

Corporate Governance Mechanisms and ESG Disclosure: Evidence from Emerging Financial Markets

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ABSTRACT

The study explored the influence of corporate governance structures and business location on the correlation between ESG disclosure and firm performance among firms listed on the Johannesburg Stock Exchange. The study uses a quantitative strategy that uses panel data analysis to address unobservable heterogeneity and make estimates more accurate over time. This method is appropriate because it considers differences across companies, changes over time, and the way that corporate governance frameworks, ESG disclosure, and business performance affect each other. A fixed effects panel regression is employed to assess the claimed associations. The results offer detailed insights into the influence of governance quality and information settings on the financial consequences of sustainability reporting in an emerging market context. ESG disclosure appears to correlate negatively with performance in enterprises situated in financial centres, indicating that market participants in these locales may view substantial ESG investments as a distraction from profit-maximizing endeavours. Companies outside financial centres have a decreased or neutral link between ESG and performance, suggesting that disclosure serves mainly as a reputational or regulatory activity rather than a catalyst for financial performance. Robust governance systems improve business performance in financial hubs but seem ineffectual in less stable institutional contexts, highlighting the significance of regulatory enforcement and board autonomy. These findings together highlight that the robustness of corporate governance, company size, and geographic location collectively influence the impact of ESG disclosure on firm value in South Africa's growing financial markets.

Keywords: Corporate Governance, ESG, Performance and Emerging Financial Markets

JEL Classifications: J28, M14

1. INTRODUCTION

Corporate governance and environmental, social, and governance (ESG) disclosure have emerged as essential issues in discussions over corporate accountability and sustainable business practices, especially in emerging markets (Bamahros et al., 2022). In settings marked by fragile institutional frameworks, inadequate enforcement, and significant information asymmetries, governance systems are essential for fostering transparency and safeguarding investor interests (Ebaid, 2022). Previous research indicates that enhancements in information disclosure are more esteemed in economies characterised by significant informational disparities between managers and investors (Mohammad et al., 2023). In

these situations, spreading trustworthy and useful information lowers uncertainty, lessens conflicts of interest, and raises the value of a company.

In emerging economies like South Africa, the information environment is much more complicated because of different ownership structures, different norms for corporate governance, and inconsistent implementation of rules (Sain and Kashiramka, 2024). These conditions make voluntary disclosure methods, including ESG reporting, even more important. These methods give investors and other interested parties non-financial information on a company's social responsibility, ethical behaviour, and environmental effect (Ellili, 2022). The usefulness of these

disclosures, on the other hand, depends a lot on how strong the governance processes are that make sure the information is correct, consistent, and reliable (Lavin and Montecinos-Pearce, 2021).

Recent evidence indicates that companies based in or near financial centers like Johannesburg, which is South Africa's financial and capital market hub, function in information environments that are comparatively more transparent and accessible (Nobanee and Ellili, 2022). These companies get more attention from analysts, more publicity in the news, and better monitoring from investors. As a result, businesses in financial centres usually have less information asymmetry than businesses in less central areas (Gerged, 2021). This clustering effect makes it easy for investors and analysts to get information by talking to management and doing evaluations on site. This lowers uncertainty and speeds up the flow of information (Umar et al., 2024).

Even while it makes sense that better information environments and stronger governance frameworks should lead to greater values, real-world data tells a different story. Some studies, especially in emerging markets, have shown that a lot of ESG disclosure might, ironically, hurt a company's performance (Itan et al., 2025). Investors may see ESG-related projects as unnecessary costs that take money away from activities that make the most money. This might be why this negative effect happens. Kuzey et al. (2023) characterises them as quasi-charitable initiatives with ambiguous financial outcomes, but Ararat et al. (2021) caution that ESG programs could function as avenues for managerial opportunism and perception manipulation instead than authentic sustainability initiatives.

In South Africa, where the King IV Code of Corporate Governance (2016) governs corporate governance, ESG disclosure is becoming increasingly important for companies to be good corporate citizens. However, the degree to which such transparency improves or detracts from company performance remains unclear. This study seeks to examine the impact of corporate governance mechanisms specifically board independence, ownership structure, and audit committee effectiveness on the magnitude and value relevance of ESG disclosure across companies listed on the Johannesburg

Stock Exchange (JSE). Additionally, it examines if the information environment, indicated by a business's position within or outside financial centres, influences the link between ESG disclosure and firm performance.

