

Competing Logics in the Nexus of ESG Performance and Firm's Value: The Case of GCC and Other Emerging Economies

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The firms' focus on ESG (Environment, Social, and Government) causes fundamental debates between the proponents of Shareholder and Stakeholder Theories. The former, famously supported by Friedman (1970), argues that the only business of business is doing business, for the company has a fiduciary to maximise the shareholder's profit. On the other hand, the Stakeholders Theory argues that the firm has a moral obligation to its shareholders and beyond, including the planet and people (triple bottom line—three P's) (Platonova et al., 2018).

The empirical studies on the impact of ESG adaptation on firms' financial performance tend to be inconclusive. One strand of the literature (Gerged et al., 2020; Al-Hiyari and Kolsi, 2021; Qureshi et al., 2021; Chen and Xie, 2022) documents that the adoption of ESG is good for the company's profitability. On the contrary, other studies (Chen et al., 2021; Duque-Grisales and Aguilera-Caracuel, 2021) suggest the opposite direction. This raises an intriguing query on the reason behind the above-competing results in the literature. Addressing this gap is precisely the objective of this study.

In so doing, our study draws from institutional logics theory (Reay and Hinings, 2009; Corbett et al., 2018). We document that firms' ESG performance is conducive for corporate financial performance (measured by ROE) but implies negative reactions of the market that penalises firm value (proxied by Tobins' Q). The fact that ESG concern enhances financial performance does not appeal to investors who still react negatively towards firms' ESG activities. We attribute this substituting effect of ESG to the institutional logics of investors who put profit as their main (and often the only) consideration in doing business. This is why our study fails to

document a mediating effect (both full and partial) of financial performance in the ESG performance-Firm value nexus.

We arrive at the above conclusion by employing Zhou et al.'s (2022) methodology. We utilise 2149 firm-year observations from 19 emerging countries across the Middle East, Asia, Africa, South America, and Europe between 2015 and 2021. Our dataset allows us to make a deeper analysis of the GCC countries plus Turkey (Middle East) spatial context, which have distinct characteristics of geography, institutions, and business, as far as climate change is concerned (Aassouli, 2021). Our findings can be summarised as follows.

First, Table 1 illustrates that ESG performance consistently has a negative association with firms' market value proxied by Tobins' Q (see Panel 1). This finding is robust even when the combined ESG score is decomposed into the Environment and Social dimensions (see Panels 2 and 3). However, for Governance, the statistics seems to be insignificant (see Panel 4).

Second, the value of the firm is derived from the expected future cash flow of the business. This is why we should expect that the relationship between the firm financial performance and ESG performance is negative, in harmony with the result in the case of the value of the firm. However, our results indicate the opposite direction. Table 2 suggests that higher ESG performance is associated with a higher firm's financial performance proxied by ROE (see Panel 5). The sign holds across all three ESG dimensions, even though only Social aspect is statistically significant (see Panels 6-7).

Third, we then examine whether financial performance mediates the relationship between ESG performance and firm's market value by employing the three-step mediating regression of Zhou et al. (2022). If it is the case, we should expect that: (i) Tobins'Q is affected by ESG performance negatively (Table 1); (ii) ESG score impacts firms financial performance positively (Table 2); and (ii) when the ESG score and Firm Performance are put into a single equation and regressed on the value of the firm, the former impact should become insignificant

(fully mediating) or significant but at a lower magnitude (partial mediating) (Table 3). Table 3 shows that the financial performance of the firm does not have a mediating role in the ESG-Market Value nexus. The ROE positively affects Tobins Q in all four models, but the effect of ESG (and its three dimensions) on firms' value remains constant (see Panel 5 vs 1; Panel 6 vs 2; Panel 7 vs 3; and Panel 8 vs 4).

