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ENHANCING THE FINANCIAL STABILITY OF INSURANCE COMPANIES THROUGH ESG PRINCIPLES: EVIDENCE FROM EMERGING MARKETS

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ABSTRACT

This paper has looked at the effects of the implementation of Environmental, Social, and Governance, (ESG) principles on the financial sustainability of insurance companies in the emerging markets. With insurers being exposed to growing climate risks and regulatory transformations and changing expectations of stakeholders, ESG integration is now a strategic requirement and not voluntary activity. The study will set out to determine whether the ESG-oriented practices lead to effective risk management, resilience, and long-term financial sustainability. Through a panel dataset of insurance companies in a chosen set of emerging economies, the study applies quantitative research to find the connection between ESG performance measures and financial stability measures, including solvency ratio, profitability, and volatility. The results reveal that the positive and statistically significant relationship exists between high ESG performance and financial stability. Insurers that have higher ESG scores have a better capital adequacy, less exposure to operational risks and are more likely to have a better market confidence. The research also indicates that practices of governance are very vital in enhancing internal control and decision making and environmental and social initiatives bring reputational benefits and confidence among customers. Nonetheless, the magnitude of ESG impact depends on geographical areas and is determined by the regulatory environment, market maturity and institutional provisions. The study shows that implementing the ESG principles would not only improve compliance but would lead to value as business strategies are aligned with sustainable development objectives. It finds that the policymakers and insurance regulators in emerging markets ought to make the ESG disclosures and standardization to ensure transparency and stability within the industry. All in all, the research contributes the empirical data according to which the adoption of ESG can be an important instrument of strengthening the financial resilience of the insurance firms operating in dynamic and uncertain economic conditions.

KEYWORDS: ESG Principles, Financial Stability, Insurance Companies, Emerging Markets, Sustainability, Corporate Governance, Risk Management, Solvency, ESG Performance, Sustainable Finance

1. INTRODUCTION

The increasing focus on sustainability has seriously redefined the financial environment especially in the insurance industry. Over the last several years, the notion of Environmental, Social, and Governance (ESG) has become a determinant of the financial stability in the long term and risk management. The nature of insurance companies is that they exist at the cross-roads of risk evaluation and financial stability, and therefore, they are best placed to incorporate the evolving concept of ESG into their strategic and operational planning. This change is particularly applicable to emerging markets, in which the economic volatility, the evolution of rules, and social issues require more adaptive and responsible financial practices.

Integration of the ESG principles provides the insurers with a chance to enhance their financial stability by means of better risk identification, corporate governance and stakeholder trust. There are environmental factors (climate risks) that directly affect the process of underwriting and investment, and social factors affect the relationships with customers and brand image. The practices of governance such as transparency and accountability also help to create efficiency in the operations and investor confidence. Collectively, the factors bring a holistic framework that contributes to sustainable financial performance.

Although ESG integration is becoming more well-known, the empirical data on the topic in developing markets is still quite scarce and disjointed. Such markets tend to have structural problems, such as less strong regulatory frameworks, less strict disclosure frameworks, and the level of ESG awareness. Consequently, the correlation between the ESG practices and financial stability in such a setting needs more research.

This paper seeks to fill this gap by looking at the effects of the ESG principles on the financial soundness of insurance firms in the emergent economies. The research aims to provide empirical evidence that can be used in the development of academic literature, as well as in the practical policy-making process, to discuss the importance of sustainable practices in enhancing the resilience and sustainability of the insurance sector.

1.1. Background of the study

The world insurance sector is experiencing major transformation as a result of the change in risk environment, regulatory environment, and increased stakeholder expectations. Conventionally, the measure of financial stability in the insurance

companies is measured by use of measurements like solvency ratio, underwriting performance and returns on investment. Nonetheless, the recent economic upheavals, climate-related risks, governance failures, and the drawbacks of traditional methods of risk management and financial resilience are revealed. In this regard, the Environmental, Social and Governance principles (ESG) have become an important tool in improving the long-term business stability, and sustainability of financial institutions, insurance companies among them.

The insurance companies are both risk carriers and institutional investors, thus, are especially sensitive to the risk and opportunity of ESG. The outcomes of environmental factors and the social dimension of claims and underwriting practices, including natural calamities and climate shifts, have a direct impact on claims and the underwriting practice, whereas the market reputation and retaining customers rely on aspects like trust, inclusivity, and labour practices. Instead, governance supports transparency, ethical behaviour and strategic decision making, which is necessary to ensure financial soundness. The process of building ESG principles into the core of business strategies is thus being more and more perceived as an active strategy of dealing with the new risks and institutional resiliency.

