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CULTURAL DIMENSIONS ON ESG FACTORS AND FINANCIAL PERFORMANCE INTERNATIONAL CONTEXT

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ABSTRAK

Didorong oleh ketidakkonsistenan global dalam hasil penelitian ESG dan kinerja keuangan, studi ini menjelaskan apakah perbedaan budaya dapat menjelaskan variasi tersebut. Penelitian ini mengkaji bagaimana budaya nasional memengaruhi hubungan antara dimensi ESG dan kinerja keuangan lintas negara. Dengan menggunakan pendekatan kuantitatif melalui regresi OLS terhadap 13.608 observasi *firm-year* dari 43 negara, hasil penelitian ini menunjukkan bahwa kinerja lingkungan umumnya tidak dipengaruhi oleh karakteristik budaya, sedangkan dimensi sosial dan tata kelola menunjukkan efek yang bergantung pada budaya. Secara khusus, inisiatif sosial memiliki dampak keuangan yang lebih kuat di masyarakat dengan jarak kekuasaan dan maskulinitas tinggi, sementara tata kelola perusahaan secara konsisten meningkatkan kinerja keuangan. Studi ini berkontribusi dengan mengintegrasikan dimensi budaya ke dalam analisis ESG tingkat perusahaan serta memberikan panduan praktis bagi investor dan pembuat kebijakan untuk merancang strategi ESG yang selaras dengan budaya dan lebih efektif dalam mencapai keberlanjutan.

Kata Kunci: National culture, financial performance, ESG

ABSTRACT

Motivated by the global inconsistency in ESG performance outcomes, this research clarifies whether cultural differences explain such variations. This study examines how national culture shapes the relationship between ESG dimensions and financial performance across countries. Using a quantitative approach with OLS regression on 13,608 firm-year observations from 43 countries, the findings reveal that environmental performance is largely unaffected by cultural traits, while social and governance dimensions exhibit culture-dependent effects. Specifically, social initiatives gain a stronger financial impact in high power distance and masculine societies, and governance consistently enhances firm performance. The study contributes by integrating cultural dimensions into firm-level ESG analysis, offering practical insights for investors and policymakers to design culturally aligned ESG strategies that enhance sustainability effectiveness.

Keywords: National culture, financial performance, ESG

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1. Introduction

Environmental and climate changes threaten the sustainability of human life worldwide, including in the business and economic sectors (Almaghrabi, 2023; Cohen, 2023; Khan, 2019). The global consensus among leaders to transition from traditional economic and social systems to a green economy, or one that is environmentally oriented, began with the Paris Agreement in 2015. Furthermore, investors recognize that companies with high ESG risks impact both the company's well-being and the interests of investors in the future (Chouaibi & Affes, 2021; Cohen, 2023). Additionally, companies conducting business need to understand the frameworks and social norms prevailing in each country to maintain their legitimacy (Archel et al., 2009; X. Chen & Wan, 2020; Chouaibi & Affes, 2021; Pučėtaitė et al., 2016). In this context, cross-country analysis becomes crucial because ESG implementation and its financial implications are not uniform across nations. Differences in institutional strength, regulatory enforcement, and socio-cultural expectations shape how sustainability strategies translate into firm performance. From the other's perspective, this study indicates that the link between ESG activities and financial performance is significantly influenced by a country's cultural context. By comparing multiple countries, this study uncovers structural and cultural heterogeneity that single-country studies may overlook. Thus, this study explores the impact of ESG on financial performance, considering the diverse national cultures present across various countries worldwide.

The literature to date presents a spectrum of findings regarding the link between ESG factors and financial performance. The companies with strong ESG practices suggest their ability to mitigate sustainability-related risks (Baldi & Pandimiglio, 2022; Chouaibi & Affes, 2021). Moreover, the impact of ESG is viewed as pivotal in achieving favorable financial performance (Atz et al., 2023; Downar et al., 2021), consequently influencing investor well-being (Carran et al., 2023; Cohen, 2023; Khan, 2019). Additionally, other studies suggest that when companies invest in ESG dimensions, they face higher investment costs due to the need to revamp their business strategies (Cohen, 2023; Millar et al., 2012; Mio et al., 2023).

The cultural values of each nation play a significant role in ESG implementation (Llopis et al., 2007; Zhang et al., 2023). The companies in various European nations exhibit a considerable degree of commitment to their Environmental, Social, and Governance (ESG) initiatives. This commitment is largely influenced by the cultural context, legal frameworks, and economic development prevalent in these countries (Baldi & Pandimiglio, 2022; Bavorová et al., 2021; Billio et al., 2021). Conversely, in nations with a prominent individualistic culture, such as Australia and the United States, ESG practices primarily emphasize aspects related to diversity, equality, and inclusion. These focal points, in turn, intensify market competition as organizations strive to secure their legitimacy (Beddewela & Fairbrass, 2016). Thus, this study argues that the influence of each ESG dimension on company performance is intricately tied to the national culture of each country.

The cultural dynamics of each country influence management practices within companies. Institutional theory explains that the behavior of an organization or business entity is shaped by prevailing social values, regulations, and norms related to ESG (Archel et al., 2009; Carpenter & Feroz, 2001; Daniel et al., 2012). Social processes occurring within a society affect the business activities of companies, leading to uniformity in organizational behavior. The national culture of a country is a key factor that influences managers' perspectives and priorities in deciding on ESG strategies and investment steps (Eliwa et al., 2021; Hofstede, 2011; Roy & Mukherjee, 2022; Zhang et al., 2023). Previous literature has demonstrated that national culture impacts various accounting and management practices within companies (Deephouse et al., 2016; Gray, 1988). Furthermore, a country's cultural values are linked to the social system and governance of a business entity, influencing patterns in international accounting systems (Barth & Landsman, 2008; Gray, 1988). Shortly, the cultural values of each country affect decisions, business dynamics, and accounting choices, including strategies for acquiring profits.

