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ESG Disclosure and Firm Profitability: The Moderating Roles of Firm Size and Corporate Governance

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ABSTRACT

The disclosure of environmental, social, and governance practices has gained prominence as companies encounter heightened expectations from investors, regulators, and various stakeholders for enhanced transparency regarding their ESG activities. This study investigates the correlation between ESG disclosure and corporate profitability, focusing specifically on the moderating influence of company size. The study employs a quantitative methodology and uses purposive sampling to obtain 310 firm-year data points. Information was acquired via publicly accessible annual reports, sustainability documents, and ESG data sources. Corporate profitability is assessed using return on assets (ROA), whereas ESG transparency serves as the primary explanatory variable. The size of the firm is analyzed as a moderating variable, while firm age, leverage, revenue, and market capitalization are considered as control factors. Pearson correlation and moderated regression analysis were used to investigate the proposed relationships. The results indicate a negative and statistically significant correlation between ESG disclosure and profitability. The regression findings indicate a negative correlation between ESG disclosure and ROA ($\beta = -0.116$; $t = -3.331$), failing to substantiate the claim that ESG disclosure enhances profitability. The negative correlation persists as significant even after incorporating firm size into the model ($\beta = -0.117$; $t = -3.245$). The relationship between ESG disclosure and firm −size is both positive and statistically significant ($\beta = 0.118$; $t = 2.768$), suggesting that firm size influences the ESG–profitability relationship. The negative correlation between ESG disclosure and profitability decrease with the growth of corporate size. The results indicate that the economic impacts of ESG disclosure vary among companies. Increased ESG disclosure correlates with decreased short-term accounting profitability; however, larger corporations seem more capable of managing the costs linked to ESG implementation and reporting, thereby mitigating negative profitability effects. The research thus illustrates that the size of a corporation is a significant variable in understanding the ESG–profitability relationship. The results bear significance for corporate executives, investors, and regulators. Managers must include ESG initiatives in overarching financial and operational strategies instead of regarding ESG disclosure as an isolated compliance task.

Keywords: ESG Reporting, Firm Age, Leverage, Revenue, Market Capitalization
JEL Classifications: M14; G30; G32; Q56; C23

1. INTRODUCTION

In recent times, escalating regulatory demands, stakeholder anticipations, and investor enthusiasm for sustainable business practices have intensified the pressure on corporations to disclose details regarding their environmental, social, and governance initiatives (Abdi et al., 2022). The conventional focus on financial outcomes is progressively being augmented by wider factors concerning the impact of business actions on the environment, society, and the standards of corporate governance (Abanum and Ebiaghan, 2022). ESG disclosure has thus emerged as a crucial tool for organisations to convey their dedication to ethical and sustainable business practices (Abbas et al., 2023). By disseminating details regarding environmental stewardship, social accountability, and governance protocols, companies can improve openness and responsibility while addressing the informational

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requirements of investors and other stakeholders. Elamer and Boulhaga (2024) illustrate that ESG-related elements can play a crucial role in socio-economic advancement. Nonetheless, the execution of ESG initiatives can incur significant expenses for companies, especially when considerable resources are necessary to enhance environmental and social outcomes (Feng et al., 2021). Thus, the financial ramifications of ESG disclosure continue to be a significant concern for corporate leaders and investors alike.

A primary inquiry within the ESG literature pertains to whether enhanced ESG disclosure results in superior corporate financial performance (Fatemi et al., 2018). While ESG practices can improve firm reputation, stakeholder confidence, capital accessibility, and long-term viability, they may concurrently elevate operational and compliance expenses. As a result, the actual data concerning the correlation between ESG disclosure and profitability is still ambiguous (Fayyaz et al., 2023). Certain research indicates that superior ESG performance correlates with enhanced profitability, implying that the advantages linked to stakeholder involvement, better risk management, and elevated corporate reputation could surpass the expenses of ESG initiatives. Conversely, alternative research indicates adverse or negligible correlations between ESG initiatives and financial outcomes. For instance, Arhinful et al. (2024) present findings indicating that ESG-related initiatives could adversely impact profitability. These varying results indicate that the financial implications of ESG disclosure may rely not solely on the degree of disclosure but also on unique attributes of the firm that influence its ability to adopt and gain advantages from ESG practices (Frimpong et al., 2023).

