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How ESG Transparency Enhances Market Valuation: Examining Governance Quality in Emerging Market

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ABSTRACT

Purpose: The study investigates the effect of Environmental, Social, and Governance report on market performance and also examines the moderating effect of corporate governance quality in this relationship.

Methods/Study design/Approach: The analysis used panel data from 2018 to 2023, covering nonfinancial firms that registered in the Taiwan Stock Exchange (TWSE) and OTC market. Using 13,119 firm-year observations, we employ fixed-effects regressions with firm and year effects model

Result/Findings: Higher ESG disclosure is associated with stronger market valuation. Corporate governance quality significantly enhances this effect, indicating that credible governance improves the value relevance of ESG information. When the ESG components are entered separately, the social pillar shows the strongest association with market value. Robustness checks that exclude the COVID-19 years confirm the stability of these results.

Novelty/Originality/Value: The paper enhances the existing ESG literature by emphasizing the significance of corporate governance quality in optimizing the advantages of ESG disclosure. This paper also comparing the three ESG pillars within one framework. The Taiwanese evidence offers policy-relevant insights for ASEAN markets seeking to improve ESG disclosure and corporate governance to reinforce investor trust.

INTRODUCTION

In recent decades, Environmental, Social, and Governance (ESG) topic has emerged as important issue within corporate finance and investment decision-making (Alfalih, 2023; DasGupta & Roy, 2023; Solikhah & Weng, 2024). After the leaders from 195 countries emphasized the necessity of reducing greenhouse gas emissions and investing in renewable energy through the signing of the 2015 Paris Agreement, the momentum significantly increased (Bolognesi & Burchi, 2023). Since that time, ESG has transformed into a strategic factor for governments, financial market actors, corporations, and academics (Poyser & Daugaard, 2023; Tsang et al., 2023). More and more, investors are using ESG ratings to judge how long companies will be able to stay in business. ESG ratings are often used as a standard for managing risk, behaving ethically, and running a business in a responsible way (Atan et al., 2016; D'Amato et al., 2022; Ellili, 2022).

Even though there is a growing need for ESG evaluations, people are still worried about how accurate and consistent they are. People often ask if ESG measurements can fully account for climate risk and other non-financial factors in corporate valuation. The dependability of ESG data is further

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compromised by the absence of universally standardized reporting criteria (Dumay et al., 2016; Eccles et al., 2020). The GRI, SASB, and TCFD are some of the global efforts that have helped make ESG reporting more standardized. However, most companies still do it on a voluntary basis and not all of them do it the same way (Ellili, 2022). There are still differences in the quality of reports because of different regulatory pressures and levels of commitment within organizations. Consequently, the utility and reliability of ESG disclosures may differ markedly among companies. This diversity has prompted scholars and practitioners to call for a more comprehensive analysis of the impact of ESG disclosure on company valuation and the possible mediating influence of contextual factors in this dynamic.

In this context, ESG disclosure may affect a company's financial performance, especially metrics that are based on the market. Prior studies (Solikhah & Weng, 2024) show consistent results that clear ESG reporting leads to better firm performance because investors like companies that are ethical and have a long-term focus. Atan et al. (2016); Johnson et al. (2019); Xie et al. (2019) all found that ESG activities are positively linked to the value of a company in both developed and emerging markets. Additional evidence from Minutolo et al. (2019) in the U.S. and Giannopoulos et al. (2022) in Norway corroborates the assertion that ESG disclosure increases firm visibility, diminishes perceived risk, and ultimately enhances market valuation.

The relationship between ESG transparency and corporate financial performance may differ based on the institutional context. Taiwan is a relevant and less studied place for this study. Taiwan has taken real steps to promote sustainability reporting by being the first market in the Asia-Pacific region to use GRI G4 standards. In the year 2015, the Taiwan Stock Exchange (TWSE) made it required for corporations in certain industries, like chemicals, finance, and food processing, with capital over NT$10 billion to publish sustainability reports that followed GRI guideline (Solikhah & Weng, 2024). This shows that regulators support ESG practices, but the quality of ESG disclosures is still not the same across all companies. This suggests that the effectiveness of ESG practices may depend on how well a company is run internally.

The quality of corporate governance could be very important in making the link between ESG disclosure and market performance stronger. Strong governance mechanisms, like independent boards, active audit committees, and clear oversight, can make ESG information more credible and give stakeholders confidence that the disclosures are based on real actions and not just building a good image (Shahrokhi et al., 2022). This study posits that corporate governance quality not only bolsters ESG initiatives but also amplifies the impact of such disclosures on firm valuation in the marketplace.

While global research has highlighted the importance of ESG disclosure for firm value, there is little evidence in Asian capital markets, where institutional enforcement and governance frameworks diverge from those in developed economies (Falah & Mita, 2022). Taiwan is a very useful place to study because Taiwan develop ESG disclosure framework that is relatively mature and also has characteristics that are common in emerging markets, such as concentrated ownership and family-controlled businesses (Chen & Yang, 2020). This presents an opportunity to analyze the impact of governance quality on the correlation between ESG and performance in a semi-developed market context. Moreover, the Taiwanese experience offers significant lessons for ASEAN nations, including Indonesia, which are currently improving their ESG regulations and disclosure requirements. By examining this context, the study enhances the comprehension of the interplay between policy-oriented ESG frameworks and governance oversight in bolstering market credibility within the region.