The topicality of ESG implementation becomes even higher in the emerging markets where the insurance industries are developing, and regularly have structural issues like the lack of regulatory frameworks, financial illiteracy, and vulnerability to socio-economic fluctuations. Such markets are also less resistant to environment risks and inefficiency in governance, and this aspect can have tremendous effects on financial performance of insurers. Nevertheless, the emerging economies offer a heavy growth potential and therefore insurers need to pursue more sustainable practices to conform to the international standards, when dealing with the local realities.

In addition, ESG disclosures and sustainable finance are increasingly becoming the focus of global regulatory authorities and investors. The insurance firms in emerging economies are also facing pressure to conform to the global models and ensure that they are undertaking responsible business practices. This change is not merely a result of compliance requirement but also influenced by the fact that ESG integration has the potential to enhance risk assessment, improve performance of the portfolio, and generate long term investment.

It is against this backdrop that the current study aims at analyzing the effects that the adoption of the

ESG principles have on the financial stability of the insurance companies operating in the emerging markets. The study will seek to add to the increasing literature that supports an increasingly holistic and prospective view of the issue of financial stability in the insurance industry to align more closely with sustainability.

1.2. Justification

The increased complexity and uncertainty with regard to the global financial markets have had a tremendous impact with regard to the stability of the insurance companies, mostly in the emerging economies. Such markets are usually typified by regulatory loopholes, economic risk, and vulnerability to social and climate risks. It is in this regard that the integration of the Environmental, Social, and Governance (ESG) principles has taken centre stage as an effective strategic tool to enhance financial resilience and sustainability of the insurance industry in the long run.

Insurers are very important in the management of risk and intermediation of finances; hence the stability of the insurance companies is an important aspect of economic development in general. Nevertheless, its traditional financial performance indicators are no longer enough to evaluate how strong they are in responding to changing risks, including climate change, social inequality, and poor governance practices. ESG principles are a more comprehensive framework that includes non-financial elements and can help insurers to reduce risks and manage decisions more effectively and increase the trust of stakeholders.

Although the importance of ESG adoption is growing throughout the world, there is still very little empirical evidence on how it affects the financial stability of emerging market insurance companies directly. Majority of the literature has been divided into developed economies where the regulatory environment is more advanced as well as the ESG disclosure practices. This leaves an important gap in research, given that emerging markets are unique in their challenges and opportunities that can affect the success of ESG integration in a different way.

More so, the focus on sustainable finance practices is growing among investors, regulators, and policy-makers, and it is necessary to comprehend how the ESG initiatives can be converted into tangible financial results. With respect to insurance companies, it is not only that the application of ESG principles can be beneficial in terms of risk reduction and operational efficiency, but that it can contribute to greatest reputation, a responsible investment, and adherence to existing regulatory standards.

Thus, the research can be explained by the worth of its endeavours to investigate the connection between financial stability and ESG practices in the framework of emerging markets. With the empirical knowledge, the study will be an addition to the academic literature, a strategic decision tool in insurance companies, and information in policy-making to enhance sustainable financial systems.

1.3. Objectives of the Study

1. To study the level of the Environmental, Social, and Governance (ESG) practices among the insurance companies in emerging markets.
2. To examine the connection between ESG performance and financial stability of insurance companies.
3. To ascertain the role of the individual ESG dimensions (environmental, social and governance) in influencing key financial stability indicators including solvency, profitability and risk exposure.
4. To compare the financial strength of the insurance companies with high ESG integration as compared to the insurance companies that have low ESG adoption.
5. To determine the impact of the ESG practices in alleviating financial risks and increasing the long-term sustainability in the insurance industry.

2. LITERATURE REVIEW

Environments, Social, and Governance (ESG) principles have received a lot of scholarly focus especially on the areas of financial stability and risk reduction on the integration of the same in financial decision-making. ESG frameworks are becoming more and more identified as strategic instruments to improve the sustainability and resilience in the long term of financial institutions, including insurance companies in emerging markets.

According to the initial studies, the implementation of ESG leads to better corporate governance, stakeholder trust, and results. Hawn and Ioannou (2016) believe that companies that engage in good sustainability are less likely to face financial distress because of their good governance systems and ethics in managing business. In the same manner, Ortas et al. (2014) believe that socially responsible investments are characterized by lower volatility and enhanced financial sustainability, particularly in uncertain circumstances in the market. The results are supported by Lioui (2018) and Engle et al. (2020), who prove that the integration of ESG minimizes system risk and enhances the economic performance in the long run.

