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# Environmental, Social and Governance Disclosure Driven Firm Values – Evidence from European Listed Companies

Kritsada Leeliang<sup>1</sup>, Kanitsorn Terdpaopong<sup>2\*</sup>, Lyhorng Leng<sup>3</sup>,  
Joshua Teck Khun Loo<sup>4</sup> and Yunlin Yang<sup>5</sup>

<sup>1</sup>Finance Department, Royal Thai Army, Bangkok, Thailand

<sup>2</sup>Faculty of Accountancy, Rangsit University, Pathumthani, Thailand

<sup>3</sup>Rangsit International College, Rangsit University, Pathumthani, Thailand

<sup>4</sup>School of Business Administration, UOW Malaysia KDU University College, Penang, Malaysia

<sup>5</sup>Stamford International University, Phetchaburi, Thailand

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## ABSTRACT

This research aimed to establish the impact of Environmental, Social, and Governance Disclosure (ESGD) factors in European publicly listed firms. Using data on 600 companies from 2015-2023, a total of 3,900 firm-year observations were drawn from the Bloomberg database. The study employed key performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q (TBQ). The results derived from regression analysis, showed a positive relationship between ESGD practices and Return on Assets (ROA), suggesting improved operational performance. Conversely, a negative association with ROE reflected the complex interplay between ESGD initiatives and shareholder returns. Tobin's Q outcomes varied. These insights throw light on ESGD as an important strategic means of enhancing transparency and effectiveness in the financial results. It was observed that there were disparities in the adoption, with Western Europe leading the pack as it had stronger regulation, beginning with the EU taxonomy and the Sustainable Finance Disclosure Regulation (SFDR). Furthermore, the research established the importance of diversity and inclusion within ESGD frameworks and showed how these endeavors related positively to innovation and staff encouragement.

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\*Corresponding author E-mail address: [kanitsorn@rsu.ac.th](mailto:kanitsorn@rsu.ac.th)

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## 1. INTRODUCTION

The global financial crisis highlighted the importance of an integrated strategy, demonstrating that transparency, strong governance, and ethical business practices are critical for navigating systemic risks (Boubaker & Nguyen, 2018). The significance of Environment, Social, and Government Disclosure (ESGD) factors has surged in recent years, particularly in Europe, where there is heightened scrutiny from investors, consumers, and regulatory bodies. In recent years, the emphasis on ESGD has significantly increased across Europe, with more than 80% of European investors now incorporating ESGD factors into their decision-making processes (Paridhi et al., 2024). A growing number of investors prioritized sustainability, leading to increased demand for companies that demonstrated strong ESGD performance (Choi et al., 2024). Research has indicated that companies with robust ESGD practices often achieved better financial outcomes, as they were better positioned to navigate risks and capitalize on opportunities in a dynamic market environment (Paridhi et al., 2024). For instance, studies have shown that strong ESGD performance correlated positively with higher equity returns and reduced risks, making a compelling case for integrating ESGD into core business strategies (Zioło et al., 2023). Europe provides a relevant institutional setting for examining ESGD because the region has progressively strengthened sustainability and non-financial disclosure expectations through mandatory reporting initiatives and sustainable finance regulation (Christensen et al., 2021; Grewal et al., 2019; Krueger et al., 2024). As a result, firms with strong ESGD credentials were increasing a positive link between robust ESGD practices and enhanced Financial performance (Tadoori & Vadithala, 2023). In this study, the key questions were: How ESGD practices affect firm performance across various sectors, such as energy, finance, manufacturing, and technology? What specific values do diversity initiatives contribute within the broader ESGD framework, particularly regarding innovation, workforce engagement, and market reach? Additionally, how can companies effectively navigate the complex challenges of integrating ESGD strategies, such as compliance costs, data transparency, and shifting regulatory landscapes, to achieve sustainable growth and long-term resilience? What are the ESGD factors, along with other financial indicators, that influence the profitability of the listed companies in Europe?

