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ESG disclosure, firm internationalization, and firm financial performance: Evidence from Asia-Pacific

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Abstract. Environmental, social and governance (ESG) disclosures maintain a sustainable strategic fit between the organization's goals and its changing environment and have an impact on the firm's ability to attract funds, gain competitiveness, and hence firm's financial performance (FFP). The objective of the present study is to evaluate the impact of environmental, social, and governance disclosures (ESGD) on firm financial performance (FFP), especially emphasizing the moderating role of firm internationalization. The study employed a panel dataset of 697 firms listed in the Asia-Pacific emerging economies from 2013 to 2022. The findings of the fixed effect and robust two-stage least square estimations reflect that the modern pillars of corporate social responsibility – ESGD - significantly and negatively influence FFP; however, the degrees of corporate internationalization (international intensity, geographical extensity) significantly and positively moderate the association between ESGD and FFP. The findings of the current study have several implications for regulatory bodies, practitioners, and administrative decision-making authorities in both government and corporations. We further recommend a course of action where an attempt can be made to encourage international trade that is best aligned with the Sustainable Development Goals.

Keywords: ESG disclosures, firm internationalization, multinationals enterprises, firm financial performance.

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1. INTRODUCTION

The innovative environmental, social, and governance indicators of corporate social responsibility (CSR) have gained global momentum and are now considered one of the fastest-growing investment areas around the globe. Bloomberg reports that global ESG funds are anticipated to peak at US\$53 trillion by 2025 (Ranjith et al., 2021). Concerns about environmental degradation, community rights, biodiversity, economic crisis, integrity, and reliability have enabled stakeholders to force organizations to consider these critical issues in their operations (Aydoğmuş et al., 2022). Therefore, there is a growing debate about changing traditional production methods to more sustainable economic activities to reduce economic and ecological devastation (Oláh et al., 2020). Protection of the environment, socially friendly activities, and responsible business conduct can create value for stakeholders (Bissoondoyal-Bheenick et al., 2023) in the form of economic rewards from stakeholders through resources and a high rate of return (Yoon et al., 2018).

Hence, stakeholders increasingly focus on how organizations should take effective measures against sustainability risks and report accordingly (Aydoğmuş et al., 2022). Organizations are being held accountable for disclosing ESG opportunities and risks as regulatory bodies emphasize ESG risk (Bissoondoyal-Bheenick et al., 2023). Integrated reporting can help build confidence in stock markets and attract more capital. ESG initiative enhance corporate legitimacy and sustainability, promote green innovation and firm reputation (Nirino et al., 2021), attract capital funds, lower the cost of debt (Atif & Ali, 2021), and ultimately improve firm profitability (Endri et al., 2021).

The growth of ESG indicators also creates substantial value for long-term investment in financial markets (Christensen et al., 2022; Naseer et al., 2024). Investors typically invest in companies that exhibit

responsible investing practices, which emphasize the quality and volume of reported financial data (Shakib et al., 2022). However, a lower level of information disclosures does not provide the true picture of the firm's process and thus leads to manipulation and loss of market reputation and integrity (OECD, 2004). The main goal of such regulations is to provide the framework for ESG disclosures to the listed organizations (Dhiman & Arora, 2020). Nevertheless, the impact of ESGD on firm profitability can be convoluted, depending on how the company operates and how diligently it strives to implement sustainable policies (Rahman et al., 2023).

The ongoing debate about the ESG-firm performance relationship has provided mixed results, ranging from positive to negative and anecdotal (Alareeni & Hamdan, 2020; Rahman et al., 2023). Many research studies report a positive connection between ESG disclosures and FFP (Rahman et al., 2023; Wu et al., 2024), but other research has found weak or negative associations (Uyar et al., 2020). Barnett (2007) mentions that researchers have frequently overlooked the factors influencing the financial benefits of ESG disclosures. These contradictory views inspire discussions on pertinent circumstances, including the presence or absence of possible green investors and customers in the prospective market arena and emerging vs developed market contexts. In addition, sample size, data selection, methodology, timing (Busch et al., 2016), and the application of different financial measures (i.e., accounting versus market-based) contribute to these conflicting results (Wu et al., 2024). Furthermore, it is also important to assess ESG development over time as ESG factors are linked to unpredictable future research agendas. Similarly, recent research studies have emphasized the effect of ESG performance on firm performance relationships and have neglected ESG disclosures and FP relationships (Maji & Lohia, 2023; Wu et al., 2024). Moreover, few empirical studies in emerging countries empirically evaluating the interaction between ESGD and FFP are mostly unclear and inconclusive (Khan, 2022). This makes a case for a more thorough and rigorous study in the context of rising markets, particularly in the Asia Pacific (APAC).

Similarly, firm internationalization specifically international intensity and geographical extensity are vital in determining firm financial performance. Firm internationalization is an innovative strategy that allows firms to grow and make ventures and strategic alliances through various channels of globalization (Godos-Díez et al., 2018). Expanding globally opens new markets and provides unique resources, enabling businesses to acquire advantages of international intensity and extensity. An extensive degree of firm internationalization is related to efficient FFP in foreign and home countries due to lower production costs, new products, shared knowledge, and global technology transfer (Del Giudice et al., 2017). Thus, multinational corporations achieve better Tobin's Q ratios in contrast to companies in the same country that do not internationalize (Doidge et al., 2004). Over the past ten years, emerging market multinational corporations (EMNCS) have increased the scope of their operations in both developed and developing nations. For this reason, researchers are keen to learn about internationalization's drivers, mechanisms, and trends (Sun et al., 2018).

Literature on ESG disclosures and firm financial performance (Alareeni & Hamdan, 2020; Shatnawi et al., 2021; Wu et al., 2024), as well as the connection between corporate internationalization and FFP has been thoroughly studied (Attig et al., 2016; Park, 2018). However, very few dimensions of corporate internationalization have been evaluated regarding the interaction between ESG disclosures, corporate internationalization, and firm financial performance, especially the moderating effect of international intensity and geographic extensity between ESGD-FFP relationships. Different degrees of corporate internationalization might affect the ESGD-FFP relationship differently. Furthermore, institutional and stakeholder theories provide a framework that supports the moderating effect of corporate internationalization on the association between ESGD and FFP (Cho et al., 2021). Social and environmentally friendly activities multiply when multinational firms start business activities in the host country, as they face more diverse cultural and regulatory requirements (Liou & Rao-Nicholson, 2021).

