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Impact of ESG on Firm Performance: Moderating Role of Brand Value

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Abstract

The research aims to investigate how ESG influences firm financial performance along with the moderating role of brand value. Data set from Rifinitiv date base related to 334 firms of 18 countries with 6329 observations is analyzed using Stata software. Multiple regression techniques are applied to test the relationship between ESG and financial performance with the moderating role of brand value.

Specifically, we find evidence that ESG has a positive effect on firms' financial performance, but this effect is significantly moderated by brand value. The moderation effect indicates that the positive impact of ESG on financial performance is weaker for highly valued brands.

The findings from this study therefore have major implications for firms, investors, and stakeholders. This research joins the increasing stream of literature on ESG and firm financial performance by further underlining the need to include brand value as a moderating variable, thereby providing practical insights for decision-making in the field of ESG, finance, and corporate sustainability. The insights can also may help the decision-makers in choosing a particular path that best aligns with the goal and values of their organizations.

Key words: ESG, Firm Performance, Brand Value, Sustainability

Introduction:

ESG's role in the investment decision-making process has evolved into a hotly debated topic. Some experts postulate that ESG consideration may drive better financial outcomes, while others argue that it is achieved only at the cost of profitability (Buallay, 2019). ESG criteria set a threshold for socially conscious investors to screen potential investments based on firms' performance in three major areas: environmental sustainability, social responsibility, and good governance. The environmental pillar of ESG assesses the firm's impact on the environment and its conversation work; the social pillar includes the firm's relations with people and communities. The governance pillar measures firm performance based on transparency, accountability, and

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ethical business conduct. Importantly, ESG criteria are not just a tool for investment decision-making, but also a powerful means for achieving the United Nations Sustainable Development Goals, inspiring and motivating sustainable management (Nohra, 2023). A study by the NYU Stern Center for Sustainable Business reveals a significant trend, products marketed as sustainable are not only gaining market share but also outpacing their non-sustainable counterparts in terms of growth. According to the analysis of 2022 US purchasing data, sustainable products accounted for 17.3% of the market share and experienced a remarkable growth rate, with a five-year compound annual growth rate of 9.43%. This is nearly double the 4.98% growth rate of non-sustainable products. One key factor contributing to these impressive results is the strategic integration of ESG considerations, as highlighted in the 2017 Better Business, Better World report by the Business and Sustainable Development Commission (John, 2024). Prioritizing sustainability can help businesses to attract and retain top talent, while also expanding and solidifying their customer base. Sustainable businesses tend to outperform their unsustainable counterparts financially. Moreover, the demand for sustainable products is on the rise, sales of products with on-package sustainability reaching $114 billion in 2019, a 29% increase from 2013. By adopting sustainable practices and effectively communicating them, businesses can tap into new markets of environmentally-conscious consumers and strengthen their brand loyalty.

In fact, products marketed as sustainable experienced a growth rate five times higher than those that were not marketed as such, demonstrating the significant potential of sustainability as a marketing strategy (Cote, 2021). While this research provides valuable insights into the relationship between ESG factors and financial performance, it is essential to recognize that these findings may not be generalizable to all contexts. The impact of ESG factors on market performance may differ significantly depending on the specific industry, sector, or market conditions, highlighting the need for further research to account for these variations. Implementing ESG can be a cost-effective strategy for businesses. A comprehensive analysis of MSCI ESG-rated firms in developed markets over 17 years, and in emerging markets over 11 years, reveals that investing in firms with higher ESG ratings led to improved financial performance , even after accounting for factors such as region, size, sector, and traditional risk exposures (Lee, 2023).

By fully incorporating ESG criteria and being responsive to consumer behaviors, firms can create a robust brand identity that resonates with the consumer market and sets them apart from their competitors. This not only fosters brand loyalty and enhances reputation but also paves the way for long-term sustainability and success, offering a promising outlook for the future (Chusniyah et al., 2023). Such moderating effects can be strongly influenced by brand value on ESG for firm performance. A brand can powerfully enhance the prominence and credibility of the ESG efforts, a firm is involved in, enabling the cultivation of stronger stakeholder trust and loyalty, which aids in better economic performance and firm value in the future (Bukari et al., 2024). This growth in sustainable products alone cannot be accounted for by this factor. Inevitably, we have to see the role of consumer behavior that drives this trend. Firm operations are driven by how consumer

