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ESG Performance as a Strategic Governance Indicator in an Emerging Economy: Evidence from Romania

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ABSTRACT:
Environmental, social, and governance (ESG) performance is increasingly viewed as a signal of how seriously companies approach sustainability and governance, rather than simply a tool for financial screening. This study explores how ESG performance relates to organisational capacity and market outcomes among companies listed on the Romanian stock exchange. Using a cross-sectional quantitative design, the analysis examines the associations between ESG scores and key firm-level indicators, including market capitalization, revenue, total shareholder return, and valuation measured by the price-to-earnings ratio. The empirical analysis combines descriptive statistics, correlation analysis, and ordinary least squares regression models. The results show that stronger ESG performance is moderately and positively associated with firm size and financial capacity, with higher ESG scores observed among larger firms and those generating higher revenues. These patterns support the view of ESG performance as a reflection of governance maturity and institutional capacity in an emerging-market context. In contrast, the link between ESG performance and short-term market outcomes appears weaker, with only a modest association identified for shareholder returns and no clear relationship with valuation. Overall, the findings suggest that ESG performance is more closely connected to firms' underlying organisational capacity than to short-term stock market performance, underscoring its relevance for long-term adaptation and social sustainability.

Keywords: ESG performance; Corporate governance; Organisational capacity; Sustainability; Emerging markets

1. Introduction

In recent years, environmental, social, and governance (ESG) performance has emerged as a central concept in discussions surrounding sustainable development, responsible management, and organisational governance. Increasing pressure from regulators, investors, and stakeholders has encouraged organisations to integrate sustainability considerations into strategic decision-making processes, transforming ESG from a reporting framework into a multidimensional governance mechanism (Eccles et al., 2014; Ioannou & Serafeim, 2015). Rather than serving solely as a financial evaluation metric, ESG performance is increasingly interpreted as an indicator of organisational maturity, institutional legitimacy, and commitment to long-term value creation.

The growing importance of ESG reflects broader shifts in strategic management theory, particularly the expansion of stakeholder-oriented perspectives emphasizing

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accountability to diverse societal actors (Freeman, 1984). This perspective aligns with the broader conceptualization of corporate social responsibility as encompassing economic, legal, ethical, and philanthropic dimensions of organisational responsibility (Carroll, 1991). From this viewpoint, organisations are expected not only to pursue economic performance but also to address environmental sustainability, social responsibility, and governance transparency. The integration of ESG principles aligns with the concept of shared value creation, which highlights the interdependence between organisational success and societal well-being (Porter & Kramer, 2011). Consequently, sustainability-oriented governance practices are increasingly viewed as strategic capabilities that may enhance resilience, adaptability, and long-term competitiveness.

In this study, organisational capacity is understood as a firm's ability to mobilize financial and institutional resources to support structured governance practices and sustainability-related processes. In emerging market contexts, organisational capacity is often reflected in firm size, economic scale, and the ability to comply with increasingly complex ESG reporting and governance requirements.

Empirical research examining the relationship between sustainability practices and organisational outcomes has produced substantial evidence suggesting generally positive associations between ESG engagement and performance indicators. Large-scale meta-analyses demonstrate that firms adopting sustainability-oriented governance practices often exhibit stronger financial and organisational outcomes, although the strength and direction of these relationships vary across contexts and methodological approaches (Friede et al., 2015; Orlitzky et al., 2003). Some scholars argue that sustainability practices enhance organisational resources and capabilities, consistent with the resource-based view of the firm, which emphasizes the strategic value of intangible assets such as reputation, stakeholder trust, and governance structures (Barney, 1991; Hart, 1995).

Beyond financial outcomes, ESG engagement has been linked to organisational resilience and crisis preparedness. Research indicates that companies with stronger social and governance practices may demonstrate enhanced adaptability during periods of uncertainty or systemic disruption, suggesting that sustainability-oriented governance contributes to institutional robustness rather than merely short-term performance gains (Lins et al., 2017; Broadstock et al., 2021).

Despite the growing body of literature, important gaps remain regarding the interpretation of ESG performance within emerging-market context. Studies focusing on developing or transitional markets highlight that institutional environments, governance structures, and market maturity may influence how sustainability practices translate into organisational outcomes (Boubakri et al., 2019). In such contexts, ESG engagement may function as a signal of governance quality and institutional modernization, reflecting broader organisational transformations rather than purely financial incentives.

Against this background, this study examines ESG performance as a proxy for governance capability and social sustainability commitment among Romanian companies operating within an emerging economic environment. The study addresses the following research question: To what extent is ESG performance associated with firm size, financial capacity, and market performance among Romanian listed companies operating in an emerging economic environment?

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H1: *ESG performance is positively associated with firm size and financial capacity, as measured by market capitalization and revenue.*

H2: *Higher ESG performance is positively associated with market performance, as measured by total shareholder return.*

By integrating sustainability governance perspectives with empirical financial analysis, this study contributes to the understanding of ESG performance as an organisational capability embedded in firm size and governance structures, rather than solely as a short-term financial evaluation metric.

