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Environmental, Social, and Governance (ESG) Practices and Financial Performance: A Qualitative Systematic Literature Review of Evidence from Emerging Markets

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ABSTRACT. *This study provides a qualitative systematic literature review examining the relationship between Environmental, Social, and Governance (ESG) practices and financial performance in emerging markets. Drawing on peer reviewed studies published up to 2024, the review synthesizes empirical and theoretical evidence to identify dominant patterns, contextual drivers, and methodological approaches. The findings indicate that ESG practices generally have a positive but context-dependent impact on firm financial performance, influenced by institutional quality, regulatory frameworks, and stakeholder pressures. Environmental and governance dimensions tend to show stronger financial relevance, while social factors exhibit more variable outcomes across regions. The review also highlights inconsistencies arising from measurement differences, data limitations, and varying ESG disclosure standards in emerging markets. Overall, the study underscores the strategic importance of ESG integration while emphasizing the need for more standardized metrics and context-sensitive frameworks to enhance comparability and reliability in future research.*

Keywords *ESG practices; financial performance; emerging markets; systematic literature review; sustainability reporting*

INTRODUCTION

In recent decades, the integration of Environmental, Social, and Governance (ESG) practices into corporate strategy has gained substantial attention among academics, policymakers, and investors. ESG represents a multidimensional framework that evaluates corporate behavior beyond traditional financial metrics, encompassing environmental stewardship, social responsibility, and governance quality. This shift reflects a broader transformation in how firm value and performance are conceptualized, moving from shareholder centric models toward stakeholder oriented approaches (Peng & Isa, 2020). The growing emphasis on ESG is particularly evident in emerging markets, where economic growth, institutional development, and sustainability challenges intersect in complex ways.

The increasing relevance of ESG practices is driven by several global factors, including climate change, social inequality, and corporate accountability demands. International organizations and regulatory bodies have actively promoted ESG disclosure standards and sustainable investment principles to align corporate activities with long term societal goals (OECD, 2022). Concurrently, investors are increasingly incorporating ESG metrics into decision-making processes, recognizing their potential to mitigate risks

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and enhance long term returns (Whelan et al., 2021). As a result, ESG performance is no longer viewed as a peripheral concern but as a critical determinant of corporate competitiveness and resilience. Adopting aforward thinking strategy that ensures both the company's financial success and its ability to thrive amidst challenges, changes, and uncertainties is a cornerstone of sustainable leadership for business resilience (Sugiharti, T., 2023).

A central debate in the literature concerns the relationship between ESG practices and financial performance. Traditional economic theory often assumes that investments in environmental and social initiatives impose additional costs that may reduce profitability in the short term. However, stakeholder theory and legitimacy theory suggest that ESG engagement can enhance firm reputation, improve stakeholder relationships, and ultimately contribute to superior financial outcomes (O'Donovan, 2002; Cormier et al., 2011). Supplier engagement, adoption of green technologies, and collaboration with stakeholders, is crucial for improving operational efficiency, reducing environmental impact, and enhancing the company's reputation (Ruslaini & Eri Kusnanto, 2020). Empirical findings on this relationship remain mixed, with some studies reporting positive, negative, or insignificant effects depending on context, methodology, and measurement approaches (Velte, 2017; Zumente & Bistrova, 2021).

In emerging markets, the ESG financial performance nexus presents unique dynamics. These economies are characterized by rapid industrialization, evolving regulatory frameworks, and varying levels of institutional quality. Consequently, the adoption and impact of ESG practices may differ significantly from those observed in developed markets. For instance, Makhdalena et al. (2023) find that ESG practices positively influence firm performance in Southeast Asia, highlighting the importance of sustainability in rapidly growing economies. Similarly, Le (2024) provides evidence that ESG scores have a positive lagged effect on financial performance among listed firms in Southeast Asia, suggesting that ESG investments may yield financial benefits over time. A significant influence between the activity ratio and financial distress (Benardi; Milga, 2022).

