

# The Role of ESG (Environmental, Social, Governance) In Corporate Financial Performance

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**Abstract:** Environmental, Social, and Governance (ESG) factors are increasingly integral to assessing corporate financial performance in today's business landscape, as companies face growing pressure from investors, consumers, and regulators to adopt sustainable and ethical practices. The role of ESG in financial performance extends beyond mere corporate social responsibility; it encompasses strategic practices that can influence a firm's operational efficiency, reputation, risk management, and overall market positioning. When effectively integrated into corporate strategy, ESG initiatives can drive long-term value creation by reducing costs through energy efficiency, enhancing productivity through better employee engagement, and mitigating reputational or regulatory risks that could lead to significant financial losses. A strong commitment to ESG can improve stakeholder trust, fostering loyalty among consumers who increasingly prioritize sustainability in their purchasing decisions, and can also attract top-tier talent, as employees are more likely to stay with companies whose values align with their own. Furthermore, businesses with robust ESG practices are seen as less risky investments, as they are better equipped to anticipate and adapt to regulatory changes, market trends, and potential crises, thus offering a more stable return on investment. Financial performance, in this context, becomes not just a matter of profitability but of resilience, where companies that embrace ESG can often outperform their peers in the long run.

**Keywords:** ESG investing , risk management, financial returns, social responsibility, ethical investing , governance structure , ESG reporting standards.

## INTRODUCTION

In today's evolving business landscape, Environmental, Social, and Governance (ESG) factors have emerged as critical drivers of corporate success. ESG encompasses a range of issues, from environmental sustainability practices, social equity, and corporate governance structures to ethical business practices. Traditionally, businesses measured performance primarily through financial

metrics such as revenue, profit margins, and stock price. However, in recent years, there has been a growing recognition that non-financial factors—particularly ESG considerations—are becoming increasingly important in determining a company's long-term financial success.

## BACKGROUND

### The Positive Impact of ESG on Financial Performance

ESG factors can also contribute directly to superior financial performance by enhancing a company's reputation, fostering customer loyalty, and attracting top talent. Companies with robust ESG practices are often seen as more responsible and trustworthy, which can translate into competitive advantages. For instance, consumers are increasingly inclined to support businesses that demonstrate a commitment to social and environmental issues, such as sustainable sourcing, fair labor practices, or carbon neutrality. This consumer preference has the potential to drive revenue growth for companies that align with these values.

Moreover, talent acquisition and retention are becoming increasingly dependent on a company's ESG credentials. Employees, particularly from younger generations, are more likely to be attracted to organizations that prioritize social and environmental issues. Companies that embrace diversity, equity, and inclusion (DEI) initiatives, for example, are often seen as more attractive employers. A workforce that is engaged and aligned with the company's ESG values is more likely to be productive and contribute to long-term growth.

### Problem Statement

The impact of ESG on financial performance may vary across different industries or sectors. For example, companies in industries with high environmental impact (such as energy or

manufacturing) may see more direct financial benefits from improved ESG practices than firms in sectors with lower environmental risks (like tech or finance). Research is still developing on how sector-specific factors influence the ESG-financial performance relationship.

### Objectives

The primary objectives of this study are:

- 1.To examine the level of employee satisfaction in the esg corporate performance.
- 2.To identify the key factors influencing job satisfaction among employees in this sector.
- 3.To evaluate the relationship between work environment, governance, social compensation, and employee satisfaction.
- 4.To provide recommendations for improving employee satisfaction and organizational productivity.

### Hypothesis

Null Hypothesis (H0): There is no significant association between age group and ESG usage.

Alternative Hypothesis (H1): There is a significant association between age group and ESG usage.

## LITERATURE REVIEW

### Theoretical Frameworks Linking ESG to Financial Performance

- Stakeholder Theory: This theory posits that firms that focus on satisfying the needs of various stakeholders (employees, customers, investors, communities) rather than just maximizing shareholder profits can enhance long-term value and financial performance. ESG considerations are integral to satisfying these stakeholder demands.
- Resource-Based View (RBV): From the perspective of RBV, firms that adopt sustainable practices (e.g., through efficient resource usage or strong governance structures) may derive competitive advantages that lead to superior financial performance.