Previous literature has demonstrated that each item of the national culture dimensions can either strengthen or weaken the relationship between ESG and financial performance (DasGupta & Roy, 2023; Gallén & Peraita, 2018; Shin et al., 2023). However, these studies have not further investigated the role of individual national culture items in moderating the relationship between each dimension of E, S, and G and financial performance. Additionally, prior research has yielded inconsistent results. Therefore, this study aims to address the gaps and limitations in the existing literature by examining in more detail and depth the relationship between each ESG dimension and financial performance in the context of national culture. Furthermore, this study considers the weighting of national culture measurements, transitioning from country-level values to firm-level values. This weighting is undertaken to eliminate data bias, as the assessment indicators for each country cannot be measured directly (P. Chen & Zhang, 2007; Sumiyana et al., 2010).

This study demonstrates that the interplay of national culture with each ESG dimension yields diverse effects on financial performance. The study consistently finds that each cultural dimension influences the association between corporate governance and financial performance. The study contends that rigorous corporate governance practices and stakeholder oversight can potentially enhance a company's financial performance. The consistency of practices across companies in countries with a similar cultural level drives this. Other results indicate that cultural level cannot entirely moderate the relationship between environmental (e) and social (s) activities, differences in priorities of each country in implementing environmental and social investment interests. Furthermore, companies' inclination towards achieving immediate results leads to slower implementation of environmental and social investments in more liberal cultures.

This study presents several contributions. Firstly, this study underscores the influence of cultural dimensions on organizational reactions to institutional pressures, ultimately affecting the adoption and effectiveness of ESG practices across various countries. By integrating national culture into the framework of institutional theory, this study offers valuable insights into the reasons behind cross-country differences in the alignment of ESG initiatives with financial outcomes. The indicators and roles of culture in each company are closely linked to how culture operates within that country. Moreover, this study provides a reference for investors and financial managers in evaluating the risks and opportunities of investing in international companies that have implemented ESG practices. This study demonstrates that the "one-size-fits-all" paradigm in ESG implementation is theoretically and practically inadequate across heterogeneous cultural contexts. Distinct national cultures necessitate differentiated leadership orientations, communicative approaches, and sustainability strategies to ensure the contextual effectiveness and institutional legitimacy of ESG initiatives.

Furthermore, this study contributes to the literature on the Sustainable Development Goals (SDGs), which remains relatively underexplored (Bebbington & Unerman, 2018). The study on national culture within the context of the SDGs provides insights into the complexities of the relationship between culture and sustainable development. Thus, this study pursues the effective policies and actions to achieve SDGs across different countries. Lastly, this study bridges the conceptual divide between sustainability accounting and cross-cultural management by integrating cultural dimensions into the ESG–financial performance framework. It advances theoretical understanding by positioning national culture as a contextual mechanism that shapes firms' institutional responses to sustainability pressures, thereby explaining the cross-national heterogeneity in ESG outcomes.

2. Literature Review and Hypothesis Development

The business activities of a company are inseparable from the role of culture inherent in the entities and business actors, including the national culture in which the entity operates. Previous literature has revealed that institutional theory is an appropriate lens to compare investment behaviors, standard selection, and social activities across countries (Archel et al., 2009; Carpenter & Feroz, 2001; Lin & Sheu, 2012). Institutional theory explains that business entities are bound by prevailing values and are governed by the institutions in which they operate. Therefore, a company is not merely an organization engaged in dyadic interactions; it is also bound by external factors inherent in the company (Colleoni et al., 2022).

In carrying out their business operations, companies are responsible for meeting the normal social obligations in the company's community (Dashwood, 2012; Marquis et al., 2016). This occurs because companies seek to maintain corporate legitimacy (Archel et al., 2009; Rasche, 2021). Furthermore, stakeholder pressure has driven companies to fulfill their social and environmental responsibilities (Costa & Menichini, 2013). By meeting these commitments, companies gain greater attention from investors. Additionally, companies mimic or adopt the behavior of other entities within the same region. This mimetic or isomorphic behavior occurs due to pressure from the external environment (coercive), the adoption of legitimized practices in other institutions (mimetic), and the learning of new practices from external sources (normative) (Lin & Sheu, 2012). Thus, institutional theory explains how norms and prevalent values in a country influence the expectations of ESG practices and investments by companies.

The culture and social behavior are critical elements in institutional theory (Colleoni et al., 2022; Lin & Sheu, 2012). The interaction between business entities and national culture significantly impacts financial performance and sustainability issues. For example, government regulations related to sustainability in Asian and Australian countries differ and tend to influence corporate strategies. Australia's government emphasizes cooperation and regular reviews, which help establish high sustainability standards. In contrast, countries like China implement strong protective policies across various sectors, showcasing the state's role in supporting economic growth and sustainable development. These differences highlight how each nation's governance structure shapes the effectiveness of sustainability policies and business practices. Another example is that countries with strict social norms and environmental regulations affect investor decisions (Arif et al., 2022; Hu et al., 2023). It indicates that the countries maintain strict social norms and environmental regulations that impact investor decisions by fostering a stable and predictable environment for operations. In these regions, compliance with sustainability practices is anticipated and actively enforced. Therefore, understanding the relationship between ESG and financial performance is inseparable from the role of institutions in each country (Shin et al., 2023; Zhang et al., 2023).

Connecting National Culture and ESG to Financial Performance

The culture is deeply rooted in the beliefs and values of society (Gallén & Peraita, 2018; Williamson, 2000). The framework or national culture often used in academic literature is the dimensions of national culture (Hofstede, 2011). In his literature, Hofstede (2011) outlines six dimensions of national culture, namely: power distance, individualism vs collectivism, masculinity vs femininity, uncertainty avoidance, long-term orientation vs short-term orientation, and indulgence vs restraint. Each country has different cultural characteristics and values, which then influence the behavior of each business entity. Furthermore, cultural values are a concern for every company to move, decide on strategies, and create added value. The role of national culture becomes the determinant of legitimacy and stakeholder trust for companies (Deephouse et al., 2016).

Firstly, power distance refers to individuals who are not in power accepting and tolerating a poor hierarchy. According to Hofstede (2011), power distance refers to the definition: "*the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally*." Countries with a high level of power distance, or indicated undemocratic characteristics, are more likely not to provide freedom, have high levels of corruption, and be oriented towards faster profit realization (Hofstede, 2011). Furthermore, countries with a high level of power distance are more likely to comply with and engage in ESG activities to achieve their short-term profits (Ehsan et al., 2022). On the other hand, a high level of power distance benefits top managers to be more authoritative in deciding the company's activities without obstacles. In high power distance societies, decision-making authority is concentrated in upper management, implementing environmental strategies highly dependent on leadership commitment rather than collective initiatives. Environmental programs that require broad employee participation and interdepartmental collaboration may face structural barriers (Persakis & Al-Jallad, 2024; Tariq et al., 2025).