Despite these insights, ESG implementation in emerging markets often faces structural challenges, including limited regulatory enforcement, inconsistent disclosure standards, and resource constraints. These factors can lead to significant heterogeneity in

ESG practices across firms and industries (Drempetic et al., 2020). Moreover, the influence of macroeconomic conditions, such as GDP growth and external shocks like the COVID-19 pandemic, further complicates the relationship between ESG and financial performance. For example, empirical evidence indicates that while ESG contributes positively to firm performance, external disruptions such as pandemic related shocks can negatively affect profitability indicators such as return on assets (Hwang et al., 2021; Le, 2024).

Another important dimension of the ESG performance relationship involves firm specific characteristics, including size, leverage, and operational efficiency. Larger firms tend to exhibit higher ESG scores due to greater visibility and resource availability, which may enhance their capacity to implement sustainability initiatives (Drempetic et al., 2020). Additionally, financial performance indicators such as return on assets (ROA) are influenced by operational and financial factors, including asset utilization, capital structure, and liquidity management (Abeyrathna & Priyadarshana, 2019; Damayanti & Chaerudin, 2021). These variables must be carefully considered when assessing the impact of ESG practices on firm performance.

The COVID-19 pandemic has further underscored the importance of ESG in enhancing corporate resilience. Firms with strong ESG profiles have demonstrated greater adaptability and risk management capabilities during periods of crisis (Fahlenbrach et al., 2021). ESG practices, particularly those related to governance and social responsibility, have been linked to improved stakeholder trust and operational stability during economic disruptions (Zahid et al., 2023). This highlights the strategic role of ESG in navigating uncertainty and sustaining long term performance.

Given the growing body of literature and the complexity of the ESG financial performance relationship, there is a need for a comprehensive synthesis of existing evidence, particularly in the context of emerging markets. A qualitative systematic literature review (SLR) provides an appropriate methodological approach to integrate diverse findings, identify patterns, and highlight research gaps. Unlike quantitative meta analyses, a qualitative SLR allows for a nuanced understanding of contextual factors, theoretical perspectives, and methodological variations that shape empirical outcomes.

This study aims to systematically review and synthesize the existing literature on ESG practices and financial performance in emerging markets. Specifically, it seeks to

(1) examine the theoretical foundations underpinning the ESG performance relationship, (2) analyze empirical evidence across different emerging market contexts, and (3) identify key determinants, mediating factors, and methodological approaches used in prior research. By doing so, this review contributes to the literature by providing a holistic understanding of how ESG practices influence financial outcomes in environments characterized by institutional and economic diversity.

Furthermore, this study addresses inconsistencies in prior findings by exploring the role of contextual variables such as regulatory frameworks, industry characteristics, and macroeconomic conditions. It also highlights the importance of standardized ESG measurement and disclosure practices to enhance comparability and reliability in future research (Refinitiv, 2022; OECD, 2022). Ultimately, the findings of this review are expected to inform policymakers, investors, and corporate managers about the strategic value of ESG integration in emerging markets.

The integration of ESG practices represents a fundamental shift in corporate governance and performance evaluation. While evidence suggests a generally positive relationship between ESG and financial performance, particularly in emerging markets, the extent and nature of this relationship remain contingent on various contextual factors. A systematic synthesis of the literature is therefore essential to advance understanding, reconcile conflicting findings, and guide future research and practice in this evolving field.

LITERATURE REVIEW

The relationship between Environmental, Social, and Governance (ESG) practices and financial performance has become a central theme in contemporary corporate governance and sustainability research, particularly in the context of emerging markets where institutional frameworks, regulatory enforcement, and market maturity differ significantly from developed economies (Friede et al., 2015; Velte, 2017). A growing body of literature suggests that ESG integration is not only a normative expectation but also a strategic mechanism that can influence firm value, risk exposure, and long-term financial sustainability (Eccles et al., 2014; Fatemi et al., 2018). However, empirical findings remain mixed, especially in emerging markets, necessitating a systematic qualitative synthesis of existing evidence.

ESG and Financial Performance: Theoretical Foundations. The theoretical linkage between ESG practices and financial performance is often grounded in stakeholder theory, legitimacy theory, and resource based views (Freeman, 1984; Suchman, 1995; Barney, 1991). Stakeholder theory posits that firms engaging in ESG activities can enhance relationships with stakeholders, leading to improved financial outcomes through trust and reduced transaction costs (Freeman, 1984). Empirical evidence from emerging markets supports this perspective, indicating that firms with stronger ESG engagement tend to experience enhanced reputational capital and stakeholder loyalty (Maignan & Ferrell, 2004; Boubakri et al., 2021).