In this regard, the application of the ESG principles in the insurance sector is two-fold because insurers operate as risk underwriters and institutional investors. A systematic review conducted by Sood and Ozen (2024) notes that the integration of ESG leads to better sustainability performance of the insurance industry, by improving the areas of underwriting, investment, and compliance. More so, Bressan (2023) also concludes that the insurers that have higher ESG scores show greater financial stability indicators, including better combined ratios and positive excess stock returns, which leads to the conclusion that sustainability and financial performance have a positive relationship.

There is also empirical evidence that ESG practices have a strong positive effect in the financial performance and resilience of insurance firms. According to Williams (2024), all insurers that implement ESG frameworks enjoy increased profitability, enhanced risk management, and operational resilience especially whenever the economy is disrupted like it was by the COVID-19 pandemic. On the same note, recent cases of analysing panel data by insurance bodies across the globe show that ESG scores above the scale are positively linked to return on assets, effective cost management, and higher returns on investments, which enhance the financial stability.

The interconnection between ESG and financial stability is of special importance in new markets where companies are more vulnerable to financial instability and institutional risks. According to Meneses et al., (2026), there is a dynamic association between ESG implementation and financial stability such that, although a short-term increase in cost and financial pressure is likely, ESG implementation is seen to lower the insolvency risk and improve resilience with time. The latter is backed by Do (2022) and Mushafiq et al. (2023), who believe that the value of ESG practices, especially the one related to mitigating the default risk, emerges over time as the reputational and operational benefits are scaled.

The papers shed more light on the importance of ESG in reducing the insolvency risk in the insurance sector. Studies of ESG scandals show that negative ESG incidents raise risk of insolvency, and effectively positive ESG performance mitigates the risk of financial distress and builds institutional credibility (e.g., system-GMM analysis of global insurers). Moreover, Habib (2023) discovers that the relationship between cost efficiency and financial stability is mediated by ESG performance, implying that the sustainability practices enable firms to overcome a shock in an economy.

In a more general sense, the literature of sustainable finance can suggest that the adoption of ESG helps to maintain financial stability at the macro-level in the emerging economies. As noted by Zairis et al. (2024), financial systems that are led by ESG enhance sustainable economic growth, as well as diminish systemic vulnerability. Similarly, recent studies of sustainable finance in emerging markets focus on the fact that the quality of governance, regulatory frameworks and technological innovations play a key role in the effectiveness of ESG integration in improving financial resilience.

Although the body of literature is increasing, there are some gaps that exist. To begin with, the majority of empirical works are dedicated to developed markets and they do not provide us with an opportunity to generalize the results to the emerging economies. Second, the research concentrating on the insurance sector, in particular, within the developing markets, is little since the regulatory frameworks and the dynamics of the market are very different. Thirdly, the ESG adoption and its impact on financial stability are less studied over both short-term and long-term, especially in high-risk economic settings.

3. MATERIAL AND METHODOLOGY

3.1. Research Design

The research design used is a quantitative, explanatory design in that the research aims at analyzing the correlation between the Environmental, Social, and Governance (ESG) practices and financial stability of insurance firms operating in emerging markets. It uses a panel data method to measure the cross sectional and time variation between firms at a specific period of time. The study combines the ESG performance indicators with financial stability measures including the solvency ratios, the returns on assets, and the liquidity measures. The effect of ESG factors is determined by means of econometric models, such as fixed-effects and random-effects models with the control of firm-specific attributes and macroeconomic factors. This design enables a thorough evaluation of the effects of ESG adoption on the financial resilience in various emerging market settings.

3.2. Data Collection Methods

The research is based on the secondary data obtained by the researcher by referring to the reliable and publicly available sources. The scores and indicators in ESG are acquired through the fixed databases like Bloomberg, Refinitiv, and MSCI ESG ratings. The financial information, such as balance sheets, income statement, and most important ratios are found in annual reports of the insurance

companies and in financial databases, such as Thomson Reuters and World Bank repositories. The sample for the study includes insurance companies in the chosen new markets in Asia, Africa and Latin America within the span of 8-10 years. Information is scientifically assembled and formatted in a structured data in order to make it easier to be analyzed statistically.

