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The Effect of Environmental, Social, and Governance Reporting on Corporate Financial Performance

Alaa H. Aljarrah

Master Graduate, Yarmouk University, Irbid, Jordan

***Corresponding Author**

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ABSTRACT

Environmental, Social, and Governance (ESG) reporting has become a central mechanism through which firms communicate sustainability performance, governance quality, risk exposure, and long-term value creation. This structured literature review examines how ESG reporting affects corporate financial performance by synthesizing evidence on ESG disclosure, sustainability performance, controversies, governance, audit quality, internal controls, artificial intelligence, accounting information systems, fintech, dividend policy, cash holdings, and banking performance. The review indicates that ESG reporting is generally associated with stronger profitability, market valuation, investor confidence, stakeholder trust, access to finance, and financial resilience when disclosure is material, credible, comparable, and supported by governance and assurance mechanisms. However, the relationship is conditional rather than automatic. Financial benefits depend on disclosure quality, ESG rating divergence, greenwashing risk, industry materiality, institutional enforcement, board oversight, internal controls, audit quality, digital reporting infrastructure, and managerial capacity. The study contributes by reframing ESG reporting as an integrated value-creation architecture rather than a narrow sustainability disclosure practice.

Keywords: ESG reporting; corporate financial performance; sustainability disclosure; corporate governance; ESG assurance.

INTRODUCTION

Environmental, Social, and Governance (ESG) reporting has moved from a largely voluntary reputational practice to a strategic component of corporate accountability, capital-market communication, risk governance, and long-term performance management. Firms are increasingly expected to disclose how they manage environmental impacts, climate risk, stakeholder relationships, employee welfare, board oversight, executive accountability, ethics, internal controls, assurance, data integrity, and governance structures. These disclosures differ from traditional financial reporting because they communicate non-financial capabilities that shape future cash flows, risk exposure, legitimacy, and stakeholder confidence. As investors, lenders, regulators, customers, employees, and civil society place greater weight on sustainability, ESG reporting has become a major information channel through which companies signal their capacity to create durable financial and social value [34], [48].he ESG-financial performance relationship has attracted extensive empirical attention. Aggregated evidence generally suggests that ESG factors are more frequently associated with positive than negative financial outcomes [39]. Firm-level studies similarly link ESG performance, ESG disclosure, or sustainability reporting with profitability, firm value, market valuation, cost of capital, investor confidence, and stakeholder trust [7], [22], [28], [32], [62], [69], [71]. These findings support the argument that ESG reporting can create financial value by lowering information asymmetry, strengthening legitimacy, improving stakeholder relations, reducing reputational risk, and making financially material sustainability risks more visible to capital-market participants.

Nevertheless, ESG reporting is not a universal guarantee of improved financial performance. The literature is increasingly clear that the value relevance of ESG information depends on materiality, measurement reliability, comparability, governance quality, institutional enforcement, and stakeholder interpretation. Khan et al. [46]

show that financially material sustainability issues matter differently from immaterial sustainability activities. Berg et al. [25] demonstrate substantial divergence across ESG rating providers, while Christensen, Serafeim, and Sikochi [33] show that ESG disclosure itself can be associated with disagreement among ESG raters. These findings warn against treating a single ESG score or generic disclosure volume as equivalent to credible sustainability performance. ESG reporting becomes financially meaningful only when the information is decision-useful, verifiable, and linked to substantive corporate action.

Recent Scite-verified literature strengthens this caution. Gillan et al. [42] emphasize that ESG and CSR research in corporate finance remains theoretically and empirically diverse, while Aydoğmuş et al. [23] show that ESG performance can be associated with firm value and profitability but that effects differ across ESG pillars. This supports a more conditional interpretation: ESG reporting is financially relevant when it reflects decision-useful sustainability performance rather than broad reputational language.

Greenwashing and ESG controversies further complicate the ESG-performance relationship. Chen et al. [31] argue that unaudited or unreliable ESG information can create barriers to investment decision-making when firms exaggerate sustainability performance. The concern is not merely cosmetic: controversies, weak assurance, and inconsistent disclosure can undermine trust, increase perceived risk, and weaken the financial benefits expected from ESG engagement. This makes governance, audit quality, assurance, internal controls, and digital reporting infrastructure central to the ESG-financial performance debate rather than secondary implementation issues.

Evidence from Palestine is particularly important because emerging markets often face weaker ESG standardization, lower assurance coverage, ownership concentration, political and economic instability, limited data infrastructure, and distinct governance norms. Alslaibi and Abdelkarim [18] provide direct evidence from Palestine that environmental, social, and governance disclosures significantly affect ROA and ROE among Palestine Exchange-listed firms and that board diversity and board size moderate selected ESG-performance relationships. This evidence anchors the manuscript by demonstrating that ESG reporting can be financially relevant even in a small emerging market where ESG reporting practices are less mature than in developed economies.

This manuscript therefore examines how ESG reporting affects corporate financial performance through a structured literature review and thematic synthesis. It preserves the original focus on ESG reporting while integrating a wider research stream on governance, audit quality, accounting culture, internal controls, artificial intelligence, accounting information systems, fintech, dividend policy, cash holdings, and banking performance. The central argument is that ESG reporting creates financial value when firms possess the governance, strategic, cultural, technological, and assurance capabilities needed to transform sustainability information into credible signals, improved accountability, and resilient performance.

METHODOLOGY

Design

This study adopts a structured literature review and thematic synthesis design. The purpose is not to estimate a new empirical model or present a statistical meta-analysis; rather, it synthesizes empirical and conceptual evidence on the mechanisms through which ESG reporting affects corporate financial performance. The review is PRISMA-informed in the sense that it uses transparent search, screening, and synthesis logic, but it does not claim full PRISMA compliance because the original manuscript did not provide a complete database-by-database record of hits, exclusions, and final inclusion counts. For journal submission, a PRISMA-style flow diagram may be added if the authors reconstruct and document the full search trail [56].

The review corpus combines three streams. The first stream includes foundational and recent ESG-financial performance studies. The second includes literature on disclosure quality, ESG ratings, green washing, climate risk, materiality, assurance, and investor interpretation. The third includes the author-related research corpus covering ESG disclosure in Palestine, environmental management teams in the GCC, ESG controversies and board diversity in Europe, audit quality, accounting culture, COSO-based internal controls, AI-enabled transparency, AIS reliability, fintech, dividend policy, bank profitability, cash holdings, and financial resilience.