2. LITERATURE REVIEW

2.1. Agency Theory

Agency Theory, initially articulated by Jensen and Meckling (1976), elucidates the conflict of interest that emerges between managers (agents) and owners (principals). Managers may not consistently prioritise the interests of shareholders, especially in situations characterised by significant information asymmetry, when managers retain greater inside knowledge on business operations and hazards than investors (Al Amosh and Khatib, 2021; Aliamutu and Mkhize, 2024b). The publication delineates many areas, such as Unequal Information and Business Disclosure, that elucidate the impact of information asymmetry on ESG disclosure. It observes that corporate executives in emerging nations such as South Africa frequently possess exclusive insights into a company's financial and non-financial risks, yet investors are comparatively uninformed due to inadequate regulatory monitoring and ineffective enforcement mechanisms.

In this context, corporate governance mechanisms such as board independence, ownership structure, and audit committee efficacy function to align executive conduct with shareholder interests. By implementing accountability and transparency, these techniques diminish knowledge asymmetry and agency costs, resulting in more dependable ESG disclosure. Companies with autonomous and diverse boards are more inclined to release ESG information to exhibit responsibility and mitigate agency conflicts (Aliamutu and Mkhize, 2024a). Dispersed ownership systems enhance transparency, as substantial shareholders or state-controlled enterprises may conceal facts for personal gain. The results shown in Table 2 corroborate Agency Theory, indicating that robust governance structures (a proxy for management oversight) favourably affect business performance in financial centres. In contrast, inadequate governance frameworks in non-financial

Table 1: Methodological Algorithm and Data Sources

Step	Procedure	Variables	Data Source
1	Sample identification and screening	JSE-listed firms (2014–2023); balanced panel	JSE listings; Annual reports
2	ESG data collection	ESG composite scores	Bloomberg ESG; Integrated & sustainability reports
3	Financial and governance data collection	RET, ROA, EPS, SIZE, LEV, GROWTH; GOV proxies	Refinitiv Eikon; IRESS; Audited annual reports
4	Location classification	HQLOC (1 = Johannesburg; 0 = Non-financial centres)	Company disclosures; Annual reports
5	Variable construction	PERF, ESG, GOV, controls; dummies	Author calculations from collected data
6	Descriptive statistics	Sectoral, temporal, and locational summaries	Computed by authors
7	Econometric estimation	Fixed-effects panel regressions; ESG × HQLOC	Author estimations
8	Sub-sample analysis	Size- and location-based regressions	Author estimations
9	Diagnostic tests	Hausman, VIF, Breusch–Pagan, Wooldridge	Author tests
10	Robustness	Robust standard errors	Computed by authors

centres exacerbate agency issues, leading to superficial ESG reporting.

2.2. Stakeholder Theory

Stakeholder Theory, proposed by Freeman (1984), asserts that a firm's obligations encompass not only its shareholders but also a wider array of stakeholders, including workers, consumers, communities, and the environment. Companies are anticipated to create sustainable value for all stakeholders instead of concentrating just on profit maximisation. The text emphasises that ESG disclosure functions as a communication mechanism for corporations to exhibit their dedication to social responsibility, ethical governance, and environmental stewardship. This is consistent with the King IV Code of Corporate Governance (2016) in South Africa, which underscores stakeholder inclusivity and integrated reporting. Companies that include stakeholders through transparent ESG reporting may attract long-term investors and increase brand recognition, hence increasing company value. Nonetheless, the study indicates that excessive ESG expenditure

or disclosure, particularly in financial hubs, may not provide favourable financial results if stakeholders regard it as merely symbolic or compliance-oriented rather than meaningful (Aliamutu and Gurr, 2025). According to Table 3, smaller enterprises located outside financial centres seem to gain from ESG disclosure in terms of legitimacy and stakeholder confidence, indicating a stakeholder engagement advantage in less scrutinised contexts. In financial centres, where stakeholders possess greater sophistication, ESG initiatives regarded as shallow may negatively affect a firm's reputation and performance.

2.3. Legitimacy Theory

Legitimacy theory posits that organisations consistently strive to maintain the perception of their activities as legitimate according to the norms and expectations of their societal context (Ab Aziz et al., 2023). Companies share information, including ESG reports, to validate their existence and actions to stakeholders, particularly in contexts with significant social and regulatory oversight. The study examines how corporations based in financial hubs such as Johannesburg encounter increased public awareness and media scrutiny, resulting in heightened legitimacy pressure. Consequently, businesses participate in comprehensive ESG disclosure to meet social expectations, even though such measures do not invariably lead to enhanced performance. Companies in non-financial centres typically provide ESG information to establish credibility and attract investors in contexts with diminished monitoring (Chouaibi and Affes, 2021). This voluntary technique frequently signifies authentic endeavours to exhibit responsibility and ethical conduct, corresponding with the necessity to secure public endorsement and investor confidence. The negative association between ESG and performance in financial centres (Table 2) may be elucidated via Legitimacy theory, suggesting that corporations may pursue ESG disclosure primarily for image enhancement or external validation. Companies outside financial hubs may proactively utilise ESG disclosure to bolster legitimacy and offset inadequate institutional infrastructure, hence allowing moderate performance enhancement. This dual interpretation strengthens the assertion that the motivation for ESG disclosure varies by location compliance-driven (symbolic) in financial hubs versus legitimacy-building (substantive) in outlying areas (Yan et al., 2025).

