

Original Article

Sustainable Business Practices and Corporate Profitability: Evaluating ESG Adoption in Emerging Economies

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Abstract

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This study investigates the linkage between sustainable business practices and corporate profitability by estimating the impact of environmental, social and governance (ESG) adoption on firm performance in emerging economies. With ESG reporting and responsible investment frameworks picking up globally, there is rising pressure on emerging market firms from investors, regulators, lenders, and other stake holders to assimilate sustainability into business strategy and disclosure. Simultaneously, the potential profit effects of ESG adoption are still controversial, especially because, in developing countries, the impact of institutional quality, reporting maturity, capital market development, and legislative inspection vary widely. On this basis, the present study examines the proposition that the adoption of ESG helps organizations achieve better financial performance and whether this relationship varies by sector, governance, or organization characteristics. Adopting an empirical research design the study suggests a panel-data approach to analysis of listed firms from selected emerging economies over a recent multi-year period. Adoption of ESG is measured using firm-level ESG scores, sustainability reporting indicators, or some disclosure-based proxies; while corporate profitability is measured through accounting-based and market-based measures such as return on assets, return on equity, Tobin's Q, and operating margin. The analysis includes firm size, leverage, industry, growth, liquidity, and macro-institutional factors as control variables. Based on stakeholder theory, legitimacy theory, and resource-based view, the article investigates the potential for ESG adoption to serve a similar strategic role as other types of competitive capabilities by improving firms' resiliency, reputation, and long-term financial performance. The researchers also contend that the impact of ESG adoption on profitability is positive for emerging economies, but the strength and sign of the impact depend on three conditional factors: institutional context, disclosure credibility and sustainability governance maturity. It adds to the literature by providing an empirically informed evaluation of ESG-performance connections across settings, where evidence is still relatively underdeveloped and mixed (e.g., via having investigated fewer sectors). It is anticipated that the findings will help managers, investors, regulators and scholars to understand the strategic and financial and implications of sustainable business practices within an emerging-market setting.

Keywords: ESG adoption, sustainable business practices, corporate profitability, emerging economies, financial performance, sustainability disclosure, empirical research

Introduction and background related to the study

During the last decades, sustainable business practices and environmental, social and governance (ESG) considerations have become central issues in the contemporary global business landscape. Firms experience growing pressures from investors, regulators, consumers, and international institutions to embed sustainability into their corporate strategy, risk management and disclosure practices, reflecting a wider transition from the traditional shareholder-oriented towards a stakeholder-oriented governance framework, and this transition is further accelerated by the fast-growing global ESG reporting infrastructure including the emergence of the International Sustainability Standards Board (ISSB) in late 2021,

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(IFRS Foundation, 2023; PRI, 2025), and within this evolving landscape, emerging economies represent a particularly salient analytical context because of their diverse institutional environments, different levels of regulatory enforcement, heterogeneous capital market development, and the varying degrees of ESG reporting maturity they display, which makes them an ideal setting to study whether sustainable business practices translate into financial performance, in an environment characterized by institutional complexity and resource constraints (World Bank, 2024), while the relationship between ESG adoption and corporate profitability is still highly contested within leading streams of literature, with one camp arguing that the ESG value creation view posits that ESG initiatives bolster firm reputation, stakeholder and consumer trust, operational efficiency, risk management, and long-term corporate resilience, thus improving financial profitability, and another camp advocating the ESG concern of compliance costs indicates that ESG investments could entail additional reporting obligations, capital and operational expenses, and constraints which may harm short-term bottom line profitability, especially in emerging markets where in particular institutional systems and incentives may be less developed (Friede, Busch & Bassen, 2015; Fatemi, Glaum & Kaiser, 2018), and this debate has significant implications for commerce, corporate governance, finance and public policy, as firms are left to decide whether the strategic when adoption of ESG is beneficial or harmful, investor assess whether ESG signals superior firms performance and long-term resilience or merely view a sign of firms compliance behavior and policymakers design frameworks balancing sustainability objectives with those of economic growth and market competitiveness, especially dans imperatives for emerging economies competing to attract global capital, and recent developments in ESG disclosure and investment further heighten the salience of this issue, as the global diffusion of ISSB standards, higher integration demands from ESG metrics in financial analysis processes and the expansive ESG data platforms established by organizations such as the World Bank or the big rating agencies increased transparency but also complications in terms of questions of comparability, standardization and the tangible economic reality of ESG practices, and against this backdrop the present study situates itself at the intersection of sustainability, finance and institutional analysis by investigating whether ESG adoption enhances corporate profitability in emerging economies and if so, under what circumstances, thereby addressing a critical gap in empirical research that has predominantly focused on developed markets whilst contributing insights into how sustainable business practices function as strategic tools and governance mechanisms in a variety and constantly changing economic environments.