The magnitude of a firm is a significant firm-specific attribute that could affect the correlation between ESG disclosure and profitability (Feng et al., 2022). Major corporations typically have superior financial and organizational assets, enjoy enhanced access to capital markets, encounter increased visibility and stakeholder examination, and are more inclined to possess the organizational capability necessary for executing extensive ESG initiatives (Ferriswara et al., 2022). These traits might allow larger corporations to manage the expenses linked to ESG initiatives and possibly reap enhanced economic advantages from ESG reporting. In contrast, smaller enterprises could encounter financial, management, and resource limitations that hinder their capacity to adopt comprehensive ESG practices and translate their efforts into enhanced financial outcomes (Frans, 2024). Prior research has underscored the significance of organisational scale in elucidating variations in corporate sustainability practices and business valuation (Filbeck and Gorman, 2004). The size of a firm may act not only as a control variable but also as a possible mechanism that influences how the economic impacts of ESG disclosure vary among companies.

Corporate governance offers an additional crucial perspective for comprehending the financial implications of ESG disclosure. Robust corporate governance frameworks can bolster oversight, augment managerial responsibility, increase transparency, and diminish information disparities between executives and stakeholders (Firnanda et al., 2024). Robust governance can subsequently affect the formulation, execution, and dissemination of ESG policies, potentially influencing whether ESG disclosures generate economic value for the organization (Fon and Alon, 2022). In this regard, ESG disclosure and corporate governance are intricately linked, as both prioritize transparency, accountability, responsible decision-making, and safeguarding stakeholder interests. Nonetheless, although current studies have thoroughly investigated the direct correlation between ESG practices and financial outcomes, very scant focus has been directed toward the circumstances in which this link may fluctuate based on corporate attributes and governance frameworks (Jejeniwa et al., 2024).

The diverse empirical findings present a significant impetus for additional inquiry. The current body of work has often investigated the relationship between ESG and financial performance, although it has inadequately accounted for how the attributes of specific organisations may influence the intensity or orientation of this relationship (Jiang et al., 2023). This study thereby broadens the current body of work by investigating the influence of business size on the connection between ESG disclosure and profitability, while also incorporating corporate governance as an extra facet of the ESG-performance link. This methodology is crucial as companies vary significantly in their resources, organisational intricacy, stakeholder prominence, and governance frameworks (Jiao, 2010). The advantages and expenses related to ESG disclosure may therefore vary among companies. The research is situated within the framework of emerging-market enterprises, where ESG reporting standards, regulatory demands, investor influences, and corporate governance structures may vary from those seen in advanced nations (Jiao, 2010).

The originality of this study resides in transcending a mere analysis of the direct correlation between ESG disclosure and profitability by exploring the impact of firm-specific attributes on this connection (Korkmaz and Nur, 2023). The study specifically explores firm size as a moderating variable and evaluates the significance of corporate governance in comprehending the relationship between ESG and profitability. This methodology addresses the contradictory results found in earlier studies and offers a more refined rationale for the varying financial impacts of ESG disclosure among companies (Abbas et al., 2023). The study relies on 310 firm-year data points, employing return on assets (ROA) to measure profitability and ESG disclosure as the primary explanatory variable. The empirical study additionally includes firm size, firm age, leverage, revenue, and market capitalisation as characteristics of firms to elucidate differences in profitability.

The aim of this study is to investigate the correlation between ESG disclosure and company profitability, with a particular focus on whether firm size influences this correlation. The study enhances the ESG literature by presenting information on the variance of financial impacts from ESG disclosure based on company size and emphasising the necessity of accounting for firm-specific traits when evaluating the economic effects of ESG practices. The results are anticipated to yield valuable insights for corporate executives, investors, regulators, and various stakeholders. For executives, the findings may aid in assessing how ESG reporting can be integrated into business strategy to enhance financial outcomes. The results

may offer investors further understanding of the significance of ESG data in assessing companies. The study could aid regulators and policymakers in dialogues about ESG reporting and the establishment of suitable disclosure and governance structures.

2. RESEARCH METHODS

This study employs a quantitative methodology to investigate the correlation between environmental, social, and governance (ESG) disclosures and corporate profitability, focusing specifically on the moderating influence of company size. A quantitative methodology is suitable, as the research utilises quantifiable financial and non-financial metrics at the firm level and applies statistical techniques to determine the nature and importance of the links between the variables. The study uses purposive sampling to identify companies that possess the requisite financial and ESG data. The dataset comprises firm-year observations for corporations within the research population of the study. The ultimate dataset consists of 310 firm-year instances. The factors incorporated in the empirical study consist of profitability, ESG disclosure, company size, company age, leverage, revenue, and market capitalisation (Xue et al., 2022). The data is sourced from publicly accessible corporate annual reports, sustainability reports, and ESG information repositories. Financial statements furnish the necessary data to assess profitability, leverage, revenue, and market metrics, whereas sustainability reports and ESG databases offer insights into companies' environmental, social, and governance reporting procedures.