MNCs disclose more ESG data during firm internationalization to acquire legitimacy and mitigate the liability of foreignness (Campbell et al., 2012). Thus, internationalization channels are vital to strengthen the ESGD and FFP relationship. However, limited information is available regarding the corporate internationalization strategies that encourage companies to implement sustainable business models and whether international intensity and geographical extensity can be considered drivers of ESG disclosures in host countries. To comprehend the significance of these notions, we propose our research question. What is the influence of ESG disclosures on firm financial performance? How does firm internationalization across borders improve ESG disclosures and enhance the firm's financial performance?

This research revisits the ESGD-FFP argument using data specific to the Asia-Pacific for several reasons. The Asia Pacific is the world's most vital region, and it has an influential role in the global economy with critical, sustainable surroundings. The region is facing environmental, social, and governance challenges. Nearly 50% of world greenhouse gas emissions originate from Asia-Pacific, potentially disadvantaging economic activities. The economic consequences of the pandemic are affecting the Asia-Pacific top development agendas, such as poverty alleviation, rural transformation, and achieving the Sustainable Development Goals (SDGs). The region's pace toward many SDG goals was already stagnating before the pandemic (Barbier, 2022). The Asia-Pacific landscape is extremely important for research as the region has made great strides in recent years in terms of policy initiatives, including the Task Force on Climate-Related Financial Disclosures (TCFD) and Global Reporting Initiative Standard (GRI) for effectively managing corporations toward sustainability. Hence, it is vital to evaluate how changing regulations regarding ESG disclosures are affecting a firm financial performance (Lee & Brahmasure, 2020) and will provide new insights into the APAC context.

This study contributes to the ongoing ESGD-FP relationships in several ways. APAC is so diverse regionally in terms of developed and emerging features that many stakeholders in the emerging region continue to think that making green and sustainable investments is not only unnecessary but also cumbersome. First, the research addresses key shortcomings in literature emphasizing the association between ESGD, firm internationalization (international intensity, geographical extensity), and FFP, particularly in the Asia-Pacific context. Consequently, the research will offer a more profound comprehension of the impact of ESG disclosures on FFP. Theoretically, this is the first study to present an essential Rawls justice framework that supports ESG initiatives and the FFP relationship. Second, more and more researchers are looking for ways to help companies transition to sustainable business models. Our study is novel in that it provides empirical insight into various dimensions of firm internationalization. It demonstrates that international intensity and geographical extensity push companies toward adopting ESG reporting that improves firm financial performance. Thirdly, the study contributes in terms of large sample size and rigorous methodology. It applied a two-stage least square methodology as robustness to control the potential endogeneity issue. The remaining sections of the articles are as follows: in Part 2, we review the prior studies and develop hypotheses; Section 3 explains the data and methodology; Section 4 depicts the main results and discussion; and, finally, Section 5 draws a conclusion and recommends implications.

2. LITERATURE REVIEW

2.1. Theoretical framework

Rawls's justice theory emphasizes the significance of ethical decision-making for establishing just institutions. ESG practices have their roots in ethical considerations. Consumer response to the company's commitment to justice and fairness positively impacts consumer opinion, making customers loyal and, in turn, enabling companies to extract value from customers. Rawls' principle of fair equality of opportunity

argues that all stakeholders should be equally treated, including investors, employees, communities, and suppliers (McWilliams & Siegel, 2001). ESG practices, especially those related to diversity, equal employment opportunities, and non-discrimination, align with this principle by promoting a level playing field for all stakeholders. In addition, Rawls' principle of stability indicates that the long-term prospects of ESG disclosures, especially those about environmental sustainability, can contribute to long-term sustainability and consequently enhance financial performance (Kim & Park, 2017; Oliinyk et al., 2023). Rawls' difference and social injustice principles emphasize arranging social and economic inequalities to benefit the least advantaged and contribute to the well-being of disregarded groups (Mishchuk et al., 2019; Vasylieva et al., 2023). Finally, ESG disclosure, by addressing social and environmental concerns (corporate disaster), can contribute to building and maintaining trust (trust principle), potentially enhancing financial performance (Bush, 2018). By prioritizing ESG factors, companies can be perceived as part of the solution to a more fair and just society. This can positively affect their long-term performance by enhancing their reputation, building stakeholder trust, and strengthening their ability to withstand environmental and social issues.

Stakeholder theory, as proposed by Freeman in 1984 (Strand et al., 2015), guides the formulation of CSR and ESG initiatives (Velte, 2017). The stakeholder theory proposes that business performance mainly depends on the organization's ability to coordinate and oversee its interaction with stakeholders (owners, investors, customers, employees, and media) (Van Beurden & Gössling, 2008). ESG disclosure is vital for corporations as it helps stakeholders understand the organization's performance, ethical standards, strategies, and engagement with the community (Connelly & Limpaphayom, 2004). Companies that include ESGD in their plans can potentially capture value regarding stakeholders' loyalty and receive positive financial returns. In summary, ignoring the potential stakeholders can result in an economic and reputational loss (Blajer-Golebiewska & Nowak, 2024), while satisfying these stakeholders in the context of environmentally and socially friendly practices through effective ESG risk and opportunity disclosures is likely to enhance competitive edge, market value and eventually firm financial performance (Dong et al., 2023; Rahman et al., 2023).

In an institutional context, MNCs are expected to face more diverse social, environmental, cultural, and economic regulations. Internationalization expands a company's legal environment to include all institutional contexts in its home and host countries and intensifies the number and type of stakeholder pressures on the company (Sharfman et al., 2004). Considering these claims, multinational corporations are subject to increasingly prevalent and severe attacks on their legitimacy and increase the liability of foreignness leading them to disclose more ESG risk and opportunities-related information to preserve their legitimacy and avoid reputation risk (King & Shaver, 2001). Responding to these pressures through ESG initiatives and disclosures, such as controlling greenhouse gas emissions and better social practices, can assist MNCs in developing resources and a competitive edge and obtain legitimacy from customers and local authorities (Fatima et al., 2023) that, in turn, help achieve economic gains (Ren et al., 2023). Thus, by addressing ESG risk MNCs gain higher profitability in terms of higher Tobin's q ratio (Doidge et al., 2004; Dyck et al., 2019) and ROA.