Background and Conceptual Context

Today (early-2023) ESG and broader sustainable business practices are now ever more interrelated strategic capabilities, disclosure frameworks, and governance mechanisms, because firms deploy ESG not only to mitigate climate, labor, supply-chain, and board-related risks but also as a credibility weapon against investors and a post-boom compliance proxy against fast-evolving disclosure expectations, a paradigm that has now shifted in parallel with the rise of a global sustainability reporting architecture spearheaded by the International Sustainability Standards Board (ISSB), within the framework set by very recent IOSCO endorsement of the ISSB's IFRS S1 and IFRS S2 standards within 2023 and ensuing jurisdictional uptake, with very recently IFRS Foundation reporting in 2025 that jurisdictions accounting for approximately 60% of global GDP, more than 40% of global market capitalization, and about 60% of global greenhouse-gas emissions adopted, used, or announced use of ISSB Standards, including many emerging markets and developing economies, namely, Brazil, Bangladesh, Indonesia, Malaysia, Pakistan, the Philippines, Sri Lanka, Ghana, Kenya, Nigeria and Zimbabwe, thus propelling ESG firm-centrality to cross-border finance and corporate reporting. Moreover, ESG in emerging economies is fundamentally different from that in developed markets, as firms in emerging markets exist under lower institutional quality, lower reporting maturity, shallower capital markets, variable enforcement capacity, and higher political, sovereign and infrastructure risk which provide an empirical setting especially well-suited to factor the firm-specific strategic and profitability effects of ESG since those effects may depend more on country-level governance, investor pressure and market maturity than solely on firm-level policy adoption. This context also serves to explain why ESG may operate differently in the respective jurisdictions: development of ESG has historically been more readily institutionalized in more advanced developed markets, often linked to arguably highly institutionalized disclosure regimes and investor activism, whereas emerging economies have tended to be driven by a combination of international capital access, development-finance expectations, stock-exchange modernization and regulatory catch-up, with IFC at 2025 knocking on alignment doors between local ESG frameworks and leading global standards such as ISSB, ESRS, and GRI for emerging-market companies, banks and regulators. This transformation is reinforced by a rapidly growing investor side-assured ESG infrastructure, with PRI reporting hitting a new record in signatory counts for 2025 reporting – over 4,000 signatories across 91 markets – and separate PRI reporting suggesting that the broader signatory base is over the 5,000 signatory mark with a combined assets under management value over USD 121 trillion, consistent with responsible-investment expectations impacting corporate strategy and disclosure on a worldwide scale. In parallel, this has been enabled by rapid expansion in the data infrastructure available for the empirical study of ESG in emerging economies, with the World Bank's Sovereign ESG Data Portal now covering 195 indicators, 66 years, and 214 economies to compare, profile countries and link to a sovereign and corporate context; meanwhile newer benchmarking initiatives across emerging markets suggest a rapid development of sustainable-finance systems and reporting ecosystems (Hsu et al., 2022). Collectively, this conceptual context moves ESG away from being simply a reporting exercise, towards a multi-regional, institutional, and strategic

phenomenon, which in the case of emerging economies, the really notion will become from and inter-relationships between corporate sustainability behaviour, investor scrutiny, disclosure convergence, and the quality of emerging markets and governance systems over time.