3.3. Inclusion and Exclusion Criteria

The inclusion criteria are based on the insurance companies, which are publicly traded and have regular ESG reports and financial information to use during the study period. Companies that are established in the new markets, by the established international financial institutions, are put into consideration. Incompleteness in the ESG score, lack of financial records, or mergers, acquisition, or major reorganization at the time of the study are excluded in order to ensure consistency and reliability of data. Also, only firms that existed at least years during the period of study are not left to make the analysis stable.

3.4. Ethical Considerations

Academic integrity and ethical standards are

Table 1: Descriptive Statistics of Key Variables

Variable	Mean	Std. Dev.	Min	Max
ESG Score	58.4	12.7	32.1	82.6
Environmental Score	55.2	14.3	28.4	80.5
Social Score	60.7	11.5	35.6	85.2
Governance Score	59.3	13.1	30.2	83.9
ROA (%)	4.8	1.9	1.2	9.5
Solvency Ratio (%)	162	28.6	110	240
Z-score	3.1	0.8	1.5	5.2

4.2.1. Discussion

The descriptive statistics show that there is moderate variation in the performance of firms in terms of ESG. Governance and social pillars are likely to receive a higher mean score in comparison with environmental measures, which is why it can be assumed that insurance companies in emerging

Table 2: Correlation Matrix

Variables	ESG	ENV	SOC	GOV	ROA	Solvency	Z-score
ESG Score	1						
Environmental	0.82	1					
Social	0.79	0.65	1				
Governance	0.85	0.68	0.72	1			
ROA	0.41	0.33	0.38	0.45	1		
Solvency Ratio	0.47	0.36	0.42	0.49	0.52	1	
Z-score	0.51	0.40	0.46	0.53	0.61	0.66	1

4.3.1. Discussion

The descriptive statistics show that there is moderate variation in the performance of firms in terms of ESG. Governance and social pillars are likely

observed in the research. The data utilized in the study is all acquired through publicly available and authorized sources which means that there is transparency and legality. All data providers, as well as the materials used, are properly recognized to prevent plagiarism. The research will not require human participants or any confidential personal information, thus reducing the level of ethical risks. Research is done in an unbiased manner and results should be presented without any form of manipulation to ensure credibility and accountability.

4. RESULTS AND DISCUSSION

4.1. Overview of Data and Variables

The research involved the analysis of the performance on ESG (Environmental, Social, and Governance) and its effect on the financial stability of insurance companies involved in the emerging markets. Indicators that were used to measure financial stability comprised Return on Assets (ROA), Solvency Ratio, and Z-score, and the ESG scores were considered as composite and individual pillar scores.

4.2. Descriptive Statistics

economies are more oriented towards governance frameworks and social duties than on the environmental programs. There are financial indicators that demonstrate quite stable performance with well-above-regulatory solvency ratios.

4.3. Correlation Analysis

to receive a higher mean score in comparison with environmental measures, which is why it can be assumed that insurance companies in emerging economies are more oriented towards governance frameworks and social duties than on the

environmental programs. There are financial indicators that demonstrate quite stable performance with well-above-regulatory solvency ratios.

4.4. Regression Analysis

Table 3: Regression Results (Dependent Variable: Z-score)

Variables	Coefficient	Std. Error	t-value	Significance
Constant	0.982	0.214	4.58	0.000
ESG Score	0.028	0.007	4.00	0.000
Firm Size	0.115	0.042	2.74	0.007
Leverage	-0.193	0.051	-3.78	0.000
GDP Growth	0.067	0.029	2.31	0.022
Inflation	-0.041	0.018	-2.28	0.024
R ²	0.58			

4.4.1. Discussion

The outcomes of the regression indicate the statistically significant positive effect of ESG performance on financial stability (Z-score). One unit of ESG score change is observed to influence the stability of a firm in a quantifiable way. The size of the firms is positively related indicating that there is an economies of scale in their ESG risks management. On the other hand, leverage has a negative outcome

as it influences stability, which emphasizes the danger of high levels of debt in the emerging markets. Financial outcomes are also affected by macroeconomic factors (e.g., GDP growth and inflation), which leads to the importance of a holistic approach.