The countries with a low level of power distance tend to be more transparent and open. Managers are more responsible to the applicable institutions and stakeholders in that country (Le et al., 2023). Companies at that level move more freely and create various innovations in sustainability strategies (Dicuonzo et al., 2022; Qin & Wang, 2023). Furthermore, companies at high power distance levels have good ESG investment practices. In high power distance cultures, social initiatives like community engagement and philanthropy serve as signals of corporate legitimacy, aligning firms with societal and authority expectations (Lee & Park, 2020). These activities boost trust and reputation, which can translate into financial gains, explaining the more substantial moderating effect of power distance on the social–financial link. Moreover, the governance practices in high power distance contexts tend to be formalistic, focusing more on compliance rather than substantive transparency (Cohen, 2023; Lu & Wang, 2021). As a result, improvements in governance performance may not directly translate into superior financial outcomes, as such mechanisms primarily reinforce hierarchical control rather than efficiency or innovation. Shortly, countries with low power distance have a high level of diversity and encourage the achievement of social welfare.

H_{1a}: Power distance strengthens the relationship between environmental performance (E) and financial performance.

H_{1b}: Power distance strengthens the relationship between social performance (S) and financial performance.

H_{1c}: Power distance strengthens the relationship between governance performance (G) and financial performance.

Individualism and collectivism are ingrained cultural aspects within each national individual. According to Hofstede (2010), individualism or collectivism refers to "the extent to which individuals in a society are integrated into groups." A high degree of individualism in a country suggests a more pronounced liberal market that prioritizes stakeholders' interests and economic gains (Hofstede, 2011). Conversely, in nations with a collectivist culture, society staunchly upholds common interests and prioritizes harmony and positive intercommunity relationships (Hofstede, 2011; Taylor & Wilson, 2012). The communities encourage openness and collaborative efforts to attain sustainable values. Firms in individualistic cultures prioritize economic gains and stakeholder interests, often approaching environmental and social initiatives opportunistically to enhance short-term profits. Strong governance is therefore essential, providing the oversight and accountability needed to implement ESG practices credibly and support long-term financial performance despite the constraints of individualistic orientations (Kuo et al., 2025; Song & Wei, 2025).

Collectivist cultures tend to be geared towards meeting mutual interests, with companies and stakeholders collaborating and assuming responsibility for adhering to social and environmental norms (Gallén & Peraita, 2018; Rupp et al., 2018; Taylor & Wilson, 2012). Conversely, nations characterized by high levels of individualism are more likely to exploit legal loopholes and norms. This implies that managers adopt opportunistic approaches to seek profits by feigning ESG investments (Walker & Wan, 2012; Zimon et al., 2022). The influence on managers results in the redirection of their ESG investment strategies towards more profitable ventures. Such companies might fail to uphold good governance at a non-substandard institutional level (Jamali et al., 2019; Ringov & Zollo, 2007; Rupp et al., 2018). Hence, high individualism cultures tend to impact sustainability fulfillment interests and have adverse effects on the long-term financial returns and performance of companies.

H_{2a}: Individualism strengthens the relationship between environmental performance (E) and financial performance.

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H_{2b}: Individualism strengthens the relationship between social performance (S) and financial performance.

H_{2c}: Individualism strengthens the relationship between governance performance (G) and financial performance.

According to Hofstede (2011), Masculinity or Femininity is defined as "the distribution of values between the genders, which is another fundamental issue for any society." Societies with masculine characteristics are more oriented towards competition and emphasize achievement at the endpoint On the other hand, in countries with high levels of femininity, there is a greater emphasis on equality and harmony of social values (Grosser & Moon, 2019). Therefore, countries with higher levels of masculinity tend to have better economic competition, whereas the opposite is true for femininity. Moreover, countries with high levels of feminism tend to be more oriented towards the environment (Grosser & Moon, 2019; James, 1997; Ringov & Zollo, 2007). Moreover, masculine societies, characterized by a focus on competition and achievement, encourage firms to leverage social and governance initiatives to strengthen legitimacy and reputation. This alignment with stakeholder expectations supports financial performance, implying that masculinity positively moderates the social and governance to financial relationships (Y. H. (Andy) Kim et al., 2022; DasGupta & Roy, 2023). However, they also tend to avoid risks, which is the opposite in countries with high levels of masculinity. In highly masculine societies, there is a tendency to maximize profit as a social norm (Y. H. (Andy) Kim et al., 2022; Lee & Parpart, 2018; Marshall, 2007). Consequently, companies seek to balance profit and social norms in their goals. As a result, the dominance of corporate profits is allocated to investing more in ESG investments.

H_{3a}: Masculinity strengthens the relationship between environmental performance (E) and financial performance.

H_{3b}: Masculinity strengthens the relationship between social performance (S) and financial performance.

H_{3c}: Masculinity strengthens the relationship between governance performance (G) and financial performance.

Uncertainty avoidance denotes a societal standpoint that embraces uncertainty pertaining to the future. As elucidated by (Hofstede, 2011), uncertainty avoidance encompasses "the extent to which the members of a culture feel threatened by uncertain or unknown situations." This suggests that stakeholders in cultures with high uncertainty avoidance prioritize prudence and an emphasis on risk mitigation (Hofstede, 2011). Within societies exhibiting high uncertainty avoidance, individuals commonly adhere conservatively to prevailing regulations and norms (Merkin, 2006; Van Oudenhoven et al., 1998). Additionally, individuals and entities in such nations tend to eschew risks and underscore the establishment of stability and predictability.