Finally, we seek to take a closer look at the behaviour of GCC+ countries (including Egypt, Saudi Arabia, United Arab Emirates and Turkey). Our findings suggest that, in general, GCC+ countries have no distinct behaviour over the rest of the emerging countries. This is derived from the interaction between GCC+ dummy and ESG (and its three dimensions). The only unique finding emerges from the relationship between ESG performance and financial performance, where the positive impact of the latter escalates in the case of the GCC+ countries (see Table 4 Panel 'even', 14, 16, and so on). It suggests that concerning more on ESG offers greater financial advantage for the firms in the GCC+ countries as compared with the rest of emerging economies.

Our findings offer indispensable implications for both theory and practice. Understanding the competing logics amongst economic agents is crucial in finding the best equilibrium for a more sustainable business. As businesses have been amongst the primary sources of an unsustainable world, it needs to be part of the integral solution for sustainability. The way forward is to nudge investors towards incorporating non-monetary aspects in their decision-making.

Table 1. Regression Results: ESG and Value of the Firm

	(1) TobinsQ	(2) TobinsQ	(3) TobinsQ	(4) TobinsQ
ESG	-0.001* (0.060)			
E		-0.001** (0.046)		
S			-0.001** (0.034)	
G				-0.001 (0.293)
Growth	0.070*** (0.000)	0.070*** (0.000)	0.070*** (0.000)	0.071*** (0.000)
TAT	0.205*** (0.001)	0.208*** (0.001)	0.207*** (0.001)	0.207*** (0.001)
CAPEX	0.000* (0.060)	0.000* (0.061)	0.000* (0.053)	0.000* (0.058)
Size	-0.082*** (0.000)	-0.081*** (0.000)	-0.082*** (0.000)	-0.087*** (0.000)
Lev	-0.040 (0.668)	-0.035 (0.710)	-0.044 (0.639)	-0.035 (0.708)
CF	0.551*** (0.000)	0.538*** (0.000)	0.552*** (0.000)	0.555*** (0.000)
GDP	-0.000*** (0.003)	-0.000*** (0.005)	-0.000*** (0.002)	-0.000*** (0.003)
HDI	1.988*** (0.017)	1.956*** (0.018)	2.062** (0.013)	1.824** (0.027)
Covid	-0.024** (0.036)	-0.024** (0.033)	-0.023** (0.038)	-0.030*** (0.005)
Intercept	1.444** (0.023)	1.410** (0.027)	1.400** (0.027)	1.615*** (0.010)
D. Sector	YES	YES	YES	YES
D. Region	YES	YES	YES	YES
No of Obs	2149	2149	2149	2149
Adj. R-sq	0.260	0.262	0.258	0.257
Wald Chi-sq	275.43***	276.10***	276.66***	273.52***

This table shows the regression results of the relationship between ESG (and its three dimensions) and the value of the firm (measured by Tobins' Q). ESG (and E, S, G) represents Environment, Social and Governance; Tobins' Q measures the market value of the firm; ROE is Return on Equity; Growth is growth in net income; TAT refers to total asset turnover; CAPEX is Capital expenditure; Size is the firm size; Lev is the firm's total debt to total asset; CF is cash flow; GDP and HDI respectively refer to per Capita Gross Domestic Product and Human Development Index; and Covid is a dummy variable where 1 is covid period of 2020 and 2021. The period used ranges between 2015 and 2021. The sample covers Argentina, Brazil, Chile, China, Colombia, **Egypt**, Hungary, India, **Indonesia**, Mexico, **Malaysia**, Philippines, Poland, Russia, **Saudi Arabia**, South Africa, **Turkey**, Thailand, **United Arab Emirates**. Region dummies include Asia, South America, Africa, East Europe, and West Europe. The values in parentheses indicate the P-values. ***, **, * respectively represent significance at 1%, 5%, and 10%.