respond to sustainable products. This puts across what can be one of the plausible moderator between ESG and firm performance. While the brand value is very often a rather critical intangible asset of firms, little is known about how it affects the ESG and firm performance relationship. If brand value is taken as a moderator, the relationship between ESG and firm performance becomes even more complex. Because brand value of the firm may be positive or negative, depending on the context in which it occurs (El Zein et al., 2020). It can also turn out to be a strong influencer in shaping stakeholders' perceptions and reactions to ESG information. Only firms with strong brand reputations can leverage ESG since stakeholders respond better to ESG information provided by firms with good reputations. This underlines how strong brands exhibit a profound impact on stakeholder's perception (Zou et al., 2024).

It contributes to the development of an awareness of the ESG and firm performance relationship by underlining the moderating role of brand value. In our of sample 334 firms from 18 countries, we use the large panel data set extracted from the Refinitiv database, which includes 6329 observations for the period spanning 2009–2021. We find that ESG is positively related to firm financial performance, suggesting that firms with high regard for ESG matters tend to have better financial performance.

Our results also indicate that such positive association between ESG and firm performance is negatively moderated by brand value. For example, it may imply that high brand value firms actually do not derive any additional benefit by focusing on ESG considerations after all. The results have important implications for policy makers and firms seeking to improve their ESG performance. It points out to the requirement for supportive ESG policies and more resources being allocated towards ESG initiatives, in particular, amongst highly valued brands. Overall, our study provides additional input into the ongoing debate on the relationship between ESG and firm performance by adding new insights of the moderating role of brand value. These findings underline the need to consider complex interactions between ESG, brand value, and firm performance to encourage further research to have better understanding of these phenomena.

Literature Review

The impact of ESG on firm performance has been among the most highly debated topics by researchers and practitioners. Although the literature on this subject has been increasing, it needs to be more convergence to a consensus regarding this relationship. Nevertheless, many studies indicate that adverse ESG events might sharply decrease firm performance (Chusniyah et al., 2023). One of the major concerns for firms can be events related to ESG, which can have adverse impacts. Environmental disasters, social unrest, and other events will likely result in reputational damage, thus giving rise to litigation risk and financial loss. Literature suggests that companies unable to respond to these societal concerns are more likely to experience adverse effects in the form of reduced stock prices, lower customer loyalty, and higher regulatory scrutiny (Ellili, 2022). A growing body of literature argues that ESG and its performance benefit firms considerably. ESG

can improve transparency, reduce information asymmetry, and align the long-term interests of investors. The reason is that through ESG, stakeholders get a clearer view of the firm's environmental, social, and governance practices, hence building trust and enhancing the confidence of stakeholders in such firms. An organization with a good ESG reputation is likely more attractive to customers, investors, and strategic partners who all have the same values or are inclined to work with companies that operate with sustainability (Evora, 2023). ESG activities are further likely to improve a firm's organizational and management ability, thus making it more attractive to employees and enhancing its reputation among other stakeholders. Therefore, companies with solid priorities for ESG factors will likely be perceived as responsible and sustainable. The image projected by such an organization in the eyes of employees will go a long way in enhancing employee engagement and productivity (Zumente & Bistrova, 2021).

Literature also shows that ESG significantly contributes to the performance of a firm by reducing financing constraints and improving environmental protection. A firm that values ESG is perceived as less risky and more sustainable; therefore, ESG will reduce the cost of financing and increase its ability to source capital (Sood et al., 2023). Such activities in ESG could also contribute to cost-cutting, improve operational efficiency, and provide other innovative capacities that can propel better financial performance and increase transparency and thereby reduces information asymmetry (Andrey, 2023). Similarly, Z. Chen & Xie, (2022) found that ESG activities increase a firm's financial performance, decrease financing constraints, and increase access to capital. Chen et al., (2023) found that ESG can also act as a reputation-enhancing factor, reducing the risk of negative events befalling the firm.

On the basis of these discussion, following hypothesis was computed:
H1: ESG has a positive association with firm performance.
Recent literature has pointed out that ESG is increasingly essential in consumer decision-making and interacts with brand value. As consumers become ever more discerning about firms social and environmental responsibility, the need for businesses to adjust their strategies to align with these changing externalities is becoming ever more pressing (Al Amosh & Khatib, 2023).