To respond to the need for a stronger evidence base, the revised corpus was expanded with approximately 30 additional Scite-verified references covering ESG-financial performance, ESG disclosure quality, rating disagreement, green washing, ESG controversies, sustainability assurance, board governance, stakeholder engagement, blockchain, AI-enabled reporting, and emerging-market reporting quality. Studies were not added merely to increase citation volume; each was integrated where it clarified a mechanism, boundary condition, or publication-relevant research gap.

Strategy, Selection Logic and Verification

The enhanced review was developed using a combination of keyword-based and citation-based searches across academic indexing and verification channels, including Scite, DOI records, Crossref-linked metadata, publisher pages where accessible, and reputable academic databases. The search logic emphasized combinations of the following terms: ESG reporting, ESG disclosure, ESG performance, corporate financial performance, ROA, ROE, Tobin's Q, firm value, sustainability reporting, ESG assurance, greenwashing, ESG controversies, ESG ratings divergence, climate risk, corporate governance, audit quality, board diversity, internal controls, accounting information systems, artificial intelligence, fintech, emerging markets, banks, and financial resilience.

The inclusion logic was thematic relevance and verifiability. Studies were included when they contributed to the manuscript's central question: how ESG reporting affects corporate financial performance through transparency, governance, credibility, stakeholder trust, digital infrastructure, and institutional context. Peer-reviewed journal articles and rigorously edited scholarly book chapters were prioritized. Foundational studies were retained when they supplied theoretical or empirical anchors that remain influential, including aggregate ESG-performance evidence, materiality evidence, investor response evidence, and climate-risk evidence. Sources with incomplete metadata, weak discoverability, unclear publication status, or limited relevance were not added as new supporting references.

Thematic Synthesis Process

The synthesis proceeded in four steps. First, the existing manuscript was reviewed to identify conceptual repetition, unsupported claims, and areas requiring stronger evidence. Second, candidate references were screened for relevance to ESG reporting, financial performance, disclosure credibility, greenwashing, governance, assurance, digital reporting, and emerging markets. Third, each source was mapped to the manuscript section where it supplied the strongest conceptual value. Fourth, the revised argument was organized around five mechanisms: transparency and information asymmetry; governance credibility; strategic sustainability capability; digital disclosure infrastructure; and institutional context. This approach avoids citation dumping by using each source to support a defined conceptual claim.

Table 1. PRISMA-informed review protocol and transparency status

Review element	Applied in this manuscript	Publication-readiness note
Research focus	ESG reporting and corporate financial performance, with attention to credibility, governance, digital reporting, and emerging markets.	Clear and suitable for a structured literature review.
Search concepts	ESG disclosure/reporting, CFP, ROA, ROE, Tobin's Q, firm value, greenwashing, ESG controversies, audit quality, assurance, AI, AIS, fintech, and emerging markets.	The keywords should be retained in any submission appendix if the journal requests a formal search protocol.
Inclusion logic	Peer-reviewed, DOI-verifiable, thematically relevant studies and author-related evidence directly connected	Avoid adding unverifiable or weakly connected references.

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	to ESG, governance, reporting credibility, technology, or financial performance.	
Screening logic	Sources were retained only when they strengthened a defined mechanism in the argument.	This reduces citation dumping and strengthens coherence.
PRISMA status	PRISMA-informed, not full PRISMA.	Do not add a PRISMA flow diagram unless database hit counts and exclusion reasons are reconstructed.
Synthesis method	Thematic synthesis organized around transparency, governance credibility, strategic capability, technology, and institutional context.	Appropriate for a conceptual and empirical review-based article.

LITERATURE REVIEW

ESG reporting, disclosure quality and corporate financial performance

ESG reporting refers to the disclosure of information about environmental stewardship, social responsibility, and governance practices. Environmental disclosures typically address energy use, emissions, waste management, climate-related risks, environmental compliance, and resource efficiency. Social disclosures address employee welfare, diversity, customer relations, community engagement, human rights, health and safety, and supply-chain responsibility. Governance disclosures cover board structure, executive accountability, shareholder rights, risk management, ethics, internal controls, audit quality, and transparency mechanisms. Collectively, these disclosures enable stakeholders to assess whether a firm is prepared to manage sustainability-related risks and opportunities.

Corporate financial performance is commonly measured through accounting-based indicators such as ROA, ROE, earnings per share, profit margin, and cash flow, as well as market-based indicators such as Tobin's Q, market valuation, abnormal returns, and stock performance. ESG reporting may affect these outcomes through several channels: reducing information asymmetry, improving investor confidence, attracting sustainability-oriented capital, strengthening stakeholder trust, lowering regulatory and reputational risk, and supporting operational efficiency. The evidence base is generally supportive but not uniform. Friede et al. [39] report that most empirical studies find a positive ESG-financial performance relationship, while Velte [69], Alareeni and Hamdan [7], Chen and Xie [32], and Raimo et al. [62] show that ESG performance and disclosure can enhance profitability, transparency, or market valuation.

Recent evidence further supports the need to differentiate accounting performance, market value, cost of capital, and financing outcomes. Abdi et al. [1] show that ESG disclosure can influence firm value and financial performance in the airline industry, with firm size and age shaping the relationship. Feng and Wu [37] show that ESG disclosure is relevant to REIT debt financing and firm value, while Wong et al. [70] examine whether ESG certification adds firm value. Kim and Kim [47] add that mandatory GHG disclosure and voluntary ESG disclosure can have compounding valuation effects. These studies reinforce that ESG reporting affects financial performance through multiple capital-market and financing channels rather than through profitability alone.

The author-related evidence extends this logic in emerging-market settings. Alslaibi and Abdelkarim [18] demonstrate that ESG disclosure components affect ROA and ROE in Palestine. Alslaibi [11] shows that earnings, cash flow, firm size, and lagged dividends shape dividend payout behavior among Palestine Exchange firms. Although dividend policy is not an ESG measure, it is investor-facing and governance-sensitive; investors often interpret payout decisions alongside ESG transparency when assessing firm quality, liquidity, and managerial discipline. Alslaibi et al. [16] further show that bank profitability and market valuation in the Arab Levant are shaped by inflation, bank type, country effects, bank size, capital adequacy, liquidity, pandemic exposure, and financial inclusion. This evidence broadens the ESG-performance discussion by emphasizing that ESG reporting must be interpreted within the wider financial environment in which firms operate.