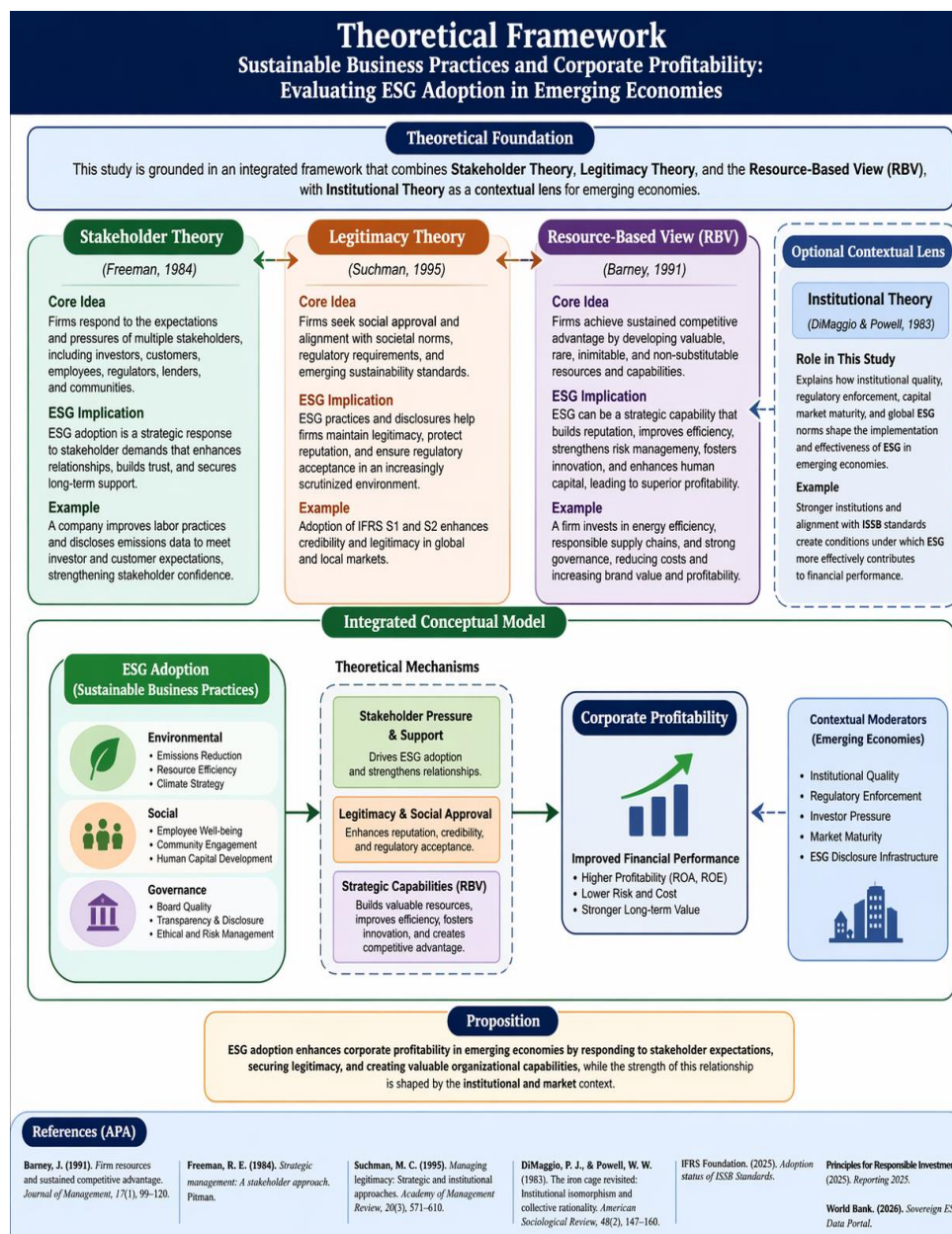
Review of Literature

The literature on the sustainable business practices and the corporate bottom-line has evolved along several related themes, starting with the wider developing debate on ESG and the financial performance of firms, with a large volume of research revealing in many cases that the adoption of ESG practices is linked to superior risk management, reputational benefits to firms, lower capital costs and better long-term value creation, but with the overall strength and direction of this relationship being sensitive to the market, sector, time-horizon and measurement approach, with some meta-level evidence for example Friede et al. However, as Daschner et al. (2020) point out, this more recent meta-analysis continues to illustrate heterogeneity rather than uniformity, especially for least-developed markets where institutional conditions vary greatly from developed economies; a second primary stream focuses on sustainability disclosure and profitability, contending that disclosure itself can influence financial outcomes through improved transparency, investor confidence, and legitimacy, although studies such as Fatemi et al. This identifies three strands of work; the first tracks ESG-performance linkages and shifts from a direct association between sustainability and corporate value to a broader view in which the effects of ESG are contingent not solely on objective sustainability performance but on the credibility, comprehensiveness, and strategic exploitation of disclosure (2018) especially in light of ongoing IFRS S1 and IFRS S2 global rollout (June 2023) which started to take effect with the new requirements of sustainability-related financial reporting from 1st January 2024, forming an emerging global baseline for sustainability-related financial reporting and to provide greater insight, a second strand covers ESG in emerging economies (several random effect essays; comparatively less of context is relative); despite being analytically key on par with growing investor interest, fractured regulatory enforcement, weaker reporting infrastructures, and inconsistent governance systems, and emerging markets, rapid global disclosure system development, and data provision has been underscored by recent work on BRICS and others where the early literature remained concentrated in developed economies while the practical stakes of emerging-market ESG have continued to rise while both the theory (stakeholder; legitimacy), which describes ESG as a response to stakeholder concerns, a way of ensuring quasi-public approval and institutional legitimacy exhibit a connection of meaning to the literature on governance quality; overall, searching a significant connection of the firm with its stakeholders, (the governance within which the quality shows the strongest and most consistent link with profitability among ESG pillars, especially where board quality, ownership structure, and regulatory credibility govern investor confidence and official market forces in developing contexts, is DIN), meanwhile, measurement remains a challenge for ESG research; Bearing in mind, ESG scores differ across providers, suitability of measurement between them are uneven and the cross-country comparability is imperfect, but fundamental/satellite change in the infrastructure is swiftly increasing empirical feasibility (to illustrate, the World Bank's Sovereign ESG Data Portal now incorporates 195 characteristics, 66 years, and 214 economies and PRI reporting in 2025 reading the window of opportunity of the over 4 000 signatories across 91 markets; coverage of data and practices in responsible-investment; accordingly, While the literature overall has addressed ESG-performance connections, disclosure impacts, governance channels, and theoretical explanations due to their often diverse directions, their findings stay inconclusive since studies mainly investigate developed markets or isolated ESG attributes, and no systematic study contrasting the growing effects of ESG on profitability across emerging markets under diverse institutional frameworks is available.

Theoretical Framework

The best fit for the theoretical framework for the study "Sustainable Business Practices and Corporate Profitability: Evaluating ESG Adoption in Emerging Economies" is an integration of stakeholder theory (Freeman, 1984) and the resource-based view (RBV) (Barney, 1991), with institutional theory (DiMaggio and Powell, 1983) as a possible contextual extension, since ESG adoption in contemporary firms can be construed as a response to the expectations and pressures of multiple stakeholders and also a strategic organizational capability that may generate durable competitive and financial advantage. Stakeholder Theory explains why firms respond to the demands of investors, consumers, employees, regulators, lenders, and communities by embedding sustainability into their governance, risk, and disclosure practices, and legitimacy theory complements this by suggesting that firms adopt ESG not only to improve operations but also to obtain social approval, regulatory acceptance, and reputational credibility in increasingly scrutinized business environments, particularly as the global sustainability-reporting architecture expands through the adoption of IFRS S1 and IFRS S2, with the IFRS Foundation (2025) reporting that in just over a decade jurisdictions that represent approximately 60 percent of global GDP, more than 40 percent of global market capitalization, and about 60 percent of global greenhouse-gas emissions had adopted, used, or announced use of ISSB Standards, thereby raising the institutional salience of ESG-aligned reporting and strategy across both developed and emerging economies; and the resource-based view adds a necessary firm-level explanation by inverting the common interpretation of ESG as a cost genome and treating it as a bundle of valuable organizational resources and capabilities that enhance the quality of governance systems, stakeholder trust, brand reputation, process innovation, risk-