The objective of this research is to analyze the impact of ESG disclosure on market performance in Taiwanese publicly listed companies and to evaluate whether the quality of corporate governance enhances this relationship. The results indicate that ESG disclosure enhances market performance, with the effect intensifying in the presence of superior governance quality. This paper contributes to the expanding literature on non-financial reporting and firm value by integrating governance as a moderating variable. We also do a more in-depth analysis by breaking down the ESG disclosure into its three main parts: environmental, social, and governance. The findings indicate that although all three components contribute approximately equally to market value, the social pillar seems to exert a marginally greater influence, especially on the market-to-book ratio. This research is novel because it focuses on Taiwan, a country in the Asia-Pacific region that has taken unique steps in ESG policy. It also looks at how corporate governance affects the ESG-performance relationship to explain differences in market outcomes. In addition to these contributions, this study also offers further novelty by testing the model by excluding the COVID-19 period. This simple check shows that the main results remain stable even when the crisis years are removed. This gives stronger confidence that the effects of ESG disclosure and governance quality are not caused by temporary conditions. Taken together, these findings make the study more complete and provide useful insights for other markets especially in emerging market like ASEAN that are improving their ESG reporting practices.

In the past decade, there has been an increasing number of empirical studies that have investigated the correlation between firm performance and ESG reporting, particularly in the setting of market valuation. In a study conducted in South Africa, Johnson et al. (2019) investigated the business rationale behind ESG practices and observed a favourable association between financial performance and ESG reporting. The results of their research indicate that companies that incorporate ESG factors within their organizational decision-making tend to experience increased investor confidence, which in turn results in increased firm value in capital markets.

In order to evaluate whether ESG activities enhance financial performance, Xie et al. (2019) implemented a cross-country analysis. They discovered a consistent positive correlation between ESG engagement and Tobin's Q by analyzing a vast dataset from various economies. This suggests that market participants perceive ESG activities as indicators of long-term value creation in a positive light. Their research corroborates the notion that ESG performance is not merely a moral obligation; it is also financially significant and incorporated into stock valuations. Similarly, Atan et al. (2016) compared the performance of companies from Malaysia and Denmark to assess the relationship between ESG disclosure and corporate financial outcomes. Their findings suggest that the level of ESG transparency is generally has positive association with firm financial outcomes, particularly in Denmark, where ESG practices are more institutionalized. The study concludes that the value of ESG information by investors is significantly influenced by both regulatory frameworks and stakeholder expectations.

Minutolo et al. (2019) conducted an analysis of ESG disclosure within S&P 500 firms and discovered that, particularly in terms of market-based indicators, ESG disclosure contributes positively to a company’s performance. They contend that robust ESG communication can enhance investor valuation and firm legitimacy by reducing perceived risk and improving transparency. Giannopoulos et al. (2022) corroborate these findings by conducting a study of Norwegian firms and establishing a positive relationship between market performance and ESG reporting. Their research underscored the potential of well-reported ESG activities to function as effective market signals that attract capital and enhance the repute of a firm.

Solikhah & Weng (2024) conducted an analysis of the quality of ESG reporting in Taiwanese firms and its correlation with accounting-based measures of firm performance, providing a more localized perspective. They observed that the quality of disclosure has a substantial impact on financial outcomes, and ESG reporting is not consistent across firms. In order to improve the credibility and comparability of ESG data, their research underscored the necessity of implementing recognized frameworks, such as GRI. The study also recommended additional research on the potential of governance mechanisms to mitigate the ESG-performance link, particularly in the Taiwanese context, where mandatory ESG reporting is still in the process of evolving.

Buallay et al. (2020) evaluated ESG disclosures among Islamic institutions in the OIC countries, providing a distinct institutional context. Their research indicated that Islamic banks' financial performance is positively influenced by ESG disclosure. This implies that transparent ESG communication can enhance firm valuation and foster investor trust, even in conservative financial systems. While these studies consistently demonstrate that ESG disclosure has beneficial effect toward corporate financial outcomes, the majority of them concentrate on either developed markets or broad international samples. Emerging markets that are in the process of developing ESG frameworks, such as Taiwan, have received only limited attention. Additionally, the role of corporate governance quality as a mediating mechanism that can influence the market's interpretation and recompense of ESG disclosures has been largely disregarded in prior research. Therefore, the objective of the research is to address this lacuna by investigating the impact of ESG disclosure on market value in Taiwan and the extent to which corporate governance quality bolsters this relationship.

Stakeholder theory says that businesses have a duty to more than just their shareholders. They also have a duty to customers, employees, regulators, and society as a whole (Freeman & Reed, 1983). In this situation, ESG disclosure has become an important way for companies to show that they are committed to running their businesses in a responsible and sustainable way. Companies can show that they are more open by sharing information about ESG issues. This can help reduce information asymmetry. This, in turn, may help the firm gain the trust of stakeholders and make it more legitimate in the capital market.