2. Literature Review

2.1 ESG and Sustainability-Oriented Governance

The concept of environmental, social, and governance (ESG) performance has gained considerable momentum in both academic and corporate settings over the past two decades, shifting from an ancillary reporting obligation to a substantive governance priority. Early scholarly engagement with ESG tended to frame it primarily in terms of non-financial disclosure and investor risk screening; more recently, however, the literature has repositioned ESG as an institutional mechanism through which firms articulate their environmental commitments, social responsibilities, and governance standards in ways that directly influence strategic choices (Eccles et al., 2014). The proliferation of competing ESG rating methodologies and data providers has introduced considerable measurement heterogeneity, making cross-firm comparisons methodologically demanding and raising legitimate questions about the construct validity of composite ESG scores (Kim & Oh, 2024).

Much of the theoretical scaffolding for ESG governance draws on stakeholder theory, which holds that firms bear responsibilities toward a wide range of constituencies beyond their shareholders, including employees, local communities, regulatory authorities, and civil society (Freeman, 1984). Porter and Kramer (2011) articulate a complementary perspective, arguing that firms which embed social and environmental priorities into their core strategy are better placed to generate shared value—outcomes that simultaneously serve business interests and address broader societal needs. The relevance of this argument has grown markedly in the European regulatory context, where the introduction of binding sustainability reporting requirements under successive EU directives has obliged firms to institutionalize disclosures that were previously discretionary (Cepêda et al., 2026).

Despite the increasing use of ESG indicators in academic research and investment practice, substantial heterogeneity exists across ESG rating providers because they employ different methodologies, indicator selection criteria, weighting schemes, and data sources (Berg et al., 2022; Kim & Oh, 2024). As a result, ESG scores generated by different providers are not directly comparable and may reflect different aspects of corporate sustainability and governance. In the present study, the Bloomberg ESG Disclosure Score was selected because it provides standardized firm-level information for publicly listed companies and has been frequently employed in empirical studies of corporate governance and sustainability disclosure. It is important to note, however, that Bloomberg's ESG Disclosure Score primarily measures the extent and transparency of ESG-related disclosure rather than firms' actual environmental or social performance. Accordingly, the

score is interpreted in this study as a proxy for governance capability, reporting maturity, and organisational capacity rather than as a direct measure of sustainability outcomes. This conceptualization aligns with the construct validity of the Bloomberg ESG Disclosure Score, which captures disclosure quality and governance transparency rather than realized sustainability impacts. This interpretation is particularly appropriate in the Romanian context, where ESG reporting remains at an evolving stage and differences in organisational resources influence firms' ability to produce comprehensive sustainability disclosures. Therefore, higher Bloomberg ESG scores are interpreted as reflecting stronger governance systems and reporting capability, while recognizing that larger firms may benefit from structural advantages in ESG disclosure.

2.2 ESG as a Strategic Capability and Organisational Resource

The strategic dimensions of ESG performance are usefully illuminated through the resource-based view of the firm, which attributes sustained competitive advantage to resources that are simultaneously valuable, rare, and difficult to imitate—characteristics that governance structures, institutional reputation, and embedded stakeholder relationships plausibly satisfy (Barney, 1991). Hart (1995) extends this logic to the environmental domain, contending that firms developing distinctive sustainability-related capabilities acquire a form of strategic capital that is particularly difficult for competitors to replicate. A systematic review synthesizing 75 studies published between 2015 and 2023 found that ESG integration is broadly associated with enhanced corporate reputation and improved performance outcomes (Bani-Khaled et al., 2025).

Eccles et al. (2014) show that firms which adopt sustainability-oriented governance arrangements tend to exhibit more deliberate and structured decision-making, with attendant benefits for long-run performance. Khan et al. (2016) demonstrate that the performance effects of ESG are significantly stronger when firms direct resources toward sustainability issues that are financially material in their specific industry context. More recently, Al Amosh (2026) reports that CEO ideological orientation exerts a systematic influence on ESG outcomes, suggesting that ESG performance is shaped as much by managerial discretion and organisational culture as by structural governance arrangements.

2.3 ESG Performance and Organisational Outcomes

A large and varied body of empirical work has examined the consequences of ESG performance for organisational outcomes across financial, structural, and market-facing dimensions. The broad finding from meta-analytical syntheses is that corporate sustainability practices tend to be associated with positive organisational performance, though the strength and consistency of this relationship are sensitive to how ESG is measured and the institutional context (Orlitzky et al., 2003; Friede et al., 2015). Flammer (2015) provides evidence that environmental and social initiatives improve financial outcomes by reinforcing stakeholder trust. Fatemi et al. (2018) find that ESG performance exerts a positive effect on firm valuation, contingent on the quality and consistency of sustainability disclosure.

