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The Branding Effect of Environmental, Social, and Governance: Market-Based Brand Equity Among Publicly Listed Companies in the Philippines

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ABSTRACT

This paper explores the association between the level of Environmental, Social, and Governance (ESG) performance and market-based brand equity of publicly traded firms. Adopting Signaling Theory, Stakeholder Theory, and Resource-Based View, market-based brand equity is captured using Tobin's Q measure, while the level of ESG performance is evaluated based on aggregate ESG performance and its disaggregate environmental, social, and governance components. This research uses the balanced panel data of 306 firm-year observations from 51 publicly traded firms in the Philippines in 2018-2023. Two-way fixed effects estimations along with Driscoll-Kraay robustness checks and alternate valuation measures are utilized in this empirical analysis. The results show that the aggregate ESG performance does not have an impact on the market-based brand equity. Nevertheless, the disaggregated analyses indicate that the social component positively influences the level of market-based brand equity irrespective of model specifications, whereas the governance dimension positively affects the market-based brand equity under the logarithmic valuation specification. On the other hand, the environmental component is shown to be insignificant in relation to the market valuation. The paper concludes that investors do not compensate sustainability equally and pay more attention to ESG dimensions that increase the quality of stakeholder relations, corporate legitimacy, and governance. The contribution of the paper to the literature on sustainability and corporate finance is the understanding that the value relevance of ESG is associated with certain sustainability dimensions, and not with ESG performance itself.

Keywords: ESG Performance, Market-based Brand Equity, Tobin's Q, Corporate Reputation, Sustainability, Corporate Governance
JEL Classifications: G32, G34, M14, M31, Q56

1. INTRODUCTION

The Environment, Social, and Governance (ESG) framework is considered as one of the most critical frameworks that can be used when it comes to assessing the sustainability of organizations and the success that these organizations achieve in the future. The increase in the investors' need for responsible investment, the rise in expectations of the stakeholders, and the increase in sustainability laws have made firms think about including ESG criteria in their decision-making process and corporate reporting (Li et al., 2024; Bashir et al., 2023).

Although there is an increasing number of researches on this topic, there is no evidence in favor of the idea that ESG is relevant to the value of organizations. Although there are many studies indicating that positive ESG performance increases the value of the organization and the financial performance (Zhou et al., 2022; Cho et al., 2024), some researchers state that the relationship between these two is insignificant (Yu and Xiao, 2022).

One topic that has not garnered much scholarly interest relates to the interaction of ESG and branding. Current studies on ESG mainly revolve around aspects such as financial performance, firm value, returns on stocks, risk, and cost of capital (Aydoğmuş et al., 2022; Duan et al., 2023; Chen et al., 2023). On the other hand, existing branding literature highlights consumer-based topics including brand awareness, brand loyalty, and purchase intention (Bose et al., 2022; Zhang et al., 2025). Not much is therefore known about the effect of sustainability practices on brand equity based on market perception, meaning the recognition of the company's intangible brand assets through the firm valuation process (Hati et al., 2023; Gutiérrez Gutiérrez et al., 2024).

Another limitation of the current body of research is the use of ESG as one composite construct in most cases. The aggregation of ESG scores implies that each dimension of ESG equally contributes to the creation of value by the organization. But recently, research has become increasingly focused on the argument that there are differences in stakeholder expectations, organizational processes, and thus possible impact on market perceptions among the dimensions (Berg et al., 2022; Kim and Li, 2021). Environmental actions are often costly and take time to yield results and thus are not easily observable to stakeholders. Social and governance factors can offer more visible indicators of organizational excellence and competence that are, more often than not, overlooked in previous studies (Thompson, 2023; Yu, 2025; Efunniyi et al., 2024). This is more so in developing nations like the Philippines where sustainability reporting by firms is still in its infancy stage, and there is no substantial empirical evidence available on the effects of ESG on branding. The importance of studying whether ESG adds value to brand equity from a market perspective stems from this trend.

In this context, the present study aims to investigate the relationship between the ESG performance and market-based brand equity of publicly listed firms in the Philippines. This study will explore the total impact of ESG performance, as well as the impact of environmental, social, and governance performance on market-based brand equity individually. Based on the Stakeholder Theory, Signaling Theory, and Resource-Based View theories, this study hypothesizes that the dimensions of ESG affect investor recognition of brand value using distinct value creation processes. In doing so, this study combines the perspectives of sustainability and branding and adds to existing literature by exploring whether the market-based brand equity of the firms comes from their ESG performance collectively or through specific sustainability dimensions which are more valuable to investors.