One key route through which ESG factors impact brand value is reputation management. Zou et al., (2024) investigated that firms with high ESG have a good reputation, and similarly, a good reputation increases brand value. Moreover, study found that ESG disclosures can improve corporate reputation and brand image, contributing to increased brand value (Sánchez-Iglesias et al., 2024).

Other critical dimensions of ESG's impact on brand value relate to customer loyalty and retention. Customers are much more likely to sustain their loyalties to firms that put a strong emphasis on ESG considerations and thereby improve brand value through repeat business and positive word-

Volume: 9, No: S 3, pp.159-175
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of-mouth. This finding was further supported by the fact that ESG considerations might affect customers' purchase decisions and hence it affects brand value in the long run (Lee & Rhee, 2023).

The second channel could be through the impact of ESG factors on financial performance, which then affects brand value. It is documented that firms with good ESG tend to perform well financially. It correlates with an increased brand value. ESG issues might exert systemic influences on a firm's cost of capital and thus brand value (Pedersen et al., 2021).

Added to these factors, ESG can further drive brand value through innovation and competitiveness. Companies that lean towards factoring ESG tend to be more innovative and competitive, increasing brand value. It is concluded that ESG considerations may influence a firm's adaptability to changing market conditions and thus brand value (Martiny et al., 2024).

Finally, ESG factors can impact brand value through stakeholder relationships. Firms that pay greater attention to ESG factors generally tend to have better stakeholder relationships, enhancing brand value. ESG concerns can influence a firm's ability to build trust with its stakeholders; hence, it affects brand value (Bruce, 2020).

The literature strongly suggests that ESG factors will have a profoundly positive impact on brand value. ESG considerations, through their influence on reputation management, customer loyalty and retention, financial performance, innovation and competitiveness, and stakeholder relations, can significantly enhance brand value. Companies may reap the benefits of increased brand value as consumers increasingly have a penchant for products and services with an ESG-friendly tag; this is the case where a company has integrated ESG considerations into its business strategy (Ahmad et al., 2023).

Therefore, we propose the second hypothesis:

H2: Brand Value moderates the relationship between ESG and firm performance.

Research Methodology

We have drawn a dataset from the Refinitiv database, a widely recognized and trusted source for financial and non-financial information. The database has furnished us with data that can be relied upon for a robust analysis. Our sample, which includes 6329 observations about the 334 firms from 18 countries (Brazil, Canada, Chile, China, France, Germany, Italy , Republic S. Korea, Malaysia, Mexico, Netherland, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, United States of America) during the 12 years from 2009 to 2021, is not only rich but also highly representative. Using this dataset, we were able to examine the interaction of ESG factors with firm performance in a way that can be confidently generalized.

These continuous variables were winsorized in the dataset with utmost care to ensure data integrity. Winsorization is a statistical technique that involves replacing extreme values with more representative ones closer to the median at a winsorization threshold of tenth percentiles. This

Volume: 9, No: S 3, pp.159-175
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process is crucial as it helps to avoid monotonicity violations and ensures that our results are not unduly influenced by outliers, thereby providing an accurate and robust representation of the data.

Our study expands that of other famous scholars, like Ramzan, 2024 and Wu et al., 2023 who have also focused on the same relationship between ESG factors and firm performance. In this research, we build a comprehensive model that incorporates various ESG factors and their interaction with firm performance. We also consider the moderation of brand value in this relationship, providing a nuanced understanding of the complex dynamics at play. Our model builds upon the following equation:

$$\text{Performance} = \beta_0 + \beta_1 \text{ESG} + \beta_2 \text{Size} + \beta_3 \text{Growth} + \beta_4 \text{Cash flow} + \beta_5 \text{Leverage} + \beta_6 \text{Cash} + \beta_7 \text{Tangibility} + \text{YE} + \varepsilon \quad (1)$$

In the equation, FP is firm performance the dependent variable, proxied by Tobin's Q, a widely used measure of the firm's market value relative to its book value. Control Variables are Size, Growth, Cash flow, Leverage, Cash, and Tangibility. ESG is the independent variable, representing the aggregate firm score derived from self-reported environmental, social, and corporate governance pillar data. The control variables include size, growth, cash flow, cash, leverage, and tangibility, all of which have been previously used in finance research as controls for firm-specific attributes. YE and ε represent fixed-year effects and the error term, respectively.