The connection between ESG performance and market outcomes is considerably more contested. Studies focusing on firms in emerging capital markets find that forward-looking ESG risk exposure exercises limited influence on investor behavior, whereas third-

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party sustainability certifications produce more consistent effects on operational performance (Handajani et al., 2026). Yasar and Ozkaya (2026) report that higher ESG performance is associated with improved stock liquidity in European markets, documenting meaningful differences between Western and Eastern European investors in the relative weight they assign to individual ESG dimensions.

Studies exploiting periods of systemic market stress consistently find that firms with more developed social and governance practices weather adverse conditions more effectively than peers with weaker ESG profiles (Lins et al., 2017; Broadstock et al., 2021). A recent systematic review identifies resilience, governance quality, and long-term value preservation as dominant organising themes in the ESG-risk management literature (Asmi et al., 2026).

2.4. ESG in Emerging-Market Context

The empirical record on ESG and performance has been built predominantly on evidence from developed capital markets. In markets characterized by weaker institutional infrastructure, thinner capital market participation, and more variable regulatory enforcement, ESG engagement may serve functions that differ qualitatively from those observed in mature settings. Boubakri et al. (2019) argue that in such environments, ESG adoption operates primarily as a signal of governance ambition and organisational modernization rather than as a direct lever for financial value creation.

Evidence from Brazil reinforces this point: membership of a nationally recognized corporate sustainability index does not, by itself, produce measurable improvements in how firms generate or distribute economic value to their stakeholders (Lozano et al., 2025). Where regulatory frameworks impose binding disclosure requirements backed by credible enforcement mechanisms, studies find a discernible reduction in ESG decoupling—the gap between what firms report and what they actually do tends to narrow when coercive institutional pressures render superficial compliance more costly (Cepêda et al., 2026).

2.5. Research Gap and Study Contribution

Despite the volume and diversity of existing scholarship, a recurring limitation in the ESG literature is its tendency to frame performance outcomes primarily in financial terms, leaving the governance and organisational capacity dimensions of ESG comparatively underexplored. The present study addresses this gap by treating ESG performance as a multidimensional proxy for governance maturity and organisational capacity.

By drawing on data from Romanian publicly listed companies, the study situates its analysis in an emerging economic environment marked by incomplete regulatory convergence toward EU sustainability standards, uneven corporate governance maturity, and a capital market in which ESG awareness is only beginning to consolidate. The theoretical relationships examined are summarized in Figure 1, which proposes that organisational capacity supports the development of ESG performance as a governance capability, with stronger links to long-term sustainability outcomes than to short-term market performance.

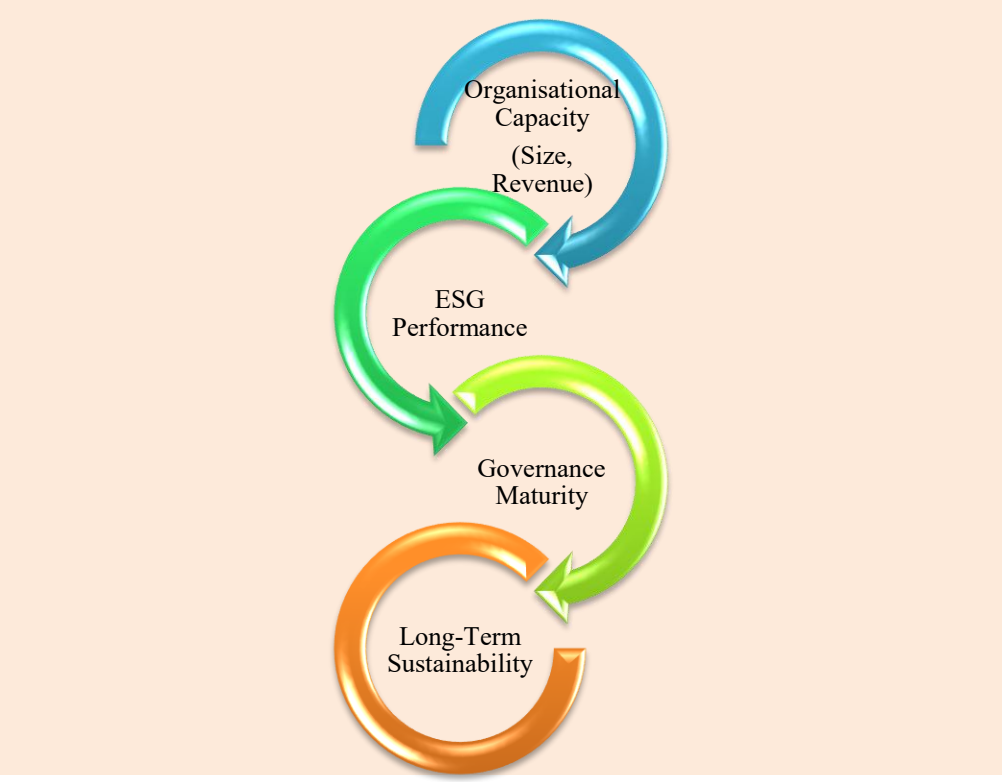

Figure 1. ESG Performance as a Governance Capability Framework

Source: Authors' own elaboration based on stakeholder theory (Freeman, 1984), the resource-based view (Barney, 1991), the natural-resource-based view (Hart, 1995), and sustainability governance literature (Eccles et al., 2014; Ioannou & Serafeim, 2015).