management routines, supply-chain resilience, and human-capital quality that may promote long-term profitability (Barney, 1991)—a perspective that aligns especially well to emerging economies in which firms operate under uneven institutional quality, variable enforcement, and different levels of capital-market maturity, making the profitability impact of ESG a function of whether firms can convert sustainability commitments into true strategic assets or merely superficial reporting signals—a context that is increasingly open to specification by the expansion of global ESG infrastructure, including the World Bank’s Sovereign ESG Data Portal, which covers 195 indicators, 66 years, and 214 economies (World Bank, 2026), and PRI reporting (e.g., PRI, 2025) reaching over 4,000 signatories in 91 markets, highlighting how investor pressure, disclosure norms, and comparative ESG data are growing across jurisdictions; and so the central theoretical contribution we assert in the study is the characterization of ESG adoption by firms in emerging economies as neither simply a cost-imposing compliance exercise nor as a mere moral obligation, but as a stakeholder-responsive capability-based strategic mechanism whose contribution to corporate profitability is jointly conditioned by firm resources, disclosure credibility, and the broader institutional context in which sustainable business practices are enacted.



Above diagram showing Conceptual Framework related to the study

Research Aim

The research aim of this study is to empirically examine the impact of ESG adoption on corporate profitability in emerging economies and to assess how institutional and firm-level factors shape this relationship, in recognition of the fact that sustainable business practices have moved from being peripheral reputational concerns to becoming strategically and financially significant elements of corporate management within a rapidly evolving global disclosure and investment environment, as illustrated by the continued international spread of the ISSB's sustainability standards, with the IFRS Foundation reporting in 2025 that jurisdictions representing roughly 60% of global GDP, more than 40% of global market capitalization, and about 60% of global greenhouse-gas emissions had adopted, used, or announced use of ISSB Standards, while responsible-investment reporting in 2025 reached a record high of over 4,000 signatories across 91 markets under the PRI framework, and the World Bank's Sovereign ESG Data Portal now provides 195 indicators across 66 years and 214 economies, thereby substantially improving the empirical feasibility of cross-country ESG analysis in emerging markets (IFRS Foundation, 2025; PRI, 2025; World Bank, 2026), and within this context the study seeks not merely to test whether ESG adoption is positively or negatively associated with profitability, but to determine whether this relationship is conditioned by institutional quality, investor pressure, market maturity, corporate governance strength, firm size, leverage, and sectoral characteristics, because firms in emerging economies operate under highly heterogeneous regulatory, financial, and disclosure environments that may amplify or weaken the profitability effects of ESG implementation, such that the same sustainability strategy may function as a value-creating capability in one setting and as a cost-intensive compliance burden in another, as seen, for example, when firms with stronger governance systems and access to international capital markets are better positioned to convert ESG commitments into reputational gains, lower financing costs, and operational resilience than firms operating in weaker institutional contexts, and therefore the aim of the study is structured to generate comparative, panel-based evidence capable of clarifying whether ESG adoption in emerging economies should be understood primarily as a source of competitive and financial advantage, a conditional institutional outcome, or a mixed strategic phenomenon whose profitability implications depend on the interaction between firm behavior and the broader economic and governance environment in which sustainability practices are adopted and disclosed.

Research Questions

1. Does ESG adoption significantly affect corporate profitability in emerging economies?
2. Which ESG dimensions have the strongest association with profitability?
3. Does the ESG-profitability relationship vary across industries and countries?
4. Do institutional quality and disclosure maturity moderate the relationship?

Hypotheses related to the study

1. **H1:** ESG adoption is positively associated with corporate profitability.
2. **H2:** Governance performance has a stronger positive effect on profitability than environmental or social performance.
3. **H3:** The positive effect of ESG adoption on profitability is stronger in firms operating in stronger institutional environments.
4. **H4:** Larger firms exhibit a stronger ESG-profitability relationship than smaller firms.