Legitimacy theory further explains that ESG disclosures help firms align with societal expectations, thereby securing legitimacy and continued access to resources (Suchman, 1995). In emerging markets, where institutional voids are prevalent, ESG practices can serve as signaling mechanisms to international investors, reducing information asymmetry and enhancing firm valuation (Dhaliwal et al., 2011; Clarkson et al., 2013). Additionally, the resource based view suggests that ESG capabilities can act as intangible assets that provide competitive advantages, leading to superior financial performance over time (Barney, 1991; Hart, 1995).

Empirical Evidence from Emerging Markets. Empirical studies examining ESG and financial performance in emerging markets present heterogeneous findings. Several studies document a positive relationship, suggesting that ESG engagement enhances firm profitability and market valuation. For instance, Boubakri et al. (2021) found that ESG performance positively affects firm value in emerging economies, particularly in countries with weaker investor protection mechanisms. Similarly, Nguyen et al. (2022) reported that ESG disclosure improves financial performance by reducing information asymmetry and enhancing investor confidence.

In the context of Asian emerging markets, studies indicate that ESG practices contribute to improved operational efficiency and reduced cost of capital (Zhang et al., 2020; Loh et al., 2017). For example, firms in countries such as China and India that actively engage in environmental and social initiatives tend to experience better financial outcomes due to regulatory incentives and growing investor awareness (Qiu et al., 2016; Kumar et al., 2016). Moreover, ESG performance has been associated with lower financial risk and improved resilience during economic downturns, including financial crises (Lins et al., 2017).

Conversely, some studies report insignificant or even negative relationships between ESG and financial performance in emerging markets. These findings are often attributed to higher implementation costs, lack of regulatory support, and limited investor awareness (Nollet et al., 2016; Buallay, 2019). For instance, Buallay (2019) found that while governance practices positively influence financial performance, environmental and social dimensions may impose short term costs that outweigh immediate financial benefits. This is particularly evident in industries with high compliance costs and limited stakeholder pressure.

ESG Dimensions and Differential Impacts. The ESG construct is multidimensional, and each component environmental, social, and governance may have distinct effects on financial performance. Governance practices are generally found to have the most consistent positive impact, as they directly influence managerial accountability, transparency, and decision making efficiency (Gompers et al., 2003; Claessens & Yurtoglu, 2013). In emerging markets, strong governance mechanisms are critical in mitigating agency problems and enhancing investor trust (La Porta et al., 2000).

Environmental practices, such as emissions reduction and resource efficiency, can lead to cost savings and innovation, but often require substantial upfront investment (Hart & Ahuja, 1996). Empirical evidence suggests that the financial benefits of environmental initiatives are more pronounced in the long term (Clark et al., 2015). Social practices, including employee welfare, community engagement, and human rights, contribute to organizational reputation and employee productivity, although their financial impact is often indirect and context dependent (Turban & Greening, 1997).

Institutional Context and Moderating Factors. The institutional environment plays a critical role in shaping the ESG financial performance relationship in emerging markets. Weak legal systems, limited enforcement mechanisms, and institutional voids can hinder the effectiveness of ESG practices (Khanna & Palepu, 2010). However, these same conditions can also amplify the signaling value of ESG disclosures, making them more impactful for attracting foreign investment (El Ghoul et al., 2011).

Country level factors such as regulatory quality, cultural norms, and market development also influence ESG outcomes (Ioannou & Serafeim, 2012). For example, firms operating in countries with stronger governance frameworks and sustainability regulations tend to derive greater financial benefits from ESG practices (Eccles et al., 2014). Additionally, firm specific factors such as size, industry, and ownership structure can moderate the ESG performance relationship (Ullmann, 1985; McWilliams & Siegel, 2000).

Methodological Insights and Research Gaps. The existing literature employs diverse methodologies, including panel data analysis, cross sectional studies, and case studies, leading to variations in findings (Margolis et al., 2009). Measurement inconsistencies in ESG metrics and financial performance indicators further complicate comparisons across studies (Chatterji et al., 2016). In emerging markets, data availability and quality remain significant challenges, limiting the robustness of empirical analyses.

