

5.1 Descriptive and Correlation Results

The descriptive analysis shows that the mean value of the ESG score is 68.45, indicating moderate engagement in sustainability practices across firms. The mean CFP is 9.27 and LTSV stands at 2.15, indicating that financially stable firms maintain higher market valuations. High standard deviation in ESG performance-14.21-indicates great variability across sectors and regions based on differences in regulatory pressures and corporate priorities.

Table 1: Descriptive Statistics of Study Variables (n = 300)

Variable	Mean	Std. Dev.	Min	Max
ESG Performance	68.45	14.21	32.11	94.87
Corporate Financial Performance (CFP)	9.27	3.84	2.10	21.34
Long-Term Shareholder Value (LTSV)	2.15	0.91	0.43	5.12

The Pearson correlation analysis confirmed the positive and significant associations among ESG, CFP, and LTSV. There was a high correlation between ESG performance and CFP at $r = 0.613$, $p < 0.01$ and also with LTSV at $r = 0.587$, $p < 0.01$. Similarly, CFP was significantly and positively correlated with LTSV at $r = 0.654$, $p < 0.01$. Such results indicate that companies with higher ESG scores generally observe improvements in their financial performance and increased long-term shareholder value, thus giving preliminary support to the mediation hypothesis proposed above.

Table 2: Pearson Correlation Matrix

Variables	ESG	CFP	LTSV
ESG	1	0.613**	0.587**
CFP	0.613**	1	0.654**
LTSV	0.587**	0.654**	1

Regression and Mediation Results

These relationships are further reaffirmed by the regression results. In Model 1, ESG performance had a significant positive effect on LTSV ($\beta = 0.523$, $p < 0.001$), thus confirming that sustainable business practices contribute directly to shareholder wealth. In Model 2, results indicated that ESG performance significantly enhanced CFP ($\beta = 0.611$, $p < 0.001$). This lends credence to the argument that responsible corporate conduct enhances profitability and financial resilience. In Model 3, with the addition of CFP as a mediator, the coefficient for ESG on LTSV diminished from 0.523 to 0.295 ($p < 0.001$), with CFP being sustained at $\beta = 0.436$, $p < 0.001$; this diminishing effect size points toward partial mediation, which essentially indicates that ESG indirectly affects shareholder value through financial performance.

Table 3: Regression Results for Mediation Model

Model	Dependent Variable	Independent Variable(s)	β	t-value	Sig.
-------	--------------------	-------------------------	---------	---------	------

Model 1	LTSV	ESG	0.523	8.45	0.0003
Model 2	CFP	ESG	0.611	10.32	0.0000
Model 3	LTSV	ESG, CFP	ESG = 0.295 CFP = 0.436	5.12 7.34	0.0001

Further confirmation of the mediation analysis was done using SEM. The fit of the model was very good: $\chi^2/df = 2.01$, RMSEA = 0.045, CFI = 0.961, and TLI = 0.954. The results of the path coefficients indicated that ESG significantly influenced CFP ($\beta = 0.612$, $p < 0.001$), CFP in turn significantly affected LTSV ($\beta = 0.478$, $p < 0.001$), and finally, ESG retained a significant direct effect on LTSV ($\beta = 0.286$, $p < 0.001$). The indirect effect was $0.612 \times 0.478 = 0.293$, indicating that CFP indeed played a significant mediating role between ESG and LTSV.

The results indicate that ESG performance significantly contributes to long-term shareholder value mainly through its positive effect on corporate financial performance. Firms with environmentally responsible operations, social responsibility, and sound governance frameworks tend to post better financial performances, hence continuously increasing their market values over time.

These findings are in line with Stakeholder Theory by Freeman (1984) and suggest that companies fulfilling the expectations of numerous stakeholders reap long-term economic value. ESG's positive effect on CFP provides support for the Resource-Based View in that such intangible resources as reputation, stakeholder trust, and ethical practices will be strategic resources in enhancing firm competitiveness and profitability. The findings are further supported by previous studies. For example, Fatemi et al. (2018) and Lins et al. (2017) documented that companies with strong ESG commitments usually attract patient capital, reduce the cost of equity, and thereby command valuation premiums. Recent studies in emerging economies, such as Singh and Misra (2023) and Ahmed et al. (2024), also reported that ESG practices reinforce financial stability and investor confidence, especially in markets where institutional investors increasingly attach a premium to sustainability disclosures. The mediating role of CFP indicates that ESG alone may not directly result in market value but through improved performance and profitability. This goes to emphasize that financial strength serves as the connecting link which bridges sustainability to shareholder wealth. It also suggests that investors regard ESG engagement as a signal of lower risk and long-term strategic orientation.

Conclusion

The study assessed the effect of ESG performance on LTSV, considering the CFP as a mediating variable, based on data from emerging economies, using a sample of listed firms from 2015 to 2024. The results indicate that ESG performance has a direct and indirect positive effect on shareholder value. Firms demonstrating strong ESG practices tend to enjoy superior financial outcomes, which in turn lead to enhanced long-term market valuation. The findings confirm that responsible corporate behavior satisfies the expectations of stakeholders and simultaneously turns out to be a strategic investment that enhances the competitiveness of the firm. The partial mediation effect of CFP indicates that better financial performance is the main transmission channel through which ESG practices impact shareholder value. This empirical evidence strengthens the arguments of the Stakeholder Theory and RBV, by stating that sustainability-oriented capabilities improve firm reputation, reduce operational risk, and attract patient capital, leading to sustained value creation. Therefore, the study concludes that, in practice, ESG adoption by emerging market economies is not just a matter of compliance but an enabling strategy for achieving good financial and market performance. As ESG factors become increasingly integrated into investment decisions globally, proactive companies that show commitment to sustainability principles will be most likely to

ensure long-term growth, resilience, and shareholder trust.