Companies are notable for their heightened discernment and sensitivity to societal interests, maintaining elevated levels of environmental compliance (Lu & Wang, 2021; Roy & Mukherjee, 2022). The sustained impact of ESG behavior in nations characterized by high uncertainty avoidance initially yields subpar financial performance due to an amplified focus on current risk mitigation. Nevertheless, companies equipped with ESG attributes and demonstrating heightened stability in the face of future uncertainty stand to reap long-term benefits (Colleoni et al., 2022; Roy & Mukherjee, 2022). In high uncertainty-avoidance countries, firms often take a cautious approach to environmental and social initiatives to minimize immediate risks. However, strong governance offers structured decision-making, monitoring, and compliance, enhancing stability and stakeholder trust (Colleoni et al., 2022; Song & Wei, 2025). Consequently, firms with effective governance are better able to convert ESG efforts into sustained financial performance amid uncertainty. Thus, extant regulations serve as a guiding framework for companies and society to prudently approach future uncertainties.

H_{4a}: Uncertainty avoidance strengthens the relationship between environmental performance (E) and financial performance.

H_{4b}: Uncertainty avoidance strengthens the relationship between social performance (S) and financial performance.

H_{4c}: Uncertainty avoidance strengthens the relationship between governance performance (G) and financial performance.

Hofstede (2010) explains that long-term orientation involves whether people focus on the future or the past/current (Hofstede, 2011). This suggests that the prevailing social norms and culture in a society prioritize preparedness for the future. Societies with a strong long-term orientation are willing to forgo short-term gains in favor of greater future benefits. They are more likely to demonstrate perseverance and emphasize investment activities. Additionally, countries with a strong long-term vision are highly motivated and humble, willing to learn from more advanced (Gallén & Peraita, 2018; Hofstede & Minkov, 2010). All stakeholders responsible for achieving the country's long-term vision and mission demonstrate a commitment and concrete strategies for sustainability.

Companies in countries with a long-term orientation culture focus more on structured planning and long-term commitments (Bukowski & Rudnicki, 2019; Graafland & Noorderhaven, 2020). They do not necessarily consider current costs, as they have already determined the future achievements to be obtained. A long-term orientation culture encourages ESG practices by elaborating on the company's resources (Gallén & Peraita, 2018; Graafland & Noorderhaven, 2020; Hofstede & Minkov, 2010). Consequently, companies do not have concerns about the costs incurred due to their high motivation to create real sustainability. Long-term oriented cultures encourage firms to adopt strategic, forward-looking commitments, especially focusing on environmental commitments (Bukowski & Rudnicki, 2019; Kuo et al., 2025). This commitment is compensated by enhanced reputation and stakeholder trust, adaptability in uncertainty, and increased company profitability (Cohen, 2023; M. Kim et al., 2020; Sannino et al., 2020). Governance mechanisms that support oversight and accountability enable ESG initiatives to consistently contribute to financial performance.

H_{5a}: Long-term orientation strengthens the relationship between environmental performance (E) and financial performance.

H_{5b}: Long-term orientation strengthens the relationship between social performance (S) and financial performance.

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H_{5c}: Long-term orientation strengthens the relationship between governance performance (G) and financial performance.

Restraint and Indulgence are national cultures related to the satisfaction of individuals or society. Previous literature explains that indulgence is "relatively free gratification of basic and natural human desires related to enjoying life and having fun." Societies with this culture generally prefer activities that are free and show high tolerance for unethical behavior (Hofstede, 2011). On the other hand, societies with a restrained culture are more controlling of their satisfaction and have stricter regulations on social values and norms (Hofstede, 2011; Ringov & Zollo, 2007). Restraint-oriented cultures promote disciplined behavior, emphasizing adherence to social norms, regulations, and long-term obligations. In such contexts, firms rigorously integrate ESG principles: environmental initiatives are carefully managed for compliance and sustainability, while social practices sustain stakeholder trust and legitimacy (Persakis & Al-Jallad, 2024)

Companies operating in countries with an indulgence culture tend not to maximize their ability to invest in future positive values. Countries with high indulgence values tend to have low moral discipline and disregard beneficial norms for the future (Alipour & Yaprak, 2022). Meanwhile, companies operating in countries with high levels of restraint tend to have strict regulations on ESG activities and investments (Lu & Wang, 2021; Sun et al., 2019). Managers face concerns over violations of social and environmental norms that can affect the company's reputation and financial performance. As a result, they pay attention to and practice ESG values in their company's operations (Colleoni et al., 2022; Sun et al., 2019). Governance mechanisms play a central role in these settings, effectively translating ESG efforts into lasting financial performance, whereas environmental and social initiatives contribute moderately (Ioannidis et al., 2025). Thus, ESG practices yield stronger financial performance for companies in countries with a restrained culture.

H_{6a}: Restraint strengthens the relationship between environmental performance (E) and financial performance.

H_{6b}: Restraint strengthens the relationship between social performance (S) and financial performance.

H_{6c}: Restraint strengthens the relationship between governance performance (G) and financial performance.

3. Research Method

This study utilizes data from all publicly listed companies on stock exchanges in each country, excluding banking samples. Given the diverse characteristics and cultures of each country, it is essential to examine business behavior broadly across different nations (Daniel et al., 2012; Gray, 1988). The period from 2016 to 2023 is the focus of this research, as the measurement benchmarks for ESG scores began with the Paris Agreement in 2015. The sample was selected based on the following criteria: (1) Companies listed on stock exchanges in all countries excluding the financial sectors; (2) Availability and completeness of financial data, ESG data, and national culture data.

Table 1 shows the sample selection process for this study. The study applied purposive sampling criteria to eliminate certain samples. Moreover, the initial sample was reduced by

38,345 companies that still needed to have complete ESG scores. Thus, after excluding data with negative ROA and Tobin's Q scores, the final number of observations amounts to 13,608 firm-year observations.

Table 1. Sampling Process

Criteria	Sample	Firm-Year Obs.
Companies with ESG Dimension scores	41,209	329,672
Exclude:		
- Uncompleted ESG's data	38,345	306,760
Companies with complete ESG Dimension scores	2,864	22,912
Exclude:		
- The data with negative ROA scores	1026	8208
- The data with negative Tobin's Q scores	137	1096
The final observation data	1,701	13,608

Source: Authors' work

The author develops the independent variable as ESG score. The database measures the ESG scores and each dimension annually for 10,000 publicly listed companies worldwide. This dataset encompasses 178 metrics associated with Environmental, Social, and Governance (ESG) scores, which are organized into ten categories. Furthermore, the moderating variable proposed in this study is Hofstede's national culture score. The Hofstede national culture framework is indeed one of the most influential and frequently used classifications for analyzing national culture in international settings. This study obtains the values for each dimension from the following website: https://geerthofstede.com/research-and-vsm/dimension-data-matrix/. Lastly, to assess the dependent variable, we consider measuring both accounting-based performance and market-based performance. In line with previous literature, this study uses Return on Assets (ROA) as a proxy for accounting-based performance and Tobin's Q to measure market-based performance. Thus, this study explains in more detail in Table 2.

