

ABSTRACT

This study seeks to examine the association between ESG Disclosure and Corporate Financial Performance (CFP) in two regions with different institutional environments: Europe, represented by the STOXX Europe 600 index, and Southeast Asia, represented by the MSCI ASEAN index. The proposed hypotheses of the study are based on the Stakeholder Theory and the Signaling Theory. The hypotheses that guide the study are as follows: H1: ESG Disclosure has a positive association with Corporate Financial Performance in Europe and Southeast Asia. H2: The association between ESG Disclosure and Corporate Financial Performance in Southeast Asia is substantially higher than that in Europe.

This study utilized a panel data set consisting of 200 firm-year data from 40 firms from the years 2019 to 2023. The study utilized a Pooled OLS approach with fixed effects for sectors and years, a separate regional model, and an interaction model for the study. The ESG Disclosure and financial data utilized by the study were sourced from the Bloomberg Terminal. The study utilized three different proxies for Corporate Financial Performance: Return on Assets, Return on Equity, and Tobin's Q.

This study contributes to the literature by providing empirical evidence from a cross-regional study that supports the co-existence of the compliance cost theory and Signaling Theory in an emerging market context. The difference in accounting and market-based performance in the ASEAN region supports ESG disclosure as a credible quality signal that is valued by the capital market at a cost to profitability in the short term. Managerial implications for the regions and multinational corporations with diverse business operations are provided.

Keywords: ESG disclosure, corporate financial performance, institutional maturity, Signaling Theory, STOXX Europe 600, MSCI ASEAN, panel data, OLS regression