2.1. Variable Measurement

The study employs one dependent variable, one main explanatory variable, one moderating variable, and four control variables. Corporate profitability is measured using return on assets (ROA), while ESG disclosure represents the principal explanatory variable. Firm size (SIZE) is introduced as the moderating variable to examine whether the relationship between ESG disclosure and profitability differs according to organisational scale. Firm age (AGE), leverage (LEV), revenue (REV), and market capitalisation (MC) are included as control variables to account for other firm-specific characteristics that may influence profitability. Table 1 presents the variables, their roles in the empirical models, and their operational definitions.

Table 1: Variable Definitions and Measurements

Variable	Symbol	Role	Measurement
Return on Assets	ROA	Dependent variable	Net income divided by total assets
ESG Disclosure	ESG	Independent variable	Composite ESG disclosure score based on the firm's reported environmental, social and governance information
Firm Size	SIZE	Moderator	Natural logarithm of total assets
Firm Age	AGE	Control variable	Number of years since the establishment/ incorporation of the firm
Leverage	LEV	Control variable	Total debt divided by total assets
Revenue	REV	Control variable	Firm revenue/sales, measured consistently across firm-year observations
Market Capitalisation	MC	Control variable	Market value of the firm's outstanding shares

2.2. Econometric Model

$$\text{Model 1: } ROA = \alpha + \beta_1 ESG + Controls + \mu_i + \lambda_t + \varepsilon \quad \ldots\ldots\ldots\ldots\ldots\ldots \text{Tests } H_1$$

$$\text{Model 2: } ROA = \alpha + \beta_1 ESG + \beta_2 SIZE + Controls + \mu_i + \lambda_t + \varepsilon \ldots\ldots\ldots\ldots \text{Adds firm size}$$

$$\text{Model 3: } ROA = \alpha + \beta_1 ESG + \beta_2 SIZE + \beta_3 ESG + Controls + \mu_i + \lambda_t + \varepsilon \ldots \text{Tests } H_2 \text{ (moderation).}$$

3. HYPOTHESES DEVELOPMENT

3.1. Impact of ESG Reporting on Corporate Profitability

ESG disclosure can affect a company's profitability via many stakeholder and legitimacy channels. Companies that furnish extensive details regarding their environmental, social, and governance practices may cultivate more robust connections with investors, clients, staff, regulators, and other stakeholders (Yahaya, 2025c). Enhanced openness can diminish information asymmetry and bolster stakeholders' trust in the company's dedication to ethical business conduct. From the viewpoint of stakeholders, companies that adeptly address environmental and social demands can enhance their connections with key stakeholder factions (Yahaya, 2026). Enhanced stakeholder relationships can foster consumer loyalty, employee dedication, access to external resources, and investor trust, thus bolstering financial performance. ESG disclosure can improve corporate reputation by showcasing that management is mindful of wider environmental and social obligations (Yan et al., 2025).

The legitimacy perspective offers an additional elucidation for the anticipated correlation. Businesses function within a sociocultural context where their ongoing prosperity is contingent upon harmonizing business practices with public expectations (Ye and Dela, 2023). ESG disclosure serves as a conduit for companies to articulate their operations and exhibit alignment with stakeholder anticipations. Companies with enhanced ESG reporting may consequently gain legitimacy advantages that support their enduring sustainability and financial performance.

Moreover, ESG practices may enhance operational efficacy and risk mitigation. Environmental activities can diminish waste and resource utilization, while robust social and governance practices can enhance employee interactions, internal oversight, decision-making processes, and risk management (Yensu et al., 2021). These advantages could ultimately result in increased long-term profitability. Consequently, companies with enhanced ESG reporting are anticipated to exhibit greater profitability, as indicated by ROA.

H_1: The disclosure of ESG factors positively and significantly influences corporate profitability.

3.2. The Influence of Firm Size on the Relationship between ESG Disclosure and Profitability

The magnitude of a firm may influence its ability to transform ESG disclosures and associated sustainability initiatives into economic advantages. More substantial enterprises typically have superior financial, technological, human, and organizational assets compared to smaller companies (Yeye and Egbunike, 2023). These assets can empower major corporations to allocate greater funds into ecological projects, workforce enhancement, community initiatives, governance frameworks, and ESG reporting mechanisms. Heightened public scrutiny and stakeholder observation also expose major corporations (Yin and Xu, 2025). Stakeholders such as investors, regulators, customers, employees, and communities may require enhanced openness from firms with significant economic and social impacts (Yin et al., 2023). Consequently, larger corporations possess greater motivation to establish extensive ESG policies and convey these practices via formal disclosure methods.

Significantly, the advantages linked to ESG disclosure can be more pronounced for large corporations due to their enhanced ability to manage the expenses related to ESG execution. The financial demands for environmental enhancements, social initiatives, data gathering, oversight, verification, and ESG reporting may pose a lesser strain on major corporations compared to smaller enterprises (Yuen et al., 2022). Consequently, larger corporations may be more adept at converting ESG initiatives into advantages related to reputation, operations, and finances.