Table 2. Variables Measurement

Variables	Definition	Measurement	References
Independent:			
E, S, G Score	Its score is obtained from the Thomson Reuters database.	Ratio (percentage) for each ESG Dimension.	(Christensen et al., 2022; Edmans, 2023)
Moderating:			
National Culture Hofstede	The extensive database facilitates empirical analysis of cultural values across both developed and developing countries.	This framework consists of six dimensions: (a) power distance, (b) masculinity vs. femininity, (c) individualism vs. collectivism, (d) uncertainty avoidance, (e) long-term vs. short-term orientation, (f) indulgence vs. restraint.	(Daniel et al., 2012; Hofstede, 2011).

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Variables	**Definition**	**Measurement**	**References**
Dependent: Financial performance - Accounting-based performance (ROA)	These two approaches are used to understand a company's financial performance holistically by considering aspects related to operational performance and market responses.	$ROA = \frac{Net\ Income}{Total\ Assets}$	(Atz et al., 2023; Cohen, 2023)
- Market-based performance (Tobins'Q)		$TOBINSQ = \frac{MVof\ Equity + MV\ of\ Liabilities}{BV\ of\ Equity + BV\ of\ Liabilities}$	

Testing the hypotheses, this study adopts the testing methodology from (DasGupta & Roy, 2023). The study utilizes the following regression model to examine the moderating effect of each dimension of national culture on the relationship between the various ESG dimensions of a company and its financial performance. Hypothesis testing is conducted using the OLS Regression. The research model mentioned below is utilized to test each hypothesis by substituting each dimension of under investigation.

$$FP_{i,t} = \alpha_1 + \beta_2 E_{i,t} + \beta_3 S_{i,t} + \beta_4 G_{i,t} + \beta_5 PD_{i,t} + \beta_6 (E_{i,t} \times PD_{i,t}) + \beta_7 (S_{i,t} \times PD_{i,t}) + \beta_8 (G_{i,t} \times PD_{i,t}) + e_{i,t} \quad (1)$$

$$FP_{i,t} = \alpha_1 + \beta_2 E_{i,t} + \beta_3 S_{i,t} + \beta_4 G_{i,t} + \beta_5 IN_{i,t} + \beta_6 (E_{i,t} \times IN_{i,t}) + \beta_7 (S_{i,t} \times IN_{i,t}) + \beta_8 (G_{i,t} \times IN_{i,t}) + e_{i,t} \quad (2)$$

$$FP_{i,t} = \alpha_1 + \beta_2 E_{i,t} + \beta_3 S_{i,t} + \beta_4 G_{i,t} + \beta_5 MS_{i,t} + \beta_6 (E_{i,t} \times MS_{i,t}) + \beta_7 (S_{i,t} \times MS_{i,t}) + \beta_8 (G_{i,t} \times MS_{i,t}) + e_{i,t} \quad (3)$$

$$FP_{i,t} = \alpha_1 + \beta_2 E_{i,t} + \beta_3 S_{i,t} + \beta_4 G_{i,t} + \beta_5 UA_{i,t} + \beta_6 (E_{i,t} \times UA_{i,t}) + \beta_7 (S_{i,t} \times UA_{i,t}) + \beta_8 (G_{i,t} \times UA_{i,t}) + e_{i,t} \quad (4)$$

$$FP_{i,t} = \alpha_1 + \beta_2 E_{i,t} + \beta_3 S_{i,t} + \beta_4 G_{i,t} + \beta_5 ST_{i,t} + \beta_6 (E_{i,t} \times ST_{i,t}) + \beta_7 (S_{i,t} \times ST_{i,t}) + \beta_8 (G_{i,t} \times ST_{i,t}) + e_{i,t} \quad (5)$$

$$FP_{i,t} = \alpha_1 + \beta_2 E_{i,t} + \beta_3 S_{i,t} + \beta_4 G_{i,t} + \beta_5 RS_{i,t} + \beta_6 (E_{i,t} \times RS_{i,t}) + \beta_7 (S_{i,t} \times RS_{i,t}) + \beta_8 (G_{i,t} \times RS_{i,t}) + e_{i,t} \quad (6)$$

Denote:

$FP_{i,t}$ = Financial Performance of firm (*i*) in year (*t*)
$E_{i,t}$ = Environment of firm (*i*) in year (*t*)
$S_{i,t}$ = Social of firm (*i*) in year (*t*)
$G_{i,t}$ = Governance of firm (*i*) in year (*t*)
$PD_{i,t}$ = Power distance of firm (*i*) in year (*t*)
$MS_{i,t}$ = Masculinity of firm (*i*) in year (*t*)
$UA_{i,t}$ = Uncertainty avoidance of firm (*i*) in year (*t*)
$ST_{i,t}$ = Short-term orientation of firm (*i*) in year (*t*)

$RS_{i,t}$ = Restraint of firm (*i*) in year (*t*)
α_1 = Constant term (intercept).
$\beta_2 - \beta_8$ = Coefficients representing the strength and direction of the relationships among variables
$e_{,t}$ = Error terms $_{i,t}$

To align with the six model estimations presented in the results section, this study develops six regression models to examine how each cultural dimension moderates the relationship between ESG factors and financial performance. Initially, a general model was proposed to assess the direct effects of environmental (E), social (S), and governance (G) dimensions on firm financial performance (FP). Furthermore, to capture the moderating role of cultural attributes, each dimension of Hofstede's cultural framework was then tested separately in six distinct models to avoid overlapping cultural effects across countries. The six distinct models of Hofstede's cultural framework are power distance, Individualism, Masculinity, Uncertainty Avoidance, Long-Term Orientation, and Restraint. Thus, this study proposes six models to test each hypothesis put forward.