More and more studies show that there is positive link between ESG disclosure and company outcomes, especially when performance is measured by market-based indicators. For example, Johnson et al. (2019) found that companies in South Africa that were more aligned with ESG tended to have higher market values. This was mostly because investors saw them as more responsible and trustworthy. Xie et al. (2019), looked at data from several countries and found a strong positive link between ESG engagement and Tobin's Q. This means that the market often rewards efforts to be more sustainable. Atan et al. (2016) found that companies in Malaysia and Denmark that were more open about their ESG practices did better financially, especially in markets where ESG practices were already well-known.

More proof from Minutolo et al. (2019) and Giannopoulos et al. (2022) supports the idea that ESG transparency makes the market think better of a company and lowers its perceived risk, which raises its value. Solikhah & Weng (2024) found that Taiwanese companies with better ESG reports, especially those that follow international standards like GRI, tend to do better financially. These results show that the capital market is starting to take ESG factors into account more and more when deciding how much a company is worth.

The basic idea is that ESG disclosure is a good sign of long-term thinking, the ability to manage risk, and ethical business behavior. When ESG information is made clear and believable, it helps investors feel better about the company, lowers uncertainty, and helps the market value the company more favorably. From that conversation, we came up with the following hypothesis.

H_1: ESG disclosure positively affects firm market performance

Although ESG disclosure is frequently linked to enhanced financial performance, previous research indicates that the robustness of this correlation is frequently dependent on firm-specific or contextual variables. Recent studies have identified various moderating variables, including economic conditions and environmental uncertainty (Alfalih, 2023), CEO characteristics (Falah & Mita, 2022), and country-level institutional frameworks (Farooq, 2015; Fu et al., 2022). But in this case, the role of internal governance mechanisms, especially the quality of corporate governance, has not been studied enough. The quality of corporate governance may be very important for making ESG disclosures more credible and useful. Companies that have strong governance structures, like independent boards, effective audit committees, and clear decision-making processes, are better able to make sure that ESG disclosures are accurate, verifiable, and in line with what the company actually does. High-quality governance also helps lower the risk of symbolic disclosure or greenwashing, which can make people think that ESG information is less valuable (Shahrokhi et al., 2022). Corporate governance can make ESG reporting a more useful strategic communication tool by making it easier to keep an eye on and hold people accountable. Companies that are well-governed are more likely to incorporate ESG practices into their main business operations and share them in a way that is both credible and helpful for investors when making decisions. Consequently, the market may react more positively to ESG disclosures released by companies with robust governance frameworks.

According to legitimacy theory, good governance mechanisms make sure that ESG disclosures really show how companies are fulfilling their social and environmental responsibilities, not just going along with the crowd (Deegan et al., 2002). This legitimizing function lets businesses keep society's approval, meet the needs of their stakeholders, and keep getting resources. Consequently, the quality of governance not only enhances the credibility of ESG information but also bolsters the legitimacy of firms in the perception of external stakeholders (Gabr & ElBannan, 2024). This theoretical integration elucidates the variability of CG's moderating role across different contexts: firms with weaker governance or diminished institutional enforcement may struggle to convert ESG disclosure into tangible legitimacy enhancements. On the other hand, companies with strong governance systems can use ESG transparency more effectively to keep both their legitimacy and the trust of the market. Consequently, this study presents corporate governance quality as a moderating variable that may enhance the beneficial impact of ESG disclosure on firm market performance. This point of view not only adds to the existing ESG literature, but it also fills in a gap in our understanding of how governance structures and non-financial reporting work together.

H_2: Corporate governance quality strengthens the positive relationship between ESG disclosure and firm market performance

Figure 1 shows the basic idea behind this study. It is suggested that ESG disclosure, which includes environmental, social, and governance aspects, has an effect on market performance as measured by Tobin's Q and the market-to-book value. Also, the quality of corporate governance is thought to affect the relationship between ESG disclosure and a company's market performance, which makes ESG initiatives have a bigger impact on the value of a company.

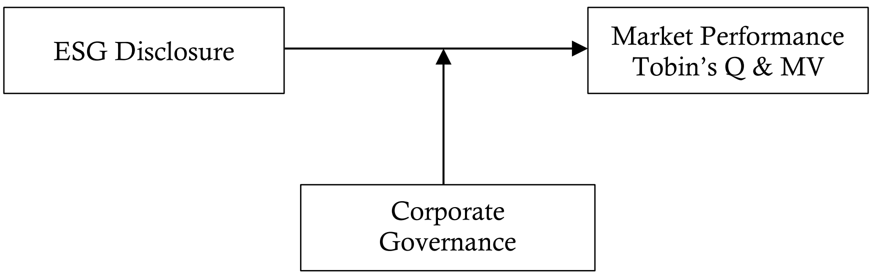

Figure 1. Conceptual Framework
Source: Authors' elaboration (2025)

METHOD

This study investigates the impact of ESG disclosure on market performance, and further examines whether corporate governance quality moderates this relationship. This research adopts a quantitative approach using secondary data and applies an explanatory design, as it aims to test the relationship between variables empirically. The sample consists of non-financial firms registered on the Taiwan Stock Exchange (TWSE) and Over the Counter (OTC) market. The observation period spans from 2018 to 2023. Firm-level data were collected from the Taiwan Economic Journal (TEJ) database, which provides comprehensive financial and ESG-related information for Taiwanese listed companies. The data type is panel data, combining cross-sectional and time-series observations to capture both firm-level variation and temporal effects.