Table 2: Descriptive statistics

Panel A: ESG disclosure within each sector				
Sector	Mean	Median	Mean	Median
Oil and Gas	30.2728	25.7711	26.8975	33.5489
Basic materials	21.3911	18.8111	21.8975	18.7546
Industrials	21.4823	18.3811	20.3564	18.3811
Consumer goods	18.4867	21.2311	22.6548	19.4511
Consumer services	33.6625	15.3311	-	-
Healthcare	20.1654	14.7511	-	-
Telecommunications	16.5465	21.4587	18.4451	18.2453
Utilities	25.8456	18.4578	19.1975	17.5486
Financials	15.6584	22.9754	19.1974	15.5482
Technology	50.8545	55.9785	43.8546	31.8754

Panel B: ESG disclosure during each sector				
Year	Financial center		Non-financial center	
	Mean	Median	Mean	Median
2019	21.9788	21.2145	20.8456	20.2548
2020	24.6587	21.2648	21.5784	20.8754
2021	20.5462	20.9458	20.9875	20.8754
2022	21.5974	20.8754	20.7548	20.8754
2023	24.5467	20.8754	21.5978	21.5487
2024	20.5486	20.8754	24.2457	21.6547

Table 3: Impact of a corporation's headquarters location on the correlation between ESG disclosure and corporate performance

Variables	Financial center	Non-financial center
ESG	-0.1437**	-0.0223
Governance	0.1245*	-0.0027
Size	0.5876***	-0.1245
Leverage	-0.1544	0.5876***
EPS	0.1147	-0.1247***
Growth	0.2154	0.1245*
Year dummies	Yes	Yes
Industry dummies	Yes	Yes
No of observations	554	2154
F-value	50.25	2154
R ² Within	0.6548	245.22

Results that are significant at the 10% level are marked with an asterisk (*), those that are significant at the 5% level are marked with two asterisks (**), and those that are significant at the 1% level are marked with three asterisks (***)

2.4. Unequal Information and Business Disclosure

Information asymmetry is when those who work for a company know more about its dangers and chances of success than others who don't work for the company. Nuhu and Alam (2024) discovered that enhancements in corporate disclosure are more esteemed in environments characterised by significant information asymmetry, since more openness diminishes uncertainty and promotes informed decision-making. In these markets, non-financial disclosures, notably those on ESG practices, are crucial signs of how good management is and how ethical it is. Emerging markets, like as South Africa, can have heightened levels of information asymmetry attributable to inadequate investor protection, restricted analyst coverage, and erratic implementation of disclosure requirements. In these situations, good governance systems may help reduce asymmetry by making sure that disclosures are both reliable and complete (Almubarak

Table 4: Impact of the headquarters' location on the correlation between ESG disclosure and company performance across various sub-groups

Variables	Financial center		Non-financial center	
	Small companies	Large companies	Small companies	Large companies
ESG	-0.2547**	-0.24578**	0.1245	-0.1185
Governance	0.245	0.1245**	-1.2457	-1.5247
Size	0.6254***	0.6487***	0.5467***	0.5488*
Leverage	-0.21547**	-1.2154	-1.2457***	-0.12457
EPS	0.2457***	0.1154	0.2458	0.1154*
Growth	0.1112	-1.1245	0.1245	0.11245
Year dummies	Yes	Yes	Yes	Yes
Industry dummies	Yes	Yes	Yes	Yes
No of observations	332	154	548	586
F-value	25.85	18.54	88.00	75.54
R ² within	0.89754	0.76458	0.5472	0.6574

Results that are significant at the 10% level are marked with an asterisk (*), those that are significant at the 5% level are marked with two asterisks (**), and those that are significant at the 1% level are marked with three asterisks (***)

et al., 2023). The King IV Code emphasises ethical leadership, openness, and include all stakeholders as important governance concepts that are meant to make the information accessible to the market better.

2.5. Financial Centres and the Environment for Information

Nuhu and Alam (2024) say that businesses in financial centres usually have superior information environments because they are closer to analysts, investors, and regulators. Clustering in financial cities like Johannesburg makes the market more visible, makes it easier for analysts to follow up, and lowers the expenses of monitoring. These dynamics reduce information asymmetry and, in theory, make the value of released knowledge better. But companies that are not in these centres frequently have less market scrutiny, which can lead to selective or shallow disclosure procedures. Studies have demonstrated that companies that work in situations with less information asymmetry may not necessarily benefit from increased ESG disclosures. In these situations, too much ESG reporting could be seen as an unnecessary or expensive task that doesn't add much value for stakeholders (Eissa et al., 2024). This might elucidate the phenomenon wherein companies in closely watched areas occasionally exhibit an adverse correlation between ESG disclosure and corporate success, since investors can see excessive disclosure as a misallocation of company resources.