Table 2. Regression Results: ESG and Performance

	(5) ROE	(6) ROE	(7) ROE	(8) ROE
ESG	0.027** (0.042)			
E		0.008 (0.375)		
S			0.023** (0.032)	
G				0.002 (0.846)
Growth	5.201*** (0.000)	5.198*** (0.000)	5.201*** (0.000)	5.191*** (0.000)
TAT	3.368*** (0.001)	3.321*** (0.001)	3.278*** (0.001)	3.314*** (0.001)
CAPEX	0.000 (0.526)	0.000 (0.519)	0.000 (0.553)	0.000 (0.507)
Size	-0.142 (0.565)	-0.102 (0.680)	-0.129 (0.596)	-0.065 (0.790)
Lev	-3.216** (0.040)	-3.270** (0.037)	-3.067** (0.049)	-3.273** (0.036)
CF	14.313*** (0.000)	14.424*** (0.000)	14.348*** (0.000)	14.303*** (0.000)
GDP	-0.000 (0.685)	-0.000 (0.579)	-0.000 (0.844)	-0.000 (0.585)
HDI	-0.714 (0.952)	2.249 (0.849)	-1.770 (0.882)	3.735 (0.749)
Covid	-0.586*** (0.009)	-0.496** (0.026)	-0.582*** (0.009)	-0.436** (0.039)
Intercept	12.464 (0.183)	10.774 (0.251)	12.882 (0.169)	9.334 (0.313)
D. Sector	YES	YES	YES	YES
D. Region	YES	YES	YES	YES
No of Obs	2149	2149	2149	2149
Adj. R-sq	0.302	0.300	0.307	0.230
Wald Chi-sq	783.47***	778.89***	784.82***	778.04***

This table shows the regression results of the relationship between ESG (and its three dimensions) and financial performance (measured by Growth in Net Income and Return on Equity). ESG (and E, S, G) represents Environment, Social and Governance; Tobins' Q measures the market value of the firm; ROE is Return on Equity; Growth is growth in net income; TAT refers to total asset turnover; CAPEX is Capital expenditure; Size is the firm size; Lev is the firm's total debt to total asset; CF is cash flow; GDP and HDI respectively refer to per Capita Gross Domestic Product and Human Development Index; and Covid is a dummy variable where 1 is covid period of 2020 and 2021. The period used ranges between 2015 and 2021. The sample covers Argentina, Brazil, Chile, China, Colombia, **Egypt**, Hungary, India, **Indonesia**, Mexico, **Malaysia**, Philippines, Poland, Russia, **Saudi Arabia**, South Africa, **Turkey**, Thailand, **United Arab Emirates**. Region dummies include Asia, South America, Africa, East Europe, and West Europe. The values in parentheses indicate the P-values. ***, **, * respectively represent significance at 1%, 5%, and 10%.

Table 3. Regression Results: Mediating Effect of Financial Performance

	(9) TobinsQ	(10) TobinsQ	(11) TobinsQ	(12) TobinsQ
ESG	-0.002** (0.013)			
E		-0.001** (0.017)		
S			-0.001** (0.011)	
G				-0.001 (0.319)
ROE	0.015*** (0.000)	0.015*** (0.000)	0.015*** (0.000)	0.015*** (0.000)
Growth	-0.007 (0.587)	-0.007 (0.575)	-0.006 (0.603)	-0.006 (0.632)
TAT	0.128** (0.029)	0.131** (0.025)	0.131** (0.025)	0.131** (0.025)
CAPEX	0.000 (0.051)	0.000 (0.051)	0.000** (0.044)	0.000** (0.048)
Size	-0.075*** (0.000)	-0.074*** (0.000)	-0.075*** (0.000)	-0.081*** (0.000)
Lev	0.025 (0.780)	0.031 (0.728)	0.021 (0.814)	0.030 (0.737)
CF	0.369*** (0.000)	0.355*** (0.000)	0.370*** (0.000)	0.375*** (0.000)
GDP	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)
HDI	2.585*** (0.001)	2.519*** (0.001)	2.647*** (0.001)	2.362*** (0.001)
Covid	-0.024** (0.036)	-0.015 (0.174)	-0.014 (0.196)	-0.022** (0.034)
Intercept	1.444** (0.023)	0.769 (0.190)	0.754 (0.199)	0.988* (0.086)
D. Sector	YES	YES	YES	YES
D. Region	YES	YES	YES	YES
No of Obs	2149	2149	2149	2149
Adj. R-sq	0.260	0.378	0.375	0.372
Wald Chi-sq	275.43***	516.08***	516.80***	513.73***