To estimate the moderating effect of brand value in the relationship between ESG and firm performance, we estimate the following equation:

$$\text{Performance} = \beta_0 + \beta_1 \text{ESG} + \beta_2 \text{BV} + \beta_3 \text{ESG}\times\text{BV} + \beta_4 \text{Size} + \beta_5 \text{Growth} + \beta_6 \text{Cash flow} + \beta_7 \text{Leverage} + \beta_8 \text{Cash} + \beta_9 \text{Tangibility} + \text{YE} + \varepsilon \quad (2)$$

In this case, BV is brand value, which is the moderator. The term ESG×BV is an interaction that captures the moderation effect of brand value in the relationship between ESG and firm performance. BV is calculated by using natural log of sales.

Our research used proxy’s firm performance using Tobin's Q, a generally accepted measure of a firm's market value against its book value. On the other hand, ESG is measured as an aggregate firm score derived from the respective self-reported data for environmental, social, and corporate governance pillars. Brand value is used as a moderator, which is an important aspect of a firm's intangible assets.

It uses size, growth, cash flow, cash, leverage, and tangibility as control variables, all of which have been used earlier in the literature on finance to control for firm characteristics. Size is measured as the natural logarithm of total assets, growth represented by the sales growth rate, cash flow as operating cash flow, cash as cash and cash equivalent, leverage by the debt-to-equity ratio, and tangibility as the ratio of tangible assets to total assets.

Volume: 9, No: S 3, pp.159-175
ISSN: 2059-6588(Print) | ISSN 2059-6596(Online)

As mentioned above, with the described variables and measures, we are in a position to establish the links between ESG and firm performance and the moderation of brand value in such a relationship. We add new insights regarding the importance of ESG and brand value in driving firms' performance to the literature.

Results and Discussion

The following table shows summary statistics for 11 variables used in the research study. These variables, including Tobin's Q, ESG Scores, and firm-level characteristics, are integral to our research and understanding of it.

Table 1: Summary Statistics of Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
tobin	6329	1.535	1.046	0.369	4.68
environment score	6329	36.076	29.503	0	99.004
social score	6329	46.22	23.502	0.148	97.964
governance score	6329	49.947	22.583	0.166	98.211
esgc score	6329	42.772	19.446	0.44	93.229
brand value	5434	14.315	1.444	11.324	16.706
Size	6329	15.075	1.582	11.96	17.804
growth	6329	14.863	2.247	10.285	18.782
cash flow	6329	11.764	1.739	8.241	15.32
leverage	6329	6.12	14.107	0	56.431
cash	6329	12.009	1.755	8.59	14.883

Volume: 9, No: S 3, pp.159-175
ISSN: 2059-6588(Print) | ISSN 2059-6596(Online)

tangibility	6329	13.981	2.665	8.643	17.945

This table provides a summary statistics overview for each variable, such as the number of observations, mean, standard deviation, minimum, and maximum values. The table contains summary statistics for all variables, from brand value and ESG scores to several firm-level variables. In the case of brand value, the variable brandvalue_w1 has an average of 14.315 with a standard deviation of 1.444, with minimum and maximum values equating to 11.324 and 16.706, respectively. This could, therefore, imply that the brand value of the sample firms ranges between 11 and 17, with an average value of about 14.

Means of the ESG scores env, soc, and gov range from 36.076 to 49.947, and their standard deviations are from 22.583 to 29.503. esgc, the general ESG rating, has a mean of 42.772 and a standard deviation of 19.446. These statistical numbers describe that there is a vast dispersion of ESG scores among firms in this sample, indicating that some firms have very high ESG scores while others have pretty low ones.

Among the firm-level variables, means range from 11.764 to 15.075 for, correspondingly, size, growth, cashflow, leverage, cas, and tang. The standard deviations range from 1.582 through 14.107. The statistics show that firms differ in size, growth, cash flow, leverage, capital adequacy, and tangibility.

It should, however, be indicated that compared with the ESG scores and firm-level variables, the standard deviation for the brand value variable is smaller. This infers that the brand value of the firms in this sample is relatively homogeneous, with less dispersion compared to other variables.

The table provides an overview of the distribution of brand value and ESG scores, as well as firm-level variables within the sample. The statistics suggest that firms in the sample differ rather hugely with regard to their brand value, ESG performance, and financial characteristics.