Materiality, ESG ratings, and measurement reliability

A critical weakness in parts of the ESG-performance literature is the assumption that all ESG indicators are equally informative. Materiality research challenges this assumption. Khan et al. [46] show that sustainability investments connected to financially material issues have stronger performance relevance than immaterial sustainability investments. This insight is important for the present manuscript because ESG reporting should not be evaluated only by disclosure volume; it should be evaluated by whether the disclosed information is material to the firm's risk profile, industry conditions, stakeholder expectations, and value-creation model.

The reliability of ESG measurement is also contested. Berg et al. [25] document substantial ESG rating divergence across major rating agencies and identify scope, measurement, and weighting differences as important sources of disagreement. Christensen, Serafeim, and Sikochi [33] similarly show that ESG disclosure can be associated with disagreement among rating agencies, partly because raters interpret and weight disclosure differently. These studies strengthen the manuscript's critical contribution: ESG reporting may support financial performance, but researchers and investors must distinguish between ESG disclosure, ESG performance, ESG rating scores, ESG controversies, and ESG disclosure quality.

The measurement problem also affects earnings quality and cost-of-capital interpretations. Mao et al. [53] link ESG rating divergence with earnings management, indicating that disagreement among rating providers can reflect or reinforce opacity in reporting environments. Postiglione et al. [59] further synthesize ESG and firm-value evidence around cost-of-capital implications, showing why ESG research must separate substantive risk reduction from market perception effects.

For emerging markets, this distinction is especially important. Where ESG reporting is less standardized and assurance practices are less mature, disclosure quantity may not reflect disclosure credibility. Therefore, emerging-market ESG studies should avoid relying on aggregate ESG scores without considering governance quality, audit quality, internal control systems, institutional enforcement, and data reliability.

Environmental reporting, climate risk and greenwashing

Environmental reporting is financially relevant because it informs stakeholders about carbon exposure, climate transition risk, physical climate risk, resource efficiency, environmental innovation, and regulatory preparedness. Krueger et al. [48] show that institutional investors regard climate risk as financially important, while Bolton and Kacperczyk [26] show that carbon emissions are related to investor pricing and carbon-risk premia. Flammer [38] adds that corporate green bonds can act as credible environmental signals when issuers improve environmental performance and attract long-term or green investors. These studies support the view that environmental disclosure can influence capital-market perceptions when it is connected to credible environmental strategy and verifiable action.

At the same time, environmental disclosure can lose value when it becomes symbolic. Chen et al. [31] show that unreliable or unaudited ESG information can create greenwashing concerns that discourage investors from integrating ESG factors into decisions. This concern is consistent with Aljawarneh et al. [9], who show that ESG controversies in EU energy firms constrain environmental innovation under energy-transition pressure and that CSR strategy alone may not buffer these risks. Environmental reporting therefore generates financial benefits only when it is supported by real environmental management capacity, credible governance, and evidence of operational change.

New greenwashing research deepens this warning. Bu et al. [27] examine ESG assurance as a governance mechanism for corporate greenwashing, while Ghitti et al. [41] frame greenwashing through an agency lens, where managers may benefit from symbolic sustainability communication while stakeholders bear information risk. Zhu and Zheng [72] connect institutional investors with corporate greenwashing, suggesting that sophisticated investors can either discipline or be misled by opaque ESG disclosure depending on the information environment.

The author-related GCC evidence reinforces this point. Alslaibi et al. [13,17] show that environmental management teams strengthen the effects of board diversity and independence on ESG performance in GCC firms, while overly large or excessively skill-concentrated boards can dilute this effect. Environmental reporting should therefore be understood as the visible output of governance design, specialist expertise, and board-level sustainability oversight rather than as a communications exercise alone.

Social Reporting, ESG controversies and Stakeholder Trust

Social reporting captures the firm's relationship with employees, communities, customers, suppliers, and wider society. Social disclosure can support financial performance by improving stakeholder trust, employee commitment, customer loyalty, social legitimacy, and reputational capital [28], [71]. However, the social dimension is especially vulnerable to credibility gaps because stakeholders can observe inconsistency between stated commitments and firm behavior.

Stakeholder-facing disclosure quality is especially important in mandatory reporting environments. Petruzzelli and Badia [57] examine stakeholder engagement disclosure quality under the EU non-financial reporting framework, while Raman et al. [63] map sustainability reporting research in relation to the UN Sustainable Development Goals. These studies show that social reporting is not only a reputational practice; it is increasingly linked to stakeholder engagement, public accountability, SDG alignment, and the credibility of non-financial reporting systems.

The author-related ESG controversy evidence shows why the social and governance dimensions must be analyzed together. Qawasmeh et al. [60] find that ESG performance supports firm value, whereas ESG controversies impose reputational and financial costs. Executive gender diversity strengthens the positive implications of ESG engagement and mitigates the negative implications of controversies. This evidence supports the view that diverse leadership and governance quality can enhance stakeholder interpretation of ESG disclosure and protect firm value when controversies arise.

Financial resilience evidence also links ESG performance to liquidity strategy. Samara et al. [67] show that EU firms with higher ESG scores hold larger cash reserves and that gender-diverse boards amplify this relationship. This contributes to the ESG-financial performance debate by moving beyond profitability measures. ESG reporting may signal not only current profitability but also resilience, liquidity discipline, and the capacity to absorb uncertainty.

Institutional ownership and investor preferences also shape the financial interpretation of ESG information. López-de-Silanes et al. [51] document institutional investors' ESG preferences, while Cepêda et al. [30] argue that institutional investors can help reduce ESG decoupling. This evidence strengthens the investor-facing logic of ESG reporting: financial markets reward ESG information when investors believe it reflects genuine behavior rather than symbolic compliance.