2.2. ESG disclosures and firm financial performance

The concept of ESG disclosure has recently attracted the attention of global regulators, experts, and scholars. Non-financial reporting originates from a wide range of sources, which are generally classified into three distinct categories such as environmental (e.g., carbon footprints, innovation, resource use), social (e.g., gender equality, employees' well-being, human rights, racial diversity, community) and governance (e.g., leadership diversity, executive pay, and interaction between leadership and shareholders) (Lee &

Raschke, 2023; Naseer et al., 2024; Tiscini et al., 2022). Proponents of integrated reporting claim that ESG disclosure benefits organizations and stakeholders. It improves transparency and decision-making within and outside the organization while strengthening social and economic sustainability (Eccles et al., 2015).

Efficient ESG disclosures can improve a firm overall performance (Busch et al., 2016). Therefore, it is vital to understand how ESG disclosures can be used to improve performance (Wu et al., 2024). However, the scientific evidence regarding the effect of ESGD (scores reported by rating agencies) on FFP is still ambiguous. Many scholars have expressed considerable doubts about the accuracy of the rating agencies' ESG scores (Khan, 2022; Lee & Raschke, 2023; Lee & Suh, 2022). In addition, the technique, format of ESG disclosures, and disclosure intensity vary widely in terms of industries, companies, and regions.

Many research studies found a positive correlation between ESGD and FFP (Albitar et al., 2020; Rahman et al., 2023). Studies documented that reporting on E, S, G mechanisms of sustainable business models also minimizes the cost of capital (Eichholtz et al., 2019), volatility in stock prices (Bofinger et al., 2022), and reduces the financial risk (Atif & Ali, 2021) that can lead to better financial performance. Additionally, organizations that ensure ESG disclosures avoid lawsuits and unfavorable media reporting that enable them to receive subsidies from the government (Jackson et al., 2020). There is also evidence of "social cleansing" regarding the investors (Cayón & Gutierrez, 2021). Regarding environmental disclosures (ENVD), stakeholders' theory underlines that public awareness of the environmental devastation has required corporations to develop laws and report environmental information about their agreements regarding this critical issue (Buallay, 2020). Many research studies found a significant positive association between ENVD and FFP (Aureli et al., 2020; San Ong et al., 2014). In terms of social disclosure (SOC), Cheng et al. (2014) claim that corporations with effective social practices have easier access to funding due to engagement with stakeholders and increased transparency, a positive relationship between social disclosure and ROA on the Dow Jones Sustainability Index. These are also supported by Rawls's justice theory (Rawls's injustice, difference, and trust principle), which states that promoting community can enhance a firm financial performance. Studies also establish a positive connection between corporate governance disclosure (GOVD) mechanisms and Tobin's q based on United States (US) stock markets (Gompers & Metrick, 2001). Investing in firms with superior GOVD provides a higher rate of returns than investing in corporations with weak GOVD (Gompers & Metrick, 2001). The presence of female directors, experienced board members, and executive pay enhances FFP (Knežević et al., 2023). This is supported by Rawls' principle of fair equality of opportunity, which states that providing equal opportunities to all regardless of racial, cultural, and gender diversity creates positive public sentiment, which leads to improved corporate financial performance.

Opposed to that research studies reported a negative association between ESGD and FFP (Buallay, 2019). They claim that greater ESGD unnecessarily increases reporting costs, leading to financial disadvantages. ESG regulations and disclosures heavily burden small and medium-sized firms, potentially leading them to reduce their financial activities and affecting owners' core interests (wealth maximization). Buallay (2020) found a significant, negative association between ESGD and FFP. After considering both sides from preliminary studies, it is evident that the association between ESGD and FFP is complex and non-conclusive and depends on the context. However, whether negative or positive, it is also clear that ESGD and FFP have a strong relationship as very few studies have reported univariate results. Thus, the current study develops the following hypothesis in the APAC context.

H1a. Environmental disclosures likely affect the firm financial performance.

H1b. Social disclosures likely affect the firm financial performance.

H1c. Governance disclosures likely affect the firm financial performance.

2.3. Role of firm internationalization between ESGD and FFP

The above discussion indicates that different academics have different opinions about the relationship between ESGD and FFP. Most of the existing literature emphasized the direct relationship while overlooking the other indicators that might affect this association, leading to disagreement (Rahman et al., 2023; Wu et al., 2024). Hence, it is vital to comprehend a relationship thoroughly by considering other factors. The firm expands its degree of international setups by adopting the various dimensions of internationalization, such as international intensity and geographical diversity (Kennelly & Lewis, 2002). In this regard, firm internationalization through its international intensity and geographical diversity dimensions could be essential in influencing the ESGD and FFP performance relationship. However, existing research has overlooked the relationship between corporate internationalization and ESG in the setting of multinational enterprises (Park, 2018) focusing mainly on MNCs' performance rather than ESGD. Figure 1 illustrates the degree of corporate internationalization of APAC-listed firms in terms of foreign sales and foreign assets ratio. Notably, the first degree of internationalization (intensity) is higher than the second degree of firm internationalization (expansion) because most of the corporations listed in APAC are in the early stages of internationalization.

International intensity and extensity represent an organization's commitment to its foreign customers in a host country and cover the degree of corporate internationalization in terms of foreign sales and foreign assets. Studies found that MNCs provide higher levels of ESG disclosures because they are motivated to lessen the liability of foreignness in the host market (Yu & Van Luu, 2021). Exports and foreign direct investment gain unique resources, competitive advantages (Rahat & Nguyen, 2023; Lukács & Völgyi, 2021), and create flexibility that improves the firm overall performance. To ensure uninterrupted exports, MNCs need to access a host of regulatory requirements that emphasize standardizing manufacturing, shipping, marketing, sales, and other interconnected networks, such as carbon neutrality, increasing resource allocation efficiency, which improves overall ESG performance. A high degree of corporate internationalization (Attig et al., 2016) and selling under strict regulations appear to drive pro-environmental behavior. Similarly, Lim and Tsutsui (2012) observe that organizations are more likely to ensure social disclosures when there is increased involvement of UN Global Compact signatories in that country's export markets. It has also been found that a higher degree of internationalization reduces the chances of community disengagement in multinationals from developing countries (Tashman et al., 2019). MNCs also need to meet the demands and pressures of multi-stakeholders and build trust and goodwill in the context of good corporate governance practices because neglecting good practices can lead to litigation or sanctions (Chen et al., 2022).