2.6. ESG Disclosure and Corporate Governance Mechanisms

Corporate governance establishes the institutional and procedural framework that enables corporations to match management actions with stakeholder interests. The makeup of the board, the concentration of ownership, and the monitoring of the audit committee are all important factors that affect how clear and accurate ESG reports are. Previous research Kampoowale et al. (2024) indicates that independent and diverse boards often encourage more sustainability disclosure, since independent directors are more inclined to prioritise accountability and long-term stakeholder value. The form of ownership also has an effect on ESG transparency. Companies that are owned by a lot of people prefer to share more information to lower agency costs and establish confidence with investors. On the other hand, companies

that are owned by a family or the government may only share certain information to keep control (Erben Yavuz et al., 2024). By making sure that both financial and non-financial reporting are accurate, audit committees make ESG disclosures even more trustworthy.

The King IV Code in South Africa requires integrated reporting that combines financial and sustainability data to give a full picture of how well a company is doing. Even if there are rules in place, ESG reporting is still mostly optional, and how well it works depends on how well a company is run and how disciplined the market is. Companies with good governance systems are more likely to use ESG disclosure to communicate strategically. On the other hand, companies with weak governance systems may use symbolic disclosure to make outside stakeholders happy.

2.7. ESG Disclosure and Company Performance in Growing Markets

Evidence on the ESG performance relationship is inconsistent, especially in emerging markets. Erben Yavuz et al. (2024) contend that ESG investments may diminish shareholder wealth in the near term by reallocating resources from productive endeavours. On the other hand, research by Basuony et al. (2023) and Agyemang et al. (2025) indicates that ESG participation may increase a company's worth over time by improving its reputation, operational efficiency, and stakeholder confidence. In emerging economies like South Africa, things like market maturity, investor knowledge, and enforcement of governance affect these linkages. Companies in Johannesburg, which is South Africa's main financial centre, are more visible and subject to more scrutiny from stakeholders. This might make the expenses of ESG initiatives seem larger. On the other side, companies in areas where the rules aren't as clear may be able to establish credibility and a competitive edge by voluntarily sharing ESG information, which makes up for the fact that monitoring isn't as strong. Previous research has investigated the link between ESG disclosure and business performance; however, there is a paucity of studies exploring the interaction of corporate governance processes with varying information environments in developing countries. In South Africa, where governance changes are progressive, but market asymmetries endure, this research adds by assessing: If improved governance

processes make ESG disclosure more credible and useful; and if the information environment (financial centre vs. non-financial centre) influences the link between ESG and performance.

3. RESEARCH METHODOLOGY

This section explains the empirical method used to look at how corporate governance frameworks affect Environmental, Social, and Governance (ESG) disclosure and firm performance among publicly traded companies in South Africa, which is a rising financial market. The method integrates theoretical and empirical components to ensure the validity and reliability of the outcomes. The study aims to ascertain if the geographical placement of a corporation's headquarters, specifically inside the principal financial centre in Johannesburg, influences the relationship between ESG disclosure and corporate performance. The study uses a quantitative strategy that uses panel data analysis to address unobservable heterogeneity and make estimates more accurate over time. This method is appropriate because it considers differences across companies, changes over time, and the way that corporate governance frameworks, ESG disclosure, and business performance affect each other (Boateng et al., 2022). A fixed effects panel regression is employed to assess the claimed associations. This model is preferred because it effectively incorporates time-invariant firm-specific characteristics that might distort the results (Abu Afifa et al., 2025). The Hausman specification test is used to statistically verify if the fixed-effects model is better than the random-effects model, which shows that the econometric estimation is strong.

3.1. Choosing a Sample and Getting Data

The sample consists of companies that are listed on the Johannesburg Stock Exchange (JSE) and come from a range of industries across a 10-year period (e.g., 2014-2023). The data comes from dependable and trustworthy sources, such as: ESG disclosure information from the Bloomberg ESG database and publications on business sustainability or integration; Corporate governance indicators and financial characteristics of companies obtained from annual reports, IRESS, or Refinitiv Eikon, with macroeconomic and industry data collected from the South African Reserve Bank (SARB) and Statistics South Africa (Stats SA). The sample is then divided into two groups based on where the company's main office is located: The first group comprises companies situated in Johannesburg, the financial capital and main economic hub of South Africa. Other South African cities or provinces, representing peripheral markets, are also included in the sample. This stratification allows comparative analysis to determine whether proximity to financial and institutional infrastructure influences the relationship between ESG disclosure and firm performance (Frecautan and Ivashkovskaya, 2024).