Governance, Audit Quality, Internal Controls and Reporting Credibility

Governance is the ESG dimension most directly connected to accountability, risk management, and disclosure credibility. Governance reporting informs stakeholders about whether boards, audit committees, internal controls, and management systems can transform ESG commitments into reliable action. Governance therefore operates both as an ESG component and as an enabling condition for credible environmental and social reporting.

The author-related governance evidence substantially strengthens this channel. Alslaibi and Daraghma [10] examine Palestine Exchange firms and show that board features, firm characteristics, and board financial expertise are associated with audit quality proxies. Aljarrah and Alslaibi [8] provide related evidence from Jordanian industrial firms, showing that board size, board financial expertise, board meetings, and board independence affect audit quality depending on the audit-quality proxy used. These studies support the agency-theory logic that stronger boards improve monitoring and audit credibility, thereby reducing information asymmetry and increasing stakeholder confidence in both ESG and financial reporting.

Reporting credibility also depends on culture and internal control. Samara et al. [66] show that accounting cultural values such as conservatism, professionalism, and consistency improve financial reporting quality in Palestinian and Jordanian banks, while corporate governance strengthens selected cultural effects. Alslaibi et al. [19] show that COSO-based control environment, risk assessment, control activities, information and communication, and monitoring support fraud prevention and detection in Palestinian banks. These findings matter for ESG reporting because sustainability disclosure increasingly requires the same foundations as financial reporting: reliable systems, ethical culture, internal control, audit trail, oversight, and accountability.

The Scite-expanded literature gives additional weight to sustainability reporting quality as a governance outcome. Erin et al. [36] link corporate governance with sustainability reporting quality in Nigeria, Gerwing et al. [40] examine sustainable corporate governance in mandatory sustainability reporting quality, and Singhania and Singh [68] connect board gender diversity with sustainability reporting quality. These studies support the argument that boards influence not only financial reporting but also the credibility and completeness of ESG disclosure.

The behavioral dimension of governance further deepens the analysis. Alslaibi et al. [20] propose Behavioral-Governance Fit Theory, arguing that profitability emerges from alignment between internal behavioral dynamics and governance quality. The doctoral work by Alslaibi [14] similarly shows that organizational culture, CEO mindset, CEO communication sentiment, leadership style, and governance jointly affect profitability in Palestinian banks. ESG reporting is therefore embedded in managerial behavior, communication, culture, and governance discipline; it is not a detached reporting artifact.

Technology, Artificial Intelligence AIS and Fintech

Digital transformation is increasingly relevant to ESG reporting because disclosure quality depends on data collection, system reliability, analytics, assurance, cybersecurity, and monitoring. AI, machine learning, blockchain, cloud computing, robotic process automation, and data analytics can improve the speed, accuracy, comparability, and auditability of ESG and financial information. Al-Khoury et al. [5] map emerging technologies in accounting information systems and identify AI, machine learning, blockchain, cloud computing, robotic process automation, and analytics as important research streams. Their bibliometric evidence supports the need for more empirical research on how technological integration affects accounting system performance, reporting quality, and user acceptance.

Technology-oriented ESG reporting research also supports this manuscript's emphasis on data integrity and verifiability. Bakarich et al. [24] explain how blockchain can enhance sustainability reporting and assurance, while Pizzi et al. [58] offer a practical framework for embedding blockchain in sustainability reporting. Naveed et al. [54] provide newer evidence that AI adoption can influence ESG disclosure quality, especially when sustainability committees are heterogeneous. These studies show that AI and blockchain should be treated as reporting-governance technologies, not merely operational innovations.

AI is particularly relevant to governance and transparency. Amarna et al. [21] show that AI positively moderates the relationship between corporate governance and firm performance in Palestinian firms, especially in non-financial dimensions such as competitive position, market and customer perspectives, differentiation, efficiency, and internal processes. Alslaibi et al. [15] add that expert systems, automated learning, and neural networks affect voluntary disclosure and financial statement transparency, while AIS reliability moderates selected AI-transparency relationships. These findings indicate that AI can improve ESG reporting only when it rests on reliable accounting systems with availability, security, confidentiality, integrity, and privacy.

Fintech-related evidence widens the financial-performance argument, particularly in banking. Latiff et al. [49] show that fintech research has developed around financial entrepreneurship, bank efficiency and profitability, client behavior and trust, and Islamic banking innovation. Alslaibi [12] provides Palestinian banking evidence that fintech affects profitability differently before and during COVID-19, suggesting that crisis conditions can weaken or alter the technology-performance channel. Al-Alawnh et al. [4] show that digital payments, blockchain, and AI/machine learning enhance financial performance in Jordanian commercial banks, with digital payments exerting the strongest effect. Together, these studies connect ESG reporting to digital trust, innovation capacity, financial inclusion, and resilient banking performance.

Emerging Markets and Banking Context

Emerging markets provide an important setting for ESG-financial performance research because firms oftenoperate under institutional constraints that differ from developed economies. Regulatory enforcement may be less mature, reporting standards may be inconsistently applied, stakeholder pressure may be uneven, and political or economic instability can affect profitability and disclosure incentives. The Palestinian, Jordanian, GCC, and Arab Levant evidence integrated in this manuscript is therefore central to the manuscript's originality.

Additional emerging-market and regulatory evidence supports this contextual argument. Ottenstein et al. [55] show how EU Directive 2014/95/EU shifted sustainability reporting from voluntarism toward regulation, while Radu et al. [61] synthesize company-level factors affecting non-financial reporting quality under mandatory regimes. Luque-Vílchez et al. [50] emphasize key dimensions of sustainability reporting quality and the future role of GRI. These studies clarify that emerging-market ESG reforms should combine reporting standards, governance capacity, assurance, and firm-level implementation support.

Banking evidence is especially relevant because banks are highly regulated, information-sensitive, and central to financial stability. Alslaibi et al. [16] show that bank size, capital adequacy, inflation, bank type, liquidity, pandemic effects, and financial inclusion shape profitability and market valuation across the Arab Levant. Alslaibi [12] and Al-Alawnh et al. [4] connect fintech innovation with bank profitability in Palestine and Jordan. Alslaibi et al. [20], Alslaibi [14], Samara et al. [66], and Alslaibi et al. [19] show that governance, behavior, culture, reporting quality, and internal controls shape bank performance and credibility. These studies collectively support a central proposition of this manuscript: ESG reporting affects financial performance through a wider institutional and organizational ecosystem, not through disclosure volume alone.