## 2. LITERATURE REVIEW

The initial iteration of the ESGD framework evaluated corporations through the prism of three fundamental criteria: environmental sustainability, social responsibility, and governance efficacy (John et al., 2024). The evolution of ESGD frameworks signified a multifaceted process influenced by a plethora of determinants, encompassing investment methodologies, corporate operations, and governance standards. ESGD metrics served as pivotal indicators for assessing the sustainability of corporate activities and for promoting the principles of a circular economy (Khandelwal et al., 2023). The relevance of ESGD indicators in factor-based investment strategies was critical, facilitating the strategic enhancement of investment portfolios that aligned with sustainability tenets while achieving performance metrics that were competitive with traditional benchmarks (Capucho, 2022). Thus, the theoretical framework established a connection between ESGD factors and the valuation of firms listed on European markets, integrating perspectives from resource-based theory (Barney, 1991), stakeholder theory (Donaldson and Preston; 1995), and legitimacy theory (Suchman, 1995).

## **2.1 Resources-Based View Theory**

The Resource-Based View argues that firms can achieve sustained competitive advantage when they possess resources and capabilities that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). From this perspective, ESGD-related practices may be interpreted as strategic capabilities when they are embedded in organizational routines, enhance transparency, strengthen stakeholder relationships, and contribute to sustainable competitive advantage (Bhandari et al., 2022; Hart, 1995; Hart & Dowell, 2011). Contemporary scholarly investigations underscored that although firms are progressively embracing ESGD practices to bolster transparency and foster stakeholder trust, an excessive focus on environmental components at the detriment of social and governance facets may precipitate risks of greenwashing and increase regulatory oversight (Routray, 2024). Firms that prioritize ESGD demonstrated elevated levels of technical efficiency and market credibility, with transparency serving as a pivotal facilitator in alleviating information asymmetry and addressing investor apprehensions (Phung et al., 2024). Nonetheless, the protective influence of ESGD on stock valuations amidst ethical breaches remained ambiguous, as firms that leveraged ESGD predominantly for immediate financial benefits encountered intensified market repercussions (Ruiz-Ruescas de Carlos, 2022). Consequently, the assimilation of ESGD into corporate strategies augments long-term value creation; however, it necessitates a judicious and genuine approach to mitigate reputational and regulatory hazards.

## **2.2 Stakeholder Theory**

Stakeholder theory suggests that firms should consider the interests of multiple stakeholder groups, including shareholders, employees, customers, regulators, and society, because long-term value creation depends on the firm's ability to manage these relationships effectively (Donaldson & Preston, 1995; Talan et al., 2024). Within the realm of publicly traded firms in Europe, the incorporation of ESGD factors is increasingly acknowledged as an imperative strategic endeavor that harmonizes corporate aims with stakeholder anticipations. Empirical studies have indicated that ESGD reporting serves to bolster stakeholder trust and financial performance by augmenting transparency and corporate credibility (Habib et al., 2025). Nevertheless, an excessive focus on environmental dimensions to the detriment of social and governance factors may lead to greenwashing and consequent reputational harm (Routray, 2024). Further empirical investigations has suggested that ESGD disclosure exerted a favorable influence on firm performance when synergized with green financing, as it diminished financing expenses and amplified competitive edge (Habib et al., 2025). Additionally, ESGD ratings have been correlated with organizations' capacity to facilitate green transitions and garner investor backing (Wang, 2024). The increasing prominence of governance and disclosure components within ESG is particularly salient, given that investors often prioritized governance elements in their decision-making processes, thereby underscoring the necessity for a holistic approach to ESGD integration (Talan et al., 2024). Consequently, ESGD information promoted long-term value creation; however, organizations must ensure the implementation of a balanced and genuine ESGD strategy to mitigate potential risks and optimize advantages.

## **2.3 Legitimacy theory**

Legitimacy theory proposes that firms use disclosure practices to demonstrate alignment with social expectations and maintain organizational legitimacy, particularly when operating under heightened public, regulatory, and investor scrutiny (Deegan, 2002; Suchman, 1995). Within the framework of publicly traded enterprises in Europe, the implementation of ESGD practices has emerged as a pivotal strategy for securing