To ensure data quality and mitigate the influence of outliers, extreme values were managed through winsorization of continuous variables at both the upper and lower 1% thresholds, in accordance with established methodologies in empirical corporate finance research (Bhaskaran et al., 2020; Cornell, 2022; Saini et al., 2022; Solikhah & Weng, 2024; Zhou et al., 2022). The population includes non-financial firms that are listed in Taiwan. The sample is chosen based on the availability of data for ESG disclosure, governance scores, and financial indicators during the observation period. Table 1 shows the steps for choosing and filtering the sample.

Table 1. Sample selection

Description	Number of Observations
Initial sample for non-financial companies	15,577
Excluded: Lack of ESG data	(954)
Excluded: Insufficient data for other variables	(1,504)
Final firm-year observations	13,119

Source: Processed by authors (2025)

Market performance is the dependent variable in this study. Market performance refers to a firm's market value to capture how investors assess the company (Deng & Cheng, 2019). It is measured using two well-known indicators, Tobin's Q and market-to-book value. Tobin's Q shows how the market sees a company's long-term value and is often used as a stand-in for future performance (Saini et al., 2022). The market-to-book value, on the other hand, shows how much the company is worth on the market compared to its book value, which gives investors an idea of how they see the company and what they expect it to grow into (Hassan & Roychowdhury, 2019).

The primary independent variable is ESG disclosure, quantified through ESG scores obtained from the TEJ database. Based on the TEJ's standardized framework, these scores show how much and how well companies have disclosed information about environmental, social, and governance issues. This study includes the composite ESG score as well as the three pillar scores including environmental, social, and governance to see how each one affects market performance on its own. This method helps us understand better which part of ESG disclosure has the biggest impact (Buallay et al., 2020; Giannopoulos et al., 2022; Xie et al., 2019).

The quality of corporate governance is the moderating variable in this study. Corporate governance quality reflects how well a company is managed and monitored, including the effectiveness of its board, the transparency of its decision-making processes, and the strength of its internal control and oversight systems (Solikhah & Maulina, 2021). It is measured by the TWSE evaluation results. TWSE does an annual evaluation of the corporate governance of all the companies on its list. This is based on a standard set of criteria that includes board structure, information disclosure, shareholder rights, and ethical practices.

The first corporate governance evaluation gives scores from 0 to 100, which are then put into letter groups like A+, A, A−, B+, B, B−, and C to show how good the governance practices are in each company. To use this variable in the regression analysis, the letter grades are changed to a number scale from 7 to 1. This change lets the governance score be used as a moderating variable in the model. The conversion scheme is presented in Table 2. This operationalization is consistent with prior studies that transform qualitative governance ratings into numerical values for empirical testing (Alfalih, 2023).

Several control variables are incorporated into the model. Return on assets is included as a proxy for profitability, while the current ratio represents short-term liquidity. Cash flow from operations is used to capture the firm's internal financing capacity, and the debt-to-equity ratio measures financial leverage. Firm size calculated as the natural logarithm of total assets, is also controlled to account for scale effects in market valuation. These control variables are widely used in ESG performance literature (Atan et al., 2016; Li et al., 2018; Maama, 2021; Minutolo et al., 2019; Solikhah & Weng, 2024; Xie et al., 2019).

To test the hypotheses proposed in this study, we estimate two regression models using panel data analysis. The first model tests the direct effect of ESG disclosure on market performance. The second model includes the interaction term between ESG disclosure and corporate governance quality to assess the moderating effect. Following are the two models tested in this study:

$MP_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 ROA_{it} + \beta_3 CR_{it} + \beta_4 CF_{it} + \beta_5 DER_{it} + \beta_6 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it}$ ………………………… **Model 1**

Table 2. CG evaluation rankings from TWSE

Grade	%	Score	Description
A+	Top 5%	7	Excellent performance
A	6% to 20%	6	Very good performance
B	21% to 35%	5	Good performance
C	36% to 50%	4	Moderate performance
C-	51% to 65%	3	Below moderate performance
D	66% to 80%	2	Weak performance
D-	81% to 100%	1	Very weak performance

Source: Processed by authors (2025)

$$MP_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 CG_{it} + \beta_3 (ESG_{it} \times CG_{it}) + \beta_4 ROA_{it} + \beta_5 CR_{it} + \beta_6 CF_{it} + \beta_7 DER_{it} + \beta_8 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \textbf{Model 2}$$

MP_{it} is the market performance of firm *i* in year *t*, proxied by Tobin's Q and market-to-book value. ESG_{it} is the composite ESG disclosure score of firm *i* in year *t*. CG_{it} is the governance quality score of firms *i* in year *t*. ESG_{it} x CG_{it} is the interaction term capturing the moderation effect. ROA_{it} is return on asset of firm *i* in year *t*. CR_{it} is current ratio of firm *i* in year *t*. CF_{it} is cash flow of firm *i* in year *t*. DER_{it} is debt-to-equity ratio of firm *i* in year *t*. $SIZE_{it}$ is firm size of firm *i* in year *t*, proxied by LnTotal Asset. μ_i represent firm-fixed effects and year-fixed effects. λ_t represent year-fixed effects. ε_{it} is the error term.