4.5. Comparative Analysis: High vs Low ESG Firms

Table 4: Financial Stability Comparison

Indicator	High ESG Firms	Low ESG Firms
ROA (%)	5.6	3.9
Solvency Ratio	178	145
Z-score	3.8	2.5

4.5.1. Discussion

Companies that have a better ESG score are doing better in all financial stability indicators than those with a lower score. This is an indication that ESG integration is more than a compliance process but a strategic approach that improves profitability and resiliency. Best ESG companies are more solvent, and this is important in the insurance industry where the capacity to take risks is essential.

are in a better position to resist financial shocks, stay afloat, and boost their performance efficiency. Such findings are consistent with a stakeholder theory, which assumes that companies that consider wider interests of stakeholders have better long-term results.

4.6. Discussion of Key Findings

The results demonstrate that the ESG principles play an important role in enhancing the financial stability of the insurance firms operating in the emerging markets. The most powerful pillar is governance, which shows that transparency, accountability, and effective risk management are significant. There are also social factors, such as customer trust and employee welfare, which have a significant contribution to the long-term performance. The environmental factors, though positively correlated, are less influential, which might be given the regulatory loopholes and the lack of environmental awareness, in the emerging economies. Nevertheless, they will become a significant issue as the sustainability standards in the world become stricter. The analysis also shows that companies that have incorporated the ESG principles

4.7. Limitations of the study

The current research can be limited in a number of ways that must be taken into account when explaining the results. To begin with, the analysis will be based on analyzing mostly secondary data in the form of published financial statements, sustainability reports, and ESG disclosures of insurance companies in the chosen emerging markets. The differences in reporting standards, differences in practices related to ESG disclosure and the lack of comparable metrics in different countries can influence the consistency and comparability of the data. Second, the sample size is limited to a certain group of insurance companies and chosen emerging markets, limiting the applicability of the findings to other areas or even developed markets. Third, the analysis timeframe used might not entirely reflect on the long-term effects of ESGs on financial stability, especially in the view of comparatively recent up uptake of ESG frameworks in most emerging economies. The study also might fail to consider all the external macroeconomic and regulatory factors including

political instability, fluctuations in inflation, or alternative changes in insurance regulations that might have an impact on the financial stability results. The use of quantitative indicators can also be used to miss out on the qualitative determinants which include culture of governance, managerial purpose and involvement of stakeholders. Lastly, the weakness of the conclusions can depend on future problems connected with the availability of data, reporting bias, and changing nature of the ESG standards. Such limitations imply that one should be careful with the interpretation and that there might be more room to conduct a study with more comprehensive data, timeframes, and mixed methods.

4.8. Future Scope

The prospective contribution of this research is the ability to extend the scope of the research on the strategic implementation of the Environmental, Social, and Governance (ESG) principles within the main financial and risk management frameworks of the insurance firms in various emerging markets. Future studies can focus on longitudinal studies to determine how ESG adoption affects the solvency, profitability, and resilience of insurers in the future when economic shocks occur. Comparison of the developed and emerging economies can also give more insightful details about the region-specific issues and opportunities in the implementation of ESG. Furthermore, more sophisticated analytical instruments like artificial intelligence and big data should be used in the future to assess ESG performance and indicate more accurately whether the firm will be financially stable. It is also possible to review the regulatory progress and policy interventions that may enhance the ESG disclosure and promote sustainable insurance practices. Besides, qualitative studies that will address the views of stakeholders, or policyholders, investors, and

regulators can enhance the insight into ESG-based value creation. Due to the ongoing development of the climate risk, social inequalities, and governance issues, further research can explore how insurers can develop products and investment solutions in a more sustainable manner, and thus ensure their financial sustainability as well as enhance the overall economic and environmental welfare.

5. CONCLUSION

The results of this research highlight the fact that environmental, social, and governance (ESG) ideologies integration has a significant value in enhancing financial stability of insurance firms that conduct business in the emerging market. Incorporating the ESG considerations in the underwriting procedures, investment policies, and corporate governance frameworks, the insurers will be in a stronger position to predict and cope with the risks that can be experienced over a long period of time, such as climate-related exposures, regulatory changes, and social expectations. The results indicate that companies that have a better ESG fit are likely to have a more resilient balance sheet, increased risk management, and more trust in the company by stakeholders, all of which result in sustainable financial performance. The degree of these benefits, however, depends on the difference in regulatory environments, data disclosure and institutional maturity among emerging economies. In spite of these issues, ESG implementation represents a prospective path that allows insurers to balance profitability and sustainability, which strengthens their ability to absorb shocks and remain afloat in a complicated risk environment. In general, the research demonstrates that a more standardized and situational approach to the implementation of ESG and increased governmental backing of the policy is necessary to achieve the full potential of the concept in contributing to improving financial stability in the industry.

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