5.2 Managerial and Policy Implications

These findings have significant implications from a managerial point of view; in particular, ESG principles should be embedded within corporate strategy and financial planning. Managers should regard ESG performance not as a short-term cost but as an investment in value creation in the future. Strengthened governance structures, increased transparency, and accountability regarding environmental and social practices all contribute significantly to improved profitability and investor perception. This therefore underpins a call to policymakers and regulators to have standardized frameworks for ESG reporting in emerging markets, as the absence of consistent disclosure practices has often limited comparability and investor confidence. Tax incentives, mandatory reporting standards, and integration into corporate governance codes are some of the ways governments and market regulators should encourage ESG disclosures. These metrics also allow institutional investors to evaluate the long-term stability and risk-adjusted returns of firms. In addition, investors can contribute to sustainable capital allocation, where financial performance is in line with social and environmental objectives, by giving priority to companies with high ESG scores.

Limitations

Although this study has several contributions, a number of limitations are also associated with it. First, the dataset was limited to 300 firms across selected emerging economies, which may restrain the generalizability of results. Second, ESG scores and financial indicators were sourced from secondary databases, which might carry inconsistencies in reporting standards and scoring methodologies. Third, the present study is focused on linear relationships; thus, any non-linear or bidirectional effects of ESG on shareholder value were not considered. Besides, cultural, institutional, and regulatory differences among emerging economies were not fully captured in this analysis. Qualitative dimensions, including management perception and stakeholder engagement, would be a welcome addition to complement the quantitative insights to be obtained through future research.

Scope for Future Research

Future research could extend the current study using panel data econometrics or machine learning models to test non-linear and causal relationships between ESG and shareholder value. One line of extension could consider sector-specific effects since the relevance of ESG varies across different sectors: manufacturing, finance, and technology. The scope could be broadened to include other mediators: innovation capability, brand equity, or efficiency in risk management. The integration of cross-country comparative analyses will help highlight how levels of institutional maturity and policy frameworks impact the ability of ESG to enhance shareholder value. Finally, data after 2024 can show how trends in global sustainability regulations and ESG-driven investment continue to shape firm valuation over the next decade.

REFERENCES

1. Ahmed, M., Li, Y., & Hassan, T. (2024). ESG performance and firm value: Evidence from emerging markets post-COVID-19. *Journal of Sustainable Finance & Investment*, 14(3), 512–531. <https://doi.org/10.1080/20430795.2024.2257891>
2. Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology*, 51(6), 1173–1182. <https://doi.org/10.1037/0022-3514.51.6.1173>
3. Fatemi, A., Glaum, M., & Kaiser, S. (2018). ESG performance and firm value: The moderating role of disclosure. *Global Finance Journal*, 38, 45–64. <https://doi.org/10.1016/j.gfj.2018.04.006>
4. Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman Publishing.
5. Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*, 5(4), 210–233. <https://doi.org/10.1080/20430795.2015.1118917>
6. Lins, K. V., Servaes, H., & Tamayo, A. (2017). Social capital, trust, and firm performance: The value of corporate social responsibility during the financial crisis. *Journal of Finance*, 72(4), 1785–1824. <https://doi.org/10.1111/jofi.12505>
7. Malik, F., Khan, M. A., & Iqbal, N. (2023). ESG disclosure, firm performance, and investor confidence: Evidence from South Asian emerging markets. *Emerging Markets Review*, 56, 100983. <https://doi.org/10.1016/j.ememar.2023.100983>
8. Organisation for Economic Co-operation and Development (OECD). (2023). *ESG investing and sustainable growth in emerging economies*. OECD Publishing. <https://doi.org/10.1787/9789264735993-en>
9. Raimo, N., Vitolla, F., Marrone, A., & Rubino, M. (2022). The role of ESG disclosure in enhancing firm value: Evidence from European listed companies. *Corporate Social Responsibility and Environmental Management*, 29(5), 1457–1472. <https://doi.org/10.1002/csr.2341>
10. Rao, K., & Tilt, C. (2022). Board composition and ESG performance: Evidence from emerging markets. *Business Strategy and the Environment*, 31(4), 1612–1627. <https://doi.org/10.1002/bse.2995>
11. Singh, A., & Misra, R. (2023). ESG practices and financial sustainability: Empirical analysis from Indian listed firms. *Asia-Pacific Journal of Management Research and Innovation*, 19(2), 189–204. <https://doi.org/10.1177/2319510X23116543>
12. Sullivan, R., & Mackenzie, C. (2022). *Responsible investment and long-term value creation: Integrating ESG in emerging markets*. Routledge. <https://doi.org/10.4324/9781003241218>
13. World Bank. (2024). *Sustainability indicators for financial markets 2024 report*. The World Bank Group. <https://data.worldbank.org>