According to institutional theory, MNCs can increase their ESG disclosures to enhance financial performance by preventing adverse publicity and potential consumer boycotts (Dyck et al., 2019) in the host country. As the firm operates in geographically diverse norms, values, and cultural frameworks, it must implement various ESG practices to reduce the liability of foreignness and legitimacy issues. It refers to the drawbacks multinational corporations have in the host country because they operate outside of their institutional context. Murcia et al. (2010) discovered a positive association between firm internationalization and societal practices in Brazilian corporations. To gain legitimacy and overcome the liability of foreignness during firm internationalization, MNCs disclose more ESG information to several stakeholders, which in turn improves the firm financial performance. Organizations need to disclose more ESG information during internationalization to gain success in foreign markets. The theoretical framework for examining how ESGD affects FFP with firm internationalization as a moderating factor is shown in Figure 2.

H2a. Firm internationalization significantly and positively moderates the relationship between Environmental disclosure and FFP.

H2b. Firm internationalization significantly and positively moderates the relationship between social disclosure and FFP.

H2c Firm internationalization significantly and positively moderates the relationship between corporate governance disclosure and FFP.

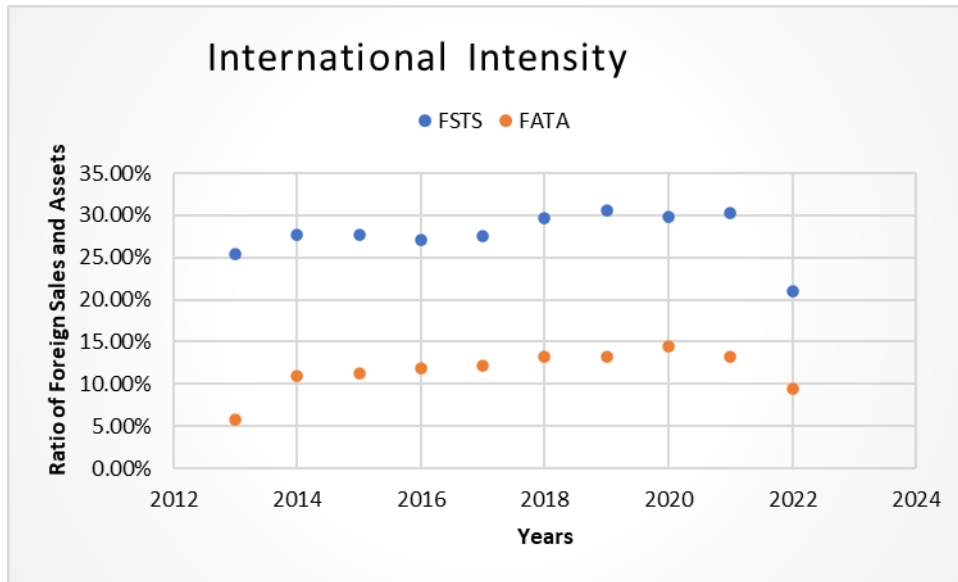


Figure 1. Degree of firm internationalization among Asia Pacific listed firms

Source: *DataStream (2013-2022) authors' Processing*

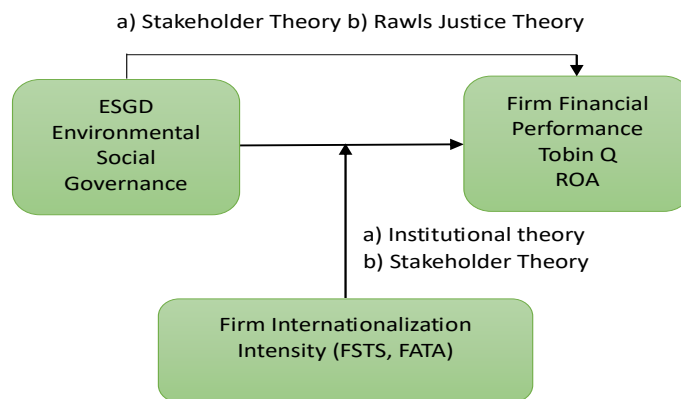


Figure 2. Theoretical framework

Source: *authors' processing*

3. STUDY METHODOLOGY

3.1. Sample and data description

Following the most recent study (Wu et al., 2024), the current study followed a quantitative research technique to evaluate the association between ESGD and FFP with the moderating effect of firm internationalization on the ESGD-FFP relationship. The study considered ten years of sample observations

from 2013 to 2022, as many firms started publishing ESG information in 2012 (Mohammad & Wasiuzzaman, 2021). The initial sample consisted of 22,393 listed corporations selected from seven emerging Asia-Pacific economies (Malaysia, Singapore, Indonesia, Japan, India, China, Hongkong), of which 2,471 published ESGD and firm internationalization data. In addition, we removed any missing data from the sample set throughout the sampling period, and finally, we retrieved 697 firms for the current study. All data (e.g., financial, non-financial) has been retrieved through the Refinitiv Eikon-DataStream. It is important to remember that different rating agencies report ESGD data in line with distinct standards, which can cause bias in analysis (Clementino & Perkins, 2021). However, at the moment, Refinitiv Eikon-DataStream is an exhaustive and unique dataset that provides financial and non-financial datasets, especially environmental, social, and governance disclosure data (Wu et al., 2024). The ESG scores have been divided by 100 (Bissoondoyal-Bheenick et al., 2023). The next section provides measures of the variables.