The magnitude of a firm may enhance the connection by providing improved access to financial resources and marketplaces. Firms possessing substantial assets and market presence are likely to cultivate more robust connections with investors and financial entities, thus enhancing their capacity to capitalize on opportunities arising from responsible and sustainable business practices. Thus, ESG disclosure could yield enhanced economic advantages for larger corporations.

Consequently, the second hypothesis is articulated as follows:

H_2: The magnitude of a firm enhances the correlation between ESG disclosure and profitability, indicating that the beneficial impact of ESG disclosure on profitability is more pronounced in larger enterprises.

4. RESULTS

Table 2 displays the descriptive statistics for the 310 firm-year observations incorporated in the analysis. The mean ROA is 0.156 with a standard deviation of 0.182, suggesting significant fluctuations in the profitability of the studied enterprises. The minimum and maximum ROA figures of −0.689 and 0.638, respectively, illustrate the significant variability in companies' financial outcomes. The average ESG disclosure score is 3.112, with a standard deviation of 4.868, with values spanning from 0.232 to 67. This considerable variability suggests notable disparities in the level of ESG disclosure among companies. The average firm size is 42.454, with a modest standard deviation of 2.743, indicating a relatively tight distribution. The mean age of firms is roughly 30 years; however, there is significant variability, spanning from 0 to 55 years. Leverage exhibits an average of 2.300 and a standard deviation of 3.278, signifying considerable variation in the capital structures of enterprises. The descriptive statistics indicate significant variance between the primary variables, affirming the dataset's appropriateness for further multivariate analysis. The comparatively extensive spread of ESG disclosure and profitability underscores the necessity of evaluating probable anomalies and distributional traits before calculating the regression models.

Table 2: Descriptive statistics

Variable	Observation	Mean	Standard deviation	Min.	Max.
ROA	310	0.156	0.182	−0.689	0.638
ESG	310	3.112	4.868	0.232	67
M-SIZE	310	42.454	2.743	38.884	46.095
AGE	310	29.984	21.82	0	55
LEV	310	2.3	3.278	−7.664	35.958
REV	310	4.554	0.533	0	4.875
MC	310	34.39	4.42	0	38.627

Table 3: Pearson correlation

Variable	ROA	ESG	SIZE	AGE	LEV	REV	MC
ROA	1.000						
ESG	−0.215	1.000					
M-SIZE	−0.381*	0.152	1.000				
AGE	0.381*	0.165	0.218	1.000			
LEV	0.281	0.818*	−0.218	−0.127	1.000		
REV	0.221	−0.167	0.372*	0.341*	−0.221	1.000	
MC	0.277*	−0.115	0.389*	0.248	−0.128	0.44*	1.000

***P<0.01, **P<0.05, *P<0.1

Table 3 presents the Pearson correlation matrix for the variables encompassed in the study. The relationship between ESG disclosure and ROA is inversely correlated (r = −0.215), indicating that companies with elevated ESG disclosure often have decreased profitability at the bivariate level. This initial discovery does not corroborate the anticipated positive relationship shown in H_1; yet, the correlation analysis fails to account for other firm-specific variables and hence cannot determine a causal link. The magnitude of a firm is inversely correlated with ROA (r = −0.381), while firm age, leverage, sales, and market capitalization show positive correlations with ROA. A notable issue is the substantial positive correlation between ESG disclosure and leverage (r = 0.818), suggesting possible multicollinearity between the independent variables. Consequently, formal diagnostics for multicollinearity, including VIF and tolerance statistics, must be conducted prior to analyzing the multivariate regression estimates. The correlation findings offer the first proof of significant connections between the studied variables while also underscoring the necessity for additional econometric analysis.

4.1. Moderated Regression Analysis

4.1.1. Moderated regression analysis (MRA) test

The empirical findings offer significant insights into the correlation between ESG disclosure, corporate profitability, and company size. The descriptive statistics shown in Table 2 reveal significant disparities across the sampled companies, especially regarding

Table 4: MRA test results

Variable	ROA	ROA	ROA
Intercept	0.267***	0.618	0.886*
	(4.335)	(2.529)	(2.979)
ESG	−0.116**	−0.117**	−0.322*
	(−3.331)	(−3.245)	(−2.988)
AGE	−0.117***	(−0.117)	−0.117**
	(−3.741)	0.121	(−3.261)
LEV	0.121	(2.411)	0.122
	(2.363)	0.117	(2.556)
REV	0.116	(2.566)	0.115
	(2.276)	0.112**	(2.137)
MC	0.112**	(3.136)	0.112*
	(2.889)	−0.123	(2.786)
M-SIZE		(−0.897)	−0.132
			(−2.954)
c.ESG#c.M-SIZE			0.118*
			(2.768)
Adj.R2	0.82	0.82	0.82
N	310	310	310
F-stat	63.628	58.145	54.884

profitability and ESG disclosure. The ROA varies between −0.689 and 0.638, but ESG disclosure spans from 0.232 to 67, highlighting significant variability in both financial outcomes and sustainability reporting methods. This variation offers a suitable empirical context for investigating the relationship between ESG disclosure and profitability, as well as how this relationship varies with firm size.