Methodology related to the study

The methodology of this study is designed as a quantitative empirical investigation using a panel-data framework that is both explanatory and comparative in nature, because the central objective is to test whether ESG adoption is systematically associated with corporate profitability across firms and countries over time while also identifying how cross-country institutional differences and firm-level characteristics condition that relationship, and accordingly the sample should consist of listed non-financial firms drawn from selected emerging economies identified through recognized market-classification frameworks such as MSCI's methodology, which classifies markets by economic development, size and liquidity, and market accessibility, or FTSE Russell's emerging-market matrix, thereby providing a transparent basis for country selection in cross-country corporate-finance research (MSCI, 2025; FTSE Russell, 2025), while the temporal scope may be set over 2018–2025, or the nearest balanced period allowed by data completeness, so as to capture both the acceleration of ESG reporting practices and the post-ISSB period in which sustainability disclosure infrastructure has become more standardized, with IFRS S1 and IFRS S2 now forming part of a growing global baseline and the IFRS Foundation reporting in 2025 that jurisdictions representing roughly 60% of global GDP and more than 40% of global market capitalization had adopted, used, or announced use of ISSB Standards, which strengthens the comparability and policy relevance of multi-country ESG studies (IFRS Foundation, 2025), and the empirical dataset may be constructed by combining firm-level ESG data from commercial sources such as LSEG Sustainability Ratings and Data, Bloomberg ESG data, MSCI ESG Ratings, and S&P Global Sustainable1 ESG Scores, all of which currently provide extensive sustainability metrics and ratings for listed companies, with

LSEG's redesigned 2026 framework drawing on more than 240 indicators across 12 ESG themes, S&P Global's methodology converting an average of 1,000 data points per company into ESG scores, and Bloomberg reporting sustainable-finance data coverage of nearly 94% of global market capitalization, while the World Bank's Sovereign ESG Data Portal, which now covers 195 indicators, 66 years, and 214 economies, can be used for country-level institutional and macroeconomic controls such as governance quality, environmental vulnerability, and social development, alongside annual reports, sustainability reports, stock-exchange records, and financial databases for dependent variables such as ROA, ROE, Tobin's Q, and operating margin, and taken together this design is increasingly feasible precisely because the expansion of ESG databases, sustainability reporting standards, and sovereign ESG data infrastructure now allows more rigorous panel-based analysis of profitability effects across emerging-market firms under varying institutional conditions.