3.2. Variables measurement

Firm financial performance (response variable): Firm performance is a measure of an organization's effectiveness in utilizing its material and human resources to achieve its objectives (Le & Buck, 2011). In the current study, we utilized market-based measures (Tobin q) and accounting-based measures (ROA) (Gull et al., 2022). Market-based efficiency (Tobin's q) is calculated as market capitalization plus total liabilities divided by total assets (Carnini Pulino et al., 2022). It reflects current profitability and considers investors' prospects for long-term growth and possible opportunities. Tobin's q is also an important gauge through which an organization's reputation can be assessed which is why this measure is more appropriate than others in the ESGD context. Accounting measure (ROA) is calculated as net profit divided by total assets (Bagh et al., 2023), revealing profitability in terms of assets. The higher ratio indicates that the firm is managing its assets effectively (Alareeni & Hamdan, 2020), which satisfies the investors and other stakeholders.

ESG disclosure scores (independent variables): The present study utilized the Refinitiv Eikon-DataStream ESG disclosure Scores, which are based on organization self-reporting on environmental (e.g., emissions, resource usage), social (e.g., gender equality, employees' well-being, human rights, racial diversity, community), and corporate governance pillars (e.g., leadership diversity, executive pay, and interaction between leadership and shareholders) (Tiscini et al., 2022). Refinitiv Eikon scores are reliable and extensively utilized in earlier studies (Bruna et al., 2022). These scores range from (1-100) to represent ESG disclosures. The Refinitiv Eikon-DataStream database is updated weekly (Aydoğmuş et al., 2022), whereas information regarding ESGD and ESG controversies is reported once a year.

Firm internationalization (Moderation): The intensity to which a firm engages in international trade and thus covers the degree of internationalization involvement (intensity, diversity, distance) is known as firm internationalization. The existing literature used several proxies to capture the degree of firm internationalization, such as the number of nations in which an organization is engaged (Khalid et al., 2021), and the number of the firm's foreign subsidiaries (Hussain et al., 2021). This study utilized the international intensity and geographical extensity dimensions of firm internationalization, which are measured using the foreign sales to gross sales ratio (FSTS) and foreign assets to total assets ratio (FATA) (Hussain et al., 2021; Park, 2018). The international intensity and geographic extensity (FSTS, FATA) are the initial stages of entering foreign markets as these form the foundation for subsequent international expansion (Kogut & Chang, 1996) such as international diversity and distance. This measure is appropriate because many Asia Pacific corporations are still in the early stages of firm internationalization. It is also interesting to note that FSTS quantifies the degree of internationalization due to the specific downstream (advertising) side of the

firm, while FATA measures the degree of firm internationalization due to the upstream (supply and manufacturing side) (Oh, 2009).

Control Variables: The current study controls research and development intensity (R&D), Product market competition (PMC), and Liquidity (LQ) to eliminate any confounding variable effects to examine the true relationship between ESGD and firm FP. The research and development intensity is a proportion of research and development expenses to total revenue (Attig et al., 2016). The firm might earn a higher rate of return by utilizing advanced technology and intangible assets due to high R&D intensity. Product market competition (PMC) is measured using the Herfindahl–Hirschman index, a square of all market share (Kamarudin et al., 2020). According to Flammer (2015), lower import taxes lead to more competition in the product market, which raises CSR for US-based corporations. Liquidity is calculated as current assets divided by current liabilities (Wu et al., 2024). The level of liquidity in a firm operation might influence the business risk.

3.3. Model specification

Based on Hausman test suitability, this study applied a fixed effect model (Baseline results), a panel-type statistical technique used widely in earlier studies (Baraibar-Diez & D. Odriozola, 2019). It is necessary to resolve the potential endogeneity problem between ESGD-INT-FFP relationships (Chiou & Shu, 2019) because robust statistical techniques can handle the potential endogeneity issue (Waddock & Graves, 1997). Therefore, the present study also used a 2-stage least square method to address the endogeneity problem (Ullah et al., 2021) caused by omitted variable biases reverse causality, and simultaneity biases.

$$FFP (TQ, ROA)_{i,t} = a_0 + a_1ENV_{i,t} + LQ_{i,t} + a_3PMC_{i,t} + a_4RD_{i,t} + \mu_{i,t}$$

$$FFP (TQ, ROA)_{i,t} = a_0 + a_1SOC_{i,t} + LQ_{i,t} + a_3PMC_{i,t} + a_4RD_{i,t} + \mu_{i,t}$$

$$FFP (TQ, ROA)_{i,t} = a_0 + a_1GOV_{i,t} + LQ_{i,t} + a_3PMC_{i,t} + a_4RD_{i,t} + \mu_{i,t}$$

The moderating effect of the INT on ESG-FFP

$$FFP (TQ, ROA)_{i,t} = a_0 + a_1ENV_{i,t} + a_2INT_{i,t} + a_3INT * ENV_{i,t} + LQ_{i,t} + a_3PMC_{i,t} + a_4RD_{i,t} + \mu_{i,t}$$

$$FFP (TQ, ROA)_{i,t} = a_0 + a_1SOC_{i,t} + a_2INT_{i,t} + a_3INT * ENV_{i,t} + LQ_{i,t} + a_3PMC_{i,t} + a_4RD_{i,t} + \mu_{i,t}$$

$$FFP (TQ, ROA)_{i,t} = a_0 + a_1GOV_{i,t} + a_2INT_{i,t} + a_3INT * ENV_{i,t} + LQ_{i,t} + a_3PMC_{i,t} + a_4RD_{i,t} + \mu_{i,t}$$

Table 1

Operationalization of variables

Variables	Acronym	Measurement
Response variable:		
Tobin's Q	Tobin	market capitalization + total liabilities/total assets
Return on assets	ROA	net profit/ total assets
Covariate variables:		
ESGD scores	ESGD	environmental, social, and corporate governance reported scores
Internationalization	INT	(i) foreign revenue/Total revenue, (FSTS) (ii) foreign assets/total assets, (FATA)
Liquidity	LQ	current Liabilities/ Current Assets
Research and Development exp	RD	research and development expenses/total assets
Product market competition	PMC	Herfindahl–Hirschman index (HHI)
Firm age	AGE	current year-year of incorporation + 1

Source: authors' own compilation

4. RESULTS AND DISCUSSION

4.1. Descriptive statistics

Table 2 provides descriptive statistics information for predictor, response, and moderating variables. The average value of Tobin's Q is 2.3612, demonstrating that the asset's market value is higher than its corresponding replacement cost. If Tobin's Q value is higher than 1, it means that the stock is overvalued. The average ROA is 0.1187 which indicates an average return of 11.87% with the lowest and highest returns of 8.01% and 17.02% respectively. In terms of environmental disclosures, the average disclosure score is 46.3, while the social and governance scores are 44.54 and 52.15, respectively. Interestingly, G, disclosure scores for companies in the Asia Pacific are higher than E, and S disclosure scores. The mean value of foreign sales and assets ratio is .2768 and .1126, respectively, indicating that the percentage of foreign revenue and assets is 27.68% and 11.26%, respectively. The average value of liquidity is 1.8731, while the average value of R&D is .0638 and the average value of product market competition is .3428.