Following Tables 1 and 2, this table shows the regression results of the mediating effects of financial performance on the relationship between ESG (and its three dimensions) and the value of the firm (measured by Tobins' Q) employing Zhou et al.'s (2022) methodology. ESG (and E, S, G) represents Environment, Social and Governance; Tobins' Q measures the market value of the firm; ROE is Return on Equity; Growth is growth in net income; TAT refers to total asset turnover; CAPEX is Capital expenditure; Size is the firm size; Lev is the firm's total debt to total asset; CF is cash flow; GDP and HDI respectively refer to per Capita Gross Domestic Product and Human Development Index; and Covid is a dummy variable where 1 is covid period of 2020 and 2021. The period used ranges between 2015 and 2021. The sample covers Argentina, Brazil, Chile, China, Colombia, **Egypt**, Hungary, India, **Indonesia**, Mexico, **Malaysia**, Philippines, Poland, Russia, **Saudi Arabia**, South Africa, **Turkey**, Thailand, **United Arab Emirates**. Region dummies include Asia, South America, Africa, East Europe, and West Europe. The values in parentheses indicate the P-values. ***, **, * respectively represent significance at 1%, 5%, and 10%.

Table 4. Regression Results: GCC+

	(13) TobinsQ	(14) ROE	(15) TobinsQ	(16) TobinsQ	(17) ROE	(18) TobinsQ	(19) TobinsQ	(20) ROE	(21) TobinsQ	(22) TobinsQ	(22) ROE	(23) TobinsQ
ESG	-0.002** (0.044)	0.025* (0.057)	-0.002*** (0.009)									
E				-0.001** (0.039)	0.007 (0.441)	-0.001** (0.014)						
S							-0.001** (0.024)	0.019* (0.072)	-0.002*** (0.009)			
G										-0.001 (0.279)	0.004 (0.660)	-0.001 (0.250)
ROE			0.016*** (0.000)			0.016*** (0.000)			0.016*** (0.000)			0.016*** (0.000)
Growth	0.071*** (0.000)	5.182*** (0.000)	-0.007 (0.596)	0.071*** (0.000)	5.182*** (0.000)	-0.007 (0.594)	0.072*** (0.000)	5.178*** (0.000)	-0.006 (0.626)	0.072*** (0.000)	5.182*** (0.000)	-0.005 (0.663)
TAT	0.189*** (0.003)	3.510*** (0.000)	0.108* (0.065)	0.191*** (0.002)	3.477*** (0.000)	0.110* (0.061)	0.191*** (0.002)	3.412*** (0.000)	0.111* (0.059)	0.187*** (0.003)	3.358*** (0.001)	0.111* (0.059)
CAPEX	0.000* (0.059)	0.000 (0.649)	0.000** (0.044)	0.000* (0.060)	0.000 (0.650)	0.000** (0.045)	0.000* (0.054)	0.000 (0.681)	0.000** (0.040)	0.000* (0.060)	0.000 (0.691)	0.000** (0.041)
Size	-0.074*** (0.000)	-0.175 (0.457)	-0.066*** (0.000)	-0.072*** (0.000)	-0.154 (0.515)	-0.064*** (0.000)	-0.073*** (0.000)	-0.151 (0.516)	-0.067*** (0.000)	-0.077*** (0.000)	-0.090 (0.700)	-0.071*** (0.000)
Lev	-0.024 (0.801)	-3.478** (0.025)	0.044 (0.623)	-0.016 (0.862)	-3.563** (0.022)	0.052 (0.559)	-0.027 (0.773)	-3.360** (0.030)	0.041 (0.643)	-0.013 (0.891)	-3.453** (0.026)	0.052 (0.556)
CF	0.578*** (0.000)	14.256*** (0.000)	0.394*** (0.000)	0.566*** (0.000)	14.390*** (0.000)	0.379*** (0.000)	0.578*** (0.000)	14.261*** (0.000)	0.395*** (0.000)	0.581*** (0.000)	14.132*** (0.000)	0.400*** (0.000)
GDP	-0.000*** (0.004)	-0.000 (0.738)	-0.000*** (0.000)	-0.000*** (0.006)	-0.000 (0.638)	-0.000*** (0.000)	-0.000*** (0.002)	-0.000 (0.861)	-0.000*** (0.000)	-0.000*** (0.004)	-0.000 (0.571)	-0.000*** (0.000)
HDI	1.771** (0.031)	2.177 (0.849)	2.347*** (0.002)	1.721** (0.035)	4.895 (0.667)	2.264*** (0.002)	1.860** (0.024)	1.468 (0.899)	2.418*** (0.001)	1.612** (0.048)	6.344 (0.574)	2.120*** (0.004)
Covid	-0.025** (0.025)	-0.605*** (0.007)	-0.015 (0.178)	-0.026** (0.023)	-0.508** (0.022)	-0.016 (0.145)	-0.025** (0.027)	-0.591*** (0.008)	-0.015 (0.161)	-0.032** (0.003)	-0.430** (0.041)	-0.024** (0.022)
GCC+	-0.050 (0.710)	-5.443*** (0.007)	0.039 (0.751)	-0.008 (0.948)	-4.600*** (0.004)	0.072 (0.494)	-0.016 (0.896)	-4.329*** (0.010)	0.060 (0.577)	-0.020 (0.896)	-4.162* (0.081)	0.034 (0.809)
GCC+*ESG	0.002 (0.322)	0.073** (0.039)	0.001 (0.696)									