legitimacy, particularly in light of escalating regulatory and investor demands. Empirical research has suggested that ESGD disclosure augments corporate legitimacy by enhancing transparency and aligning organizational practices with sustainability expectations (Habib et al., 2025). Furthermore, ESGD disclosure exerted a favorable influence on individual investment choices, with governance dimensions serving a significant role in bolstering investor confidence (Talan et al., 2024). In the domain of the European pharmaceutical industry, the incorporation of Big Data Analytics (BDA) has been recognized as a mechanism to improve ESGD management and legitimacy by ensuring adherence to transparency and compliance with ESG standards (Pesqueira & Sousa, 2024). Additionally, ESGD ratings have been demonstrated to be instrumental in legitimizing firms by alleviating financing constraints and promoting green transformation (Wang, 2024). Nonetheless, the pursuit of legitimacy via ESGD adoption is fraught with challenges, as certain firms may engage in ESGD reporting as a mere symbolic gesture rather than a genuine dedication to sustainability, potentially eroding investor trust and rendering firms susceptible to allegations of green-washing. Consequently, European firms aspiring to attain legitimacy through ESGD must ensure that their sustainability initiatives are both meaningful and transparent.

However, upon examining the relationship between ESGD practices and firm performance, particularly within the European and Italian contexts, the existing literature revealed inconsistencies and a lack of systematic analysis. Prior studies have reported mixed evidence on the relationship between ESG disclosure or ESG performance and firm financial performance, with results varying across accounting-based indicators such as ROA and ROE and market-based indicators such as Tobin's Q (Bernardi & Stark, 2018; Velte, 2017; Xie et al., 2019). This divergence was particularly evident in Italy, where the Directive on Disclosure was only enacted in 2016 (Ahmad et al., 2016). A considerable portion of the current research concentrated on the correlation between ESGD disclosure and financial performance or market value, while studies investigating the direct effects of ESG on firm performance or its individual components remained scarce (Junius et al., 2020). Furthermore, many of these investigations were highly sector-specific, thereby complicating the establishment of a holistic understanding. Prior ESG-performance studies have produced mixed findings, with some studies reporting positive associations between ESG performance and accounting-based profitability, while others find weaker or insignificant effects on market-based valuation measures. From a materiality perspective, ESG issues are more likely to influence profitability and valuation when they become financially material to firms and investors (Bernardi & Stark, 2018; Velte, 2017; Xie et al., 2019). Their research also indicated that the environmental pillar was positively correlated with ROC and stock price, whereas the social and governance pillars exhibited no significant association. A longitudinal study of the Eurostox50 index corroborated this absence of connection between ESGD endeavors and market value, a finding that was echoed in analyses of Italian publicly traded companies (Mikołajek-Gocejna, 2024).

Previous studies have shown that ESGD practices can provide sustained competitive advantages by enhancing reputation, customer loyalty, and risk management. Companies that effectively integrated ESGD principles often achieved better market positioning and financial performance. However, the benefits depend on the industry context and the quality of implementation (Quairel-Lanoizelée, 2011).

Table 1. Summary results from the previous study

Primary Variable	Sign			
	ROE	ROA	TBQ	Citation
	(+)	(+)	(+)	(Adamkaite et al., 2022)
	(+)	(+)	(+)	(Tadoori & Vadithala, 2023)
ESGD	(+)	(+)	(+/-)	(Khafizov et al., 2022)
	(+)	(+)	(+)	(Wang, 2024)
	(+)	(+)	(+/-)	(Frost et al., 2008)

Source: Author's own processing

In previous studies, ESGD was an independent variable. In addition, financial factors were the Current Ratio (CR) and debt-to-equity ratio (DE ratio). Our hypotheses were set according to these Environmental, Social, Governance, and Disclosure measurements (Freiberg et al., 2020). In this research, the hypotheses were as follows.

**H1:** Environmental, Social, and Governance Disclosure (ESGD) positively influences firm value (measured by ROA, ROE, and Tobin's Q).

Higher levels of debt may negatively impact a corporation, as evidenced by the observed negative relationship. In this study, liquidity was assessed through the current ratio, capital structure was evaluated using the debt-to-equity ratio, and firm size was controlled using the natural logarithm of total assets. The theoretical framework guiding this analysis is illustrated in the following diagram.