Table 2

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
TOBINSQ	6970	2.3612	.2306	1.9639	2.7652
ROA	6970	.1187	.0235	.0801	.1702
ENVD	6970	.463	.0627	.3801	.5849
SOCD	6970	.4454	.0627	.3534	.5563
GOVD	6970	.5215	.0238	.4977	.5772
FSTS	6970	.2768	.0272	.2099	.3057
FATA	6970	.1156	.0234	.0584	.1442
LQ	6970	1.8731	.614	1.0984	3.2567
RD	6970	.0638	.0089	.0482	.0768
PMC	6970	.3428	.0336	.283	.4125

Source: *authors' compilation*

4.2. ESGD and firm financial performance (benchmark regression)

The study employed a fixed effect estimator to examine the association between ESGD and firm financial performance (market-based measure, accounting-based measures). In Table 4, Model 1 and Model 4 indicate the value of the coefficient for predictors and response variables to evaluate the association between environmental disclosures and FFP (Tobin's Q, ROA). Environmental disclosure (ENVD) is significantly and negatively associated with FFP. Table 4 shows that the impact of social disclosures (SOCD) on FFP is significant and negative, indicating that social activities and disclosures reduce firm profitability. The impact of corporate governance disclosures (GOVD) on FFP is also statistically significant and negative as shown in Model 3 and 6. The reported coefficient values in all three models are negative and significant at 1%.

Based on the above findings the results show that all three modern pillars of CSR disclosure significantly and negatively impact the FFP on both market-based and accounting-based indicators. The study findings are consistent with (Shaikh, 2022). Our first hypothesis (H1a) is that ENVD potentially affects FFP, which confirms the present findings. The negative relationship may be attributed to higher costs associated with environmentally friendly strategies and disclosures. Because organizations may incur higher costs in adopting sustainable technologies leading to higher product prices (Alareeni & Hamdan, 2020). Hence, such costs can affect the firm short-term value and profitability which in turn affect FFP negatively. In addition, in many developing regions investors could react negatively to ENVD, leading to a decline in corporate stock prices.

If organizations are committed to carbon neutrality, then they should invest in their assets to meet this goal (Carnini Pulino et al., 2022). Regarding SOCD (H1b), the findings also revealed a negative association with FFP. The negative relationship between SOCD and firm FFP is supported by existing studies (Alareeni & Hamdan, 2020). In the context of corporate governance disclosures (H1c), results reflected a significant negative association. It may also happen due to incurring heavy costs on management training, hiring experts, and professional personnel for accountability and reliability. This may reduce the organization's funds to invest in other profitable operations leading to decreased firm overall profitability. Our findings are consistent with studies carried out by (Alareeni & Hamdan, 2020).

Table 3

Baseline regression (Fixed effect): The impact of ESG disclosures on FFP

Variable	(1)	(2)	(3)	(4)	(5)	(6)
	TOBINSQ	TOBINSQ	TOBINSQ	ROA	ROA	ROA
ENVD	-1.5567*** (.0665)			-.0132*** (.0002)		
SOCD		-1.7121*** (.0758)			-.016*** (.0002)	
GOVD			-3.9595*** (.1388)			-.0267*** (.0005)
LQ	-.0905*** (.0046)	-.1005*** (.0047)	-.0883*** (.0045)	.0012*** (0)	.0011*** (0)	.0013*** (0)
RD	-.264 (.4591)	1.1114** (.516)	-2.0898*** (.3722)	.2091*** (.0015)	.229*** (.0017)	.183*** (.0013)
PMC	-.4008*** (.0819)	-.2752*** (.0812)	-.2726*** (.0791)	.6997*** (.0003)	.7005*** (.0003)	.7013*** (.0003)
Constant	3.4056*** (.0425)	3.3356*** (.0417)	4.818*** (.0739)	-.1308*** (.0001)	-.1311*** (.0001)	-.1219*** (.0003)
Observations	6970	6970	6970	6970	6970	6970

Standard errors are in parentheses

*** p<.01, ** p<.05, * p<.1

Source: *authors' results*

The results reveal that liquidity is significantly and negatively associated with firm financial performance as proxied by market-based measures; however, it has a positive link with FFP proxied by ROA. DasGupta and Roy (2023) delineate that liquidity can affect a firm financial performance. The R&D intensity does not provide any substantial effect on FFP (Tobin's Q), but it has a positive impact on firm FFP measured by ROA. Product market competition is negatively nexus with Tobin's Q while, it has a positive impact on ROA.

4.3. Moderating role of firm internationalization

Table 6 depicts the moderating role of firm internationalization (FSTS, FATA) between E, S, and G disclosures and FFP. First, the findings reveal that the firm internationalization significantly and positively moderates the relationship between ENVD and FFP under both proxies (FSTS, FATA) as shown in models 1 and 4. Thus, the results confirm H2a that internationalization positively moderates the ENVD and FFP relationship. Second, models 2 and 5 show that firm internationalization (FSTS, FATA) significantly and positively interacting with the relationship between SOCD and FFP, consistent with H2b. Finally, the results show that corporate internationalization (FSTS, FATA) significantly and positively moderates the association

between GOVD and FFP as depicted in models 3 and 6. The coefficient values of moderation in the above models are statistically significant and positive. Thus, the results demonstrate that the MNCs' international activities either, international intensity (FSTS) or geographical diversity (FATA) promote E, S, and G practices and disclosure leading to improved FFP.