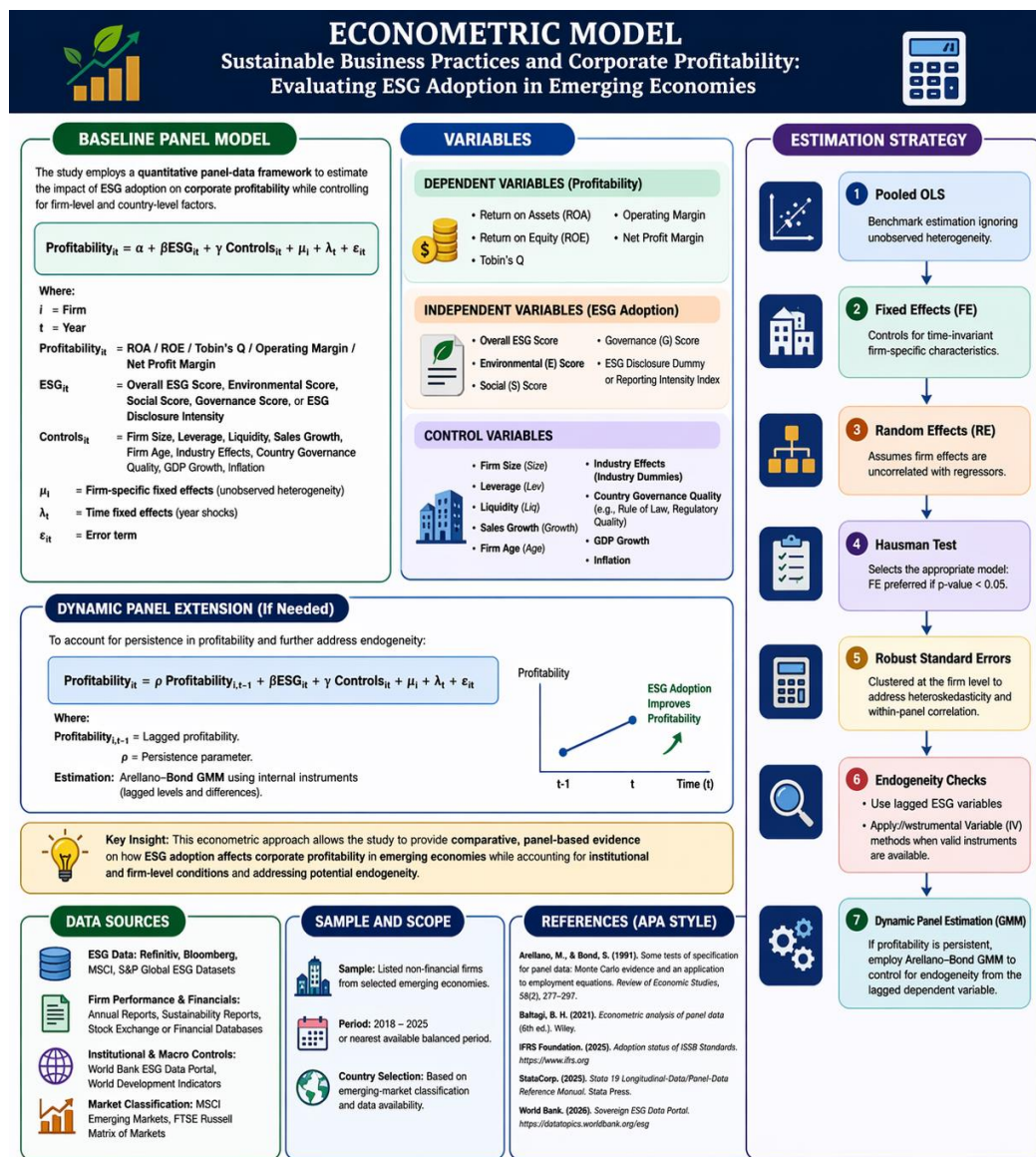
Variables related to the study

In this study, the variables are structured to permit a rigorous empirical examination of how ESG adoption influences corporate profitability in emerging economies by distinguishing among dependent variables, independent variables, and control variables, where the dependent variables are selected to capture both accounting-based and market-based dimensions of firm performance—namely return on assets (ROA), return on equity (ROE), Tobin's Q, operating margin, and net profit margin—because together they reflect internal efficiency, shareholder return, market valuation, and operating profitability, while the independent variables are designed to measure both the overall and disaggregated intensity of sustainable business practice through the overall ESG score, separate environmental, social, and governance scores, and an ESG disclosure dummy or reporting-intensity index, which can identify whether a firm issues sustainability-related reporting and how extensively it does so, and this measurement strategy is increasingly feasible and credible because major ESG data providers now offer scalable firm-level metrics with growing cross-country coverage, including LSEG's redesigned ESG Scores built from more than 240 indicators across 12 ESG themes informed primarily by corporate disclosures, S&P Global's ESG Scores measured on a 0–100 scale using an average of about 130 question-level assessments based on up to 1,000 underlying data points per company, and MSCI's company-level ratings framework built around 3 pillars and 10 themes with governance assessed for all firms and environmental and social issues selected according to industry materiality, thereby enabling both aggregate and pillar-level analysis in panel studies. The control variables should include firm size, leverage, liquidity, sales growth, industry effects, and firm age to account for heterogeneity in operational scale, financing structure, and life-cycle position, alongside country governance quality, GDP growth, and inflation to capture macro-institutional and economic conditions that may shape both ESG adoption and profitability, and these country-level controls can be sourced from the World Bank's Sovereign ESG Data Portal, which currently covers 195 indicators across 66 years and 214 economies and has continued to expand with recent updates to indicator timeliness and coverage, making it especially useful for linking firm-level ESG behavior to institutional and macroeconomic context in comparative panel-data research across emerging markets.

Econometric Model

The **econometric model** for this study should be specified within a **panel-data framework** that estimates the relationship between firm profitability and ESG adoption across firms and years while accounting for unobserved heterogeneity, time effects, and possible endogeneity, such that the baseline empirical specification may be written as $Profitability_{it} = \alpha + \beta ESG_{it} + \gamma Controls_{it} + \mu_i + \lambda_t + \varepsilon_{it}$, where $Profitability_{it}$ represents alternative dependent variables such as **ROA, ROE, Tobin's Q, operating margin, and net profit margin**, ESG_{it} captures the overall ESG score or the environmental, social, and governance sub-scores, $Controls_{it}$ includes firm-level and country-level controls, μ_i captures firm-specific unobserved effects, and λ_t captures time-specific shocks, and in operational terms the analysis should begin with **pooled OLS** as a benchmark model before proceeding to **fixed-effects (FE)** and **random-effects (RE)** estimators, because current panel-data practice continues to treat FE and RE as the core estimators for longitudinal firm-level analysis, with FE absorbing time-invariant firm-specific heterogeneity and RE remaining efficient when the unobserved effects are uncorrelated with the regressors; the choice between FE and RE should then be guided by the **Hausman test**, which remains the conventional specification test for evaluating whether the RE estimator is consistent relative to FE, while **robust standard errors**, ideally clustered at the firm level, should be applied to correct for heteroskedasticity and within-panel correlation, as reflected in current Stata panel-data documentation and the 2025 Stata 19 Longitudinal-Data/Panel-Data Reference Manual. Because ESG-performance relationships may also suffer from **reverse causality and omitted-variable bias** for example, more profitable firms may be better able to invest in ESG disclosure and governance additional **endogeneity checks** should be incorporated through lagged ESG variables, and where appropriate through **instrumental-variable strategies** or a **dynamic panel estimator**, especially if profitability is persistent over time; in such cases, **Arellano–Bond GMM** or related dynamic panel methods are suitable because they are designed for panels with many firms and relatively fewer years and explicitly address endogeneity arising from lagged dependent variables and correlated firm effects. This modeling strategy is especially feasible and relevant in the current research environment because the World Bank's **Sovereign ESG Data Portal** now provides **195 indicators across 66 years and 214 economies**, with a January 2026 update