4. Results and Discussion

Table 3 presents the summary statistics for all the variables utilized in our main analysis. This table shows the range, mean, and standard deviation of various environmental, social, and governance-related variables, as well as performance measures based on accounting and market metrics, and cultural dimensions. The means of environmental, social, and governance variables are 60.57, 58.74, and 56.90, with standard deviations of 21.74, 20.89, and 23.61, respectively. The findings show that firms generally maintain a balanced focus across the three ESG dimensions, with slightly higher performance in the environmental aspect. This implies that environmental initiatives receive greater strategic attention, likely driven by regulatory demands and stakeholder concerns about carbon reduction and resource efficiency. Accounting-based performance (ROA) has a mean of 0.07 and a standard deviation of 0.05, while market-based performance (Tobin's Q) shows a mean of 1.13 and a standard deviation of 1.23. However, the substantial standard deviation between that financial performance measurement implies greater volatility in market-based performance, potentially driven by differences in investor sentiment, industry characteristics, and external market conditions across countries.

For the cultural dimensions, the variables of power distance, individualism, masculinity, uncertainty avoidance, short-term orientation, and restraint have means of 56, 52, 51, 65, 49, and 52, The results show that uncertainty avoidance and power distance are the most dominant cultural dimensions across countries, indicating that firms tend to operate under hierarchical decision-making structures and prefer stable, risk-averse environments. This dominance implies that managers in such cultural contexts may be more cautious in implementing ESG initiatives, emphasizing compliance and control rather than innovation-driven sustainability strategies. The standard deviations among the national culture dimensions range from 18.04 to 23.94. These results indicate a significant variation in cultural perceptions and the aspects influencing performance and business practices within the context of this study.

Table 3. Statistic Descriptive

	Min.	Max.	Mean	St.Dev
Environment	0.25	98.78	60.57	21.74
Social	0.10	98.56	58.74	20.89
Governance	0.00	98.88	56.90	23.61
ROA	0.00	1.14	0.07	0.05
Tobin's Q	0.00	17.36	1.13	1.23
Power Distance	11	104	56	21.55
Individualism	13	91	52	23.41
Masculinity	5	95	51	19.60
Uncertainty Avoidance	8	112	65	23.94
Long-term orientation	13	93	49	22.13
Restraint	20	97	52	18.04

Notes: It comprises 13,608 firm-year observations from 2016 to 2023

Before testing the hypotheses using OLS regression, we conducted classical assumption tests focusing on normality and multicollinearity. The normality test ensures that the residuals follow a normal distribution, which is essential for valid statistical inference, while the multicollinearity test verifies the independence among explanatory variables, preventing distortion in coefficient estimation (Gujarati, 2011; Wooldridge, 2019). The results of the normality test show that the p-value for normality is 0.125, which is greater than 0.05. It indicates that the data distribution meets the normality assumption. Furthermore, the multicollinearity test shows that all variables exhibit tolerance values above 0.10 and Variance Inflation Factor (VIF) values below 10, indicating the absence of serious multicollinearity problems.

The ESG dimensions presented in Table 4 show that each plays a significant role in value creation and corporate financial performance. The variation seen in the standard deviations underscores the importance of careful adjustment and management to maximize the positive contribution of ESG factors to firm value. Importantly, effective handling of these ESG factors has the potential to significantly enhance both accounting-based performance (ROA) and market-based performance (TOBINSQ), thereby emphasizing the practical implications of integrating ESG into corporate strategies for sustainable value creation.

Table 4 reports the results of the OLS used to test the hypotheses. Given our multilevel structure, with several firms nested within countries, a multilevel regression is appropriate for our data. This study reveals that power distance does not strengthen the relationship between environmental (e) and governance (g) performance and financial performance, neither in the ROA proxy (coef = 0.790 | -0.423; sig. value = n.s) nor Tobin's Q (coef = 0.019 | -0.372; sig. value = n.s | 0.01). Thus, Hypotheses 1a and 1c are not supported. On the other hand, this study demonstrates that the relationship between social (s) performance and financial performance becomes stronger in cultures with high power distance (coef =

0.014; sig. value = 0.01), supporting H1b. However, this moderation variable only influences the relationship regarding accounting-based performance (ROA).

Countries with high levels of power distance often exhibit highly hierarchical structures and one-way communication, dictated by those in power. In such nations, it is challenging to fully leverage the benefits of good environmental and governance performance in relation to financial performance. The division of decision-making between upper and lower management leads to diminished initiatives for environmental investment (Qin & Wang, 2023; Van Oudenhoven et al., 1998). However, the strong command and central role of leadership within companies result in greater corporate responsibility for social activities (Le et al., 2023; Shin et al., 2023). This underscores the inspiring potential of strong leadership in promoting social activities and creating a positive public image, which can help mitigate the negative consequences arising from environmental and governance dimensions (Roy & Mukherjee, 2022). The findings imply that in high power distance contexts, ESG success, particularly in environmental and governance dimensions, is driven mainly by leadership commitment. Therefore, strengthening top-down accountability and promoting ethical leadership are key to aligning ESG with financial performance in hierarchical societies.

This study demonstrates that a high level of individualism in the country needs to strengthen the relationship between environmental and financial performance. The findings reveal that the coefficients for H2a are -0.090 (Accounting-based performance) and 0.039 (Market-based Performance), with non-significant results in both areas, failing to support H2a. Additionally, in hypothesis H2b, the study did not substantiate the impact of individualism on the relationship between social dimension performance and financial performance: ROA (coefficient = -0.003; sig. value = n.s) and Tobin's Q (coefficient = 0.048; sig. value = n.s), respectively. Furthermore, individualistic culture strengthens the link between governance dimension performance (g) and financial performance in accounting-based performance (coefficient = 0.015; sig. value = 0.01), supporting H2c.