GCC+*E				0.001 (0.432)	0.058** (0.027)	0.000 (0.947)						
GCC+*S							0.001 (0.451)	0.058* (0.051)	0.000 (0.903)			
GCC+*G										0.001 (0.549)	0.033 (0.357)	0.001 (0.640)
Intercept	1.373** (0.026)	-0.605*** (0.007)	0.707 (0.212)	1.346** (0.029)	10.158 (0.250)	0.693 (0.221)	1.317** (0.033)	-0.591*** (0.008)	0.673 (0.235)	1.496*** (0.014)	8.186 (0.350)	0.883 (0.113)
D. Sector	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
D. Region	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
No of Obs	2149	2149	2149	2149	2149	2149	2149	2149	2149	2149	2149	2149
Adj. R-sq	0.253	0.306	0.371	0.255	0.303	0.373	0.251	0.309	0.369	0.251	0.303	0.367
Wald Chi-sq	274.30***	797.31***	523.19***	274.43***	792.14***	522.63***	275.59***	796.27***	523.19***	271.73***	785.22***	519.19***

This table adds the GCC+ dummy and its interaction with ESG (E and S and G) in the regression of the mediating effects of financial performance (ROE and Net Income Growth) on the relationship between ESG (and its three dimensions) and value of the firm (measured by Tobins' Q), employing Zhou et al.'s (2022) methodology. ESG (and E, S, G) represents Environment, Social and Governance; Tobins' Q measures the market value of the firm; ROE is Return on Equity; Growth is growth in net income; TAT refers to total asset turnover; CAPEX is Capital expenditure; Size is the firm size; Lev is the firm's total debt to total asset; CF is cash flow; GDP and HDI respectively refer to per Capita Gross Domestic Product and Human Development Index; Covid is a dummy variable where 1 is covid period of 2020 and 2021, and GCC+ is a dummy valued one for Egypt, Saudi Arabia, United Arab Emirates and Turkey. The period used ranges between 2015 and 2021. The sample covers Argentina, Brazil, Chile, China, Colombia, **Egypt**, Hungary, India, **Indonesia**, Mexico, **Malaysia**, Philippines, Poland, Russia, **Saudi Arabia**, South Africa, **Turkey**, Thailand, **United Arab Emirates**. The values in parentheses indicate the P-values. ***, **, * respectively represent significance at 1%, 5%, and 10%.

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