The Pearson correlation findings in Table 3 indicate a negative correlation between ESG disclosure and ROA (r = −0.215), offering initial evidence that contradicts the positive link anticipated by H_1. The magnitude of a firm is inversely related to ROA (r = −0.381), while firm age, leverage, sales, and market capitalization show positive relationship with profitability. These bivariate associations require caution when interpreting, as they do not consider the simultaneous influence of other company attributes. One must exercise caution when interpreting these bivariate associations, as they fail to account for the concurrent impact of additional company attributes. Significantly, the considerable link between ESG disclosure and leverage (r = 0.818) presents a possible multicollinearity issue, warranting more diagnostic evaluations such as VIF and tolerance data.

The moderated regression findings presented in Table 4 offer more compelling support for the study's hypotheses. Model 1 demonstrates that ESG disclosure exhibits a negative and statistically significant correlation with ROA (β = −0.116; t = −3.331), therefore not corroborating H_1. This discovery indicates that, among the surveyed companies, the expenses related to ESG implementation, oversight, adherence, and reporting could surpass the short-term financial advantages linked to sustainability initiatives. The negative correlation continues to be statistically significant if firm size is incorporated in Model 2 (β = −0.117; t = −3.245), suggesting that the direct relationship between ESG and profitability is quite resilient to the addition of firm size.

Model 3 demonstrates a noteworthy moderating influence of company size. The interaction between ESG and SIZE is both positive and statistically significant (β = 0.118; t = 2.768), suggesting that larger firms diminish the adverse relationship between ESG disclosure and profitability. While ESG disclosure is larger, companies weaken the inverse relationship between ESG disclosure and ROA as they grow. Larger companies weaken the inverse relationship between ESG disclosure and ROA as they continue to grow. In other words, as companies grow, the inverse relationship between ESG disclosure and ROA weakens. as companies expand. This discovery bolsters H_2 and aligns with the notion that larger corporations have superior financial, technological, organizational, and managerial assets to accommodate the expenses associated with ESG implementation and reporting. Thus, the size of a firm should not to be regarded solely as a traditional control variable; instead, it serves as a significant contingency element that influences the financial implications of ESG disclosure.

The findings thus offer a more refined understanding of the ESG–profitability connection. The results imply that ESG disclosure does not consistently enhance or decrease profitability; rather, its financial effects are contingent upon the unique attributes of the organization, especially its size (Yahaya, 2024). The affirmative interaction coefficient suggests that larger enterprises are more adept at alleviating the negative profitability effects linked to ESG disclosure. Nonetheless, the findings should not be construed as proof that ESG disclosure is intrinsically lucrative for larger corporations (Yahaya, 2025b). Conversely, the study suggests that the scale of a corporation influences the relationship by diminishing the intensity of the adverse ESG–profitability correlation. Subsequent investigations ought to assess the incremental impact of ESG disclosure across varying firm sizes and provide a straightforward slope or interaction diagram to elucidate the specific characteristics of this moderating effect.

5. DISCUSSION

The results of this study offer a more intricate understanding of the connection between ESG disclosure and business profitability, illustrating that the financial consequences of ESG disclosure are contingent upon firm-specific traits, especially firm size (Yahaya, 2025a). Existing study often emphasises the financial implications of ESG practices, although this study broadens the discourse by investigating how the intensity of this relationship differs according to the organisational traits of companies. The findings from the 310 firm-year observations indicate that ESG disclosure has an inverse correlation with profitability, although firm size plays a substantial moderating role in this dynamic.

5.1. ESG Reporting and Corporate Profitability

The primary discovery is that ESG disclosure exhibits a negative and statistically significant correlation with ROA. Model 1 indicates a coefficient of −0.116 accompanied by a t-statistic of −3.331, whereas Model 2 yields a nearly identical value of −0.117 with a t-statistic of −3.245. This discovery contradicts H_1, which anticipated that ESG disclosure would have a positive and substantial impact on corporate profitability. The adverse correlation indicates that, among the surveyed companies, the resources allocated to ESG initiatives and reporting may incur

financial expenses that are not promptly balanced by related enhancements in accounting profitability. The execution of ESG may necessitate capital allocation toward environmental efforts, workforce and community programmes, governance frameworks, oversight systems, data acquisition, verification, and reporting structures. As a result, companies can incur heightened operational and regulatory expenses in the near future.