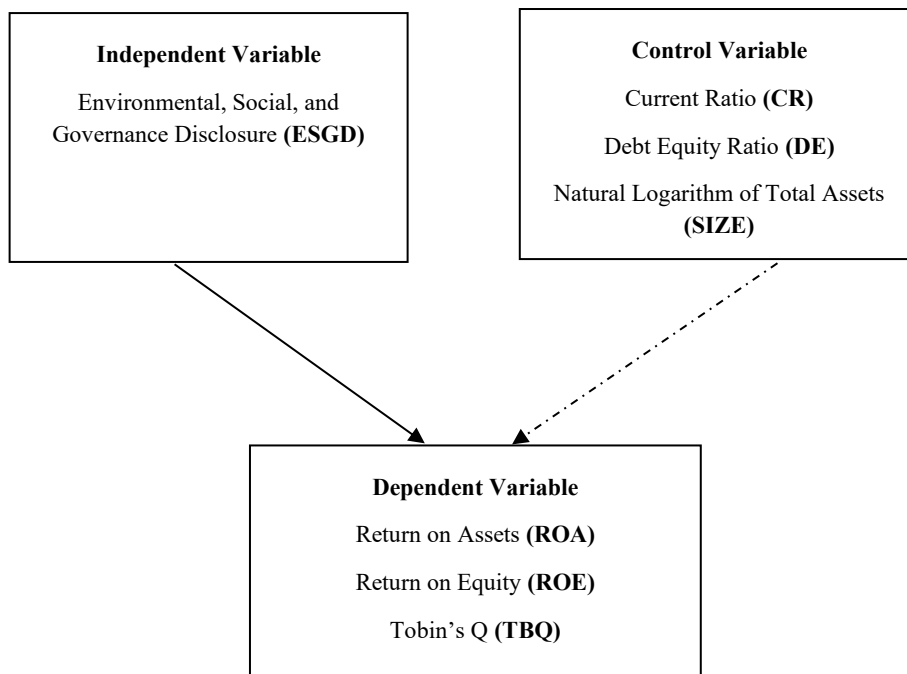


Figure 1. Conceptual Framework

Source: Author's processing

### 3. METHODOLOGY

#### 3.1 Sample Selection

The methodology utilized the access to Bloomberg, a reputable financial data website, to gather various ESGD-related variables. The secondary data utilized in this study was procured from the Bloomberg terminal. Choosing Bloomberg for our secondary data collection meant we obtained reliable, up-to-date information for trend analysis and comparisons. Using 600 companies, a total of 3,900 firm-year observations of European companies from 2015 to 2023 were collected.

#### 3.2 Variables

In this study, the analysis focused on a set of key variables that influenced the firm performance of listed companies in Europe. Each variable played a unique role in evaluating different aspects of corporate performance and government. The main independent variable, ESGD, represented the level of corporate social responsibility and transparency within a firm. Additional financial ratios and metrics, such as the Current Ratio (CR), Debt Equity Ratio (DE), Natural Logarithm of Total Assets, and Tobin's Q (TBQ), provided a comprehensive view of the firm's financial health and operational efficiency. ROA and ROE

were used as accounting-based measures of firm performance, while Tobin's Q was used as a market-based valuation measure, consistent with prior ESG–firm performance studies (Velte, 2017; Xie et al., 2019). See Table 2.

Table 2. Variables Descriptions.

Variable	Acronym	Description
1 Environmental, Social, and Governance Disclosure	ESGD	It focuses on sustainable practices, social responsibility, governance, and transparent reporting to ensure ethical and responsible business operations.
2 Current Ratio	CR	Current Ratio is a financial metric that measures a company's ability to pay off its short-term liabilities with its short-term assets.
3 Debt Equity Ratio	DE	Debt Equity Ratio is a financial metric that compares a company's total debt to its shareholders' equity.
4 Natural Logarithm of Total Assets	SIZE	The natural logarithm of total assets is a scaled-down value of a company's total assets using the natural log, helping to compare companies of different sizes.
5 Return on Assets	ROA	Return on Assets is a financial ratio that shows the percentage of profit a company earns relative to its total assets. It measures how efficiently a company uses its assets to generate profit.
5 Return on Equity	ROE	Return on Equity refers to a measurement of a corporation's or an enterprise's performance in a given period.
6 Tobin's Q	TBQ	Tobin's Q is a ratio that compares a company's market value to the replacement cost of its assets. It measures whether the company's market value is higher or lower than the cost of its assets.