RESULTS AND DISCUSSIONS

The sample employed in this research consist of non-financial firms registered on the TWSE and OTC. The sample includes 2,347 cross-sectional firms observed during the 2018–2023 period. The total dataset comprises of 13,119 units analysis, organized into 18 industrial classifications, as presented in Table 3.

Table 3. Sample distribution

Industry	Number of Firms	Freq. %
Cements	83	0.63%
Foods	225	1.72%
Plastics	270	2.06%
Textile & Fiber	390	2.97%
Motor Machinery	959	7.31%
Electric Appliance	198	1.51%
Chemical Industry	1,536	11.71%
Glass & Ceramic	61	0.46%
Paper Pulp	38	0.29%
Iron & Steel	414	3.16%
Rubber	66	0.50%
Automotive	171	1.30%
Electronics	6,121	46.66%
Construction	627	4.78%
Shipping	118	0.90%
Tourism	317	2.42%
Trade	209	1.59%
Others	1,152	10.03%
Total	13,119	100%

Source: Processed by authors (2025)

Table 4 presents the descriptive statistics for all variables used in this study. Overall, the numbers show that the firms in the sample have quite diverse financial and sustainability characteristics. Tobin's Q has an average value of 1.43, which indicates that most companies are valued above their book value of their asset. However, the very wide range, from –2.57 to 52.30 suggests that some firms are severely undervalued, while others show high market premiums. A similar pattern appears in the market-to-book ratio, with a mean of 1.86. This confirms that investors generally see these firms as having growth potential, although the variation between the first and third quartiles shows that this optimism is not evenly distributed.

The ESG disclosure scores also show meaningful variation. The average ESG score is about 49, which means that many firms are still at a moderate level of sustainability transparency. Although the mean values for the Environmental, Social, and Governance sub-scores are very similar, their wide standard deviations indicate that companies adopt different disclosure strategies. Some firms appear highly committed, while others disclose almost nothing, as reflected by the minimum value of zero across all components. Corporate governance quality has a relatively low mean of 2.55 on a 1–7 scale. This suggests that strong governance practices are not yet common in the sample. The fact that the first quartile is zero further shows that a considerable number of firms still score poorly on governance indicators.

The control variables illustrate additional differences in firm conditions. The current ratio has a mean of 3.04, indicating generally healthy short-term liquidity, but the large maximum value implies that some firms hold excess liquid assets. Cash flow has an average of only 0.16, and the minimum value of –4.66 reveals that several firms struggle with negative operating cash flows. The debt-to-equity ratio averages 0.46, suggesting a conservative capital structure for most companies. Meanwhile, return on assets shows substantial variability, with both high positive and extreme negative values, which reflects differences in profitability and operational efficiency. Firm size, measured by the natural logarithm of total assets, has a mean of 15.11. This indicates that the sample contains a balanced mixture of small, medium, and large firms. Such variation strengthens the representativeness of the dataset and supports the generalizability of the findings.

Table 4. Descriptive statistics

	Average	**Max**	**Min**	**Q_1**	**Q_3**	**SD**
Q	1.43	52.30	-2.57	0.77	1.54	1.65
MV	1.86	4.27	0.47	0.98	2.49	1.15
ESG	49.37	83.73	0.00	45.89	58.33	16.30
E	49.42	90.96	0.00	43.74	59.82	18.09
S	49.41	91.00	0.00	43.61	59.53	17.59
G	49.34	84.41	0.00	43.74	59.86	17.52
CG	2.55	7.00	0.00	0.00	4.00	2.22
CR	3.04	24.98	0.37	1.42	3.11	3.53
CF	0.16	2.22	-4.66	-0.01	0.48	0.85
DER	0.46	3.68	0.00	0.03	0.63	0.62
ROA	2.86	30.21	-47.20	-0.16	8.40	11.15
SIZE	15.11	19.81	11.73	14.04	16.03	1.58
N	13,119	13,119	13,119	13,119	13,119	13,119

Source: Processed by authors (2025)

Table 5 shows the bivariate correlation matrix for all the variables used in this study. The results show that the independent variables don't have high correlations with each other. This means that multicollinearity is not likely to affect the regression estimates. All of the correlation coefficients are below the level that most people agree on.