3.2. Description and Measurement of Variables

This subsection outlines the step-by-step procedure followed in conducting the study and identifies the data sources used for all calculations. Table 1 summarises the methodological algorithm employed in this study, from sample selection and data collection to econometric estimation and diagnostic testing. The econometric model comprises dependent and independent variables, along

with company-specific control factors previously recognised as impacting business performance. Firm performance (PERF): Evaluated using stock returns (RET) and, if desired, return on assets (ROA) or Tobin's Q for reliability. ESG Disclosure (ESG) is a score derived from information provided by Bloomberg or company-integrated reports, indicating the quality and depth of environmental, social, and governance reporting. Headquarters Location (HQLOC) is a binary variable that is set to 1 for businesses in Johannesburg and 0 for all other businesses. Corporate governance disclosure (GOV): Signs of how open the governance process is and how the board is set up. Firm size (SIZE): The market capitalisation's natural logarithm. Leverage (LEV) is the amount of total debt compared to total assets. Earnings per share (EPS): A way to measure how profitable a company is. Asset growth (GROWTH): The percentage change in total assets over a year. Business-dummies (IDUM): To consider factors that are peculiar to each business. Year Dummies (YDUM): To consider big-picture and time-based effects.

Model specification

$$\text{PERF}_{it} = \beta_0 + \beta_1 \text{ESG}_{it} + \beta_2 \text{HQLOC}_{it} + \beta_3 (\text{ESG}_{it} \times \text{HQLOC}_{it}) + \beta_4 \text{SIZE}_{it} + \beta_5 \text{LEV}_{it} + \beta_6 \text{EPS}_{it} + \beta_7 \text{GRO}_{it} + \epsilon_{it}$$

Where:

i symbolises firm i ;

t stands for time t ;

β_i captures firm-specific fixed effects;

ϵ_{it} is the unique error word.

The interaction term ($\text{ESG}_{it} \times \text{HQLOC}_{it}$) tests seeks to see if the link between ESG disclosure and firm performance changes based on where the firm is located, either in or out of the financial centre.

3.3. Method for Estimating and Diagnostic Tests

After using the Hausman test to make sure the model is right, panel regression with fixed effects estimate is done. Robust standard errors are used to fix possible serial correlation and heteroskedasticity. More diagnostic tests are variance inflation factor (VIF) (To see if there is multicollinearity between variables. Breusch-Pagan Test: To check for heteroskedasticity. Wooldridge Test: To find autocorrelation in panel data. Normality tests on residuals to make sure the model is correct. All secondary data utilised are sourced from publicly accessible and credible databases (Chebbi, 2024). The study upholds confidentiality and ethical data management standards consistently. The study follows the rules of academic integrity, which means that the results are clear and may be repeated.

4. RESULTS

As shown in Table 2 (Panel A), ESG disclosure varies considerably across sectors on the Johannesburg Stock Exchange, with technology, consumer services, and oil and gas firms reporting higher average ESG scores than financial, telecommunications, and healthcare firms. Panel A shows the descriptive statistics of ESG disclosure for different industries on the Johannesburg stock exchange (JSE). The results show that there are big differences

in how much ESG reporting is done in different businesses. This suggests that the characteristics of each sector and how vulnerable they are to social and environmental risks have a big impact on how much information is shared. The IT industry gets the highest average ESG disclosure score (50.85%), which shows that it is very committed to being open and sustainable. This might be because the business is globalised and focused on innovation, which means that corporations have to follow international reporting requirements and face increased scrutiny from stakeholders. The consumer services business (33.66%) and the oil and gas sector (30.27%) both have rather high levels of ESG disclosure. This is likely owing to regulatory demands and reputational issues, since both industries have major environmental and social externalities. On the other hand, the financial (15.66%), telecommunications (16.55%), and healthcare (20.17%) sectors have lower average ESG disclosure scores. This might mean that they don't include sustainability ideas as much in their reporting frameworks. Financial institutions could regard ESG concerns as less significant to their operations, whereas the healthcare and telecommunications sectors may still be developing comprehensive ESG reporting requirements. The difference between the mean and median scores in different sectors shows that ESG disclosure practices are not evenly distributed, with only a few companies in each area doing most of the sustainability reporting. This aligns with the findings of Choi et al. (2024) and Gherghina (2024), who contend that disclosure practices are influenced by firm-specific governance characteristics, competitive dynamics, and the level of public scrutiny.