A key gap in the literature is the lack of qualitative systematic reviews that synthesize contextual insights and underlying mechanisms driving the ESG financial performance relationship. While quantitative meta analyses provide aggregate evidence, they often overlook the nuanced institutional and cultural factors specific to emerging markets (Friede et al., 2015). Therefore, a qualitative synthesis is essential to capture the complexity and heterogeneity of ESG practices across different contexts.

Overall, the literature suggests that ESG practices have the potential to enhance financial performance in emerging markets, but the relationship is contingent on various contextual and firm specific factors. Positive outcomes are more likely when ESG initiatives are strategically integrated into core business operations and supported by strong governance frameworks (Eccles et al., 2014; Fatemi et al., 2018). However, short term financial trade offs and implementation challenges may limit the immediate benefits of ESG adoption.

This systematic literature review highlights the importance of adopting a holistic and context sensitive approach to ESG research in emerging markets. Future studies should focus on longitudinal analyses, standardized ESG metrics, and the exploration of mediating and moderating variables to provide deeper insights into the ESG financial performance nexus.

METHODS

This study employs a qualitative systematic literature review (SLR) approach to synthesize and critically analyze prior research on the relationship between Environmental, Social, and Governance (ESG) practices and financial performance in emerging markets. A systematic review is appropriate for consolidating fragmented evidence, identifying theoretical patterns, and generating integrative insights across diverse empirical contexts (Tranfield, Denyer, & Smart, 2003; Snyder, 2019).

The methodological framework follows established guidelines for systematic literature reviews in management and accounting research, particularly those proposed by Tranfield et al. (2003) and PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) principles to ensure transparency, replicability, and rigor (Moher et al., 2009). A qualitative synthesis approach is adopted because prior ESG financial performance studies exhibit heterogeneity in measurement, methodology, and institutional contexts, especially in emerging markets (Velte, 2017; Friede, Busch, & Bassen, 2015).

The literature search was conducted across multiple reputable academic databases, which are widely recognized for indexing high quality peer reviewed research (Mongeon & Paul-Hus, 2016). The search employed a combination of keywords and Boolean operators to capture relevant studies, such as: “ESG performance” and “financial performance”, “sustainability reporting” and “emerging markets”, “corporate social responsibility” and “firm performance”, “governance” and “profitability”. The use of multiple keyword combinations ensures comprehensive coverage and reduces selection bias (Kitchenham & Charters, 2007).

To ensure the relevance and quality of the reviewed studies, explicit inclusion and exclusion criteria were applied. Studies were included if they: examined ESG, CSR, or sustainability practices in relation to financial performance, focused on firms operating in emerging markets, were published in peer-reviewed journals, provided empirical or theoretical insights relevant to ESG-performance linkage, were published in English.

Studies were excluded if they: focused solely on developed markets without comparative insights, lacked clear methodological rigor, were conference papers, editorials, or non scholarly articles, did not explicitly analyze financial performance outcomes. Applying these criteria enhances the validity and reliability of the review by filtering out low quality or irrelevant studies (Petticrew & Roberts, 2006).

The study selection process followed a structured multi stage screening procedure. First, duplicate records were removed. Second, titles and abstracts were screened to eliminate irrelevant articles. Third, full text articles were assessed against the inclusion criteria. This stepwise filtering process aligns with systematic review protocols and reduces researcher bias (Moher et al., 2009). The final sample consists of studies that provide robust empirical evidence and theoretical insights into ESG practices and financial performance within emerging market contexts.

Data extraction was conducted systematically using a structured coding framework. Key information extracted from each study includes: author(s) and publication year, country or region of study, ESG dimensions analyzed (Environmental, Social, Governance), measurement of financial performance (e.g., ROA, ROE, Tobin's Q), methodological approach, key findings. This structured approach facilitates comparability across studies and supports thematic synthesis (Miles, Huberman, & Saldaña, 2014).

The coding process also categorized studies based on: positive, negative, or mixed ESG financial performance relationships, institutional and regulatory contexts, firm level versus macro level determinants. Such categorization enables deeper analytical insights into patterns and inconsistencies in the literature (Saldaña, 2021).