This discovery aligns with the cost-orientated rationale articulated in the document, acknowledging that ESG initiatives may necessitate considerable financial investment (Zahid et al., 2022). Simultaneously, it diverges from the stakeholder and legitimacy theories that form the basis of H_1, which propose that ESG disclosure can fortify stakeholder connections, diminish information asymmetry, elevate reputation, and eventually boost financial outcomes.

Crucially, the discovery should not be construed as evidence that ESG disclosure is intrinsically harmful to companies. It implies that the immediate accounting expenses linked to ESG disclosure can surpass the readily apparent profitability advantages in the organisations examined. Certain advantages of ESG initiatives, including enhanced reputation, stakeholder confidence, risk mitigation, and enduring resilience, may require a longer timeframe to manifest and may consequently not be entirely reflected in current ROA. The discovery further elucidates the reasons for the contradictory outcomes of prior empirical research regarding ESG and financial performance. The document delineates findings of both positive and negative correlations in previous studies. The current findings indicate that variations in company attributes might account for some of these discrepancies.

5.2. The Influential Role of Organisational Scale

The primary finding of the research is that company size substantially influences the connection between ESG disclosure and profitability. Model 3 indicates a positive and statistically significant interaction coefficient of ESG × SIZE at 0.118 (t = 2.768). This suggests that the adverse correlation between ESG disclosure and ROA diminishes with the growth of firm size.

This outcome corroborates H_2 and aligns with the theoretical assertion that larger enterprises have superior financial, technological, human, and organisational resources to execute ESG projects and manage their related expenses. The document contends that larger entities typically possess enhanced access to capital markets, superior organisational competencies, and an increased ability to implement comprehensive ESG initiatives. The positive relationship thus has significant economic implications. Bigger corporations might have a greater capacity to distribute ESG-related fixed expenses over a more extensive operational framework and to incorporate sustainability initiatives into their current organisational structures. They might also possess a greater ability to convert ESG initiatives into advantages for reputation, operations, and stakeholders.

Nevertheless, the engagement must be analysed with caution. A favourable ESG × SIZE coefficient does not inherently indicate that ESG disclosure positively influences profitability in large corporations. Conversely, the study suggests that the size of a corporation diminishes the magnitude of the adverse ESG–profitability correlation. Consequently, size functions as a moderating or alleviating element. This discovery enhances the study's significance since it transcends the traditional belief that ESG disclosure uniformly impacts all enterprises financially. The findings indicate that the economic implications of ESG disclosure depend on the attributes of the organisation (Zhan, 2023).

5.3. Consequences of the Correlation Results

The Pearson correlation findings offer further understanding of the empirical connections. ESG disclosure exhibits a negative correlation with ROA (r = −0.215), while firm size also shows a negative correlation with ROA (r = −0.381). Conversely, the age of a corporation, its leverage, sales, and market capitalisation exhibit positive correlations with profitability. These associations offer valuable initial evidence but should not be construed as causative due to correlation analysis lacking control for the concurrent impact of additional factors. Significantly, the robust association between ESG disclosure and leverage (r = 0.818) presents a possible multicollinearity issue. Therefore, the regression findings must be analysed in conjunction with suitable multicollinearity assessments. The final version of the study must include VIF and tolerance information. If multicollinearity is established, supplementary robustness measures ought to be contemplated.

5.4. Conceptual Consequences

The results are significant for both stakeholder and legitimacy perspectives. The theoretical premise posits that ESG disclosure ought to fortify stakeholder relationships, augment legitimacy, and elevate financial outcomes. Nonetheless, the adverse coefficient for ESG suggests that these advantages may not promptly offset the expenses linked to ESG initiatives. Simultaneously, the beneficial moderating effect of company size indicates that organisational resources affect a firm's capacity to transform ESG commitments into financial benefits. This offers a more conditional understanding of stakeholder and legitimacy theories: the prospective economic advantages of ESG disclosure may hinge on the firm's availability of adequate resources and its organisational capability to execute ESG plans proficiently. The research thus adds to the existing literature by illustrating that the ESG–profitability connection is not uniform among companies. The study thus illustrates that the ESG–profitability connection varies among companies, adding to the existing literature. as a uniform among companies. The magnitude of a firm serves as a crucial boundary condition that elucidates the varying financial repercussions of ESG disclosure among organisations.