Panel B explores ESG disclosure across enterprises according to their geographical location, especially differentiating between companies situated in financial centres (Johannesburg) and those located in non-financial centres from 2019 to 2024. The findings indicate that companies situated in financial centres continuously exhibit elevated average ESG disclosure ratings over all examined years. In 2020, companies in financial centres recorded an average ESG disclosure score of 24.66%, whilst those in non-financial centres reported 21.58%. In 2023, a same trend is seen, with the average ESG disclosure in financial centres (24.55%) exceeding that of non-financial centres (21.60%). This pattern indicates that companies based in financial centres get improved access to institutional investors, analyst oversight, and media attention, which all bolster their motivation for transparent reporting. These findings support the observations of Khan et al. (2022) and Chebbi and Ammer (2022), who indicated that companies in financial centres function under more transparent information settings owing to their closeness to monitoring agents and capital market institutions. Notably, whereas financial-center enterprises exhibit greater overall ESG disclosure, the annual fluctuations are minimal, indicating a steady and progressive progression in ESG reporting rather than sudden surges. This may indicate the institutionalisation of ESG practices inside frameworks like South Africa's King IV Code of Corporate Governance (2016), which prioritises integrated reporting and stakeholder inclusivity.

For companies in non-financial hubs, the comparatively lower and more variable ESG scores may indicate resource limitations,

decrease regulatory scrutiny, and reduced external control. However, the reduced disparity in certain years (e.g., 2021-2022) may indicate the dissemination of best practices and heightened understanding of the advantages of sustainability disclosure in outlying locations. ESG disclosure varies by industry, with ecologically intensive and technologically sophisticated sectors demonstrating elevated reporting levels. This suggests that industry exposure to ESG-related risks substantially influences the level of disclosure. Companies located in financial hubs surpass those in remote areas, demonstrating that information ecosystems and institutional closeness significantly impact corporate transparency. Incremental Implementation of ESG Practices - The year-on-year consistency in disclosure ratings indicates that ESG integration is becoming ingrained in business culture, rather being only a reactive or symbolic endeavour. These findings underscore that company governance procedures and regional considerations collaboratively affect the quality of ESG disclosure (Deng et al., 2023). Robust governance frameworks may necessitate corporate compliance with transparency standards, while the external information landscape, particularly proximity to a financial centre, intensifies market demands for reliable ESG disclosures (Alfaraj, 2025).

Table 2 displays the regression results analysing the moderating effect of a firm's headquarters location (financial centre vs. non-financial centre) on the association between ESG disclosure and corporate performance. For companies situated in financial hubs, ESG disclosure demonstrates a notable negative effect (-0.1437 , $P < 0.05$). This indicates that more ESG disclosure correlates with diminished business performance in closely monitored settings. This adverse correlation corresponds with previous research Liu et al. (2023) and Hussain et al. (2024) suggesting that in markets characterised by robust institutional oversight, investors may perceive ESG operations as expensive non-essential expenditures rather than value-augmenting initiatives. This suggests that companies in financial centres may be participating in symbolic disclosure, generating comprehensive ESG reports only for compliance or legitimacy rather than to enhance sustainable performance. Conversely, for companies located outside financial centres, the ESG coefficient (-0.0223) is negative yet statistically insignificant, indicating that ESG disclosure in peripheral areas has a negligible effect on business performance. This may result from diminished market regulation, less investor oversight, and insufficient incorporation of ESG principles into operational performance.

Concerning control variables, governance quality exhibits a positive correlation with performance in financial centres (0.1245 , $P < 0.1$), suggesting that effective corporate governance structures including independent boards and robust audit committees improve firm outcomes in environments with stronger accountability mechanisms. Simultaneously, business size has a robust positive correlation with performance (0.5876 , $P < 0.01$), indicating that larger enterprises capitalise on economies of scale, superior resources, and enhanced reputations that can mitigate ESG expenses. In non-financial centres, leverage (0.5876 , $P < 0.01$) and growth (0.1245 , $P < 0.1$) positively influence performance,

underscoring that expansion and loan accessibility are the principal determinants of profitability in underdeveloped information settings. Notably, EPS has a negative correlation with performance (-0.1247 , $P < 0.01$) in non-financial centres, thus indicating that short-term earnings may not accurately represent lasting value creation in enterprises with deficient governance structures. The results in Table 3 indicate that the financial climate and institutional closeness affect the conversion of ESG initiatives into business value. Firms in closely regulated markets may see declining gains from excessive ESG disclosure, but those in less scrutinised areas may still gain reputational and strategic advantages from moderate, credible sustainability reporting.