A thematic analysis approach was employed to synthesize the findings qualitatively. Thematic analysis allows the identification of recurring patterns, relationships, and conceptual themes across studies (Braun & Clarke, 2006). The analysis proceeded through the following steps: familiarization with the data, initial coding of key concepts, identification of themes, review and refinement of themes, interpretation and synthesis.

The synthesis focuses on explaining how ESG practices influence financial performance under different institutional conditions in emerging markets, where governance structures, regulatory enforcement, and market maturity vary significantly (Ioannou & Serafeim, 2012).

To enhance the rigor of the study, several strategies were employed: Transparency: Clear documentation of search strategy and selection criteria ensures replicability

(Tranfield et al., 2003). Triangulation: Use of multiple databases and diverse studies reduces bias and strengthens findings (Yin, 2018). Audit trail: Systematic recording of coding and analysis decisions ensures consistency (Miles et al., 2014). Furthermore, focusing on peer-reviewed journal articles enhances the reliability and academic credibility of the review (Podsakoff et al., 2005).

Limitations of the Methodology. Despite its rigor, the methodology has some limitations. First, restricting the review to English-language publications may introduce language bias (Egger et al., 1997). Second, qualitative synthesis may involve subjective interpretation, although this is mitigated through systematic coding procedures (Braun & Clarke, 2006). Third, the heterogeneity of ESG measurements across studies may limit direct comparability (Gillan, Koch, & Starks, 2021). This study relies exclusively on secondary data from published sources and therefore does not involve human subjects. Proper citation and acknowledgment of original authors were maintained throughout to ensure academic integrity (Resnik, 2018).

RESULTS

Predominantly Positive ESG Financial Performance Relationship. The majority of recent studies demonstrate that ESG practices have a generally positive impact on financial performance, particularly in emerging markets where sustainability practices are increasingly valued by investors and stakeholders. A large scale systematic review confirms that ESG and CSR initiatives tend to enhance firm profitability, market valuation, and long term performance outcomes.

Similarly, empirical evidence shows that ESG disclosure improves firm profitability across a broad sample of firms in emerging economies, suggesting that sustainability engagement contributes to financial success.

However, the literature also highlights that the strength of this relationship is context dependent, varying across industries, institutional environments, and firm characteristics.

Risk Reduction as a Key Transmission Channel. A consistent finding across the reviewed studies is that ESG practices improve financial performance primarily through risk mitigation mechanisms. Firms with higher ESG engagement tend to experience lower exposure to financial risks, including market volatility, credit risk, and default probability.

This risk-reduction effect enhances firm stability and resilience, particularly in emerging markets characterized by weaker institutional frameworks and higher uncertainty. Consequently, ESG integration reduces the cost of capital and improves investor confidence, which ultimately translates into better financial outcomes.

Governance as the Most Influential ESG Pillar. Among the ESG dimensions, governance (G) is consistently identified as the most significant determinant of financial performance. Strong governance structures improve transparency, accountability, and managerial efficiency, thereby reducing agency problems and enhancing firm value .

This finding is particularly important in emerging markets, where institutional voids and weak regulatory enforcement make internal governance mechanisms critical for firm performance. While environmental and social dimensions also contribute to financial outcomes, their effects are often more sector-specific and less consistent compared to governance.

Non Linear Relationship and Diminishing Returns. Recent literature highlights the presence of a non linear (curvilinear) relationship between ESG practices and financial performance. Empirical studies suggest that moderate ESG investment improves financial outcomes, but excessive ESG spending may lead to diminishing returns due to increased operational and compliance costs.

This finding implies that firms must optimize ESG investment levels to balance sustainability objectives with financial efficiency, particularly in resource constrained emerging markets.

Institutional and Country Level Moderation Effects. The ESG financial performance relationship is strongly influenced by institutional quality and country specific factors. Evidence indicates that ESG practices generate stronger positive financial outcomes in countries with: better regulatory frameworks, stronger investor protection, higher transparency standards. Conversely, in weaker institutional environments, ESG benefits may be limited or delayed due to enforcement challenges and market inefficiencies. This highlights the importance of institutional development in enhancing the effectiveness of ESG strategies.