2. LITERATURE REVIEW

2.1. Environmental, Social, and Governance (ESG) Performance

The Environmental, Social and Governance (ESG) Performance has emerged as an essential way for firms to show their commitment towards sustainable practices to their investors. In light of the increasing incorporation of ESG in investment decisions, there is substantial literature on whether sustainability performance helps firms in value creation (Li et al., 2024; Bashir et al., 2023). Prior research has shown that firms with better ESG performance have an enhanced reputation, improved stakeholder relations, lower cost of capital and improved performance (Chen et al., 2023; Maaloul et al., 2023). However, despite the increasing importance of ESG investing in recent years, little consensus exists on its value relevance.

Among the most enduring arguments in the ESG literature is the extent to which the performance on sustainability is rewarded in the stock markets. Although some scholars have shown the positive relationship between ESG performance and corporate value (Zhou et al., 2022; Cho et al., 2024), others have not found any significant relationship between ESG performance and firm value (Yu and Xiao, 2022). The inconsistent findings have created doubt about the process through which the ESG creates corporate value and the extent to which the performance on sustainability is considered as a single construct when investors make their judgments. According to Berg et al. (2022), the use of a consolidated score for ESG may conceal differences between various aspects of ESG which are distinct in their own rights.

Recent literature places increasing emphasis on the necessity to assess ESG aspects independently of each other rather than use only the combined metrics of ESG (Thompson, 2023). In particular, environmental actions usually imply considerable investment that cannot be readily seen by investors (Thompson, 2023). Governance affects mainly the perception of transparency and risk management of the company, whereas social actions have an immediate effect on relations between stakeholders (Yu, 2025; Efunniyi et al., 2024). Therefore, the importance of each ESG aspect can vary considerably from one outcome to another (Kim and Li, 2021). Hence, one should understand that the significance of ESG is not in its sustainability per se, but rather in certain aspects that can earn trust of stakeholders.

Several researches exist about the relationship between ESG and firm value; however, there is no research conducted regarding the effect of ESG on the firm's brand. The existing literature concentrates mostly on the impact of ESG on the company's financial performance (Aydoğmuş et al., 2022), stock returns (Yu and Xiao, 2022), risks and valuation (Duan et al., 2023), but does not answer the question of brand asset formation. It is becoming more relevant to study the branding side of ESG since companies are using sustainability as part of corporate identity and stakeholder management practices. Thus, this research will fill the gap in the existing literature and examine whether ESG performance affects the brand equity and whether there are differentiating aspects of environmental, social, and governance components in creating investor's brand value.

2.2. Market-Based Brand Equity

Brand equity has been increasingly valued in the business world as it indicates the worth that the company's stakeholders attribute to the company's offerings (Chatzipanagiotou et al., 2026). In the traditional view, scholars of branding have mostly studied consumer-based brand equity through various dimensions like brand awareness, brand perceived quality, brand associations, and brand loyalty (Bose et al., 2022). Such dimensions help understand consumer attitudes towards the brand but they only represent one side of the picture regarding the value of brand and ignore investor views on the subject matter.

As such, researchers have developed a differentiation between consumer brand equity and market-based brand equity to resolve this problem. The market-based brand equity is based on how the intangible assets of the brands are recognized and valued by the capital markets (Hati et al., 2023; Gutiérrez Gutiérrez et al., 2024). Unlike consumer brand equity, the market-based brand equity emphasizes more on investor perceptions regarding the earning prospects, competitive position, reputation, and growth potential (Mousa et al., 2021).

Among various types of indicators to assess market-based brand equity, there are numerous valuation-based measures. Indicators like Tobin's Q show how much the investors value the business over the book value of its tangible assets (Zaleski, 2024; Monroy-Perdomo et al., 2022). The excess of market value over book value is seen as an indicator of the presence of intangible assets that will generate economic benefits for the firm in the future (Al-Kake, 2023). These may include the company's reputation, its credibility with stakeholders, its innovative capacity, the quality of its management, and other intangible brand assets (Crouzet et al., 2022; Khan and Iqbal, 2022). Thus, Tobin's Q has been widely used in the areas of strategic management, corporate governance, and sustainability studies (Zaleski, 2024).

Intangibles are becoming increasingly valued, and therefore, the market metrics of brand equity gain significance. Nowadays, the value of a company is associated with factors that cannot be easily detected or replicated, such as reputation, legitimacy, stakeholder engagement, and credibility (Barney et al., 2021; Zahra, 2021). Intangibles define the expectations of investors about their future performance and may be reflected in market valuation (Cuervo Carabel et al., 2021). Thus, the idea of brand equity is more than customers' attitudes and perceptions, and is related to the overall legitimacy and reputation of the company.

Even though there is an increasing interest in the topic of intangible value, surprisingly little is known about the effects of sustainability performance on market-based brand equity. ESG literature pays attention to either firm value, stock price returns, cost of capital, or financial performance, while the body of work dealing with branding concentrates on consumer perception and behavior. This division leads to the uncertainty regarding the relationship between efforts in sustainability and creation of brand value recognized by investors. Therefore, analysis of market-based brand equity will allow us to find the connection between sustainability and branding.