High-profile organizations are likely to disclose more voluntary environmental information and policies than domestic firms, enabling them to socialize and gain loyalty from host monitoring bodies and the competitive environment which positively contributes to financial performance. In the context of institutional theory, corporations are encouraged to report their environmental commitments when their assets are located in countries that face intense institutional constraints. Alternatively, they might be triggered to enhance their reputation in the global market by disclosing more information which allows them to receive subsidies and legitimacy important for enhancing firm profitability. The findings are consistent with (Yang et al., 2020). The high degree of trans nationalization allows each board member, including female board members, to incorporate diverse perspectives to demonstrate their professional expertise to meet customer demands for better decision-making (Song et al., 2020) which tends to improve FFP.

Table 4

Moderating role of Firm internationalization (FSTS, FATA)

Variable	(1)	(2)	(3)	(4)	(5)	(6)
	TOBINSQ	TOBINSQ	TOBINSQ	TOBINSQ	TOBINSQ	TOBINSQ
ENVD	-31.9867***			-15.2799***		
	(.4769)			(.2195)		
ENVD*FSTS	119.2358***					
	(1.7284)					
ENVD*FATA				136.0699***		
				(1.9183)		
SOCD		-32.024***			-14.4614***	
		(.5449)			(.2298)	
SOCD*FSTS		119.4704***				
		(1.9559)				
SOCD*FATA					128.9558***	
					(1.9597)	
GOVD			-79.4303***			-43.3508***
			(1.1816)			(.6174)
GOVD*FSTS			302.6118***			
			(4.4028)			
GOVD*FATA						391.1554***
						(5.6214)
FSTS	-61.0218***	-58.1586***	-			
	(.9663)	(1.0478)	163.7741***			
			(2.4615)			
FATA				-59.8339***	-53.3218***	-
				(.9395)	(.9206)	201.7543***
						(2.9731)
LQ	-.1792***	-.1824***	-.1399***	-.2936***	-.2833***	-.2431***
	(.0034)	(.0037)	(.0032)	(.0058)	(.0063)	(.0053)
RD	-4.0789***	-5.9506***	-3.5277***	-9.7142***	-11.0397***	-7.7749***

	(.4946)	(.5912)	(.4364)	(.6226)	(.7322)	(.5797)
PMC	-.5968***	-.9485***	-.8478***	-1.0413***	-1.1883***	-1.4279***
Constant	19.6163***	19.0602***	46.2816***	10.5235***	9.8852***	26.1162***
	(.2539)	(.2778)	(.6505)	(.1128)	(.1126)	(.3328)
Observations	6970	6970	6970	6970	6970	6970

Standard errors are in parentheses

*** p<.01, ** p<.05, * p<.1

Source: *authors' results*

Table 5

Impact of ESG disclosures on FFP based on robust 2SLS

Variable	(1)	(2)	(3)	(4)	(5)	(6)
	TOBINSQ	TOBINSQ	TOBINSQ	ROA	ROA	ROA
ENVD	-1.743***			-.0104***		
	(.0681)			(.0002)		
SOCD		-2.4149***			-.0122***	
		(.0795)			(.0002)	
GOVD			-5.9609***			-.02***
			(.1443)			(.0004)
LQ	-.1626***	-.2012***	-.187***	.0024***	.0022***	.0024***
	(.0076)	(.0079)	(.0075)	(0)	(0)	(0)
RD	3.4683***	8.5013***	4.6321***	.1509***	.1672***	.1282***
	(.5541)	(.633)	(.4689)	(.0013)	(.0015)	(.0012)
PMC	-.8054***	-.8492***	-.8811***	.706***	.7064***	.7074***
	(.088)	(.0874)	(.0851)	(.0002)	(.0002)	(.0002)
Constant	3.5062***	3.5353***	5.7986***	-1.1323***	-1.1326***	-1.1258***
	(.0429)	(.0423)	(.077)	(.0001)	(.0001)	(.0002)
Observations	6273	6273	6273	6273	6273	6273

Robust standard errors are in parentheses

*** p<.01, ** p<.05, * p<.1

Source: *authors' results*

4.4. Robustness check

It is vital to further resolved the possible endogeneity problem between ESG disclosures and FFP. For instance, MNCs with strong ESGD score are possibly choose economies with high ESGD ratings for their internationalization process, however, corporations with weak ESGD are likely to select economies with low ratings for their internationalization to avoid FFP (Yang et al., 2020). To overcome, the endogeneity issue, we further conducted (2SLS) technique (Khalid et al., 2021). Two stage least square technique is conducted to control potential endogeneity issue (Ullah et al., 2021). Table 6 presents the robustness test on the association between ESGD and FFP using two-stage least square technique. Whereas Table 7 shows the robustness of the moderating role of firm internationalization between ESGD and FFP. The robustness results are consistent with our primary findings. The E, S, G pillars are significantly and negatively connected with FFP. While firm internationalization through international intensity and geographic extensity significantly and positively moderates the ESGD and FFP relationship.

Table 6

Moderating Role of firm internationalization (FSTS, FATA) based on robust 2SLS with Tobin Q

Variable	(1) TOBIN Q	(2) TOBIN Q	(3) TOBIN Q	(4) TOBIN Q	(5) TOBIN Q	(6) TOBIN Q
ENVD	-12.705*** (1.5164)			-19.8609*** (.9032)		
ENVD*FSTS	49.7534*** (5.5306)					
ENVD*FATA				173.8334*** (7.5588)		
SOCD		-57.3881*** (.6099)			-45.0949*** (.4293)	
SOCD*FSTS		213.2762*** (2.1083)				
SOCD*FATA					384.2154*** (3.4908)	
GOVD			- 179.6102*** (1.5815)			-117.3115*** (1.2376)
GOVD*FSTS			676.6621*** (5.765)			
GOVD*FATA						1014.9812*** (10.2232)
FSTS	- 21.8912*** (3.1704)	- 109.3494*** (1.1716)	- 375.4124*** (3.2793)			
FATA				-83.024*** (4.2649)	- 191.4155*** (1.9175)	-552.3104*** (5.7398)
LQ	-.1571*** (.0113)	.032*** (.005)	.1996*** (.0053)	-.2375*** (.0055)	-.3266*** (.0057)	-.2053*** (.0059)
RD	- 12.6635*** (.4609)	-7.6873*** (.4266)	.5333 (.348)	-4.8713*** (.9678)	19.4037*** (.6355)	23.8176*** (.7696)
PMC	-1.1161*** (.1125)	1.0512*** (.0513)	2.2066*** (.0678)	-.5684*** (.0431)	-.6565*** (.0379)	-1.3572*** (.0448)
Constant	9.4161*** (.8089)	32.0874*** (.3159)	101.3759*** (.8687)	12.7692*** (.4487)	24.3858*** (.2029)	65.644*** (.662)
Observations	6273	6273	6273	6273	6273	6273