Table 5. Correlation matrix

	Q	**MV**	**ESG**	**E**	**S**	**G**	**CG**	**CR**	**CF**	**DER**	**ROA**	**SIZE**
Q	1											
MV	0.595***	1										
ESG	0.056***	0.220***	1									
E	0.033***	0.182***	0.915***	1								
S	0.051***	0.198***	0.934***	0.832***	1							
G	0.066***	0.223***	0.911***	0.745***	0.748***	1						
CG	-0.003	0.085***	0.585***	0.534***	0.524***	0.564***	1					
CR	0.224***	0.081***	-0.093***	-0.105***	-0.090***	-0.074***	-0.094***	1				
CF	-0.111***	-0.031***	0.141***	0.118***	0.130***	0.135***	0.200***	-0.337***	1			
DER	-0.138***	-0.030***	0.015*	0.030***	0.028***	-0.01	-0.072***	-0.302***	-0.064***	1		
ROA	-0.039***	0.041***	0.107***	0.089***	0.095***	0.103***	0.232***	-0.139***	0.586***	-0.169***	1	
SIZE	0.149***	0.074***	0.416***	0.433***	0.439***	0.307***	0.539***	-0.220***	0.213***	0.183***	0.278***	1

Source: Processed by authors (2025)

Table 6 shows real-world results from baseline regression models that look at how ESG disclosure affects market performance, which is measured by Tobin's Q and market-to-book value. The ESG disclosure variable is positively and significantly correlated with both Tobin’s Q ($\beta = 0.018$, $t = 16.16$, $p < 0.01$) and MV ($\beta = 0.026$, $t = 35.73$, $p < 0.01$), suggesting that companies with more ESG disclosure are more likely to have higher market value. This evidence corroborates Hypothesis 1 and is consistent with prior literature indicating that ESG transparency boosts investor confidence and firm valuation. Control variables like ROA and SIZE have positive and significant effects, but CR and DER have mixed effects in the two models. The adjusted R^2 values of 62.21% using Tobin's Q and 67.83% using MV show that the models are very good at explaining things. These findings align with stakeholder theory, which asserts that open communication regarding ESG activities enhances stakeholder trust and bolsters a company's market reputation. Companies that share reliable ESG information meet the needs of their stakeholders and show that they are committed to creating long-term sustainable value.

Table 6. Baseline model

	Dependent Variable Tobin's Q		**Dependent Variable MV**	
	Coefficient	**t-Stat**	**Coefficient**	**t-Stat**
Coefficient	0.636	1.11	-0.798**	-2.16
ESG	0.018***	16.16	0.026***	35.73
ROA	0.011***	7.41	0.013***	13.59
CF	0.004	0.36	0.000	0.02
CR	-0.011*	-1.88	-0.014***	-3.88
DER	-0.069**	-2.03	0.198***	9.06
SIZE	0.004	0.10	0.087***	3.43
Firm Effect	Yes		Yes	
Year Effect	Yes		Yes	
N	13,119		13,119	
Adjusted R^2	62.21%		67.83%	
F Statistic	10.163***		12.736***	

Source: Processed by authors (2025)

Note: ***, **, * Represents 1 percent, 5 percent, or 10 percent significance, respectively

Table 7 shows the results of the regression model that tests how the quality of corporate governance affects the relationship between ESG disclosure and market performance. The interaction term ESG*CG is positive and statistically significant for both Tobin's Q ($\beta = 0.002$, $t = 3.44$, $p < 0.01$) and market-to-book value ($\beta = 0.004$, $t = 10.22$, $p < 0.01$). This means that CG quality makes the positive effect of ESG disclosure on firm value even stronger. Moreover, the quality of corporate governance has a significant positive impact on market performance, especially in the MV model. These findings corroborate Hypothesis 2 and indicate that proficient governance practices augment the credibility of ESG disclosures, thereby increasing their value to investors. The rise in adjusted R^2 values also shows that adding the moderating variable makes the model better at explaining things. Legitimacy theory can help us understand these results because well-governed companies use credible ESG disclosures to stay legitimate and gain social acceptance from stakeholders. Strong governance systems make sure that ESG reporting is more than just a formality; it shows real accountability, which strengthens the company's legitimacy in the eyes of investors and the public.

Table 7. Moderating effect of CG quality

	Dependent Variable Tobin's Q		**Dependent Variable MV**	
	Coefficient	**t-Stat**	**Coefficient**	**t-Stat**
Coefficient	0.477	0.83	-0.945***	-2.57
ESG	0.020***	17.11	0.028***	38.37
CG	0.072*	1.88	0.179***	7.26
ESG*CG	0.002***	3.44	0.004***	10.22
ROA	0.011***	7.33	0.013	13.64
CF	0.003	0.30	-0.001	-0.18
CR	-0.011*	-1.88	-0.014***	-3.94
DER	-0.078**	-2.30	0.187***	8.61
SIZE	0.011	0.28	0.100***	3.96
Firm Effect	Yes		Yes	
Year Effect	Yes		Yes	
N	13,119		13,119	
Adjusted R^2	62.34%		68.39%	
F Statistic	10.206***		13.029***	

Source: Processed by authors (2025)

Note: ***, **, * Represents 1 percent, 5 percent, or 10 percent significance, respectively

Following the researches of Atan et al. (2016); Maama, 2021; and Xie et al. (2019), we perform an additional analysis by incorporating the three primary components of ESG individually into the regression model. Table 8 shows that all three parts have a positive and important effect on both Tobin's Q and market-to-book value. The social pillar has the biggest effect on MV, with a coefficient of 0.015 and a t-value of 13.46. These results show that all parts of ESG disclosure help the market do better, but investors may pay more attention to the social part.