Table 2: Correlations

Variables	1	2	3	4	5	6	7	8	9	10	11
(1) tobin	1										
(2) environment score	0.065*	1									
	0										
(3) social score	0.091*	0.744*	1								

Remittances Review
July 2024,
Volume: 9, No: S 3, pp.159-175
ISSN: 2059-6588(Print) | ISSN 2059-6596(Online)

	0	0									
(4) governance score	0.03	0.398*	0.422*	1							
	-0.016	0	0								
(5) esgc score	0.082*	0.804*	0.856*	0.663*	1						
	0	0	0	0							
(6) size	-0.023	-0.040*	0.006	-0.022	-0.01	1					
	-0.063	-0.001	-0.636	-0.083	-0.405						
(7) growth	0.064*	0.087*	0.03	0.006	0.057*	0.01	1				
	0	0	-0.017	-0.612	0	-0.435					
(8) cash flow	0.033*	-0.037*	0.013	0.025	-0.001	0.160*	0.051*	1			
	-0.01	-0.003	-0.283	-0.043	-0.946	0	0				
(9) leverage	-0.155*	0.034*	-0.015	0.006	-0.002	-0.316*	0.502*	-0.028	1		
	0	-0.006	-0.24	-0.636	-0.886	0	0	-0.025			
(10) cash	0.037*	-0.055*	0.031	0.031	0	0.228*	-0.005	0.607*	-0.086*	1	
	-0.003	0	-0.014	-0.013	-0.978	0	-0.705	0	0		
(11) tangibility	-0.282*	0.060*	0.007	0.016	0.036*	0.017	0.821*	0.027	0.483*	-0.009	1
	0	0	-0.573	-0.201	-0.004	-0.175	0	-0.033	0	-0.457	

**** p<0.01, ** p<0.05, * p<0.1*

The scores on env, soc, and gov are positively correlated with one another, with coefficients ranging from 0.398 to 0.856. The overall ESG score is positive and correlated with the individual ESG scores, with coefficients ranging from 0.663 to 0.856.

There is a positive relationship between Tobin's Q and ESG scores, where the correlation coefficients are between 0.065 and 0.091. This shows that firms characterized by high ESG usually have high Tobin's Q values, which indicate good financial performance. The coefficient of correlation is, however, relatively low, thus indicating that the link relating ESG with financial is not very strong, but the potential for financial benefits is indeed optimistic.

Remittances Review
July 2024,
Volume: 9, No: S 3, pp.159-175
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Our research uncovers several correlations among the firm-level variables. For instance, size is negatively correlated with leverage and tangibility, while growth is positively correlated with cash flow and tangibility. This implies that larger firms tend to have lower leverage and tangibility, and an increase in the growth rate typically leads to higher cash flow and tangibility.

Table 3: Multi-Collinearity

Variable	VIF	Tolerance
environment score	3.18	0.3148
social score	4.45	0.2247
governance score	2.25	0.4447
esgc score	8.84	0.1131
Size	1.22	0.8172
Growth	3.26	0.3063
cash flow	1.59	0.6273
Leverage	1.60	0.6262
Cash	1.65	0.6070
tangibility	3.15	0.3172
Mean VIF	3.12	

The table gives the results of a collinearity diagnostic test, which aids in discovering multicollinearity between independent variables within a regression model. In the first column, there are the independent variables of the model, env, soc and gov, esg combine representing environmental, social, and governance and ESG scores respectively. Control Variables include size, growth, cash flow, leverage, cash, and tangibility. VIF measures how much an independent variable correlates with each of the other independent variables. The third column consists of the values of tolerance which measures the amount of variance in a variable that is not explained by the other variables. A small value of tolerance close to 0 will indicate high multicollinearity. The last row contains the overall average VIF value of the variables, which in this case is 3.12.