3. Methodology

3.1. Research Design

This study adopts a quantitative, cross-sectional research design to examine the association between ESG performance and organisational governance capability among Romanian publicly listed companies. A cross-sectional design is appropriate for exploring contemporaneous relationships between ESG performance and firm-level organisational characteristics within an emerging market context, where empirical evidence remains relatively limited.

In this study, ESG performance is conceptualized as an observable proxy for governance capability, organisational maturity, and commitment to sustainability-oriented management. Given the observational nature of the data, the analyses are intended to identify statistical associations rather than establish causal relationships between ESG performance and organisational outcomes.

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However, the cross-sectional design does not permit conclusions regarding the direction of the observed relationships. On the one hand, larger firms may achieve higher ESG disclosure scores because they possess greater financial resources, more developed governance structures, and stronger reporting capabilities. On the other hand, the implementation of ESG-oriented governance practices may contribute to organisational development by strengthening institutional legitimacy, stakeholder trust, and long-term strategic capacity. The present analysis cannot distinguish between these competing explanations because it does not employ longitudinal observations, instrumental variables, or additional firm-level control variables. Consequently, the findings should be interpreted as evidence of statistical association rather than proof of causal effects.

Accordingly, this study provides an empirical assessment of the relationship between ESG performance and organisational capacity among Romanian listed companies, while recognising that future longitudinal research incorporating firm-level control variables and alternative identification strategies will be necessary to establish causal relationships.

3.2. Data and Sample

The empirical analysis is based on firm-level data obtained from the Bloomberg database for Romanian companies listed on the Bucharest Stock Exchange. Bloomberg was selected because it provides standardized financial and ESG information that enables consistent comparisons across publicly listed firms. The dataset includes the Bloomberg ESG Disclosure Score together with firm-level financial indicators, including market capitalization, trailing twelve-month revenue (T12M), year-to-date total return (YTD), and the price-to-earnings (P/E) ratio.

The initial sampling frame comprised 437 Romanian listed securities available in the Bloomberg database. However, Bloomberg ESG Disclosure Scores were available for only 71 companies, which constitute the analytical sample used in this study. Companies without Bloomberg ESG Disclosure Scores were excluded from the ESG-related analyses because comparable ESG information was unavailable. Consequently, 366 listed securities (83.8% of the initial sampling frame) were excluded. The absence of ESG scores reflects Bloomberg's ESG coverage methodology and the availability of publicly disclosed sustainability information rather than randomly missing observations. Therefore, the missing ESG data should be regarded as structural rather than random.

Bloomberg ESG coverage is generally concentrated among companies with more developed governance structures, greater reporting capacity, and more comprehensive sustainability disclosure practices. Consequently, the analytical sample is likely to overrepresent larger and more established firms while underrepresenting smaller listed companies with limited ESG reporting. This characteristic of the sample should be considered when interpreting the empirical results, as the estimated associations may be stronger than those that would be observed across the full population of Romanian listed companies.

Accordingly, the findings should be interpreted as representative of Romanian listed companies included in Bloomberg's ESG database rather than the entire population of firms listed on the Bucharest Stock Exchange. Although this sample provides an appropriate basis for examining the relationship between ESG disclosure and

organisational characteristics, caution should be exercised when generalising the findings to firms that are not covered by Bloomberg's ESG reporting framework.

Table 1. Sample selection process

Sample selection stage	Number of listed securities
Romanian listed securities available in Bloomberg	437
Securities with Bloomberg ESG Disclosure Scores	71
Securities without Bloomberg ESG Disclosure Scores	366
Final analytical sample	71

Source: Authors' own elaboration

The final analytical sample comprised 71 Romanian listed companies with available Bloomberg ESG Disclosure Scores, representing eleven GICS sectors. Consumer Discretionary (19.7%) and Industrials (19.7%) accounted for the largest shares of the sample, followed by Materials (14.1%) and Energy (12.7%). Smaller representations were observed for Utilities (5.6%), Financials (4.2%), Real Estate (2.8%), Communication Services (1.4%), and Information Technology (1.4%). This sectoral diversity suggests that the analytical sample captures a broad cross-section of the Romanian capital market, although Bloomberg ESG coverage remains concentrated among larger and more established firms.