Stakeholder Theory

Stakeholder Theory argues that firms must account for the interests of shareholders, employees, customers, suppliers, creditors, regulators, communities, and other affected groups. ESG reporting operationalizes this theory by communicating how the firm manages obligations to multiple stakeholders. The ESG-financial performance relationship is therefore expected to be positive when stakeholders interpret ESG disclosure as credible evidence of responsible risk management, social responsiveness, and long-term value creation. Evidence from ESG disclosure in Palestine [18], ESG-linked cash holdings in Europe [67], and ESG controversies moderated by gender-diverse boards [60] supports the stakeholder view that sustainability information can influence financial outcomes when stakeholders consider it relevant and trustworthy.

Legitimacy Theory and Institutional Theory

Legitimacy Theory explains ESG reporting as a mechanism through which firms demonstrate alignment with social expectations and preserve access to critical resources. Environmental reporting, social responsibility disclosure, and controversy management are especially important when stakeholders question whether corporate practices are consistent with social norms. Institutional Theory complements this argument by emphasizing that ESG reporting is shaped by regulatory systems, professional norms, market expectations, and cultural environments. Christensen et al. [34] show that sustainability reporting regimes can have capital-market, stakeholder, and real behavioral consequences, but these effects depend on implementation and enforcement. In emerging markets, this means ESG reporting cannot be understood independently of institutional maturity, enforcement capacity, and local governance norms.

Agency Theory and Signaling Theory

Agency Theory explains ESG reporting as a monitoring and accountability mechanism that reduces information asymmetry between managers, owners, lenders, and other stakeholders. Governance disclosures are central because they reveal board oversight, internal control, audit quality, risk management, and accountability structures. Evidence on board features and audit quality in Palestine and Jordan [8], [10], accounting culture and reporting quality [66], and COSO-based fraud prevention [3] [19] supports the agency-theory argument that governance mechanisms enhance disclosure reliability and protect stakeholders against opportunistic behavior.

Signaling Theory suggests that firms voluntarily disclose high-quality information to communicate superior management, lower risk, and long-term value potential. ESG reporting can signal strategic sustainability orientation, but the signal is credible only when it is costly, verifiable, and supported by governance or assurance. Flammer [38] shows that corporate green bonds can serve as credible environmental signals when they are associated with improved environmental performance and investor response. AI-enabled governance and reliable AIS can also strengthen the signaling function of reporting by improving transparency and reducing doubt about data quality [15], [21].

Resource-Based View, Upper Echelons Theory, and Behavioral-Governance Fit

The Resource-Based View explains how ESG capabilities, environmental management teams, board diversity, cash reserves, accounting systems, and digital infrastructure can become strategic resources when they are valuable, difficult to imitate, and embedded in organizational routines. Alslaibi et al. [17] show that environmental management teams can strengthen the link between board characteristics and ESG performance, while Samara et al. [67] show that ESG performance and gender-diverse boards can be associated with stronger cash-holding resilience.

Upper Echelons Theory highlights the role of executives, board members, leadership diversity, and managerial cognition in translating ESG commitments into performance outcomes. Qawasmeh et al. [60] show that gender-diverse executive leadership strengthens ESG value creation and mitigates controversy-related costs. Behavioral-Governance Fit Theory further argues that profitability depends on alignment between internal behavioral dynamics and governance quality [20]. Together, these perspectives show that ESG reporting is shaped by external institutions, internal resources, executive characteristics, and governance fit.

RESULTS

Table 2. Thematic synthesis matrix of integrated literature

Theme	Representative integrated evidence	Implication for the ESG-financial performance argument
ESG disclosure and firm performance	Friede et al. [39]; Velte [69]; Alareeni and Hamdan [7]; Chen and Xie [32]; Alslaibi and Abdelkarim [18]	ESG reporting is generally associated with stronger profitability, firm value, and investor confidence, but the relationship is context-dependent.
Materiality and ESG measurement	Khan et al. [46]; Christensen et al. [34]; Christensen, Serafeim, and Sikochi [33]; Berg et al. [25]	Financial relevance depends on material ESG issues, credible measurement, and careful interpretation of ESG ratings.
Environmental risk and greenwashing	Krueger et al. [48]; Bolton and Kacperczyk [26]; Flammer [38]; Chen et al. [31]; Aljawarneh et al. [9]	Environmental reporting creates value when credible; greenwashing and controversies can reduce trust and weaken performance benefits.
Governance, audit quality, and controls	Raimo et al. [62]; Alslaibi and Daraghma [10]; Aljarrah and Alslaibi [8]; Samara et al. [66]; Alslaibi et al. [19]	Governance is the strongest channel linking ESG reporting to lower agency costs, better audit quality, stronger controls, and disclosure reliability.
Technology, AI, AIS, and fintech	Al-Khoury et al. [5]; Amarna et al. [21]; Alslaibi et al. [15]; Latiff et al. [49]; Al-Alawnh et al. [4]	Digital infrastructure improves monitoring, data integrity, disclosure timeliness, and the technology-performance channel.
Financial resilience and banking performance	Alslaibi [11], [12]; Alslaibi et al. [16], [20]; Samara et al. [67]	ESG reporting should be evaluated through profitability, valuation, payout policy, cash holdings, liquidity, and resilience.

Overall ESG Reporting and Financial Performance

The overall literature supports a generally positive but context-dependent relationship between ESG reporting and corporate financial performance. Friede et al. [39] provide broad aggregated evidence that ESG is more frequently associated with positive financial outcomes than negative outcomes. Velte [69], Alareeni and Hamdan

[7], Chen and Xie [32], and Raimo et al. [62] further show that ESG performance and disclosure can improve profitability, market valuation, firm value, and transparency. The Palestine evidence reinforces this conclusion in a less-studied market: Alslaibi and Abdelkarim [18] find that ESG disclosure dimensions significantly influence ROA and ROE among Palestine Exchange-listed firms.

The evidence also explains why ESG outcomes differ across studies. Ahmad et al. [2] and Jiang and Vitenu-Sackey [45] show that methodology, market context, and ESG components affect results. The author-related evidence supports this nuance. In Palestine, board diversity and board size moderate some ESG-performance relationships but not all environmental disclosure effects [18]. In Europe, ESG performance improves firm value while ESG controversies impose financial and reputational costs [60]. These findings imply that ESG reporting is financially valuable when disclosures are substantive, credible, material, and supported by governance mechanisms.