Sectoral Heterogeneity in ESG Impact. The literature also reveals significant industry level variation in ESG outcomes. ESG practices tend to have stronger positive effects in: financial institutions, manufacturing sectors, consumer-oriented industries. In contrast, results are more mixed in extractive and capital-intensive industries, where ESG compliance costs are higher and benefits may take longer to materialize. This sectoral heterogeneity underscores the need for context specific ESG strategies.

ESG Disclosure and Transparency Effects. ESG disclosure plays a crucial role in enhancing financial performance by improving information transparency and stakeholder trust. Transparent ESG reporting reduces information asymmetry between firms and investors, facilitating better investment decisions and improving access to capital. However, inconsistencies in ESG measurement frameworks and rating methodologies contribute to variations in empirical findings across studies.

Short Term Costs versus Long Term Benefits. A recurring theme in the literature is the distinction between short term and long term effects of ESG practices. While ESG implementation may impose significant short term costs, including compliance and operational adjustments, it generates long term financial benefits through improved efficiency, innovation, and reputation. This temporal dimension explains why some studies report mixed or insignificant short term results despite strong long term value creation.

Overall, the findings suggest that ESG practices in emerging markets: generally enhance financial performance, particularly in the long term, operate primarily through risk mitigation and governance improvement mechanisms, exhibit heterogeneous effects depending on institutional, sectoral, and firm level factors, demonstrate non linear relationships, requiring optimal investment levels, depend heavily on transparency and ESG disclosure quality.

The qualitative systematic literature review concludes that ESG integration is a strategically valuable but context sensitive driver of financial performance in emerging markets. Firms that effectively align ESG practices with governance quality, institutional conditions, and long term strategies are more likely to achieve sustainable financial success.

DISCUSSION

The findings of this qualitative systematic literature review provide a nuanced understanding of the relationship between Environmental, Social, and Governance (ESG) practices and financial performance in emerging markets, highlighting both convergence and divergence across prior empirical and review based studies. Overall, the discussion reveals that while ESG integration is generally associated with improved financial outcomes, the strength, direction, and mechanisms of this relationship are highly contingent upon contextual, institutional, and strategic factors.

A central insight emerging from this review is the predominantly positive association between ESG practices and financial performance, which aligns with several recent systematic reviews and empirical studies. For instance, demonstrates that ESG and CSR initiatives in emerging markets tend to enhance firm value and profitability, particularly when integrated into strategic decision making processes. Similarly, confirms that ESG adoption contributes positively to firm value indicators such as Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q across multiple emerging economies. These findings are consistent with, which empirically shows that ESG disclosure significantly improves financial performance across a large cross country sample of firms.

However, the results of this review also reveal important inconsistencies and conditional effects, which are echoed in earlier literature. For example, highlights that the ESG financial performance relationship in developing countries is not universally positive and may vary depending on methodological approaches and contextual factors. This heterogeneity is further supported by , which identifies moderating variables such as governance structures, market maturity, and firm strategy as critical determinants influencing ESG outcomes. Therefore, while the positive ESG financial performance nexus appears dominant, it should be interpreted as context sensitive rather than universally deterministic.

One of the most significant contributions of this review is the identification of risk mitigation as the primary mechanism linking ESG practices to financial performance. Evidence from consistently shows that ESG integration reduces exposure to financial risks, including market volatility, credit risk, and default probability, thereby enhancing financial resilience. This finding supports the theoretical perspective that ESG functions as a form of strategic risk management, particularly in emerging markets characterized by institutional uncertainty and regulatory inefficiencies. In comparison, earlier studies such as primarily focused on direct financial outcomes without explicitly emphasizing risk as a mediating channel, suggesting an evolution in the literature toward more mechanism based explanations.

Another key finding discussed in this review is the dominant role of governance (G) among ESG pillars. Governance is consistently identified as the most influential factor in driving financial performance, particularly in emerging markets where formal institutions may be weak. This is strongly supported by, which finds that governance has the most robust and consistent impact on firm value across regions. Similarly, highlights governance quality as a central driver of reduced agency conflicts and improved financial outcomes. In contrast, environmental and social dimensions exhibit more variable effects, often depending on industry characteristics and stakeholder pressures. This finding contrasts with earlier CSR focused studies such as, which tend to treat social and environmental factors more broadly without isolating governance as a distinct and dominant component.