2.3. ESG as a Strategic Branding Mechanism

The application of sustainability practices within companies is evolving, thus transforming the practice of ESG from merely being a regulatory standard into an element that helps distinguish one organization from another. In addition to its traditional roles such as risk management and compliance, ESG is now regarded by firms as a tool that allows demonstrating its principles, responsibility and commitment to the stakeholders (Seow, 2024). Therefore, according to Wijaya et al. (2024), the ESG practices have become increasingly associated with corporate reputation building.

One of the critical issues emerging in the sustainability branding literature is that ESG activities help add value to an organization in the form of increased perceptions of its quality (Emata et al., 2026). Expectations on responsible behavior are not limited to environmentally sustainable practices alone but have implications related to labor conditions, local communities, customers, and stakeholders (Vigolo et al., 2025). Such organizations may appear more credible, legitimate, and socially responsible to stakeholders (del-Castillo-Feito et al., 2022). These perceptions can enhance a firm's reputation, generate favorable attitudes among stakeholders, and thus create value that cannot be seen (intangible value). As such factors play an increasingly significant role in achieving competitive advantage, the relationship between ESG performance and the outcome of interest may be influenced through branding effects.

The link between ESG and brand value becomes more pertinent when the situation involves growing levels of informational asymmetry. The stakeholders typically lack complete information about the quality of a company internally, its strategic competencies, and sustainable future prospects (Huang, 2022; Ortiz-Avram et al., 2024). Under these circumstances, the ESG efforts of an organization can be seen as observable signals that serve to lower the level of uncertainty and establish credibility (Saraswati et al., 2025). Through sustainability disclosures, corporate governance, and stakeholder-related practices, the stakeholders obtain information which enables them to make assumptions about the quality of the management, organizational culture, and potential for future performance (Izzo et al., 2025).

The significance of stakeholder relations in the creation of organizational value through sustainability efforts is also a theme covered by recent research. Companies with successful relationships with their stakeholders tend to benefit from reputation, social legitimacy, and increased resilience amid uncertainties due to such relationships (Manabe and Nakagawa, 2022). Such resources can be considered an important part of brand equity as they affect the way stakeholders perceive and relate to the organization. In this context, the impact of ESG on brand value can be seen not only through sustainability practices themselves but through the way stakeholders perceive these practices.

While the importance of such aspects has become increasingly obvious, there still is not enough empirical data concerning the reflection of the ESG performance in terms of the perceived value of the brands among investors. The existing literature has been focusing more on consumers' perceptions, intentions to make purchases (Mandung, 2024), their loyalty (Pong and Man, 2024), as well as on financial performance of companies (Meng et al., 2023). Since financial markets take into account companies' reputation, legitimacy, stakeholder approval and potential growth in evaluating the firms, the investigation of ESG issues from the standpoint of market-based brand equity seems quite promising. Such an approach may imply that ESG not only can serve as a tool for sustainable development of the firms but also as a means of branding.

2.4. The Differential Effects of Environmental, Social, and Governance Dimensions

While the relationship between ESG performance and other factors has been studied as a whole, there is increasing empirical support for the idea that the environmental, social, and governance components of ESG may affect organizations in separate ways (Berg et al., 2022; Kim and Li, 2021). When all three aspects of ESG performance are combined in one measure of performance, the assumption that the importance of these components in creating value for stakeholders is the same is being made, which assumption has come under question recently in sustainability research (Berg et al., 2022).

The environmental aspect is generally linked to sustainable goals such as emissions, resource efficiency, climate risk mitigation, and environmental innovations (Thompson, 2023). Though the above mentioned aspects can increase the organization's resilience and contribute to its long-term competitive position, the gains from these actions are usually achieved in a lengthy period of time and not immediately visible to investors (Thompson, 2023). Also, the implementation of environmental strategies requires considerable investments at first which makes it uncertain what contribution will they make to the organizational value in the short term. As a result, the correlation between the performance of the organization in the environmental area and its valuation varies in empirical studies (Zhou et al., 2022; Cho et al., 2024; Yu and Xiao, 2022).

Social aspect, for example, has traditionally been perceived as one that is most associated with stakeholder relations of all three ESG aspects. The actions taken by organizations to improve the conditions of their employees, the actions with respect to diversity and inclusion, the practices of customer interaction, the actions of community development and the actions of social responsibility are those that determine how stakeholders perceive and evaluate the company (Efunniyi et al., 2024; Vigolo et al., 2025). These types of actions are very transparent and provide immediate reputational gains, which may make them more direct drivers of trust, organizational legitimacy and positive association (del-Castillo-Feito et al., 2022). Social performance may thus be considered as the main determinant of reputation-driven value creation and thus impact on branding more than the other two ESG dimensions (Chen et al., 2023; Manabe and Nakagawa, 2022).