Robust standard errors are in parentheses

*** p<.01, ** p<.05, * p<.1

Source: *authors' results*

Table 7

Moderating Role of firm internationalization (FSTS) based on robust 2SLS with ROA

Variable	(1) ROA	(2) ROA	(3) ROA	(4) ROA	(5) ROA	(6) ROA
ENVD	-.1143*** (.0015)			-.0289*** (.0022)		
ENVD*FSTS	.3431*** (.0055)					
ENVD*FATA				.0833*** (.0183)		
SOCD		-.049*** (.0016)			-.0834*** (.0021)	
SOCD*FSTS		.0928*** (.0057)				
SOCD*FATA					.5298*** (.0195)	
GOVD			-.0981*** (.0017)			-.0802*** (.0006)
GOVD*FSTS			.1777*** (.0059)			
GOVD*FATA						.0751*** (.0096)
FSTS	-.2206*** (.0031)	-.0761*** (.0032)	-.1327*** (.0034)			
FATA				-.0931*** (.0103)	-.3218*** (.0095)	-.1476*** (.0054)
LQ	.003*** (0)	.0024*** (0)	.0028*** (0)	.0024*** (0)	.0011*** (0)	.0007*** (0)
RD	.24*** (.0006)	.2556*** (.0008)	.2058*** (.0003)	.2582*** (.0029)	.3651*** (.0024)	.4977*** (.0012)
PMC	.7169*** (.0001)	.7131*** (.0001)	.7158*** (0)	.7063*** (.0001)	.6898*** (.0006)	.7012*** (.0001)
Constant	-.0773*** (.0008)	-.1148*** (.0008)	-.0824*** (.0009)	-.1242*** (.0011)	-.0943*** (.0013)	-.1005*** (.0004)
Observations	6273	6273	6273	6273	6273	6273

Robust standard errors are in parentheses

*** p<.01, ** p<.05, * p<.1

Source: *authors' results*

5. CONCLUSION

Environmental, social and governance issues in today's competitive world allow scholars and academics to explore and propose policies that ensure economic sustainability in developed and emerging economies. In the present study, we examine the impact of the modern pillars of CSR (E, S, G disclosures) on firm financial performance, measured using two different proxies including Tobin's Q and ROA, especially emphasizing on moderating role of firm internationalization. A comprehensive evaluation of a sample of 697 listed firms, selected from Asia-Pacific emerging economies from 2013 to 2022. We aim to examine ESGD-FFP. We also utilize international intensity and geographical extensity to measure the firm

internationalization, applying a two stage least square technique to handle issues related to endogeneity. This allows us to comprehend how the individual pillars of ESGD and firm internationalization (FSTS, FATA) effect FFP.

The findings depict that the three pillars, environmental, social and governance disclosures have a significant and negative effect on firm financial performance across all models, indicating that organizations in Asia-Pacific adopting E, S, G disclosures strategies tend to reduce their financial performance. In many developing regions of the world, where the concept of sustainability is in its infancy, consumers may perceive it as a cost burden and may not prioritize it, resulting scepticism among consumers. Thus, organizations that support E, S, G goals may lose potential market share due to consumer diverting their attention to competitors. These competitors do not bear the costs of ESGD practices and disclosures enabling them to offer cheaper products. (LinkedIn Economic, 2022), through LinkedIn elucidates that, the percentage of green skills hiring in APAC have reached at 8% yearly, however only 6% supply of green skills and talent has been recorded.

However, firm internationalization has a significant and positive link between ESGD and FFP. Through analyzing the different degrees of firm internationalization such as international intensity (FSTS) and geographical extensity (FATA), the study finds that international expansion of corporations significantly promotes ESGD, which in turn improves FFP. This supports the idea that MNCs with large funds have enough surplus resources to adopt ESG strategies at international level, enabling them to align their process well with host norms, culture, belief and traditions, positively contributes firm overall performance. In developed global markets, companies deal with more complex stakeholder interactions (especially green consumer and investors), meeting social obligations can provide stakeholders with positive corporate information. This in turn allows firms to utilize the stakeholders' resources and knowledge in host market. Thus, it eventually likely opens up more opportunities for profitability.

The results of the present study offer important implications for practitioners, regulatory bodies, and managers regarding the ESGD-FFP relationship. Policymakers could implement, incentives such as tax benefits, access to lower-cost funds, and preferential treatment for corporations that demonstrate effective ESG practices and impose strict actions on those who fail to adopt sustainable business models. In addition, the standards settings bodies can organize the ESGD in the region to treat all corporations equal and can engage multi-stakeholder to address the sustainability issues, which will promote not only the environmentally and socially friendly behaviors but also economy in financial terms. Finally, the study provides useful recommendations to MNCs' overseas management while adopting corporate international strategies.

Although, our study contributed to the ongoing knowledge of accounting, sustainable business models and firm internationalization's dimensions. The study has certain limitations. First study followed strict criteria including only those firms that reports ESG and have foreign setup in terms of export and geographic segments in terms of foreign assets. Hence the study may posit limit providing generalizability. Second, the study considered only few dimensions of corporate internationalizations (FSTS, FATA) which may not fully capture the degree of firm internationalization. Thus, the future research can be carried out by considering other aspects of internationalization such as international diversity in context of the number of foreign subsidiaries, and international distance dimensions. Future research may also undertake by taking the comparative analysis between developing and emerging economies and focusing on a single sector such as energy or manufacturing sector to assess the sector-specific effect.

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