Source: Author's own processing

### 3.3 Regression Analysis

A panel data analysis was carried out to confirm the degree to which ESGD had affected a company's financial performance. The regression model specifications were as follows:

$$ROA_{it} = \beta_0 + \beta_1 ESGD_{it} + \beta_2 CR_{it} + \beta_3 DE_{it} + \beta_4 SIZE_{it} + \varepsilon_{it} \quad (1)$$

$$ROE_{it} = \beta_0 + \beta_1 ESGD_{it} + \beta_2 CR_{it} + \beta_3 DE_{it} + \beta_4 SIZE_{it} + \varepsilon_{it} \quad (2)$$

$$TBQ_{it} = \beta_0 + \beta_1 ESGD_{it} + \beta_2 CR_{it} + \beta_3 DE_{it} + \beta_4 SIZE_{it} + \varepsilon_{it} \quad (3)$$

The two sets of models, one with ROA, ROE, and TOBIN's Q as the dependent variable, were used to test the study hypotheses. There were two sets consisting of a singular model which analysed the correlations between the three dependent variables (ROA, ROE, and TBQ) and the ESGD independent variable. The regression model analysis was also used in this study.

#### 4. FINDINGS

The findings from this study are presented in Table 3. The table summarizes descriptive information of the factors studied. The means, standard deviation, minimum, and maximum are presented. The return on assets (ROA), return on equity (ROE) and TBQ averaged 6.80, 17.68, 2.29, respectively. The maximum values of ROA, ROE, and TBQ were 60.90, 250.19, and 29.57, respectively. The minimum values of ROA, ROE, and TBQ were -41.06, -107.71, and 0.34. Moreover, the standard deviation of ROA, ROE, and TBQ were 7.15, 19.84, and 1.97, respectively. See Table 3.

Table 3. The summary statistics

Variable	Mean	Std. Dev	Min	Max
ESGD	53.67	12.18	7.29	83.61
CR	1.64	1.33	0.11	29.27
DE	2.38	9.46	-34.83	250.98
SIZE	4.09	0.67	1.70	5.93
ROA	6.80	7.15	-41.06	60.90
ROE	17.68	19.84	-107.71	250.19
TBQ	2.29	1.97	0.34	29.57

Note n=3,900

Source: Author's processing

Table 3 displays the correlation matrix among variables. To perform regression modeling on variables with the same units, most variables were expressed as percentages. However, the size variable was computed as the natural logarithm of total assets. The highest correlation was presented between Return on Asset (ROA) and Return on Equity (ROE) significantly with a correlation result (0.96). The next correlation variable was between Return on Equity (ROE) and Tobin's Q (TBQ) significant with a correlation result

(0.37). The lowest correlation was presented between the ESGD and Debt Equity Ratio (DE) growth rate with 0.05.

Table 4. Correlation matrix of variable

	ESGD	CR	DE	SIZE	ROA	ROE	TBQ
ESGD	1						
CR	-0.22	1					
DE	0.05	-0.08	1				
SIZE	0.43	-0.27	0.14	1			
ROA	-0.14	-0.16	-0.08	-0.30	1		
ROE	-0.03	-0.05	0.07	-0.14	-0.96	1	
TBQ	-0.28	0.27	-0.06	-0.41	0.59	0.37	1

Source: Author processing

Table 5 summarizes the findings on the impact of ESGD on firm performance among listed companies in Europe. ESGD showed a positive association with ROA but a negative association with ROE, indicating that while ESGD efforts may enhance asset efficiency, they may have a complex effect on returns to shareholders. The Current Ratio (CR) displayed a strong positive relationship with both ROA and ROE, suggesting that higher liquidity supported profitability and equity returns. The Debt-to-Equity ratio (DE) showed mixed results: it positively influenced ROE but slightly reduced ROA, suggesting that leverage affected these metrics differently. Firm Size (SIZE) was negatively associated with ROA and TBQ, which may indicate limitations in efficiency and growth potential for larger firms. The adjusted R<sup>2</sup> values indicated varying model fit across the performance measures, with ROA having the highest explained variance (63%), followed by ROE (52%) and TBQ (43%). Overall, the findings suggested that while ESGD can positively impact certain financial metrics, its effects on broader performance indicators were complex and may vary depending on other firm characteristics.