Table 2. Sectoral composition of the analytical sample (N = 71)

GICS Sector	Number of firms	Percentage
Consumer Discretionary	14	19.7%
Industrials	14	19.7%
Materials	10	14.1%
Energy	9	12.7%
Consumer Staples	7	9.9%
Health Care	6	8.5%
Utilities	4	5.6%
Financials	3	4.2%
Real Estate	2	2.8%
Communication Services	1	1.4%
Information Technology	1	1.4%

Note: The analytical sample comprises Romanian listed companies included in the empirical analysis.

Source: Authors' calculations based on the study dataset and GICS sector classifications.

3.3. Measures

The independent variable is the ESG performance score, interpreted as a firm-level indicator of sustainability-oriented governance capability. The Bloomberg ESG Disclosure Score reflects the extent and transparency of ESG-related reporting rather than a direct assessment of ESG risk exposure or sustainability outcomes. Higher values indicate greater ESG disclosure and the adoption of ESG-related practices, consistent with

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prior literature treating the score as an indicator of organisational capacity and institutional maturity.

Dependent variables are grouped into two analytical dimensions. Organisational capacity is proxied by market capitalization and trailing twelve-month revenue (T12M), capturing market-assessed size and operational scale respectively. Organisational performance is proxied by year-to-date total return and the P/E ratio, reflecting short-horizon market performance and valuation. Because market capitalization and revenue exhibited substantial positive skewness, these variables were transformed using natural logarithms for the regression analyses. Descriptive statistics are reported in the original measurement units (RON billions) to facilitate interpretation.

3.4. Analytical Procedure

All statistical analyses were conducted using JASP (Version 0.19.3.0; JASP Team, 2025). The analytical workflow comprises three stages. First, descriptive statistics were computed to summarize the central tendency and dispersion of the study variables. Second, bivariate relationships between ESG performance and the dependent variables were examined using Pearson correlation coefficients with two-tailed significance tests. Third, the hypotheses were tested using ordinary least squares (OLS) linear regression, estimating separate simple regression models for each dependent variable.

$$Y_i = \beta_0 + \beta_1 ESG_i + \varepsilon_i$$

(Equation 1)

where Y_i represents the dependent variable, ESG_i is the Bloomberg ESG Disclosure Score, $\beta_0$is the intercept, $\beta_1$is the estimated regression coefficient, and $\varepsilon_i$is the random error term.

Because market capitalization and revenue exhibited substantial positive skewness, these variables were transformed using natural logarithms prior to the regression analyses to reduce skewness and improve compliance with the assumptions of OLS regression. Descriptive statistics are presented in the original measurement units (RON billions) to facilitate interpretation, whereas the regression analyses use the log-transformed variables for these two dependent variables. Total Return (YTD) and the P/E ratio were analysed using their original scales.

Prior to estimating the regression models, scatterplots and residual diagnostics were examined to assess the assumptions of linearity, normality of residuals, and homoscedasticity. No observations were excluded as outliers; logarithmic transformation was used to reduce the influence of extreme values while preserving the full analytical sample.

3.5. Limitations

A primary limitation concerns the availability of ESG data. Although the Bloomberg database contained financial information for 437 Romanian listed securities, Bloomberg ESG Disclosure Scores were available for only 71 companies, resulting in a substantially smaller analytical sample for ESG-related analyses. Companies without ESG scores were excluded because comparable ESG information was unavailable.

Consequently, the findings should be interpreted as evidence of statistical association within the Bloomberg ESG-covered subset of Romanian listed companies rather than the entire population of listed firms.

The missing ESG data are structural rather than random, reflecting Bloomberg's ESG coverage methodology and the availability of publicly disclosed sustainability information. As Bloomberg ESG coverage is generally concentrated among companies with more developed governance structures and reporting practices, the analytical sample is likely to overrepresent larger and more established firms. Consequently, the estimated relationships may not fully reflect ESG practices among smaller listed companies, and caution should be exercised when generalising the findings.

To improve compliance with the assumptions of ordinary least squares (OLS) regression, Market Capitalization and Revenue were transformed using the natural logarithm prior to estimation. Although this substantially improved the distributional properties of these variables and the associated model diagnostics, the P/E Ratio remained highly skewed and should therefore be interpreted with caution. Consequently, the reported regression coefficients represent statistical associations rather than definitive estimates of causal effects.

A further limitation concerns the cross-sectional design of the study, which does not permit causal inference or establish the direction of the observed relationships. The positive associations identified may reflect the influence of organisational resources on ESG disclosure, the contribution of ESG-oriented governance to organisational development, or a reciprocal relationship between these processes. Future longitudinal research incorporating firm-level control variables and alternative identification strategies would provide stronger evidence regarding causal mechanisms.

4. Results

This section reports descriptive patterns, bivariate associations, and regression evidence on whether ESG performance is associated with organisational capacity and market performance among the sampled Romanian listed firms.