Table 8. Regression results of three pillars of ESG

	Dependent Variable Tobin's Q		**Dependent Variable MV**	
	Coefficient	**t-Stat**	**Coefficient**	**t-Stat**
Coefficient	0.663	1.15	-0.786**	-2.13
E	0.004**	2.13	0.003***	2.81
S	0.012***	6.58	0.015***	13.46
G	0.003**	2.18	0.008***	8.02
ROA	0.011***	7.45	0.013***	13.67
CF	0.004	0.35	0.000	0.01
CR	-0.011**	-1.92	-0.014***	-3.94
DER	-0.071**	-2.08	0.196***	8.96
SIZE	0.007	0.18	0.085***	3.37
Firm Effect	Yes		Yes	
Year Effect	Yes		Yes	
N	13,119		13,119	
Adjusted R^2	62.25%		67.96%	
F Statistic	10.171***		12.795***	

Source: Processed by authors (2025)

Note: ***, **, * Represents 1 percent, 5 percent, or 10 percent significance, respectively

We re-estimate the baseline and moderating models after taking out the COVID-19 crisis period (2020 and 2021) from the sample to make sure our results are strong. This methodology is informed by prior research, including Engelhardt et al. (2021); Solikhah & Weng (2024), which examine the distinctive market dynamics during the pandemic. The results are still in line with the main regression models, as shown in Table 9. ESG disclosure still has a positive and significant effect on both Tobin's Q ($\beta = 0.018$, $t = 13.77$) and market-to-book value ($\beta = 0.025$, $t = 28.88$). In the moderating model, the interaction term ESG x CG remains positive and significant for MV ($\beta = 0.004$, $t = 7.98$) and marginally significant for Tobin's Q ($\beta = 0.001$, $t = 1.62$). These findings validate the enduring positive impact of ESG disclosure and the reinforcing effect of CG quality on market performance, even when accounting for potential distortions arising from the COVID-19 crisis.

The Effect of ESG Disclosure Quality Toward Financial Performance

This study provides empirical evidence that ESG disclosure has a positive effect on market performance, as shown by Tobin's Q and market to book value. These findings support the notion that

Table 9. Excluding Covid-19 period

Panel A: Baseline model

	Dependent Variable Tobin's Q		**Dependent Variable MV**	
	Coefficient	**t-Stat**	**Coefficient**	**t-Stat**
Coefficient	2.698***	4.10	0.270	0.59
ESG	0.018***	13.77	0.025***	28.88
ROA	0.010***	5.19	0.012***	9.54
CF	0.009	0.75	0.013*	1.65
CR	-0.011*	-1.62	-0.010**	-2.14
DER	-0.050	-1.27	0.226***	8.22
SIZE	-0.142***	-3.16	0.011	0.36
Firm Effect	Yes		Yes	
Year Effect	Yes		Yes	
N	8,766		8,766	
Adjusted R^2	58.49%		65.22%	
F Statistic	6.245***		7.980***	

Source: Processed by authors (2025)

Note: ***, **, * Represents 1 percent, 5 percent, or 10 percent significance, respectively

Table 9. Excluding Covid-19 period *(continued)*

Panel B: Moderating model

	Dependent Variable Tobin's Q		Dependent Variable MV	
	Coefficient	**t-Stat**	**Coefficient**	**t-Stat**
Coefficient	2.531***	3.83	0.071	0.16
ESG	0.019***	14.11	0.028***	30.92
CG	0.032	0.72	0.180***	5.85
ESG*CG	0.001*	1.62	0.004***	7.98
ROA	0.010***	5.14	0.012***	9.63
CF	0.008	0.68	0.011	1.41
CR	-0.011	-1.62	-0.010**	-2.20
DER	-0.058	-1.46	0.213***	7.82
SIZE	0.129***	2.84	0.026	0.82
Firm Effect	Yes		Yes	
Year Effect	Yes		Yes	
N	8,766		8,766	
Adjusted R^2	58.56%		65.80%	
F Statistic	6.255***		8.154***	

Source: Processed by authors (2025)

Note: ***, **, * Represents 1 percent, 5 percent, or 10 percent significance, respectively

transparent sustainability reporting can enhance firm value by reducing information asymmetry and demonstrating a long-term commitment to responsible practices. From the viewpoint of stakeholder theory (Freeman & Reed, 1983), companies that openly share their efforts in environmental, social, and governance areas are more likely to meet the needs of a variety of stakeholders, such as investors, regulators, customers, and the community as a whole. These conditions can build trust and creates long-term value for companies.