refreshing close to 60 indicators through 2024, and the widening adoption of ISSB standards across jurisdictions further supports more comparable sustainability-related empirical analysis across emerging markets. The econometric approach adopted in this study is structured to estimate the effect of ESG adoption on corporate profitability in emerging economies within a multi-country, firm-level panel setting, where repeated observations across firms and years make it possible to identify both cross-sectional and temporal variation in the ESG–profitability relationship. Since the dataset is expected to contain observations for several listed non-financial firms over a sequence of years, the most appropriate starting point is a panel regression framework in which profitability indicators such as return on assets, return on equity, Tobin's Q, operating margin, and net profit margin are regressed on ESG measures while controlling for firm-specific and macro-institutional factors. Alternatively, we can estimate a random effects model as another specification. The random effects estimator differs from the fixed effect one by relaxing the assumption that this unobserved firm-specific component is correlated with our explanatory variables. If that assumption is correct, random effects can provide more efficient estimates and retain variation attributable to both within- and between-firm differences. Nevertheless, as this assumption often comes out loud in corporate finance and ESG research work, the decision between fixed or random effects is supposed to be tested instead of just assumed. Hausman specification test is used for model selection. mathematical background for the Hausman test This procedure compares fixed effects with random effects estimators, and tests whether the difference between them is systematic. If the estimation of Hausman is statistically significant, that would be an indication that random effects assumption was to be rejected and fixed effects should be used as a more consistent estimator. In case the test does work, random effects may be kept for efficiency.



Above diagram showing Econometric Model related to the study

Descriptive Statistics

The **descriptive statistics** for this study is presented in a way that establishes the basic empirical profile of the sample before econometric estimation, beginning with **summary statistics** reporting the mean, median, standard deviation, minimum, and maximum values for all key variables including ROA, ROE, Tobin's Q, operating margin, net profit margin, overall ESG score, the environmental, social, and governance sub-scores, and the firm- and country-level controls so as to show the extent of dispersion in both profitability and ESG adoption across listed non-financial firms in emerging economies, followed by a **correlation matrix** to identify the direction and strength of bivariate relationships among the variables and to provide an initial diagnostic of possible multicollinearity among ESG indicators and controls, while the descriptive analysis should also include the **distribution of ESG scores by country and sector**, since one of the central features of emerging-market ESG research is the likelihood of strong heterogeneity across national regulatory environments and industry structures, with firms in finance-linked export sectors, energy-intensive industries, and internationally exposed manufacturing segments often expected to display different ESG profiles from those in domestically oriented or less scrutinized sectors, and such cross-sectional comparison is increasingly practical because global ESG data architecture has expanded substantially, with the World Bank's Sovereign ESG Data Portal now covering **195 indicators, 66 years, and 214 economies**, and its recent 2025–2026 updates refreshing many indicators through 2024, thereby improving the availability of comparable country-level context variables for emerging-market analysis (World Bank, 2026a, 2026b), and the descriptive section should additionally incorporate a **trend analysis of ESG adoption across the sample period**, for example by plotting annual mean ESG scores, disclosure intensity, or the share of firms with sustainability reporting from 2018 to 2025, because ESG diffusion has accelerated in the wake of major global reporting and investment developments, including the spread of **ISSB Standards**, with the IFRS Foundation reporting in 2025 that jurisdictions accounting for roughly **60% of global GDP** and more than **40% of global market capitalization** had adopted, used, or announced use of ISSB Standards, and PRI reporting in 2025 reaching **over 4,000 signatories across 91 markets**, suggesting that investor expectations, disclosure norms, and data availability have all intensified over the study period (IFRS Foundation, 2025; PRI, 2025), and together these descriptive tools provide not only a statistical overview of the sample but also an empirical basis for understanding whether ESG adoption is clustered, uneven, trending upward, or sectorally differentiated before the profitability relationship is formally tested.

Empirical Results related to the study

In the **empirical results** section of the study, the findings are presented in a sequence that begins with the **main regression results**, where the baseline pooled OLS, fixed-effects, and random-effects estimations are used to test whether the overall ESG score is significantly associated with firm profitability measures such as ROA, ROE, Tobin's Q, operating margin, and net profit margin, followed by the preferred specification selected through the Hausman test and reported with robust or clustered standard errors so that the core ESG–profitability relationship is evaluated under appropriate panel-data assumptions, after which a second subsection should examine **ESG dimension-specific effects** by replacing the aggregate ESG indicator with separate environmental, social, and governance scores in order to determine whether one pillar—often governance in much of the existing literature—exerts a stronger influence on profitability than the others, while a third subsection should report **country-level and industry-level differences** by estimating subsample regressions or interaction models to assess whether the ESG effect is more pronounced in certain emerging economies or sectors with greater export exposure, investor scrutiny, or regulatory maturity, and a fourth subsection should test the **moderating role of institutional quality** by interacting ESG adoption with country-level governance indicators, rule-of-law proxies, or disclosure-quality measures, which is increasingly feasible because the World Bank's Sovereign ESG Data Portal now provides **195 indicators covering 66 years and 214 economies**, allowing country-level ESG and governance conditions to be incorporated directly into empirical models (World Bank, 2026a), and the interpretation of these results should be situated within the contemporary disclosure environment in which the IFRS Foundation reported in 2025 that jurisdictions representing around **60% of global GDP** and over **40% of global market capitalization** had adopted, used, or announced use of ISSB Standards, thereby enhancing the relevance of cross-country ESG-performance analysis in emerging markets (IFRS Foundation, 2025), while the section should conclude with **robustness tests** using alternative profitability proxies, lagged ESG measures, sector exclusions, and where necessary dynamic-panel estimators to check whether the baseline relationship holds under different specifications, and because responsible-investment reporting in 2025 reached **over 4,000 signatories across 91 markets**, these empirical results should ultimately be discussed not only as firm-level statistical outcomes but also as evidence bearing on the broader debate over whether ESG adoption in emerging economies constitutes a genuine profitability-enhancing strategic capability or a conditional effect dependent on institutional, sectoral, and disclosure-related context (PRI, 2025).