Performance in governance is another unique way through which organizations create value for themselves. Good governance systems ensure that there is more transparency and accountability along with good ethical standards and protection of investors and less information asymmetry and agency problems (Yu, 2025; Huang, 2021; Ortiz-Avram et al., 2024). As compared to the social programs, which only affect the relationships between the organization and its stakeholders, the governance system influences the views of investors about the managerial abilities and performance of the organization (Kim and Li, 2021).

These distinctions imply that there is no basis to expect that different ESG dimensions will have similar effects on market-based brand equity. For example, environmental programs can generate value through their long-term sustainable results; social programs can generate value through the creation of reputation and stakeholder trust; and governance policies can affect investor confidence and perceptions of the company (Kim and Li, 2021; Chen et al., 2023). Consequently, the separate analysis of the three dimensions of ESG allows a better understanding of how sustainability initiatives add value to organizations' intangibles (Berg et al., 2022). The same is especially true in terms of market-based brand equity, since investors are likely to base their evaluations on the sustainability initiatives of the organization.

2.5. Theoretical Foundations

The link between ESG performance and market-based brand equity can be explained using the three interrelated theoretical frameworks of Signaling Theory, Stakeholder Theory, and Resource-Based View. Taken together, the above-mentioned theories provide an explanation framework that can be applied to understand how sustainability initiatives lead to creation of intangible organizational value in the eyes of financial markets.

Firstly, according to the Signaling Theory, firms send out signals of information related to their quality, credibility, and future performance by means of their activities and communications (Connelly et al., 2025). Because investors do not have much information regarding the strengths and sustainability of the firm, they use external signals for judging the quality of the firm. ESG initiatives play such a role of signals because they indicate commitment towards responsible behavior, sound risk management, transparency, and engagement with stakeholders. High performance in terms of ESG can minimize information asymmetry and positively influence the perception of organizational quality because of managerial signals (Kim and Park, 2023).

The theory of Stakeholders highlights the ways through which the performance in ESG can increase the value of a company in relation to the relationships with various parties. The firm relies on the assistance of employees, clients, suppliers, community members, regulatory agencies, and investors for its sustainable development (Neacșu and Georgescu, 2023). ESG activities present means through which the requirements of stakeholders are met and corporate social responsibility is displayed. In case stakeholders notice the balanced pursuit of financial objectives and social-environmental responsibilities on behalf of a corporation, they develop positive attitudes towards it (Pfajfar et al., 2022). Such favorable perceptions of stakeholders contribute to the formation of brand value.

The Resource-Based View (RBV) enriches this view by arguing that sustainability-related capabilities can be transformed into resources that generate competitive advantages (Barney et al., 2021; Zahra, 2021). Reputation, stakeholder trust, good governance and legitimacy are examples of intangible resources that are difficult to imitate by competitors (Barney et al., 2021). Unlike tangible resources, these assets require constant actions and communication between the organization and its stakeholders (Manabe and Nakagawa, 2022; del-Castillo-Feito et al., 2022).

Successful integration of ESG issues in strategic activities might lead to the formation of important intangible resources, which positively affect the market valuation and increase the market-based brand equity of the firm (Chen et al., 2023; Gutiérrez Gutiérrez et al., 2024). This implies that the value of sustainability activities is created not just through their operational benefits but also through the formation of unique capabilities of organizations (Chen et al., 2023).

In sum, the above theoretical approaches indicate that ESG performance affects market-based brand equity through various but related channels. The sustainability practices act as the signals of the quality of an organization, enhance the stakeholder relationships, and help create the intangible resources. Thus, the organizations having good ESG performance should demonstrate more market-based brand equity. Nonetheless, due to the fact that the environmental, social, and governance efforts solve the various issues of different stakeholders and use the unique channels for creating value, their effects on the market-based brand equity can differ. This is why the issue of investigating the overall impact of ESG performance and separate impacts of each dimension is theoretically justified.

2.6. Research Gap and Hypothesis Development

While ESG research is developing rapidly, the research on the role of sustainable performance to generate intangible value for organizations is limited. The existing literature is mostly about the association of ESG and firm value, financial performance, stock returns, cost of capital, corporate risks and so on (Aydoğmuş et al., 2022; Yu and Xiao, 2022; Duan et al., 2023; Chen et al., 2023). While this research provides insights into the economics of sustainability efforts, the financial nature of its results does not pay much attention to possible ways of creating branding-driven value through ESG (Chen et al., 2023).