The company exhibits less motivation to engage in sustainability activities due to concerns about declining profits (Karaosmanoglu et al., 2016). The cognitive and behavioural inclinations of a society with high individualism prioritize the pursuit of rapid income. Environmental challenges often necessitate long-term investments and higher costs, causing companies to view such investments as secondary priorities (Lu & Wang, 2021; Rupp et al., 2018). Moreover, this dimension of individualism points towards personal interests superseding societal interests. A lack of external impetus, such as societal pressure, can impinge on companies' complete fulfilment of their corporate social responsibility commitments (Dare, 2016; DiMaggio & Powell, 1983; Wated & Sanchez, 2005). This highlights the crucial role of societal pressure in driving companies to fulfil their social responsibilities. In highly individualistic contexts, ESG success depends on external drivers such as regulation, investor pressure, and public accountability, which link profit orientation to collective sustainability aims. Thus, policy and institutional frameworks should encourage market actors to view ESG engagement as both financially advantageous and socially meaningful.

Table 4 model 3 demonstrates that masculinity does not strengthen the relationship between environmental dimensions and financial performance (coef = -0.001 | -0.004; sig.

value = n.s.), so H3a is not supported. These findings suggest that the level of masculinity in a culture does not impact how well companies perform, as this environment continually influences the company's financial performance. Meanwhile, other test results prove that masculinity enhances the relationship between social performance (s) and governance (g) strategies with financial performance (coef = 0.005 with sig. value = 0.01; and coef = 0.066 with sig. value = 0.01), H3b and H3c support.

Countries with a high level of masculinity tend to demand that companies compete, succeed, and produce high materiality levels. Companies in masculine cultures should stress how well social policies and governance can improve achievement and competitive advantage (Cagli et al., 2023; Van Oudenhoven et al., 1998). Furthermore, these policies should be linked to clear financial results to gain greater support from leaders and employees. From another perspective, companies in masculine cultures utilize good social policies and governance as a market differentiation tool. The companies set themselves apart from competitors and appeal to customers and investors (Lee & Parpart, 2018; Sannino et al., 2020). Therefore, these results indicate that companies in masculine and feminine cultures achieve similar financial benefits by implementing environmental practices (Shin et al., 2023). This study recommends that policymakers and corporate leaders integrate sustainability targets into performance-based systems and reward mechanisms to align ESG engagement with the prevailing achievement-oriented values of masculine cultures.

Furthermore, this study didn't find the relationship between environmental performance and financial performance moderated by uncertainty avoidance (coef = -0.301 | 0.039; sig. value = n.s), and H4a is not supported. Moreover, uncertainty avoidance does not strengthen the relationship between social performance and a company's financial performance, H4b not supported (coef = -0.053 | 0.054; sig value = n.s). It indicates that companies in countries with high levels of certainty tend to act more opportunistically by leveraging the recognition of E and S activities as a trust acquisition strategy. Meanwhile, this study proves that high levels of uncertainty strengthen the relationship between governance (g) and financial performance, H4c supported. It implies that the impact of uncertainty prompts companies to develop effective strategies to manage their operations, which can positively affect company performance.

The findings show that uncertainty does not moderate the relationship between environmental performance and financial performance (H4a) as well as social performance and financial performance (H4b). These results indicate that in countries with high levels of certainty, companies prefer to use recognition of environmental and social performance to gain stakeholders' trust rather than as an integral element of a substantial sustainable strategy (Frijns et al., 2013; Shin et al., 2023; Van Oudenhoven et al., 1998). In the context of high uncertainty, companies tend to face greater challenges in operational management and deal with more complex risks. Therefore, companies must develop and implement more effective governance strategies to address this uncertainty (Cagli et al., 2023). The results indicate that in uncertainty-averse cultures, robust governance mechanisms are essential for managing risk and ensuring stakeholder confidence. Transparent regulations and accountability systems can thus promote sustained ESG participation.

Table 4. OLS Results Testing Hypotheses

	MODEL 1 PD = Power Distance		MODEL 2 IN = Individualism		MODEL 3 MS = Masculinity	
	ROA	TOBINS Q	ROA	TOBINS Q	ROA	TOBINS Q
Env.	-0.014 (-0.720) ***	0.022 (0.178) *				
Soc.	0.034 (0.662) ***	-0.121 (-0.845)				
Gov.	-0.382 (-0.520) ***	0.241 (0.366) ***				
PD	-0.000 (-0.778) ***	0.067 (0.302) ***				
Env*PD	0.790 (0.041)	0.019 (0.559)				
Soc*PD	0.014 (0.487) ***	-0.134 (-0.218) **				
Gov*PD	-0.423 (-0.127)	-0.372 (-0.579) ***				
GoF (Adj R^2)	0.056	1.221				
Env.			-0.042 (-0.501) ***	0.012 (0.122)		
Soc.			0.019 (0.677) ***	-0.035 (-0.354) ***		
Gov.			-0.021 (-0.501) ***	-0.001 (-0.795)		
IN			-0.151 (-0.250)	0.023 (0.832)		
Env*IN			-0.090 (-0.631)	0.039 (0.126)		
Soc*IN			-0.003 (-0.119)	0.048 (0.771)		
Gov*IN			0.015 (0.522) ***	-0.062 (-0.942)		
GoF (Adj R^2)			0.057	1.228		
Env.					-0.020 (-1.022) ***	0.012 (0.328) ***
Soc.					0.820 (1.153) ***	-0.204 (-0.624) ***
Gov.					-4.401 (-0.174) *	-0.002 (-0.511) ***
MS					-0.000 (-0.424)	0.012 (0.943)
Env*MS					-0.001 (-0.098)	-0.004 (-0.192)
Soc*MS					0.005 (0.451) ***	0.018 (0.628)
Gov*MS					0.000 (0.742)	0.066 (0.286) ***
GoF (Adj R^2)					0.058	1.227