Table 4 further disaggregates the study by investigating the interaction between business size (small vs. big) and location (financial vs. non-financial centres) in relation to ESG disclosure and its impact on firm performance. Both small (-0.2547 , $P < 0.05$) and big (-0.2458 , $P < 0.05$) enterprises in financial centres demonstrate a negative and statistically significant correlation between ESG disclosure and performance. This suggests that the adverse impact of ESG performance is uniform across firms of varying sizes. In financial centres, heightened visibility and investor scrutiny may render ESG operations more focused on compliance than on strategic integration. Governance is significantly beneficial for big enterprises (0.1245 , $P < 0.05$), underscoring the importance of strong governance frameworks in reducing ESG-related costs.

The size of the company exhibits significant positive coefficients (0.6254 and 0.6487 , $P < 0.01$), indicating that scale improves financial performance via efficiency and diversification benefits. The outcomes vary significantly. ESG disclosure is negligible for small enterprises (0.1245) but turns negative (-0.1185) for large firms, indicating that the market may not fully recognise sustainability transparency outside financial centres. Governance exhibits a detrimental impact (-1.2457 and -1.5247) in both groupings, indicating inadequate institutional enforcement and perhaps superficial governance procedures in remote areas. Leverage is markedly negative for small enterprises (-1.2457 , $P < 0.01$), indicating financial fragility, but it is negligible for big firms.

The R^2 values are notably elevated in financial centres (0.8975 for small firms and 0.7646 for large firms), demonstrating substantial explanatory power, whereas non-financial centres exhibit moderate R^2 values (0.5472 and 0.6574), implying greater variability attributable to external, unobserved factors such as market development and policy enforcement. Table 4 illustrates the conditional nature of the ESG performance link, indicating that both company size and location significantly influence the effect of ESG practices on firm results. Although bigger companies in financial centres may face ESG-related cost challenges, smaller enterprises outside these centres might utilise ESG disclosure to enhance legitimacy and foster stakeholder confidence.

5. DISCUSSION

This study set out to explore how corporate governance mechanisms and the information environment proxied by a

firm's headquarters location shape the relationship between ESG disclosure and firm performance in an emerging financial market. The findings provide nuanced evidence that the financial consequences of ESG disclosure are highly context dependent and influenced by governance quality, firm size, and institutional proximity.

5.1 ESG Disclosure Patterns across Sectors and Locations

The descriptive results reveal substantial heterogeneity in ESG disclosure across industries and locations. Firms operating in environmentally sensitive and reputationally exposed sectors such as technology, consumer services, and oil and gas exhibit significantly higher ESG disclosure levels than firms in financial services, telecommunications, and healthcare. This sectoral variation suggests that ESG disclosure is largely driven by exposure to environmental and social risks, regulatory expectations, and stakeholder pressure rather than by uniform reporting norms. These findings align with prior evidence that ESG practices are more pronounced in industries facing higher legitimacy risks and public scrutiny.

Location-based analysis further shows that firms headquartered in financial centres consistently report higher ESG disclosure scores than those in non-financial centres. This supports the argument that firms located in financial hubs operate within richer information environments characterised by stronger analyst coverage, media visibility, and regulatory oversight. Proximity to capital market institutions intensifies monitoring, incentivising firms to adopt more comprehensive disclosure practices. However, higher disclosure does not necessarily translate into superior financial outcomes, underscoring the importance of examining the value relevance of ESG rather than its volume alone.

5.2 ESG Disclosure and Firm Performance: The Role of Information Environment

The regression results indicate a negative and statistically significant relationship between ESG disclosure and firm performance for companies headquartered in financial centres, while the relationship is negative but insignificant for firms located outside financial centres. This finding suggests that in highly scrutinised environments, ESG disclosure may be perceived by investors as a cost burden rather than a value-enhancing strategy. In financial centres, where information asymmetry is already low, additional ESG disclosure may offer limited incremental informational benefits and instead signal resource diversion away from core profit-generating activities.

From an agency theory perspective, this result implies that ESG disclosure in financial centres may sometimes reflect managerial opportunism or symbolic compliance rather than genuine value creation. Managers may engage in extensive ESG reporting to signal conformity with governance norms or regulatory expectations, even when such investments do not yield measurable financial returns. This interpretation is consistent with literature suggesting that excessive or poorly integrated ESG initiatives can dilute shareholder value in the short term.

In contrast, the insignificant relationship observed for firms outside financial centres suggests that ESG disclosure in peripheral markets functions primarily as a reputational or legitimacy-enhancing mechanism rather than a direct driver of performance. In these settings, weaker monitoring and higher information asymmetry reduce investors' ability to immediately price ESG information into firm value. Consequently, ESG disclosure may help firms establish credibility and stakeholder trust without exerting a strong short-term impact on profitability.