The second drawback of the current literature is the common use of aggregated ESG measurements. While the aggregated measurement of ESG helps to conveniently measure the performance of the organization regarding sustainability issues, it assumes that the contributions of all three aspects – environment, society, and governance – are equal to the final results of organizations. Recent studies indicate that this approach may be too simplistic, as the three aspects of ESG differ significantly in terms of their visibility, implementation methods, and value creation mechanisms (Berg et al., 2022; Kim and Li, 2021).

There is also a lack of connection between the fields of sustainability research and branding research. Historically, the field of branding has focused on the consumer side of things with issues such as brand awareness, brand loyalty, and purchase intention being key factors of interest (Bose et al., 2022; Zhang et al., 2025; Mandung, 2024; Pong and Man, 2024). Meanwhile, the field of ESG research has been dominated by issues such as finance and governance (Aydoğmuş et al., 2022; Chen et al., 2023). The dichotomy in these areas has not helped much in the quest to understand the role of sustainability efforts in the development of market-based brand equity, especially from the investors' point of view (Hati et al., 2023; Gutiérrez Gutiérrez et al., 2024).

This becomes particularly critical for developing countries such as the Philippines, in which they continue to develop in their approach towards the use of ESG criteria, and where information about the impact of sustainability on branding is still lacking. Determining the extent to which ESG performance helps to build market-based brand equity may reveal whether or not investors appreciate sustainability programs, and the extent to which certain dimensions of ESG criteria help build more intangible assets than others (Gutiérrez Gutiérrez et al., 2024; Chen et al., 2023). Thus, this study aims to determine the overall impact of ESG performance and the separate impact of environment, social, and governance performance on market-based brand equity in public corporations in the Philippines.

Based on the theory and empirical findings, the following hypotheses are generated:

- H_1: ESG performance positively influences market-based brand equity among publicly listed companies in the Philippines.

Given the potential heterogeneity of ESG dimensions, the following sub-hypotheses are further developed:

- H_{1a}: Environmental performance positively influences market-based brand equity among publicly listed companies in the Philippines.
- H_{1b}: Social performance positively influences market-based brand equity among publicly listed companies in the Philippines.
- H_{1c}: Governance performance positively influences market-based brand equity among publicly listed companies in the Philippines.

This discussion implies that the impact of ESG performance can affect market-based brand equity based on its effect on stakeholder perception, legitimacy, and investor confidence. Nevertheless, there is still no clear evidence about the existence of ESG as a coherent value creation tool and the differential contributions of each of the components of ESG toward investor-acknowledged brand value. Resolving such questions necessitates an empirical analysis of the impact of ESG performance as well as the individual components of ESG. The succeeding portion of this paper provides a description of the methodology applied for such an analysis.

3. METHODOLOGY

3.1. Sample and Data

The study used a balanced panel dataset consisting of 51 public companies in the Philippines over the time span from 2018 through 2023 resulting to 306 total firm-year observations. ESG data was collected from an open source ESG data base; the financial and stock market data were obtained from the annual reports of the companies as well as their respective financial databases.

3.2. Variables

Market-based brand equity was measured using Tobin's Q, calculated as:

$$\text{Tobin's Q} = \frac{(\text{Market Value of Equity} + \text{Book Value of Debt})}{(\text{Book Value of Total Assets})} \quad (1)$$

The first key independent variable was the company's ESG performance, which was quantified by its aggregate ESG score. The impact of sustainability dimensions was also analyzed differently by breaking ESG performance into three sub-scores such as the environmental score (En), social score (Soc), and governance score (Gov). As per the past literature on ESG, company size (ln of total assets), leverage, and profitability were considered as control variables.

3.3. Empirical Model

To examine the effect of ESG performance on market-based brand equity, the following two-way fixed effects model was estimated:

$$TobinQ_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 Controls_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad (2)$$

Where μ_i and λ_t represent firm and year fixed effects, respectively. To investigate the differential effects of sustainability dimensions, ESG was decomposed into environmental, social, and governance components:

$$TobinQ_{it} = \beta_0 + \beta_1 Env_{it} + \beta_2 Soc_{it} + \beta_3 Gov_{it} + \beta_4 Controls_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad (3)$$

3.4. Estimation Strategy

Winsorization at the 1st and 99th percentiles were used to reduce the effect of outliers (Doblas and Lagaras, 2023). The existence of multicollinearity was measured by variance inflation factor (VIF). The main method of analysis involved the use of a two-way fixed effects approach, accounting for unobservable characteristics of firms that are time-invariant as well as for year-specific effects. The robustness of estimates was checked by applying Driscoll-Kraay SEs and ln of Tobin's Q. The analysis was carried out in Python.