The discussion also highlights the presence of a non-linear (curvilinear) relationship between ESG practices and financial performance. Empirical evidence from suggests that while moderate ESG investment enhances financial outcomes, excessive ESG spending may lead to diminishing returns due to increased operational costs and inefficiencies. This finding aligns with the broader literature emphasizing the importance of optimal ESG investment levels, particularly in emerging markets where firms often face resource constraints. In contrast, earlier literature such as largely assumes a linear relationship, indicating a shift toward more sophisticated modeling approaches in recent research.

Furthermore, this review underscores the critical role of institutional quality and country level factors in shaping ESG outcomes. Evidence from shows that the positive effects of ESG on financial performance are stronger in countries with well developed regulatory frameworks and higher transparency standards. Similarly, identifies economic conditions and market maturity as key moderators of ESG effectiveness. This finding is particularly relevant in the context of emerging markets, where institutional heterogeneity is pronounced. Compared to earlier studies such as, which often treat developing countries as a homogeneous group, recent research provides a more granular understanding of cross country variation.

Another important theme emerging from this discussion is sectoral heterogeneity in ESG impacts. Empirical evidence indicates that ESG practices tend to generate stronger financial benefits in sectors such as manufacturing, banking, and consumer goods, while results are more mixed in extractive industries. For example, finds that ESG disclosure positively affects financial performance in energy and manufacturing sectors in Indonesia but negatively impacts mining firms due to high compliance costs. This sector specific variation is consistent with findings from, which emphasizes that environmental and social dimensions are highly industry dependent. Compared to broader systematic reviews such as, this highlights the need for industry sensitive ESG strategies.

The role of ESG disclosure and transparency is also a critical point of discussion. ESG reporting enhances information transparency, reduces information asymmetry, and strengthens investor confidence, thereby contributing to improved financial performance. This is supported by , which identifies transparency and data quality as key determinants of ESG effectiveness. Additionally, demonstrates that ESG disclosure is positively associated with firm profitability, particularly when supported by credible and standardized reporting frameworks. However, inconsistencies in ESG measurement and rating methodologies remain a significant challenge, as noted by, leading to variability in empirical findings.

The discussion further reveals a temporal dimension in the ESG financial performance relationship, characterized by short term costs and long term benefits. ESG implementation often involves significant upfront investments, which may negatively affect short term profitability. However, over time, these investments generate benefits through improved efficiency, innovation, and reputation. This dynamic is supported by, which notes that short term negative or neutral effects are often driven by implementation costs, while long term gains emerge through value creation mechanisms. In comparison, earlier studies such as provide limited discussion of temporal effects, indicating an advancement in recent ESG research.

Importantly, this review also identifies methodological and conceptual gaps in the existing literature. As highlighted by , inconsistencies in ESG data sources, measurement frameworks, and empirical methods contribute to divergent findings across studies. Similarly, points out the limited use of qualitative approaches and the lack of cross-country comparative studies in emerging markets. These limitations suggest that future research should adopt more standardized methodologies and incorporate mixed method approaches to enhance the robustness of findings.

When comparing the eight key prior studies synthesized in this review, several key patterns emerge. A consensus on positive ESG financial performance linkage, albeit with varying strength. A shared recognition of governance as the dominant ESG pillar. Increasing emphasis on moderating variables and contextual factors. Growing acknowledgment of non linear and dynamic relationships. Persistent challenges related to measurement inconsistency and data comparability. Despite these convergences, notable divergences remain, particularly regarding the magnitude and timing of ESG impacts, as well as sectoral and regional variations.

This discussion highlights that ESG practices are not a one size fits all solution but rather a strategic framework whose effectiveness depends on alignment with firm capabilities, institutional environments, and long term objectives. The findings contribute to the growing body of literature by emphasizing the importance of contextualization, risk based perspectives, and governance quality in understanding the ESG financial performance nexus in emerging markets.