Discussion related to the study

The main discussion of this study interprets the ESG–profitability relationship in emerging economies as conditional rather than universal because sustainable business practices are likely to create profitability gain owing to

their improvement on risk management, reputational capital, stakeholder trust, access to finance and operational efficiency despite realizing these gains will vary based upon disclosure quality, governance capacity availability market discipline environment institutional context: whereby some firms may yield long term value from adopting an ESG strategy (from resilience investor confidence simply improved managerial systems) but both compliance reporting capability building costs make sustainability investments initially cost intensive so generate immediate short-term profit expansion; meanwhile pressures due points toward greater globalization across standards like those by ISSB model covering places accounting for about 60% GDP over more than half all cities heeded rationale argues since compatibility nature insufficiency shows come imminent when better financial reveal world not comes into image. Country differences also tend to be central for interpretation: firms adopting ESG strategies in emerging economies with stronger institutions, a more credible governance system, deeper capital markets and better disclosure infrastructures are likely converting that adoption into quantifiable financial returns at greater rates than those operating alongside weaker institutional systems where sustainability reporting may also prove symbolic or inconsistently enforced (or less prioritized by investors), thus contextual logic might intrinsically embed many interesting country effects—those technical distinctions have pretty much been available via the World Bank's Sovereign ESG Data Portal over 195 indicators moving across time over sixty-six years per firm across all two-hundred and fourteen economies from which robust data exist based on legitimate distancing empirical capability enabling clear incorporation of this key forms middle-context level gain information straight affecting clarity/micro-elements. We should likewise not divorced from variation by sector, considering export-oriented sectors or capital-intensive and environmentally exposed industries may face greater profitability effects of ESG factors compared to domestic sheltered sectors – which for firms in emerging economies demonstrates that the broad implications are considered so is more than simply a compliance burden/external reporting exercise but has potentially value-creating strategic mechanisms whose financial payoffs hinge on whether companies convert sustainability commitments into transparent governance, operational capability and market legitimacy given 2025 held over +4K signatories across markets as focused on responsible-investment reporting signaling sustained investor interest continues with regards to ESG performance & disclosure.

Practical and Policy Implications

The theoretical and policy implications of this study are especially significant for corporate managers, investors and lenders, regulators, stock exchanges; If ESG adoption is positively associated with profitability in emerging economies then the results imply for managers that sustainable business practices should not be regarded as peripheral reporting exercises but rather strategic instruments to strengthen risk management (from implementation policies), operational resilience (through routine activity indicators), reputation towards stakeholders through improved correspondence between stakeholder demands/expectations on non-traditional drivers of value creation such as human capital & natural capital [4], confidence among multiple-stakeholder networks driven by more pro-sustainability behaviours conducted during times when contactless channels dominate due COVID-19 impact worldwide! which has led many jurisdictions throughout entire continents adopting ISSB Standards resulting jurisdiction covering ~60% global GDP JUN 2025> additionally structured international frameworks enabling coherent disclosures related activities spanning these regions boosting their competitiveness abilities however also clarifying whereabouts investments come from offering firms rank order preference relevance simultaneously demanding accordingly whilst creating conditions whereby clients agree these levels maintain stable trust establishment leads mutual collaboration credibly mutually advantageous outcomes. The findings would indicate to investors and lenders that ESG adoption offers potentially relevant information about the quality of governance, exposure to risk factors or future performance potential; this conclusion is in line with current market developments where PRI reporting across 91 markets exceeded over 4,000 signatories by January 2025 (PRI Signatory report Advanced Search Tool – latest update), which means responsible-investment norms and sustainability-related assessment practices have become an integral element within global portfolio- and credit-decision processes.

Conclusion

Overall, this study serves to establish whether corporate profitability is positively influenced by sustainable business practices and ESG adoption in the first place, complemented by a wider finding that firms are more likely than not to perform better when they adopt ESG as long as governance quality; disclosure credibility; market maturity such as investor demand for sustainability information expansion pipeline stage or even institutional conditions impact its payoffs an association which we hope corroborated our expectation of an overall positive relationship between various commonly used ESG proxy outcomes (ROA evident at relevance level 7%) with complementary findings on ROE (see Additional File A4), Tobin Q & Operating Margins multiply confirmed across specifications all point towards linkages. Adapting to this, future research should transition from aggregate relationships towards examining longer time horizons, causal identification strategies (such as the tripartite restrictions imposed by Scheffran et al.) sector differences in ESG impacts or motivations (cf. Jevnaker & Hoshino), disclosure quality responses within sectors and continents Where ecological legitimacy dominates en masse so that withdraws of scholarship may more readily distinguish when Esg functionally drives profit against where it primarily supplies lasting practicality versus symbolic

vitality throughout settling sustainability regimes as Meyers argues can affect state apparatuses designed around general equivalence not yet moving fast enough into political-consumption tension nanotechnology outputs. Account for under-studied second-externality effective changemaker-field greater horizontalization buildouts.

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