This finding also means that transparent ESG disclosure is more than just a means to follow the rules, but it also a way for companies to improve their public image. ESG disclosure can change how outside stakeholders judge a company's risk, future earnings potential, and overall reputation in the market by showing that the company is ethical and environmentally friendly. More investors are aware of ESG issues, which makes these disclosures even more important for people who want to make responsible investments that will last a long time.

The Moderating Effect of Corporate Governance Quality on the ESG Disclosure and Financial Performance Relationship

The findings further validate the significance of corporate governance quality as a moderating variable. Companies with higher governance ratings are more likely to be seen as trustworthy and responsible, which makes the positive market response to ESG disclosures even stronger. These findings align with the stakeholder theory that governance mechanisms protect stakeholder interests and make sure that ESG commitments are more than just symbols. They also align with the view that good corporate governance ensures that ESG commitments are not merely symbolic. Effective governance structures, such as independent boards, active audit committees, and clear accountability systems, help strengthen the credibility of ESG disclosures. This credibility mitigates negative investor perceptions, which might lead them to view ESG claims as superficial or merely cosmetic. In this logic, high-quality governance transforms ESG disclosures from reporting only to satisfy stakeholder demands to a manifestation of organizational integrity. As a result, high-quality governance changes ESG disclosures from being passive reports to active signals of an organization's honesty.

Additional Analysis: Separate Effects of E, S, and G

Additional analysis shows that the social pillar of ESG has the biggest impact on market value, especially in the market value model. This could mean that investors are becoming more aware of social issues like human rights, labour relations, and community involvement. In today's global economy, stakeholders care more about companies that show social responsibility. This is in line with the idea that keeping stakeholders happy is a strategic asset. Investors might think that companies with good social performance have lower operational risks, more productive employees, and more loyal customers. This means that social capital is becoming an important factor in how much a company is worth, especially in emerging markets where social norms are changing quickly. Additionally, the fairly equal contribution of all three ESG pillars separately in this study shows how important it is to take an integrated ESG approach.

Robustness Test: Excluding COVID-19 Period

Finally, the robustness test that exclude the COVID-19 period shows that the relationships in the main findings are not caused by effects that are only seen during a crisis. This shows that ESG disclosure and governance quality can both improve a company's value in stable and unstable markets. This further supports the idea that strategies that focus on stakeholders are important for long-term business success. The consistency of the findings persists even after the exclusion of COVID-19 period. This evidence means that ESG and governance quality are not merely situational instruments, but essential elements of value creation. This consistency also means that companies with strong ESG practices are better able to handle uncertainty and keep investors' trust during times of economic trouble. So, adding ESG and governance to the main business strategy could make the company more resilient and give it long-term competitive advantages.

CONCLUSION

This study investigates the impact of Environmental, Social, and Governance disclosure on market performance and examines the moderating role of corporate governance quality in this relationship using Taiwan context. The findings provide clear evidence that ESG disclosure contributes positively to firm value, as shown through both Tobin's Q and market-to-book value. These results support stakeholder theory, which explains that transparent reporting helps firms build trust and strengthen their relationship with investors and other stakeholders. Companies with stronger CG structures also tend to receive better market responses to their ESG disclosures. Investors often view these firms as more credible and accountable, which increases their confidence in the information reported. This pattern is consistent with legitimacy theory, since high-quality governance makes ESG disclosures appear more genuine and aligned with actual practices, helping firms maintain social approval and positive market perception.

The extended analysis shows that all three ESG pillars, including environmental, social, and governance, contribute fairly evenly to market value. However, the social pillar has a slightly stronger effect, especially on the market-to-book ratio. This suggests that issues such as labor conditions, community involvement, and human rights are becoming more important to investors. These insights are particularly relevant for developing markets, where awareness of social responsibility continues to grow. The findings remain stable even after excluding COVID-19 years, showing that the benefits of ESG transparency and good governance persist across different economic conditions.

This study adds to the ESG literature by examining each ESG pillar separately and showing how CG quality strengthens the link between ESG disclosure and market performance. The results highlight the importance for companies to improve both their ESG reporting and their internal governance systems. Together, these elements help enhance credibility, reduce information gaps, and support long-term value creation. Although Taiwan's capital market is more mature, the insights from this study are useful for ASEAN countries, including Indonesia, which are currently developing stronger ESG and governance frameworks. Future research may explore specific industry effects, examine longer time periods, or use qualitative approaches to better understand how stakeholders interpret ESG information. Such studies can provide a deeper picture of how ESG quality contributes to firm resilience and sustained market performance.

CREDIT AUTHORSHIP CONTRIBUTION STATEMENT

Agung Yulianto: Conceptualization, Methodology, Software, Project administration, Writing – original draft. **Abdul Rohman**: Validation, Supervision, Writing – review & editing. **Surya Rahardja**: Software, Supervision, Writing – review & editing.

DECLARATION OF COMPETING INTERESTS

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

DATA AVAILABILITY

Data will be made available on request.

AI USAGE STATEMENT

During the preparation of this work, the authors used ChatGPT (OpenAI) to improve the language and clarity of the manuscript. After using this tool, the authors reviewed and edited the content as needed and took full responsibility for the publication's content.

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