Table 1: Descriptive statistics of the study variables (n=306)

Variable	Mean	SD	Min	Max
Tobin's Q	1.734	1.923	0.376	12.080
ESG performance	54.967	7.394	40.470	72.660
Environmental performance	53.359	9.795	39.870	72.200
Social performance	53.961	9.748	33.860	73.360
Governance performance	50.336	11.629	34.180	80.050
Firm size (ln)	22.876	2.246	15.178	27.136
Leverage	1.243	5.948	0.000	45.600
Profitability	0.018	0.086	−0.253	0.313

n=306 firm-year observations. Firm size is measured as the natural logarithm of total assets. Tobin's Q serves as the proxy for market-based brand equity

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistics and Data Diagnostics

The descriptive statistics of the study variables are provided in Table 1. The mean Tobin's Q is 1.734 (SD = 1.923), which implies that the firms had a valuation greater than the book value of their assets, implying existence of market value that is not tangible. The mean ESG rating was 54.967 (SD = 7.394), which implies moderate performance in sustainability of the sample firms. Social performance was the best performing ESG dimension while governance had the highest variability.

Table 2 summarizes the Pearson correlation coefficients for the research variables. Tobin's Q showed significant positive correlations with ESG performance (r = 0.116) and the separate aspects of ESG performance: Governance (r = 0.208), environment (r = 0.124) and social (r = 0.093). The firm size variable showed significant negative correlation with Tobin's Q (r = −0.274) implying that larger companies had smaller market valuation in comparison with their assets. From the set of explanatory variables, the highest correlation was found between environment and governance performance (r = 0.604), which is still not higher than 0.80. This information confirms that multicollinearity would be not a big issue in the analysis, therefore, allows us to include the variables in the further regression model.

Table 3 shows the numbers of variance inflation factor (VIF) to check the potentiality of multicollinearity among the independent variables. All VIFs were equal to 1.003-1.020, which is much lower than the generally accepted value of 5.0. Therefore, there are no signs of multicollinearity and the independent variables carry unique information. Thus, the variables may be employed together within the regression models.

Therefore, these variables can all be incorporated into the regression equations at once without jeopardizing the stability of the estimates.

4.2. Empirical Findings

Empirical results are discussed in this part. In Table 4, the empirical results of the regression analysis on the impact of ESG performance on market-based brand equity are reported. It is observed from model 1 that there is no significant effect of the aggregated score of ESG performance on Tobin's Q ($\beta = 0.001$, P = 0.967), which shows that the performance of all the sustainability practices collectively does not have an effect on the investors' perception.

Table 2: Pearson correlation matrix of the study variables

Variable	1	2	3	4	5	6	7	8
1. Tobin's Q	1.000							
2. ESG Perf.	0.116	1.000						
3. Environmental Perf.	0.124	−0.017	1.000					
4. Social Perf.	0.093	0.279	0.494	1.000				
5. Governance Perf.	0.208	−0.057	0.604	0.423	1.000			
6. Firm Size (ln)	−0.274	−0.003	−0.366	−0.260	−0.097	1.000		
7. Leverage	−0.083	0.058	−0.150	−0.092	−0.038	0.086	1.000	
8. Profitability	−0.025	0.023	−0.075	−0.065	−0.097	0.114	−0.052	1.000

Pearson correlation coefficients are reported. Tobin's Q represents market-based brand equity. Firm size is measured as the natural logarithm of total assets

To test this hypothesis, Model 2 investigates the performance of ESG along the three components, environment, society and governance. The results show that social performance has a positive marginal significance effect on market-based brand equity ($\beta = 0.030$, $P < 0.10$). The effects of environmental and governance performance on market valuations are not statistically significant. It appears that investors do value social performance more than environmental or governance performance.

In model 3, Driscoll–Kraay standard errors are used to consider possible heteroskedasticity, autocorrelation, and cross-sectional dependence. It confirms the positive effect of social performance to be significant and enhances its impact on market-based brand equity ($\beta = 0.030$, $P < 0.01$). Hence, there is evidence that the social sustainability efforts made by firms can help in creating market-based brand equity. However, the insignificance of both the environmental and governance performances persists.

In model 4, Tobin's Q is taken in its logarithmic form as another way of measuring the market-based brand equity. This model also proves the positive effect of social performance ($\beta = 0.012$, $P < 0.05$) but also finds the significance of governance performance ($\beta = 0.014$, $P < 0.01$) on market-based brand equity. The fact that the governance performance gains significance when Tobin's Q is used in its logarithmic form means that some of the governance-related activities, including transparency, accountability, and effective board, contribute to investors' perception about firm's value when skewness of valuation is considered. Environmental performance again does not have any significant effect on market-based brand equity in all estimations.

As a whole, the results offer some evidence in favor of the hypothesis that ESG performance leads to market-based brand equity. Nevertheless, the results clearly show that the role of ESG performance is not general but it is dimension-specific. In this case, it means that social performance positively influences market-based brand equity irrespective of the applied estimation method, whereas governance performance has a statistically significant impact on market-based brand equity with the alternative valuation approach. These findings correspond to the ideas offered by Signaling Theory and Stakeholder Theory.