Environmental Reporting, Sustainability Performance, and Innovation

Environmental reporting contributes to financial performance by signaling environmental risk management, operational efficiency, regulatory readiness, and long-term strategic orientation. Atan et al. [22], Xie et al. [71], and Jiang and Vitenu-Sackey [45] show that environmental indicators can support firm performance, especially where stakeholders and regulators value environmental accountability. Climate-finance research further indicates that investors increasingly view climate and carbon risks as financially relevant [26], [48].

The GCC study by Alslaibi et al. [17] clarifies that environmental outcomes depend on internal governance structures. Environmental management teams strengthen the positive role of board diversity and independence in ESG performance. This suggests that firms should not treat environmental reporting as a communication function alone; it requires specialized sustainability structures capable of translating board oversight into measurable ESG outcomes.

The energy-transition evidence adds a cautionary dimension. Aljawarneh et al. [9] show that ESG controversies reduce environmental innovation in EU energy firms and that CSR strategy alone does not necessarily buffer the controversy-innovation relationship. This reinforces the argument that environmental reporting has financial value only when it reflects real environmental risk management and innovation capacity. Firms exposed to carbon, nuclear safety, fossil-fuel divestment, or renewable-transition pressures must embed ESG risk management into strategic innovation rather than relying on generic CSR narratives.

Recent studies also show that greenwashing and innovation must be analyzed jointly. Ma et al. [52] connect ESG disclosure with green innovation and greenwashing, indicating that disclosure can either support sustainable development or conceal weak implementation. Ren et al. [64] show that social media attention can discipline corporate greenwashing, while Carè et al. [29] demonstrate that sustainability disclosure in European banks is directly relevant to ESG controversies. Together, these studies support the article's argument that ESG reporting needs scrutiny, assurance, and stakeholder monitoring.

Social Reporting, ESG Controversies, and Gender Diversity

Social reporting supports financial performance by strengthening stakeholder trust, employee commitment, customer loyalty, and public legitimacy. Buallay [28] and Xie et al. [71] suggest that social responsibility initiatives can enhance organizational outcomes. However, ESG controversy evidence shows that social and governance failures can reverse ESG value creation. Qawasmeh et al. [60] find that ESG controversies negatively affect performance, while executive gender diversity strengthens the positive effects of ESG performance and mitigates the negative effects of controversies. This indicates that social reporting must be supported by diverse leadership and governance alignment to protect firm value.

The financial resilience evidence also connects social governance with liquidity. Samara et al. [67] show that EU firms with higher ESG scores hold larger cash reserves and that gender-diverse boards amplify this relationship. This finding contributes to the ESG-financial performance debate by moving beyond profitability measures and showing that ESG performance can be associated with liquidity buffers and resilience. In other words, ESG reporting may not only influence immediate ROA or ROE; it can also signal prudent financial management and the capacity to absorb uncertainty.

Governance Reporting as the Strongest Performance Channel

Governance reporting shows the most consistent connection with financial performance because it directly affects oversight, accountability, audit quality, internal control, risk management, and disclosure reliability. Raimo et al. [62] link ESG disclosure to firm value and transparency, while Alareeni and Hamdan [7] show that governance practices influence firm performance. The author-related governance papers make this channel more specific. Alslaibi and Daraghma [10] and Aljarrah and Alslaibi [8] demonstrate that board characteristics are associated with audit quality in Palestine and Jordan, supporting the argument that board structure and board expertise shape the credibility of corporate reporting.

Financial reporting quality and fraud prevention strengthen ESG reporting credibility. Samara et al. [66] show that professionalism, conservatism, and consistency improve financial reporting quality and that governance moderates important accounting culture relationships. Alslaibi et al. [19] demonstrate that COSO-based internal control components support fraud prevention and detection, with employee tenure shaping the control-fraud relationship. These findings matter for ESG reporting because sustainability disclosures increasingly require assurance, controls, data integrity, and governance oversight. Weak controls can undermine ESG credibility even when firms disclose extensive sustainability information.

Assurance evidence further clarifies the audit-quality channel. Al-Shaer [6] links sustainability reporting quality with post-audit financial reporting quality in the UK, while Elaigwu et al. [35] show that corporate integrity and external assurance are associated with sustainability reporting quality in Malaysia. Rezaee et al. [65] connect sustainability reporting and assurance with SDGs, and Isack and Aschauer [44] show that CSR report assurance and ESG ratings can affect bank managers' ESG lending judgments. These findings justify treating assurance as a central condition of ESG value relevance.

Governance also operates through managerial behavior and leadership. Alslaibi et al. [20] and Alslaibi [14] show that profitability in Palestinian banks is affected by organizational culture, CEO mindset, CEO letter sentiment, leadership style, and governance. These studies support a broader interpretation of governance reporting: stakeholders need to understand not only formal board structures but also how leadership behavior, communication, and internal culture influence performance.

Technology, AI, Fintech, and Disclosure Infrastructure

Technology is an emerging moderator of the ESG-reporting and financial performance relationship. Amarna et al. [21] show that AI strengthens the relationship between corporate governance and firm performance in Palestinian firms. Alslaibi et al. [15] further show that AI technologies affect voluntary disclosure and financial statement transparency, with AIS reliability moderating selected relationships. Al-Khoury et al. [5] identify AI, blockchain, cloud computing, robotic process automation, and analytics as key AIS technologies requiring further empirical attention. Collectively, this evidence indicates that ESG reporting quality increasingly depends on digital systems capable of producing reliable, secure, timely, and auditable non-financial information.

Fintech evidence expands this discussion from corporate reporting to financial-sector performance. Latiff et al. [49] identify fintech research clusters related to entrepreneurship, banking efficiency and profitability, client behavior and trust, and Islamic banking innovation. Alslaibi [12] shows that fintech-profitability effects in Palestinian banks differed before and during COVID-19, emphasizing that crisis conditions can reshape technology benefits. Al-Alawnh et al. [4] show that digital payments, blockchain, and AI/machine learning improve financial performance in Jordanian commercial banks. These studies indicate that digital capability is increasingly part of the broader financial-performance environment in which ESG reporting is interpreted.