6. CONCLUSION AND RECOMMENDATIONS

This study investigated the correlation between ESG disclosure and business profitability, focusing specifically on the moderating effect of firm size. Utilizing 310 firm-year observations and return on assets as the profitability metric, the study demonstrates that ESG disclosure is inversely and

strongly correlated with business profitability. The negative ESG coefficient continues to be significant with the inclusion of business size, suggesting that the direct association is rather resilient within the analyzed models. The principal discovery of the study pertains to the moderating influence of company size. The affirmative and statistically significant ESG × SIZE coefficient indicates that the magnitude of a corporation diminishes the adverse correlation between ESG disclosure and profitability. Consequently, the economic ramifications of ESG disclosure vary between companies. Bigger companies appear to be more capable of managing the financial and organizational costs linked to ESG adoption and reporting.

These results offer a significant exception to the general presumption that ESG disclosure invariably enhances business financial outcomes. The data indicates that ESG disclosure could incur immediate financial expenses, with the capacity to manage these costs differing based on organizational traits. Specifically, the magnitude of a firm serves as a crucial variable by which ESG disclosure might affect profitability. The study enhances the ESG literature by redirecting focus from whether ESG disclosure influences profitability to the more intricate inquiry of the organizational conditions under which ESG disclosure impacts profitability. The findings suggest that the size of a corporation significantly influences the variations in the financial outcomes of ESG disclosure. However, the results are not to be construed as proof of a causal link between ESG disclosure and profitability. The negative correlation can indicate other unobserved attributes of the firm, reverse causation, or variations in ESG investing approaches. Subsequent research should thus use more robust causal identification techniques and supplementary robustness assessments.

6.1. Recommendations for Corporate Managers

Corporate executives must refrain from perceiving ESG disclosure solely as a regulatory obligation. ESG initiatives must be incorporated into the company's overarching business and financial plan. The results suggest an inverse relationship between ESG disclosure and short-term ROA, prompting managers to meticulously assess the financial implications and anticipated advantages of ESG initiatives. Companies ought to emphasise ESG initiatives that concurrently meet stakeholder demands and yield operational advantages, including resource optimisation, waste minimisation, proficient risk management, and enhanced internal governance. This method can assist companies in transitioning from ESG reporting that merely outlines actions to ESG strategies that enhance enduring organisational value.

6.2. Recommendation According to Company Scale

The influence of firm size significantly impacts ESG strategy. Bigger corporations seem more equipped to manage the financial repercussions of ESG initiatives. Consequently, smaller enterprises might necessitate more focused and economical ESG approaches instead of striving to emulate the extensive ESG frameworks of larger companies. Executives of smaller enterprises must emphasise significant ESG concerns that are pertinent to their activities and stakeholders. In contrast, larger corporations can utilise their superior financial and organisational assets to establish more extensive ESG frameworks, encompassing enhanced data management, assurance, stakeholder involvement, and ESG governance.

6.3. Recommendation for Investors

Investors ought to refrain from assessing ESG disclosures in isolation from company attributes. The results indicate that the size of a company influences the connection between ESG disclosure and profitability. Thus, ESG disclosure must be evaluated in conjunction with the company's financial capabilities, organisational size, capital configuration, and overall performance. Investors must differentiate between ESG reporting and ESG effectiveness. A significant degree of transparency does not automatically indicate that ESG initiatives are yielding prompt financial gains. Investors ought to assess the essence, quality, and significance of ESG initiatives instead of merely depending on the volume of disclosures.

6.4. Recommendation for Regulatory Authorities and Policy Makers

Regulators ought to persist in enhancing ESG reporting mandates while acknowledging the variances in companies' financial and structural capabilities. A universal reporting framework may impose excessively burdensome compliance expenses on smaller enterprises. Policymakers can contemplate proportional reporting mandates that maintain transparency and comparability while alleviating superfluous compliance obligations. Simultaneously, fundamental ESG disclosure standards ought to guarantee that stakeholders obtain adequate information to assess companies' sustainability-related risks and prospects.

6.5. Recommendation for Corporate Governance

Given the intrinsic relationship between ESG disclosure and corporate governance under the study's conceptual framework, boards of directors ought to enhance their supervision of ESG-related choices. ESG duties must be distinctly assigned within the board and management frameworks, accompanied by suitable oversight systems to guarantee that ESG investments correspond with corporate strategy. Boards must assess if ESG activities yield quantifiable operational, risk-management, and stakeholder advantages, rather than concentrating just on the quantity of ESG data revealed.

6.6. Recommendation and Future Study

Future study should broaden the study to multiple avenues. Initially, scholars ought to investigate whether the negative correlation between ESG and profitability remains when utilising different profitability metrics, such as return on equity and operating profit margins. Secondly, the next research ought to differentiate ESG into its environmental, social, and governance elements. The composite ESG metric could obscure significant disparities, as environmental, social, and governance initiatives might yield varying financial impacts. Third, subsequent studies ought to explore the moderating influence of various organisational attributes, such as the quality of corporate governance, ownership configuration, board characteristics, institutional ownership, and financial limitations.