Table 3: Variance inflation factor (VIF) results

Variable	VIF
ESG performance	1.003
Firm size (ln)	1.020
Leverage	1.019
Profitability	1.020

VIF: Variance Inflation Factor. Firm size is measured as the natural logarithm of total assets

5. DISCUSSION OF KEY FINDINGS

The results of this study have provided valuable information concerning the connection between the performance of a company on the ESG scale and the market-based brand equity. In contrast to the current belief about the universal positive impact of the ESG performance on the value of the firm, the findings imply that the sustainability performance is not rewarded by investors consistently in all ESG aspects (Yu and Xiao, 2022; Berg et al., 2022). Though there was no statistically significant relation between the overall ESG score and the market-based brand equity, the decomposition of ESG performance has shown that different sustainability dimensions influence the investors differently. It can be concluded that the value relevance of ESG does not depend on the sustainability performance but rather on specific actions within the ESG framework that appear credible and profitable in the future (Kim and Li, 2021; Chen et al., 2023).

Among the most surprising results is that of the lack of a significant association between ESG performance on average and market-based brand equity. The implication of this result is that ESG does not seem to be assessed as a single and homogenous construct by investors. As mentioned above, the aggregate measure of ESG includes environmental, social, and governance elements which vary greatly in terms of their strategic goals, timelines, and visibility for all stakeholders (Berg et al., 2022; Kim and Li, 2021). Thus, high scores in some dimensions of ESG can cancel out the lower scores in other dimensions, leading to low informativeness of the aggregated score. Under the signaling theory perspective, the use of various ESG indicators will produce an ambiguous signal regarding the present situation and future prospects of the organization (Connelly et al., 2025; Kim and Park, 2023). Consequently, the attention of the investor would lie in the initiatives of those organizations which possess a strong association with the stakeholders and brand reputation (Chen et al., 2023).

The most consistent result obtained during this research is a significant positive impact of social performance on market brand equity. Social performance has proved its significance under different model specifications as well as under the robustness checks, which means that social sustainability measures are considered as the most important ESG dimension affecting investor evaluation of firm worthiness. The result means that

Table 4: Regression results for ESG performance and market-based brand equity

Variable	Model 1 FE ESG	Model 2 FE Components	Model 3 DK Components	Model 4 Ln (Tobin) FE
ESG	0.001			
Environmental		0.000	0.000	−0.005
Social		0.030*	0.030***	0.012**
Governance		0.017	0.017	0.014***
Firm Size	−0.910***	−0.907***	−0.907***	−0.300***
Leverage	−0.008	−0.010	−0.010***	−0.007**
Profitability	−0.020	−0.042	−0.042	0.181

n=306 firm-year observations representing 51 publicly listed companies. Models 1–4 include firm and year fixed effects. Model 3 employs Driscoll–Kraay standard errors, while Model 4 uses the natural logarithm of Tobin's Q as the dependent variable. Within R^2 values range from 0.103 to 0.213. *P*<0.10, *P*<0.05, *P*<0.01

investors realize the benefits of firm's reputation and relations gained due to the initiatives in the fields of employee wellbeing and development, diversity and inclusion, customers relations, community engagement, and other areas of social responsibility (Efunniyi et al., 2024; Vigolo et al., 2025). While environmental initiatives usually are not as visible for stakeholders and do not have any effect on their experience in working with the company, social initiatives are highly noticeable and significantly affect this experience (Del-Castillo-Feito et al., 2022). These interactions lead to increased trust, legitimacy and corporate reputation, which are some of the intangible assets that may positively affect market valuation (Manabe and Nakagawa, 2022; Chen et al., 2023). Thus, it may be concluded that social sustainability measures help building relationships between companies and their stakeholders that lead to market brand equity.

It is also notable that there has been evidence about the emergence of governance performance as a factor that significantly influences market-based brand equity under the logarithmic valuation specification. While governance performance has not been consistent in showing significance across the baseline models, it becomes noticeable once the skewness in the valuation process has been addressed. Such an implication could mean that the advantages derived from good governance could work through subtler channels compared to the social initiatives. Good governance improves the level of transparency, accountability, oversight, and protection of shareholders, which means that agency problems and issues can be minimized and confidence in investments can be increased (Yu, 2025; Huang, 2021; Ortiz-Avram et al., 2024). However, unlike social initiatives that offer more visibility and reputation, the mechanisms involved in good governance contribute to making the perception of organizational quality and sustainability more positive (Macagnan and Seibert, 2021). Hence, investors will give a higher value to the companies with high governance performance as they lower uncertainties and increase confidence in management capabilities (Saraswati et al., 2025; Kim and Park, 2023).

