

## **BRIDGING VOIDS: INSTITUTIONAL TRUST AND THE ROLE OF ESG IN FINANCIAL SUCCESS EU AND LATIN AMERICA**

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**Introdução**

Corporate sustainability has gained relevance with the rise of ESG practices. However, their impact on financial performance remains debated, especially in emerging markets. This study investigates how institutional trust and ESG practices influence firm performance in Latin America and the European Union, considering their distinct institutional contexts.

**Problema de Pesquisa e Objetivo**

What is the impact of institutional trust on financial performance, and does ESG moderate this relationship? The study aims to analyze whether ESG moderates the link between institutional trust and firm performance (Tobin-Q), comparing publicly traded companies in Latin America and the EU from 2013 to 2022.

**Fundamentação Teórica**

The study draws on institutional theory (North, 1990; Acemoglu & Robinson, 2011) and the concept of institutional voids (Khanna & Palepu, 1997). It also engages with ESG and governance literature (Gillan et al., 2021), emphasizing how institutions and social norms shape organizational performance.

**Metodologia**

A linear regression with sector and year fixed effects was applied to a balanced panel of 4,224 observations from 528 public companies in 32 countries (2013-2022). Variables included Trust (WVS), ESG (Refinitiv), corruption control, GDP, leverage, ROA, board independence, firm age, and dummies for region and COVID.

**Análise dos Resultados**

The main hypotheses were rejected. Institutional trust had a negative effect on financial performance, and ESG did not show a significant moderating effect. However, governance (board independence) was positively related to performance. Firms in the EU outperformed those in Latin America, highlighting institutional influence.

**Conclusão**

In fragile institutional contexts such as Latin America, institutional trust and ESG do not directly lead to better performance. In contrast, in robust contexts like the EU, strong governance structures positively affect outcomes, highlighting the importance of institutional conditions in ESG effectiveness.

**Contribuição / Impacto**

The study shows ESG's limited role in weak institutional environments and emphasizes the need for stronger institutions and governance. It addresses calls for more research in emerging markets (Narula et al., 2024) and contributes with theoretical, practical, and social insights aligned with the UN's SDGs.

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