Emerging-Market Financial Performance and Investor Outcomes

The emerging-market evidence demonstrates that ESG reporting interacts with local financial structures, banking conditions, dividend policies, and institutional constraints. Alslaibi [11] finds that earnings per share, cash flow, firm size, and lagged dividends explain dividend payout ratios among PEX-listed firms. This evidence is relevant to ESG reporting because payout policy is an investor-facing outcome shaped by profitability, liquidity, and governance. Transparent ESG reporting can complement payout information by helping investors evaluate whether financial returns are sustainable or achieved at the expense of social, environmental, or governance risks.

Alslaibi et al. [16] show that profitability and market valuation in Arab Levant banks depend on inflation, bank type, country effects, bank size, capital adequacy, liquidity, pandemic exposure, and financial inclusion. This reinforces the importance of contextualizing ESG-performance findings. In emerging markets, ESG reporting may support financial performance, but its effect will be conditioned by macroeconomic instability, bank balance-sheet structure, regulation, and financial inclusion. Therefore, emerging-market ESG studies should combine sustainability indicators with institutional and financial controls rather than assuming that ESG disclosure alone explains profitability.

DISCUSSION

The integrated evidence indicates that ESG reporting contributes to corporate financial performance through multiple mutually reinforcing channels. The first channel is transparency. ESG disclosure reduces information asymmetry by providing stakeholders with information about environmental risk, social responsibility, governance structure, ethics, and strategic sustainability orientation. This transparency can strengthen investor confidence, stakeholder trust, and market valuation. The direct Palestine evidence shows that ESG disclosure affects ROA and ROE, supporting the idea that ESG reporting matters in emerging markets as well as developed economies [18].

The additional Scite-verified studies sharpen this channel by distinguishing transparency from disclosure quantity. High-volume ESG disclosure can increase visibility, but only material, comparable, and assured disclosure improves decision usefulness. Evidence on ESG certification, mandatory GHG disclosure, and ESG disclosure in sector-specific settings shows that capital markets react more plausibly when ESG information is linked to measurable risks, financing conditions, or regulatory requirements [37], [47], [70].

The second channel is governance credibility. Governance reporting is consistently important because it determines whether ESG information is reliable, monitored, and strategically implemented. Board characteristics, audit quality, internal controls, accounting culture, AI-enabled governance, and AIS reliability all shape disclosure credibility [8], [10], [15], [19], [21], [66]. This explains why governance is often the ESG dimension most closely associated with financial performance. Governance reduces agency costs and provides the assurance architecture required for stakeholders to trust sustainability disclosures.

The third channel is strategic capability. ESG reporting does not create value simply because information is disclosed. Value emerges when firms have the capabilities to implement sustainability commitments. Environmental management teams help boards translate governance characteristics into ESG performance [17]. Gender-diverse leadership strengthens ESG value creation and mitigates controversy risks [60]. Cash holdings evidence suggests that ESG can be associated with financial resilience when inclusive governance supports prudent liquidity strategies [67]. These findings show that ESG reporting works best when embedded in managerial capability, board diversity, and resource allocation.

Strategic capability also includes the ability to prevent decoupling between ESG communication and ESG implementation. The greenwashing literature indicates that firms may disclose sustainability narratives without equivalent operational change, but institutional monitoring, board oversight, assurance, social media scrutiny, and credible investor pressure can reduce this gap [27], [30], [52], [64].

The fourth channel is digital infrastructure. AI, AIS, and fintech can strengthen ESG reporting and financial performance by improving data integrity, disclosure timeliness, monitoring, and decision-making. However, technology also introduces reliability and governance challenges. AIS reliability moderates the relationship between AI and voluntary disclosure, meaning that AI-based transparency is credible only when accounting systems are secure and dependable [15]. Fintech enhances bank performance in some settings, but crisis conditions can weaken or alter its effect [4], [13]. Digital transformation should therefore be incorporated into ESG reporting frameworks as a governance and assurance issue, not merely a technology upgrade.

The fifth channel is institutional context. Emerging markets provide distinctive evidence because firms face uneven regulation, limited ESG standardization, political-economic uncertainty, and varying stakeholder awareness. The author-related studies from Palestine, Jordan, the Arab Levant, and the GCC collectively show that ESG reporting and performance depend on local governance, banking conditions, culture, internal controls, and technology adoption. This strengthens the originality of the manuscript by moving beyond developed-market ESG generalizations and demonstrating how ESG-performance mechanisms operate in institutionally complex contexts.

The review also identifies a critical boundary condition: ESG reporting can destroy rather than create credibility when it is inconsistent with performance. Rating divergence, greenwashing, and controversies weaken the assumption that disclosure automatically improves firm value [25], [33], [31]. Publication-ready ESG research must therefore avoid simple claims that 'more ESG disclosure is better.' A stronger claim is that material, credible, assured, and governance-supported ESG disclosure is more likely to be financially valuable.

Research Gap and Original Contribution

Several gaps remain in the ESG reporting and financial performance literature. First, although many studies find positive ESG-performance relationships, results are inconsistent across industries, countries, and methods. This suggests that future work should examine component-level ESG effects and contextual moderators rather than relying solely on aggregate ESG scores. Second, developed markets dominate much of the literature, while emerging markets remain underexplored. Evidence from Palestine, Jordan, the GCC, and the Arab Levant shows that ESG reporting must be interpreted in relation to institutional maturity, financial-sector structure, governance quality, and crisis exposure.

Third, the literature often separates ESG reporting from reporting credibility mechanisms. The integrated author-related corpus shows that audit quality, board structure, accounting culture, internal controls, fraud prevention, AIS reliability, and AI-enabled governance are not peripheral issues. They are central to the credibility of ESG reporting and to its financial consequences. Fourth, financial performance is often measured narrowly through ROA, ROE, or Tobin's Q. The additional evidence on dividend policy, market valuation, cash holdings, liquidity, and banking profitability suggests that ESG reporting should also be studied through resilience, payout policy, valuation stability, and liquidity outcomes.