Table 4: ESG and Firm Performance

	DV: Tobin			
Variable	(1)	(2)	(3)	(4)
environment score	0.0015**			
	(2.3547)			

Remittances Review
July 2024,
Volume: 9, No: S 3, pp.159-175
ISSN: 2059-6588(Print) | ISSN 2059-6596(Online)

social score		0.0025***		
		(3.2048)		
governance score			0.0014*	
			(1.7636)	
esgc score				0.0027***
				(2.9291)
Size	-0.0577***	-0.0579***	-0.0580***	-0.0575***
	(-4.1293)	(-4.1572)	(-4.1228)	(-4.1155)
growth	0.4441***	0.4447***	0.4471***	0.4446***
	(28.7477)	(28.8038)	(28.7452)	(28.8011)
cashflow	-0.0035	-0.0034	-0.0041	-0.0036
	(-0.3332)	(-0.3217)	(-0.3878)	(-0.3420)
leverage	-0.0140***	-0.0139***	-0.0141***	-0.0139***
	(-8.5980)	(-8.5655)	(-8.6429)	(-8.5585)
cash	0.0120	0.0105	0.0108	0.0116
	(0.9641)	(0.8480)	(0.8617)	(0.9345)
tang	-0.3848***	-0.3843***	-0.3857***	-0.3849***
	(-28.6001)	(-28.5866)	(-28.5580)	(-28.6237)
Constant	1.1793***	1.1240***	1.1607***	1.1164***
	(4.7875)	(4.5446)	(4.6126)	(4.4888)
YE	YES			

Observations	6,329	6,329	6,329	6,329
R-squared	0.3900	0.3914	0.3891	0.3907

Note: Robust t-statistics in parentheses *** p<0.01, ** p<0.05, * p<0.1
Tobin is dependent variable and independent variables are environment, social, and governance and ESG combined.

According to results, ESG positively correlates with financial performance, meaning that companies with better ESG report better financial outcomes. ESG is positively significant to firm financial performance which is 0.0027 at 1%. There are many reasons for the above. Implementing sustainable business, promoting diversity and inclusion, and engaging in community development, helps improve the reputation of a firm. Reputations improved by ESG could lead to increased customer loyalty, higher morale in the workforce, and reduced regulatory and legal risks. ESG is not just about reputation. It is a proactive tool for firm to identify, manage, and mitigate emerging risks and opportunities. This proactive approach can significantly contribute to strong financial performance. ESG is also relevant for attaining more efficient operations, cost savings, and improved strategic planning in the long term.

However, the relationship between ESG and financial performance may need to be more vital for companies with high brand value. Such firms may have a hard-won reputation and customer franchise, in which case the effect of ESG performance on financial outcomes is reduced. Moreover, companies with high brand values face pressures to meet a diversity of stakeholders' expectations, which may cause the influence of ESG on financial performance to become diluted, or less impactful due to the need to balance various stakeholder interests.

Moreover, firm level variables, size, growth, leverage, and tangibility are significantly related to financial performance. This proves that in explaining financial performance, multiple factors should be considered, as various elements may influence a firm's financial outcomes. This comprehensive view of a firm's operations in relation to various factors provides stakeholders with a clearer view of the financial prospects of a firm.

Table 5: ESG, brand value and firm performance

Variables	(1) Tobin
esgc	0.0196**
	(1.9832)
brandvalue	0.0411
	(1.3491)
c.esgc#c.brandvalue	-0.0012*
	(-1.6842)

Volume: 9, No: S 3, pp.159-175
ISSN: 2059-6588(Print) | ISSN 2059-6596(Online)

size	-0.0628***
	(-4.2055)
growth	0.4522***
	(27.4295)
cashflow	-0.0079
	(-0.6879)
tang	-0.3865***
	(-26.9572)
cas	0.0143
	(1.0510)
leverage	-0.0151***
	(-8.3266)
constant	0.5223
	(1.0450)
YE	YES
Observations	5,434
R-squared	0.3916

Note: Robust t-statistics in parentheses *** p<0.01, ** p<0.05, * p<0.1
This table shows how the Brand value moderates the impact of ESG on firm performance.

The results show that there is a positive relationship between ESG scores and Tobin's Q. Specifically, a 1% increase in ESG score is related to a 0.0196 percent increase in Tobin's Q at p<0.05. At the same time, brand value does not have a significant relationship to Tobin's Q. This interaction term was negative and statistically significant, meaning that this positive relationship between ESG scores and Tobin's Q weakens when brand value is increasing. One could interpret this finding as indicating that for financial performance, the benefits of good ESG disclosures are less relevant for firms having a high brand value.

The firm-level variables also reveal important relationships with Tobin's Q. Of these, size, growth, tangibility, and leverage were all negatively related to Tobin's Q. These findings indicate that larger firms with slower growth, those with lower tangibility, and more highly geared firms may have lower financial performance, while firms with higher cash flow may show higher financial performance.