4.1 Descriptive Statistics

Table 3 summarizes the main study variables. ESG scores show meaningful dispersion across firms, indicating heterogeneity in ESG performance within the sample. Market capitalization and revenue display substantial positive skewness, reflecting the coexistence of a few very large issuers and many smaller listed companies. Because of this distribution, these variables were log-transformed for the regression analyses presented in Section 4.3. Market performance (Total Return YTD) and valuation (P/E) also show high variability, which is typical in cross-sections where profitability and growth expectations differ materially across companies.

Table 3. Descriptive statistics

Variable	N	Mean	Std. Dev.	Min	Max
ESG Score	71	1.998	1.356	0.3	5.52

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Market Capitalization (RON bn)	313	0.873	5.084	0.0	55.101
Revenue (T12M, RON bn)	299	0.49	2.523	0.0	35.544
Total Return (YTD, %)	317	9.733	40.889	-76.296	413.043
P/E Ratio	151	82.577	291.52	0.141	2745.488

Note: Market Cap and Revenue reported in RON bn. Total Return in %.

Source: Authors' calculations based on ESG and financial data for Romanian listed companies (computed in JASP).

4.2 Correlation Analysis

Table 4 presents Pearson correlation coefficients calculated using the original variables. ESG score is positively correlated with market capitalization and revenue, providing initial support for the argument that higher-ESG firms tend to be larger and have greater financial capacity. ESG score is also positively correlated with Total Return YTD, although the relationship is weaker in magnitude. The correlation between ESG score and the P/E ratio is positive but comparatively small and not statistically significant in this sample.

Table 4. Pearson correlation matrix

Variable	ESG Score	Market Cap.	Revenue (T12M)	Total Return (YTD, %)	P/E Ratio
ESG Score	1.00	0.43**	0.52**	0.24*	0.18
Market Cap.	0.43**	1.00	0.84**	0.07	-0.03
Revenue (T12M)	0.52**	0.84**	1.00	0.08	-0.02
Total Return (YTD, %)	0.24*	0.07	0.08	1.00	0.16*
P/E Ratio	0.18	-0.03	-0.02	0.16*	1.00

Note: * $p < 0.05$, ** $p < 0.01$. Pairwise correlations; N varies by cell.

Source: Authors' calculations (computed in JASP).

4.3. Regression Analysis and Hypothesis Tests

Table 5 reports ordinary least squares (OLS) regression models using ESG Score as the explanatory variable. Because Market Capitalization and Revenue exhibited substantial positive skewness, these dependent variables were transformed using the natural logarithm prior to estimation. Total Return YTD and P/E Ratio were analysed in their original scale. Regression coefficients are reported together with 95% confidence intervals.

Table 5. Ordinary Least Squares (OLS) Regression Results

Dependent variable	N	B	95% CI	β	R^2	p
ln(Market Capitalization)	66	1.038	0.736–1.340	0.651	0.424	<0.001
ln(Revenue T12M)	71	1.033	0.760–1.305	0.673	0.452	<0.001
Total Return YTD	66	4.591	0.016–9.167	0.243	0.059	0.049

Dependent variable	N	B	95% CI	β	R^2	p
P/E Ratio	43	40.207	−29.808–110.223	0.178	0.032	0.253

Note: Market Capitalization and Revenue were natural-log transformed before estimation because of substantial positive skewness. Regression coefficients are presented together with 95% confidence intervals.

Source: Authors' own elaboration

Residual diagnostic plots indicated no substantial departures from the assumptions of ordinary least squares regression. The log-transformed models exhibited approximately normal residuals and no pronounced heteroscedasticity, supporting the validity of the reported estimates.

H1. ESG performance and organisational capacity. The regression results provide strong support for H1. ESG Score is positively and significantly associated with both ln (Market Capitalization) (B = 1.038, $p < 0.001$) and ln (Revenue) ($B = 1.033$, $p < 0.001$). The explanatory power of these models is substantial ($R^2 = 0.424$ and $R^2 = 0.452$, respectively), indicating that firms with higher ESG scores tend to be larger and generate higher revenues. Figure 2 illustrates a clear positive association between ESG score and firm size, measured as the natural logarithm (ln) of market capitalization. The fitted regression line indicates a consistent positive relationship across the observed data, while the confidence band reflects the uncertainty associated with the estimated linear trend.