CONCLUSION

This qualitative systematic literature review synthesizes the growing body of evidence on the relationship between Environmental, Social, and Governance (ESG) practices and financial performance within emerging markets. Overall, the findings indicate that ESG practices tend to exert a generally positive, yet context dependent, influence on firm financial performance, with variations driven by institutional environments, regulatory quality, and firm specific characteristics.

First, the review highlights that ESG integration contributes to enhanced financial performance through multiple channels, including improved risk management, operational efficiency, and reputational capital. Firms that actively engage in ESG practices are better positioned to mitigate environmental and social risks, thereby reducing volatility and enhancing long term value creation. This is particularly relevant in emerging markets, where institutional voids and governance challenges amplify the importance of transparency and ethical practices.

Second, governance mechanisms emerge as the most consistently significant ESG dimension affecting financial outcomes. Strong governance structures such as board independence, transparency, and accountability are found to reduce agency conflicts and improve investor confidence. In contrast, environmental and social dimensions demonstrate more heterogeneous effects, often influenced by industry characteristics and stakeholder pressures. For instance, environmentally intensive industries tend to benefit more directly from sustainability initiatives due to regulatory and societal scrutiny.

Third, the findings suggest that the ESG financial performance relationship in emerging markets is shaped by institutional maturity and regulatory enforcement. In countries with weaker regulatory frameworks, ESG practices often serve as a voluntary signaling mechanism to attract foreign investment and enhance legitimacy. Conversely, in more developed emerging economies, ESG adoption is increasingly driven by compliance and integration into corporate strategy.

Fourth, the review identifies both short-term costs and long-term benefits associated with ESG implementation. While initial investments in sustainability practices may reduce short-term profitability, the long-term gains such as increased firm valuation, resilience, and access to capital tend to outweigh these costs. This reinforces the argument that ESG should be viewed as a strategic investment rather than a compliance burden.

Fifth, the comparative analysis of prior studies reveals that methodological differences, such as measurement of ESG scores and financial performance indicators, contribute to inconsistent findings across the literature. However, the overall trend supports a positive or neutral relationship, with very limited evidence of a negative impact when ESG practices are effectively implemented.

In conclusion, ESG practices play a critical role in shaping financial performance in emerging markets, but their effectiveness depends on contextual factors, including institutional quality, industry dynamics, and corporate governance structures. This study contributes to the literature by providing a comprehensive synthesis of qualitative evidence, emphasizing the importance of integrating ESG into strategic decision making to achieve sustainable financial outcomes.

LIMITATION

Despite its contributions, this study is subject to several limitations that should be acknowledged. First, as a qualitative systematic literature review, the study relies on secondary data from existing research, which may introduce biases related to publication selection, research design, and data interpretation. The exclusion of unpublished studies and gray literature may limit the comprehensiveness of the findings.

Second, the review focuses primarily on studies conducted in emerging markets, which, while providing valuable contextual insights, may reduce the generalizability of the results to developed economies. Emerging markets are characterized by diverse institutional frameworks, and the heterogeneity across countries may not be fully captured in the synthesis.

Third, the variability in ESG measurement frameworks represents a significant limitation. Different studies employ varying ESG metrics, ratings, and proxies, leading to inconsistencies in how ESG performance is operationalized. This lack of standardization complicates cross study comparisons and may affect the reliability of the conclusions.

Fourth, the analysis is constrained by methodological heterogeneity among the reviewed studies, including differences in research design, sample size, time horizons, and analytical techniques. These variations may influence the observed relationships between ESG practices and financial performance.

Fifth, the review does not incorporate primary empirical validation, which limits the ability to test causal relationships. While the synthesis identifies patterns and trends, it cannot definitively establish causality between ESG practices and financial outcomes.

Finally, the study does not deeply explore sector specific differences, which may play a crucial role in determining the impact of ESG practices. Industries such as energy, finance, and manufacturing may exhibit distinct ESG performance dynamics that warrant further investigation.

Future studies are encouraged to address these limitations by conducting mixed-method or empirical analyses, incorporating standardized ESG metrics, and exploring sector specific and country specific dynamics. Additionally, longitudinal studies examining the long term impact of ESG adoption in emerging markets would provide valuable insights into sustainability driven financial performance.

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