Specifically, the results suggest that ESG is positively related to financial performance, with the latter probably being weaker for those firms with a high brand value. Firm-level variables are also significantly related to financial performance, making a case for considering multiple factors to be an issue when looking at financial performance.

In other words, ESG positively correlates with financial performance, but this relationship may be weakened for firms with high brand value. Firm-level variables also play a very significant role in financial performance and, therefore, have to be considered for one to arrive at an accurate position on a company's financial outcomes. Only through such a holistic approach to financial analysis, stakeholders can be empowered about a firm's financial success.

That is to say, firms with a high brand reputation and loyal customers may not actually improve their financial performance even when they have good ESG. After all, brand value and customer loyalty are already extremely high, regardless of ESG. Firm brand names and loyal customers make ESG performance less financially effective.

Those with a strong reputation and customer base may realize little increase in sales or revenues, even when their ESG improves, simply because their customers are already loyal and might not have their allegiances swayed by ESG. More intense pressure to meet the expectations of stakeholders weakens the impact of ESG performance on financial performance. For example, firms with high brand value may be pressured by various stakeholders, such as investors, customers, and NGOs, to meet certain expectations. This might further dilute the influence of ESG on financial performance, as the company might pay more attention to meeting these expectations from stakeholders rather than its ESG performance

Conclusion

The study investigates the relationship between ESG factors and financial performance, considering the moderation of brand value. This paper uses a broad data set from Refinitiv of 334 firms across 18 countries, amounting to 6,329 observations. The research demonstrates ESG linkages to financial performance through multiple regression analysis, using Stata software. The research reveals a significant positive correlation between ESG and firm performance, suggesting that firms with better ESG practices tend to have better financial performance. However, the results also indicate that brand value weakens the ESG-financial performance relationship. This implies that while ESG may be positively linked to financial performance, a strong brand value could potentially diminish this relationship.

Although it is prima facie true that firms with good ESG tend to perform better financially than their peers, exceptions and nuanced cases must be factored in. One of the significant findings is that the relationship between ESG and financial performance may need to be more vital for firms with high brand value.

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Firms with a significant brand value face much greater pressure from stakeholders in their activities, so their potential effect on financial performance of ESG may be watered down. This pressure can be generated by investors, customers, NGOs, and other groups; these can distract the firm's efforts from the goal of improving ESG performance. Further, high brand value businesses will be more interested in their reputation and customer loyalty than in making profits by exploiting ESG.

Firms have numerous reasons to focus on ESG performance despite all the odds. Strong ESG practices minimizes the risk potential, promote long-term sustainability, and enhance reputation and brand value for the company. Firms with leading ESG can also attract the right people and talent to work with and retain them alongside socially and environmentally conscious customers. Besides, ESG can help firms to standout within competitive markets, contributing to business growth.

Effective ESG requires firms to put ESG at the heart of their business strategy. Firms must be transparent and accountable for their activities while demonstrating a commitment to continuous improvement. Firms need to engage with stakeholders, listen to them, address their concerns, and respond to their needs expressed. This will help firms build trust and thus collaborate to drive change for the better.

The same is true for investors and other stakeholders, who play a very big role in promoting ESG. By integrating ESG metrics in their investment decisions, investors can make positive changes in firms by providing incentives for ESG. The stakeholders are also at liberty to challenge firm's ESG, forcing them to improve or innovate. This way, companies, investors, and stakeholders will move towards a more sustainable and more just future.

Notwithstanding the challenges and complexities, the benefits of prioritizing ESG are clear. This would mean that business organizations which, at the very core, have a business strategy that embeds ESG through sustained stakeholder engagement and a solid commitment to transparency and accountability are better placed to be drivers of long-term sustainability and enhancers of reputation and brand value for a more equitable and sustainable future (Kulova et al., 2023)

ESG will become an even more integral driver of success for business in the modern and dynamic global economy. Those firms better equipped to handle these challenges facing the future are taking ESG seriously. Under ESG, companies would be able to drive toward a more sustainable and fair future for shareholders and society.

Ultimately, this would not be a zero-sum game for ESG versus financial performance. Companies that prioritize ESG drive financial growth by reducing risk and enhancing their reputation and brand value. Companies, investors, and stakeholders can work together toward a more sustainable and equitable future in which business success and social responsibility go hand in hand.

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