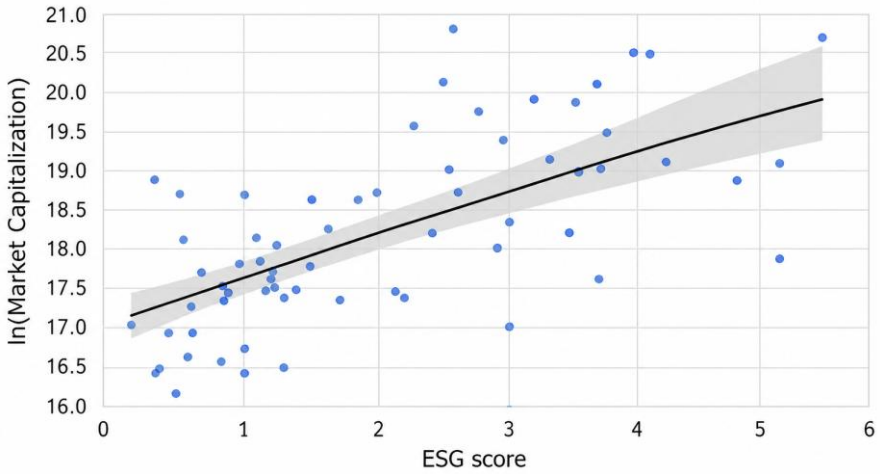

Figure 2. Relationship Between ESG Performance and Firm Size

Source: Authors' own elaboration based on the study dataset (R/ggplot2).

Figure 2 illustrates a clear positive association between ESG scores and firm size, measured as the natural logarithm (ln) of market capitalization. The fitted regression line indicates a consistent positive association, while the confidence band reflects uncertainty around the estimated linear trend. This visual evidence is consistent with the regression results in Model 1 ($p < 0.001$). The observed relationship likely reflects the fact that larger firms possess greater financial and organisational resources to implement ESG-related policies and disclosures, while ESG performance may also function as a signaling mechanism that enhances firm legitimacy and investor confidence in emerging markets.

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H2. ESG performance and market performance. The results provide only limited support for H2. ESG Score shows a positive association with Total Return YTD ($B = 4.591$, $p = 0.049$), although the explanatory power of the model is modest ($R^2 = 0.059$). By contrast, ESG Score is not significantly associated with the P/E Ratio ($p = 0.253$). These findings suggest that ESG performance is more closely related to organisational capacity than to short-term market valuation or investment performance. Figure 3 shows a positive fitted line but a wide scatter around the trend.

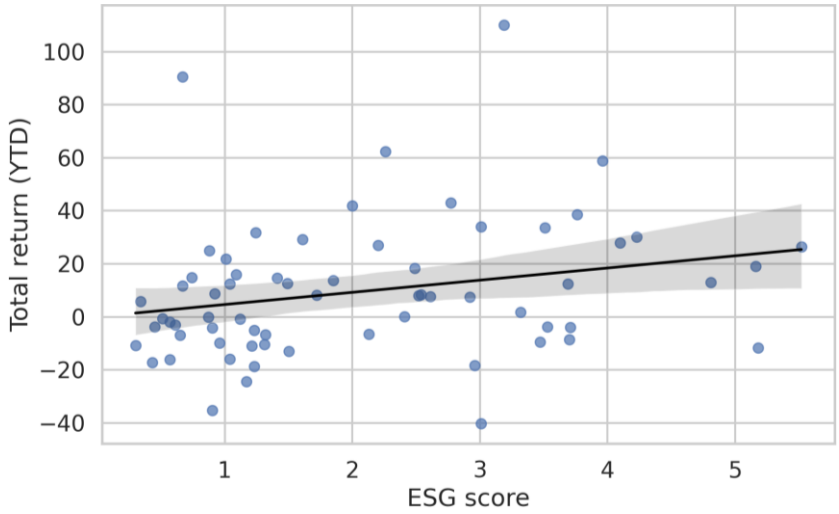

Figure 3. ESG Performance and Market Performance: Evidence from Total Shareholder Return

Source: Authors' own elaboration based on the study dataset (R/ggplot2).

Figure 3 confirms a positive but modest association between ESG scores and total shareholder return (YTD). The dispersion of observations reflects the high volatility characteristic of equity returns in emerging markets. The weak-to-moderate relationship suggests that while ESG performance may contribute to market outcomes, it does not act as a primary driver of short-term returns. Figures 2 and 3 jointly illustrate a two-stage relationship: ESG performance is strongly associated with firm size and financial capacity, while its relationship with market performance is more modest and contingent, consistent with prior evidence from emerging markets.

4.4. Summary of Empirical Findings

Across descriptive, correlation, and regression analyses, the evidence consistently indicates that ESG performance is more strongly associated with organisational capacity than with market performance. The log-transformed regression models demonstrate robust positive relationships between ESG Score and both Market Capitalization and Revenue, whereas the association with Total Return YTD is comparatively weak and the relationship with the P/E Ratio is not statistically significant. Collectively, these findings

support the interpretation of ESG as a marker of organisational maturity and governance capability rather than a strong determinant of short-term market valuation.

5. Discussion

The results suggest that ESG performance in Romanian listed firms is better interpreted as an indicator of organisational capacity and governance maturity than as a strong, stand-alone predictor of short-term market performance. In this sense, ESG functions less like a pure financial signal and more like a proxy for the resources, systems, and strategic orientation that allow firms to formalize sustainability and stakeholder-oriented governance. The observed association between ESG performance and firm size should be interpreted in light of the disclosure-based nature of the Bloomberg ESG Score, which reflects organisational reporting capacity and governance maturity rather than direct sustainability outcomes.

