Peer Review

Review of: "ESG Performance and Firm Financial Outcomes: A Cross-Country Analysis of Developed and Emerging Markets"

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The manuscript examines the relationship between firm ESG performance (Bloomberg scores) and financial outcomes (ROA, Tobin's Q, ROE, OCF/TA) for ~2,200 public firms across 19 countries (2009–2022), using panel regressions and 2SLS (industry ESG averages as instruments) to address endogeneity. It finds a positive ESG–performance link, stronger in developed markets, with variation across E, S, and G.

1. The paper uses *industry-level ESG averages* as instruments for firm ESG. This may violate the **exclusion restriction** if industry ESG averages affect firm performance through industry demand, regulation, or peer effects (i.e., directly correlated with the outcome). The manuscript needs stronger theoretical justification and empirical diagnostics: show **first-stage** F-statistics (reporting values) and conduct **weak instrument** tests, provide over-identification tests (Sargan/Hansen) if more than one instrument is used, and explain why industry averages are plausibly exogenous (e.g., variation due to reporting changes or external shocks that do not affect firm performance directly).
2. If instruments are weak or suspect, present alternative approaches (difference-in-differences if a regulatory shock exists; system GMM; propensity score matching; Lewbel (2012) heteroskedasticity-based instruments).
3. Besides reverse causality (performance → ESG), discuss omitted variables (managerial ability, corporate strategy shifts, country-level ESG policy changes) and time-varying unobservables. Consider firm fixed effects (to capture time-invariant firm heterogeneity) and dynamic

specifications (lagged dependent variables) when theory suggests persistence. Report results with and without firm fixed effects to show robustness.

4. Bloomberg's methodology is proprietary and can change over time. The manuscript should describe the Bloomberg score construction briefly (what subcomponents are included), note any known methodological changes during 2009–2022, and discuss how this might bias results. It should also consider robustness using alternative ESG metrics (e.g., MSCI, Refinitiv/ASSET4) or a subset of firms where multiple providers overlap.
5. If not possible, at least test sensitivity by winsorizing or using subscore deciles (to reduce scale or outlier effects).
6. The sample is imbalanced (1,722 developed vs. 478 emerging). This can bias pooled estimates and standard errors: report country-level and sectoral heterogeneity more clearly (e.g., show main country contributions, sector split). Moreover, it should consider weighting (or re-sampling) or estimating separate regressions for developed and emerging subsamples (which you already do) but be explicit about statistical power and generalizability for the smaller emerging sample.
7. You find E matters more in emerging, and S/G larger in developed markets — good and interesting. But add mechanism tests: For the environmental channel in emerging markets, test if the E effect is larger in industries with high environmental materiality (e.g., mining, energy). For governance, interact G with ownership concentration / institutional investor presence. Test whether effects operate through risk reduction (lower volatility), cost of capital (market spreads), or revenue improvements (sales growth).
8. The manuscript cites standard meta-analyses and well-known papers but could strengthen connections to governance/capital structure literature when interpreting mechanisms (your findings about governance should reference corporate governance–performance studies). Consider citing some regionally relevant studies (emerging markets, India/China) where ESG dynamics differ.
9. H2 and H3 are sensible but make them more precise (e.g., specify expected direction and mechanism). For H3, you could propose which pillar affects which performance measure (e.g., G → Tobin's Q via reduced agency costs; E → OCF/TA via cost savings).
10. Over 2009–2022, the world saw major shocks (Global Financial aftermath, COVID-19). Include year fixed effects (you do) and consider interacting ESG with crisis dummy(s) to check whether ESG resilience matters more during crises.

Recommended citation:

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Abdullah, H. (2024). Corporate social responsibility and firm performance from developing markets: The role of audit committee expertise. *Sustainable Futures*, *8*, 100268.

Abdullah, H., Isiksal, A. Z., & Rasul, R. (2025). Dividend policy and firm value: evidence of financial firms from Borsa Istanbul under the IFRS adoption. *Journal of financial reporting and accounting*, *23*(1), 350-370.

Declarations

Potential competing interests: No potential competing interests to declare.