	MODEL 4		MODEL 5		MODEL 6	
	UA = Uncertainty Avoidance		ST = Short-term Orientation		RS = Restraint	
	ROA	TOBINS Q	ROA	TOBINS Q	ROA	TOBINS Q
Env.	-0.179 (-0.546) ***	0.002 (0.159)				
Soc.	0.023 (0.661) ***	-0.015 (-0.365) ***				
Gov.	-0.104 (-0.569) ***	-0.022 (-0.108)				
UA	-0.117 (-0.584)	0.014 (0.511) ***				
Env*UA	-0.301 (-0.647)	0.039 (0.115)				
Soc*UA	-0.053 (-0.997)	0.054 (0.881)				
Gov*UA	0.216 (0.542) ***	-0.042 (-0.642)				
GoF (Adj R^2)	0.053	1.228				
Env.			-0.012 (-0.502) ***	0.004 (0.484) ***		
Soc.			0.004 (0.669) ***	-0.006 (-0.647) ***		
Gov.			-0.010 (-0.558) ***	0.004 (0.407) ***		
LT			-0.001 (-0.319)	0.010 (0.508)		
Env*LT			-0.030 (-0.623)	0.021 (0.847)		
Soc*LT			-0.007 (-0.104)	0.045 (0.992)		
Gov*LT			0.016 (0.528) ***	-0.170 (-0.459) ***		
GoF (Adj R^2)			0.056	0.898		
Env.					-0.000 (-0.492) ***	0.002 (0.157)
Soc.					0.001 (0.677) ***	-0.006 (-0.391) ***
Gov.					-0.006 (-0.579) ***	-0.002 (-1.405)
RS					-0.001 (-0.878)	-0.000 (-0.033)
Env*RS					-0.031 (-0.749)	0.039 (0.114)
Soc*RS					-0.043 (-0.107)	0.069 (0.133)
Gov*RS					0.016 (0.558) ***	-0.023 (-0.368)
GoF (Adj R^2)					0.056	1.229

Notes: The variable comprises Env = Environmental; Soc. = Social; Gov. = Governance; PD = Power Distance; IN = Individualism; MS = Masculinity; UA = Uncertainty Avoidance; ST = Short-term Orientation; and RS = Restraint. The significance levels are 1% (*); 5% (**), and 10% (***).

This study does not provide evidence that long-term orientation reinforces the connection between environmental (E) and social (S) performance with financial performance. These findings are illustrated by the interaction coefficients of LTO and Environment, which are -0.030 and 0.021, respectively, indicating an insignificant effect that leads to the rejection of H5a. On the other hand, this study shows that the interaction of LTO and Government does not appear to yield optimal financial performance for companies (coefficients = -0.007 | 0.045; sig. value = n.s); H5b rejected. Furthermore, the results regarding H5c demonstrate diverse impacts of the moderation of long-term orientation. The research indicates that companies with a high level of long-term orientation are inclined to strengthen the connection between governance and accounting-based financial performance (coef. = 0.016; sig. value = 0.01) while weakening it in terms of market-based performance (coef. = -0.170; sig. value = 0.01).

The research findings reveal the vital commitment of companies to adapt their environmental practices to fulfill stakeholder responsibilities (M. Kim et al., 2020; Lu & Wang, 2021; Türker, 2015). However, this study does not establish the moderating influence of long-term orientation on the relationship between environmental and social performance; it strongly advocates for the consistent and sustainable implementation of environmental and social policies. This study contends that such success leads to stable and positive financial outcomes. Furthermore, in a culture highly focused on long-term interests, effective governance is likely highly valued for its ability to deliver rapid and measurable outcomes, reinforcing the link between governance and financial performance (Graafland & Noorderhaven, 2020; Türker, 2015). Consequently, various risks adversely affecting a company's financial prosperity can be mitigated from the outset. Policymakers should establish institutional frameworks that incentivize intertemporal sustainability performance and long-term value creation.

Lastly, consistent with previous findings, this study does not demonstrate that the restraint dimension strengthens the relationship between environmental performance (e) and financial performance, as H6a is rejected. It showed coefficient results of -0.031 and 0.039, with no significant effect. On the other hand, this study also fails to demonstrate that restraint strengthens the relationship between social performance (s) and financial performance (coef = -0.043 | 0.069; sig. value = n.s), rejecting H6b. However, consistent with prior findings, the relationship between governance performance (g) and financial performance (ROA) is strengthened by a high level of restraint culture, supporting H6c.

Companies operating in cultural environments that prioritize control and restraint do not directly associate their environmental performance with improved financial outcomes. The unintegrated company strategies create the company's failure in fostering financial benefit (Shin et al., 2023; Sun et al., 2019; Wedari et al., 2021). Furthermore, organizations in cultures characterized by a high degree of restraint do not regard social performance as a key factor in generating corporate revenue. Consequently, they tend to focus more on establishing robust governance functions integrated into corporate strategies, which are more likely to significantly influence financial performance (Alipour & Yaprak, 2022). The results indicate that in highly restrained cultures characterized by self-discipline and conformity, governance mechanisms play a more decisive role in ensuring financial stability than environmental or social initiatives. Policymakers should therefore promote incentive and disclosure systems that translate governance rigor into sustainable practices and tangible financial performance.

5. Conclusion, Implications, and Limitations

The culture of a nation significantly influences the decisions made by companies and investors regarding the implementation of their ESG activities. This study presents diverse findings. The research tendency suggests that the environmental dimension is largely independent of the prevailing cultural factors in a country. This is attributed to the definition of sustainability activities, which often leans more towards the technical aspects within a company. The findings of this research demonstrate that the relationship between the social dimension and financial performance can be strengthened in the areas of power distance and masculinity. Conversely, the governance dimension shows a stronger relationship with financial performance across all dimensions of national culture, except for power distance.

This study offers significant implications for investors, corporations, and policymakers. Investors should assess the cultural and institutional attributes of countries that foster robust ESG performance, while companies are encouraged to strengthen governance practices that consistently enhance financial outcomes across cultures. Given that the effectiveness of social initiatives varies with cultural contexts, particularly in high power distance and masculine societies. Furthermore, firms should adapt their strategies to local values, while environmental practices should adhere to standardized global norms. Accordingly, policymakers should design sustainability regulations and incentives that acknowledge these cultural dynamics to ensure that ESG practices remain both effective and culturally harmonized across diverse regions.

This study presents several limitations that offer opportunities for further research. First, the analysis employs a limited number of financial performance variables. This constraint in the measurement of financial performance may result in homogeneity of outcomes, complicating comparative analysis. Accordingly, future studies could incorporate a broader range of financial performance metrics to achieve more generalized findings. Additionally, the measurement of national culture dimensions is confined to those assessed by Hofstede (2010), thereby limiting the exploration of other national cultural dimensions not captured by this framework. Subsequent research benefits from exploring or integrating alternative cultural frameworks. Moreover, this study encourages further investigation into the effects of cultural diversity through the application of alternative methods or approaches, such as experimental techniques or qualitative methodology.

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