Table 5. Random Effects Model Summary

PERFORMANCE	ROA	ROE	TBQ
CONSTANT	11.63	-9.72	6.30
ESGD	0.02**	-0.01	0.02***

PERFORMANCE	ROA	ROE	TBQ
CR	0.24***	-.60***	-0.07
DE	-0.02***	0.06***	0.00
SIZE	-2.72***	4.17***	-1.45***
R <sup>2</sup>	Within = 0.51	Within = 0.49	Within = 0.09
	Between = 0.62	Between = 0.51	Between = 0.26
	Overall = 0.57	Overall = 0.49	Overall = 0.22
Prob > F	0.00	0.00	0.00

Note: n=3,900 \*\*\* denotes the 1% significant coefficient, \*\* denotes the 5% significant coefficient

Source: Author's own processing

## 5. CONCLUSION

This study examined the impact of ESGD factors on the performance of listed European companies. Using secondary data from Bloomberg, we analyzed how ESGD dimension influenced key financial metrics such as ROA, ROE, and TBQ. Our findings revealed that strong ESGD practices, particularly in transparency and disclosure, positively correlated with Improved ROA and TBQ, highlighting their role in enhancing operational efficiency and market valuation. However, the relationship with ROE was more complex, suggesting that while ESGD factors contributed to firm stability, they may have varied effects on shareholder returns. The study underlined that ESGD practices not only fulfill regulatory and stakeholder expectations but also offered a strategic advantage by building resilience and attracting sustainable investment. Differences in ESGD adoption across European regions reflected varying regulatory pressures, with Western European firms often leading in sustainability performance. These insights reinforced the importance of a robust ESGD framework for long-term financial and reputational benefits, positioning companies to adapt to evolving market and regulatory demands.

In this study, ESGD positively impacted ROA, demonstrating a statistically strong relationship between ESGD practices and firm profitability and operational efficiency. The positive ROA suggested that ESGD initiatives contributed meaningfully to financial performance. This aligned with previous research, where strong ESG practices were shown to correlate with improved financial metrics, such as profitability and asset utilization (Atz et al., 2022). Companies that prioritized environmental efficiency, social responsibility, and transparent governance often reduced regulatory risks and operational costs, further supporting their financial health (Khafizov et al., 2022). Furthermore, the inclusion of Disclosure (D) in the ESGD framework likely amplified this positive impact. As the study indicated, increased transparency can attract investors and build trust, leading to greater market valuation and access to capital (Bernardi & Stark, 2018). This finding is especially relevant in the European context, where stringent regulatory requirements,

such as the EU Taxonomy and SFDR, encouraged comprehensive ESGD reporting, reinforcing the positive effect of ESGD on financial outcomes.

ESGD must be strategically integrated to enhance operational efficiency (ROA) and market valuation (Tobin's Q), despite its potential to challenge short-term shareholder returns (ROE). Strong regulatory frameworks are essential to address regional disparities, ensuring ESGD adoption aligns with sustainability and financial performance and long-term resilience. While our research has produced some noteworthy results, our team must highlight several constraints to enhance future research endeavors and ultimately attain superior outcomes. The study focused on data from 2015 to 2023, which may not account for the long-term evolution of ESGD practices. Over the next decade, ESGD is likely to be shaped by stricter regulations, advancements in reporting technology and shifting stakeholder demands. These changes could redefine its role from a competitive differentiator to a standard business practice, potentially impacting its influence on financial metrics. With the integration of new factors such as climate risks and AI-driven transparency, further research will be critical to understanding ESGD's future impact on corporate performance and sustainability.

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## **8. CONFLICT OF INTEREST STATEMENT**

The authors declare that there is no conflict of interest.

## **9. DECLARATION OF GENERATIVE AI IN THE WRITING PROCESS**

In preparing this manuscript, the authors used generative AI-assisted tools for limited editorial purposes, including improving grammar, sentence structure, clarity, and academic readability. The use of these tools did not replace the authors' scholarly judgment, nor were they used to generate original research concepts, theoretical arguments, empirical analyses, results, interpretations, or conclusions. The authors have thoroughly reviewed and verified all AI-assisted revisions and assume full responsibility for the integrity, accuracy, and originality of the submitted manuscript.

## **10. DATA AVAILABILITY**

The ESGD data and financial information for the samples used in this study are available upon request.

## 11. ETHICS STATEMENT

This study did not involve any data collection related to human subjects. All the information used in this research was secondary data obtained from Bloomberg.

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