However, in contrast, environmental performance was not found to have a significant impact on market-based brand equity in any of the estimated models. It can be argued that current environmental performance measures might not have been internalized into the decision-making process of the firm investors. Environmental measures often cost a lot of money and take time before their benefits start materializing (Thompson, 2023). Thus, investors see such measures mostly as mandatory actions without any potential benefit for the company. Moreover, environmental improvements are made usually within a company, while social initiatives tend to be seen by other parties, and thus be noticed (Thompson, 2023; Kim and Li, 2021). Therefore, it might be concluded that the impact of environmental performance on the market-based brand equity cannot be noticed by the firm investors in the short run because of its hidden nature. The constant insignificance of environmental performance across all estimations suggests that environmental sustainability on its own is not enough to impact the market-based brand equity of a firm.

Taken together, the results underscore the need for looking into ESG components individually instead of using only the aggregated ESG scores. There is evidence suggesting that the sustainability dimensions differ in the way they create value through different channels. Social actions improve the reputation of the firm, governance actions increase investors' trust in the organization's performance and excellence, and environmental actions provide benefits which cannot be observed immediately (Kim and Li, 2021; Chen et al., 2023; Berg et al., 2022). This research provides an important contribution to the existing literature, showing that the effect of ESG is not uniform (Berg et al., 2022).

The findings coincide with the theory of Stakeholders where organizations could generate value by managing their relationships with stakeholders (Neacșu and Georgescu, 2023; Pfajfar et al., 2022). Social performance has a significant effect on the matter, meaning that organizations meeting the requirements of the stakeholders and engaging with them receive positive feedback from their investors (Manabe and Nakagawa, 2022). Moreover, the results are consistent with the signaling theory, which suggests that social and governance initiatives are credible signals of high quality, responsibility, and sustainability of the organization (Connelly et al., 2025; Kim and Park, 2023). Moreover, the results correspond with the resource-based view that suggests that reputation, trust, legitimacy, and governance are valuable strategic resources that can provide competitive advantages to firms and increase their value (Barney et al., 2021; Zahra, 2021). Therefore, based on the results, it becomes clear that market-based brand equity is determined not by any dimensions of sustainability, but by those ESG dimensions that help build and maintain good stakeholder relations and demonstrate the quality of the organization in the market (Chen et al., 2023; Gutiérrez Gutiérrez et al., 2024).

6. CONCLUSION

As an addition to the body of knowledge on sustainability and firm value, this study sought to analyze whether ESG performance would contribute to the market-based brand equity of public firms. Despite having regarded ESG as one construct in previous literature, it was found that the association between sustainability and market valuation cannot be considered simplistic in nature. Investors do not reward all aspects of ESG performance equally, as they make distinction between different facets of sustainability depending on how relevant they are to organization quality and value creation.

In terms of market-based brand equity, it has been found that the activities of organizations that foster the trust of stakeholders and build credibility are the factors that impact it the most. Social performance was found to be the factor that has the strongest impact on market-based brand equity, while governance performance had a positive impact on it when valuation distortions have been taken into consideration. It can be said that investors are interested in sustainability activities that would help organizations improve their reputation and stakeholder relationships rather than only ESG ratings.

From the theoretical perspective, the research extends the use of Stakeholder Theory, Signaling Theory, and the Resource-Based

View by proving that different ESG components add value through different processes. The results of the study indicate that social and governance programs are better indicators of the company's quality and commitment to its stakeholders compared to environmental programs under analysis. It becomes clear how essential it is to consider not only aggregated values but also the specific paths of adding value for each of the sustainability dimensions.

Finally, it is worth paying attention to the practical recommendations that can be drawn from the results of the research. Corporate managers trying to improve their market-based brand equity should understand that there are no equivalent reactions of the market to the same amount of investments made in sustainability programs. Although environmental programs are also significant for sustainability and regulatory reasons, social and governance programs can bring more value to the company in terms of reputation and valuation.

The following areas represent possible future research directions based on this research. To begin with, future research can determine if there is industry-level, country-level or maturity-level dependency on the relationship between ESG dimensions and market-based brand equity. Second, further studies could look into other possible proxies for brand equity, such as consumer-based brand equity and stakeholder-based brand equity, to see if the impact of sustainability is channeled through various ways in each case. Third, future research could investigate other possible mediating factors, like corporate reputation, stakeholder trust, customer loyalty or investor sentiment, to have a more detailed understanding of the translation process of sustainability initiatives into market value. Fourth, longitudinal research that spans longer periods of time may help us to understand if sustainability initiatives have long-term effects on market value.

On the whole, one could say that the findings of this study show that the contribution of sustainability to market value takes place not only through ESG performance but through the dimensions of ESG performance that successfully contribute to stakeholder relationships and organizational quality. As sustainability gradually becomes less of a compliance issue and more of a strategic capability, the importance of research into its differential value implications becomes greater than ever.

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