The original contribution of this revised manuscript is therefore threefold. First, it synthesizes ESG disclosure and corporate financial performance evidence with a wider governance-transparency-technology framework. Second, it highlights an author-related research stream that collectively demonstrates how ESG performance, governance quality, reporting credibility, fintech, AI, and emerging-market banking conditions interact. Third, it reframes ESG reporting as an integrated value-creation architecture: financial benefits arise when sustainability disclosure is supported by governance discipline, reliable reporting systems, diverse leadership, internal controls, digital infrastructure, and context-sensitive strategic implementation.

Implications for Corporate Managers

Corporate managers should treat ESG reporting as a strategic management system rather than a compliance exercise. Financial benefits are more likely when ESG disclosure is tied to genuine environmental management, stakeholder engagement, board oversight, audit quality, internal control, and digital reporting infrastructure. Managers should build cross-functional ESG teams, strengthen board diversity and independence, align ESG metrics with operational targets, and ensure that sustainability disclosures are supported by reliable data and assurance processes.

Implications for Boards and Audit Committees

Boards and audit committees should recognize that ESG reporting credibility depends on governance quality. Evidence from Palestine and Jordan shows that board features affect audit quality, while accounting culture and COSO controls support reporting quality and fraud prevention [8], [10], [19], [66]. Boards should therefore integrate ESG oversight into audit committee agendas, enterprise risk management systems, internal control evaluations, and assurance procedures. Board diversity should also be viewed as a strategic resource that can improve ESG interpretation, controversy management, and liquidity resilience [60], [67].

Implications for Investors

Investors should use ESG information together with governance indicators, audit quality signals, dividend policy, cash holdings, financial resilience, and technology capability. ESG disclosure alone is insufficient if it is unsupported by credible governance, reliable AIS, effective controls, or independent assurance. Investors in emerging markets should pay particular attention to whether ESG reporting is substantiated by board oversight, financial reporting quality, internal control, and digital disclosure systems. The integrated evidence suggests that ESG reporting can enhance valuation and profitability, but only when the disclosed information is credible and strategically embedded.

Implications for Policymakers and Regulators

Policymakers and regulators should promote consistent ESG reporting standards, disclosure comparability, and assurance requirements, especially in emerging markets. The evidence from Palestine, the GCC, Jordan, and the Arab Levant indicates that ESG reporting can contribute to financial performance, but firms require institutional support, reporting guidance, digital infrastructure, and governance reforms. Regulators should encourage capacity-building programs that help firms implement ESG data systems, internal controls, board-level sustainability oversight, and technology-enabled disclosure practices.

Limitations and Future Research

This study is limited by its review-based design. It synthesizes existing evidence rather than estimating a new empirical model. The author-related papers integrated into the manuscript cover different sectors, methods, countries, and performance measures; therefore, the revised article should be read as a conceptual and empirical synthesis rather than a meta-analysis. The review is also PRISMA-informed rather than fully PRISMA-compliant because a complete record of database hits, duplicate removal, screening decisions, and exclusion reasons was not available in the original manuscript. Future research could convert this synthesis into a formal systematic review or meta-analysis using standardized inclusion criteria, quality assessment, effect-size extraction, and a reproducible PRISMA flow diagram.

Future research should examine ESG reporting in emerging markets using longitudinal data, component-level ESG measures, and stronger causal identification. Studies should distinguish between environmental disclosure, social disclosure, governance disclosure, ESG performance, ESG disclosure quality, ESG ratings, ESG controversies, and greenwashing. The evidence from Qawasmeh et al. [60], Aljawarneh et al. [9], Berg et al. [25], and Chen et al. [31] shows that positive ESG performance, ratings disagreement, and ESG controversies can have asymmetric effects that future studies should model explicitly.

Future empirical work should also examine how ESG disclosure quality interacts with ESG rating disagreement, greenwashing, assurance provider type, AI-enabled reporting systems, and investor monitoring. More specifically, future studies can test whether board gender diversity, sustainability committees, blockchain-enabled traceability, and external assurance reduce ESG decoupling and strengthen the association between ESG reporting and cost of capital, lending decisions, market valuation, and financial resilience [24], [44], [54], [68].

Additional research should integrate digital infrastructure into ESG reporting models. AI, AIS reliability, blockchain, robotic process automation, and fintech can improve disclosure quality and financial performance, but they also introduce governance, security, privacy, and assurance questions [5], [15], [49]. Future studies should investigate whether AI-enabled ESG reporting improves investor trust, lowers capital costs, enhances internal control, and reduces greenwashing risk. Banking studies should also examine fintech, ESG disclosure, financial inclusion, risk management, and profitability together, especially in crisis-exposed markets.

Finally, future work should expand financial-performance measures beyond ROA, ROE, and Tobin's Q. Dividend policy, cash holdings, market valuation, liquidity, resilience, environmental innovation, and bank profitability provide additional insights into how ESG reporting affects financial decision-making. The integrated evidence suggests that ESG reporting is best understood as a multi-dimensional performance mechanism rather than a single disclosure-performance link.

CONCLUSION

This revised manuscript concludes that ESG reporting generally contributes positively to corporate financial performance, but the relationship depends on credibility, materiality, governance, technology, stakeholder interpretation, and institutional context. ESG reporting enhances financial performance by increasing transparency, strengthening legitimacy, reducing information asymmetry, improving stakeholder trust, and supporting risk management. Governance reporting remains the strongest channel because it directly affects board oversight, audit quality, internal controls, reporting culture, AI-enabled monitoring, and disclosure reliability.

The integration of all papers from the author-related research corpus strengthens the manuscript's originality by showing that ESG reporting should be studied as part of a broader ecosystem of sustainability performance, governance quality, audit credibility, accounting culture, AI and AIS reliability, fintech innovation, banking performance, dividend policy, cash resilience, and emerging-market institutional conditions. The collective evidence demonstrates that ESG reporting creates value when firms possess the organizational and technological capabilities needed to convert disclosure into credible action and long-term financial resilience.

The final contribution is a more critical and publication-ready interpretation of the ESG-financial performance relationship. ESG disclosure is not valuable merely because it exists; it becomes valuable when it is material, comparable, reliable, assured, and strategically embedded. This distinction is essential for future ESG research and for corporate practice in emerging markets, where reporting infrastructure, institutional enforcement, and stakeholder expectations continue to evolve.

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