An important consideration is that the direction of the observed relationship cannot be established using the present cross-sectional design. The positive association may indicate that firms with greater organisational capacity possess the financial, managerial, and reporting resources necessary to implement more comprehensive ESG disclosure practices. Equally, stronger ESG-oriented governance may contribute to organisational development by enhancing institutional legitimacy, stakeholder confidence, and long-term strategic capacity. It is also plausible that these processes reinforce one another over time. Consequently, the present findings should be interpreted as evidence of association rather than causation.

The observed positive association between ESG score and organisational scale is consistent with the interpretation that sustainability governance is closely linked to institutional maturity. Larger and higher-revenue firms tend to have more established governance structures, greater managerial specialization, and more developed internal control systems, which facilitates the implementation of ESG policies, monitoring, reporting, and stakeholder engagement mechanisms. The visual pattern in Figure 2 strengthens this interpretation, showing a clear upward relationship between ESG and firm size.

From the standpoint of social sustainability, these results are consistent with the argument that ESG serves as a mechanism of legitimacy building in contexts where institutions and capital markets are still evolving. In Romania, where regulatory convergence with EU standards occurs alongside uneven firm capabilities, ESG engagement may serve as a signal of governance quality and responsiveness. This does not imply that smaller firms lack sustainability intent, but capacity constraints may limit the extent to which sustainability becomes institutionalized and externally visible through ESG scoring.

In contrast, the relationship between ESG and market outcomes is positive but noticeably weaker (Figure 3). ESG-aligned governance may contribute to risk management quality, stakeholder trust, and operational stability, but those advantages may not translate into immediate or consistent short-horizon outperformance, particularly in an emerging market where returns are heavily shaped by macroeconomic news, liquidity, sector

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concentration, and idiosyncratic shocks. The non-robust relationship between ESG and valuation (P/E) reinforces this point.

These findings contribute to the broader ESG debate by supporting a more nuanced view of what ESG scores represent in practice. ESG aligns most strongly with measures of organisational capacity, implying that ESG performance may partly reflect who can do ESG rather than only who benefits from ESG. This has two important implications for policy and management. First, it underscores the need to interpret ESG scores within the context of firm resources and governance infrastructure. Second, it suggests that capacity-building mechanisms for smaller firms—such as reporting support, governance training, and standardized disclosure frameworks—may be necessary to prevent ESG from becoming primarily a size-driven signal.

The analysis is cross-sectional and uses simplified linear models, which limits causal inference. ESG scores are composite indicators subject to methodological choices by rating providers and can be influenced by disclosure intensity as well as performance. Future research could strengthen inference by adding controls (sector, leverage, profitability), testing alternative return horizons, using panel designs, and separating ESG sub-dimensions (E, S, and G).

6. Conclusion

This study examined whether ESG performance is associated with organisational governance capability among Romanian listed companies, interpreting ESG as a social-sustainability and strategic-governance construct rather than a purely financial screening metric. Across descriptive patterns, correlations, and regression results, the findings indicate that ESG performance is most strongly linked to organisational capacity measures, supporting the view that sustainability engagement reflects governance maturity and institutional development in an emerging-market context.

The results support Hypothesis 1. ESG score shows a clear positive association with organisational scale, measured through both market capitalization and revenue. This relationship appears consistently in the correlation matrix and in the regression estimates, and it is also visible in Figure 2. Substantively, firms with stronger ESG performance tend to be larger and generate higher revenues, suggesting that ESG engagement is related to the presence of more developed governance systems, formalized sustainability practices, and greater capacity to institutionalize responsible management.

Hypothesis 2 received partial support. ESG score is positively related to YTD total return, but the effect is comparatively weak and explains only a small share of return dispersion (Table 3). ESG does not show a strong relationship with valuation multiples (P/E). Taken together, these findings suggest that ESG performance may be better interpreted as supporting resilience, legitimacy, and long-run strategic positioning rather than acting as a reliable stand-alone determinant of near-term market performance.

From a social sustainability perspective, higher ESG performance appears to coincide with stronger organisational capacity and governance sophistication, which can enhance stakeholder trust, improve institutional legitimacy, and strengthen adaptive capability under uncertainty. This interpretation is consistent with strategic management

perspectives that view sustainability-oriented governance as an enabling capability that supports long-term value creation and societal alignment.

Future research should extend the present findings by developing longitudinal panel analyses that distinguish causal pathways between ESG disclosure and organisational development. Incorporating sector-specific controls, profitability measures, alternative ESG rating providers, and separate environmental, social, and governance dimensions would enable a more comprehensive assessment of governance capability across different institutional settings.

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