Fourth, next study should use more sophisticated econometric methodologies, such as fixed-effects models, dynamic panel

models, instrumental-variable strategies, or System GMM when suitable, to tackle possible endogeneity and reverse causation. Ultimately, subsequent studies ought to use simple-slope analysis and interaction plots to illustrate how the marginal impact of ESG disclosure varies with different firm sizes. This would yield a more accurate understanding of the statistically significant moderating impact shown in the present research. The document presently suggests analysing incremental ESG impacts across various firm sizes and illustrating an interaction diagram.

6.7. Recommendation for Corporate Executives

Corporate executives must refrain from perceiving ESG disclosure solely as a regulatory obligation. ESG initiatives must be incorporated into the company's overarching business and financial plan. The results suggest an inverse relationship between ESG disclosure and short-term ROA, prompting managers to meticulously assess the financial implications and anticipated advantages of ESG initiatives. Companies should emphasise ESG initiatives that concurrently meet stakeholder demands and yield operational advantages, including resource optimisation, waste minimisation, proficient risk management, and enhanced internal governance. This method can assist companies in transitioning from ESG reporting that merely outlines actions to ESG strategies that enhance enduring organisational value.

6.8. Recommendation According to Company Scale

The influence of firm size significantly impacts ESG strategy. Bigger corporations seem more equipped to manage the financial repercussions of ESG initiatives. Consequently, smaller enterprises might necessitate more focused and economical ESG approaches instead of striving to emulate the extensive ESG frameworks of larger companies. Executives of smaller enterprises must emphasise significant ESG concerns that are pertinent to their activities and stakeholders. In contrast, larger corporations can utilise their superior financial and organisational assets to establish more extensive ESG frameworks, encompassing enhanced data management, assurance, stakeholder involvement, and ESG governance.

6.9. Recommendation for Investors

Investors ought to refrain from assessing ESG disclosures in isolation from company attributes. The results indicate that the size of a company influences the connection between ESG disclosure and profitability. Thus, ESG disclosure must be evaluated in conjunction with the company's financial capabilities, organisational size, capital configuration, and overall performance. Investors must differentiate between ESG reporting and ESG effectiveness. A significant degree of transparency does not automatically indicate that ESG initiatives are yielding prompt financial gains. Investors ought to assess the essence, quality, and significance of ESG initiatives instead of merely depending on the volume of disclosures.

6.10. Recommendation for Regulatory Authorities and Policy Makers

Regulators ought to persist in enhancing ESG reporting mandates while acknowledging the variances in companies' financial and structural capabilities. A universal reporting framework may impose excessively burdensome compliance expenses on smaller enterprises. Policymakers can contemplate proportional reporting mandates that maintain transparency and comparability while alleviating superfluous compliance obligations. Simultaneously, fundamental ESG disclosure standards ought to guarantee that stakeholders obtain adequate information to assess companies' sustainability-related risks and prospects.

6.11. Recommendation for Corporate Governance

Given the intrinsic relationship between ESG disclosure and corporate governance under the study's conceptual framework, boards of directors ought to enhance their supervision of ESG-related choices. ESG duties must be distinctly assigned within the board and management frameworks, accompanied by suitable oversight systems to guarantee that ESG investments correspond with corporate strategy. Boards must assess if ESG activities yield quantifiable operational, risk-management, and stakeholder advantages, rather than concentrating just on the quantity of ESG data revealed.

6.12. Recommendation for Next Study

Next study ought to broaden the examination in multiple avenues. Initially, scholars ought to investigate whether the adverse correlation between ESG and profitability remains when utilising different profitability metrics, such as return on equity and operating profit margins. Secondly, the next research ought to differentiate ESG into its environmental, social, and governance elements. The composite ESG metric could obscure significant disparities, as environmental, social, and governance initiatives might yield varying financial impacts. Third, subsequent studies ought to explore the moderating influence of various organisational attributes, such as the quality of corporate governance, ownership configuration, board characteristics, institutional ownership, and financial limitations. Fourth, subsequent research ought to utilise more sophisticated econometric methodologies, such as fixed-effects models, dynamic panel models, instrumental-variable strategies, or System GMM when suitable, to tackle possible endogeneity and reverse causation. Ultimately, subsequent studies ought to use simple-slope analysis and interaction plots to illustrate how the marginal impact of ESG disclosure varies with different firm sizes. This would yield a more accurate understanding of the statistically significant moderating impact shown in the present research. The document presently advises investigating incremental ESG impacts across varying firm sizes and illustrating an interaction diagram.

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