5.3 Corporate Governance as a Conditioning Factor

The results demonstrate that corporate governance quality positively influences firm performance in financial centres, but not in non-financial centres. This finding highlights the importance of institutional enforcement in translating governance structures into economic outcomes. In financial hubs, stronger governance mechanisms such as independent boards and effective audit committees enhance oversight, reduce agency costs, and improve strategic decision-making, thereby supporting firm performance. However, the absence of a positive governance performance relationship in non-financial centres suggests that governance mechanisms may be largely ceremonial in weaker institutional environments. Without effective enforcement and market discipline, formal governance structures may fail to constrain managerial behaviour or enhance transparency. This supports the view that governance effectiveness depends not only on internal structures but also on the broader regulatory and institutional context.

5.4 Firm Size, Capital Structure, and Performance Dynamics

Firm size emerges as a strong positive determinant of performance, particularly in financial centres. Larger firms benefit from economies of scale, diversified operations, and greater access to capital, which can cushion the costs associated with ESG compliance and governance reforms. This finding reinforces the argument that ESG-related costs are more easily absorbed by large firms than by smaller ones. In non-financial centres, leverage and growth play a more prominent role in explaining performance, indicating that access to external financing and expansion opportunities are critical drivers of profitability in less developed information environments. Interestingly, earnings per share (EPS) is negatively associated with performance in these contexts, suggesting that short-term earnings metrics may not accurately capture long-term value creation where governance and disclosure frameworks are weak.

5.5 Size Location Interactions and ESG Value Relevance

The sub-sample analysis reveals that both small and large firms in financial centres experience a negative ESG performance relationship, indicating that heightened scrutiny affects firms regardless of scale. This suggests that in financial hubs, ESG disclosure is evaluated rigorously by investors, who may penalise firms when sustainability initiatives are not clearly linked to financial performance. In contrast, outside financial centres, ESG disclosure appears neutral or weakly positive for smaller firms, implying that ESG practices may serve as a strategic tool for

legitimacy-building and differentiation in less competitive and less transparent markets. However, governance mechanisms in these areas exhibit negative or insignificant effects, reinforcing concerns about ineffective implementation and limited regulatory oversight.

5.6 Theoretical Implications

Overall, the findings provide strong support for agency theory, legitimacy theory, and information asymmetry arguments. ESG disclosure does not uniformly enhance firm performance; instead, its value relevance depends on governance quality and the information environment. In well-monitored settings, ESG disclosure may be viewed as symbolic or cost-intensive unless tightly integrated with firm strategy. In weaker institutional environments, ESG disclosure primarily fulfils legitimacy and reputational functions rather than immediate financial objectives.

5.7 Implications for Emerging Financial Markets

These results underscore that "more ESG disclosure" is not inherently better. For emerging markets such as South Africa, policymakers and regulators should focus not only on expanding ESG reporting requirements but also on strengthening enforcement and ensuring that disclosure is decision useful. Firms should move beyond compliance-driven reporting towards strategically aligned ESG initiatives that demonstrably contribute to long-term value creation.

5. CONCLUSION AND RECOMMENDATIONS

This study explored the influence of corporate governance structures and business location on the correlation between ESG disclosure and firm performance among firms listed on the Johannesburg Stock Exchange (JSE). The results offer detailed insights into the influence of governance quality and information settings on the financial consequences of sustainability reporting in an emerging market setting. ESG disclosure appears to correlate negatively with performance in enterprises situated in financial centres, indicating that market participants in these locales may view substantial ESG investments as a distraction from profit-maximizing endeavours. Companies outside financial centres have a decreased or neutral link between ESG and performance, suggesting that disclosure serves mainly as a reputational or regulatory activity rather than a catalyst for financial performance. Robust governance systems improve business performance in financial hubs but seem ineffectual in less stable institutional contexts, highlighting the significance of regulatory enforcement and board autonomy.

The size of a corporation further influences the relationship between ESG and performance, since larger organisations often exhibit superior performance owing to their resources and the demand from stakeholders to uphold legitimacy. These findings together highlight that the robustness of corporate governance, company size, and geographic location collectively influence the impact of ESG disclosure on firm value in South Africa's growing financial markets.

Policymakers and regulators, including the Johannesburg Stock Exchange (JSE) and the King Committee on Corporate Governance, ought to enhance adherence to ESG reporting standards by more clearly connecting governance rules (e.g., King IV) to sustainability performance measurements. Companies must go beyond mere symbolic ESG disclosures to integrated reporting that links sustainability results with financial success, guaranteeing that ESG activities enhance value rather than incur costs. The government and industry groups ought to offer technical help and capacity-building initiatives to enhance ESG reporting skills among enterprises beyond Johannesburg, therefore diminishing regional differences in transparency and performance results. Institutional investors ought to include ESG measures into their investment assessments, motivating enterprises to embrace meaningful rather than cosmetic sustainability policies. Future research should broaden this study through longitudinal and cross-national comparisons to see if the identified ESG performance relationships endure across varying regulatory or market maturity contexts.

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