### Empirical Evidence on the Impact of ESG on Financial Performance

Several studies have examined the relationship between ESG performance and financial outcomes. The evidence is mixed, but there are general trends:

□ Positive Impact: A significant number of studies suggest that firms with higher ESG scores tend to outperform their peers in terms of financial metrics such as profitability, return on assets (ROA), and return on equity (ROE). For instance, firms with strong environmental practices may experience cost savings through energy efficiency or waste reduction. Social and governance factors, like employee satisfaction and ethical management practices, can lead to better operational efficiency and lower risks.

□ Risk Reduction: ESG practices, particularly in the areas of governance and environmental sustainability, can reduce exposure to long-term risks such as regulatory penalties, reputational damage, and environmental disasters. These risk reductions can lead to more stable financial returns over time.

□ Mixed or Neutral Impact: Some studies find no significant relationship or even a negative relationship between ESG performance and financial performance, especially in the short term. Critics argue that ESG initiatives may incur initial costs, such as investments in cleaner technologies or compliance with labor standards, which can depress short-term profitability.

□ Industry-Specific Variations: The impact of ESG on financial performance can vary by industry. For example, industries with heavy environmental footprints (e.g., oil and gas, mining) may face greater benefits from adopting ESG practices, whereas firms in less impactful sectors may not experience the same magnitude of financial performance improvement.

## RESEARCH METHODOLOGY

### Research design

#### 1. Qualitative Study Design

Objective: To explore how companies understand and integrate ESG factors into their operations and decision-making processes, and how they perceive the relationship between ESG practices and financial performance.

#### Research Questions:

- How do corporate leaders and managers perceive the impact of ESG factors on their company's financial performance?
- What are the barriers and drivers for implementing ESG practices in corporate strategy?

- How do companies communicate ESG goals to stakeholders and the market?

Data Collection:

- Phase 1 (Qualitative): Conduct interviews with business executives, ESG managers, and investors to understand their views on the importance of ESG factors for financial outcomes.
- Phase 2 (Quantitative): Collect ESG ratings and financial performance data for a large sample of companies over multiple years.
- Integration of Both Data Sets: The qualitative findings can inform the quantitative analysis (e.g., what specific ESG factors to focus on) and provide context for interpreting statistical results.

Data Analysis:

- Qualitative Analysis: Follow the methods outlined in the qualitative design, such as thematic analysis of interview transcripts.
- Quantitative Analysis: Perform regression analysis to examine the relationship between ESG and financial performance.
- Mixed-Methods Integration: Use a joint display of results (e.g., combining qualitative themes with statistical findings) to draw conclusions about how ESG impacts financial performance.

📊 SAMPLING TECHNIQUES

Response	Respondents(100)	Percentage (%)
strongly disagree	9	8.9%
disagree	14	13.9%
neutral	19	18.8%
agree	25	24.8%
strongly agree	33	33%

SAMPLING METHODS:

The study will employ a stratified random sampling method:

- Stratified method: Convenience sampling procedure was used in collecting data of ESG (environment, social, governance) to make it easy and readily available for participants based

POPULATIONS:1. Individuals (Consumers and Employees)

- Consumers: Studies may focus on how individual consumer behavior is influenced by ESG factors, such as whether they prefer to buy from companies with strong environmental policies, ethical labor practices, or good governance.
- Employees: Research may explore how employees view ESG initiatives within their organizations, including employee satisfaction, work culture, diversity, and corporate social responsibility.

2. Investors

- Institutional Investors: Studies focusing on how institutional investors, like pension funds, insurance companies, and asset managers, assess and incorporate ESG factors into their investment decisions and strategies.
- Retail Investors: Research might explore how individual investors consider ESG criteria when making investment choices, particularly as interest in socially responsible investing (SRI) grows.

SAMPLE SIZE: The sample size will be determined based on the population size and the desire confidence level and margin of error. For example, if the target population is large, a sample size of 100 participants appropriate to achieve statistically significance results.

on convenience.

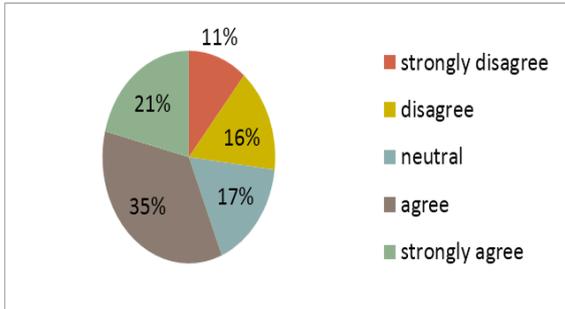
- Random sampling: within each stratum, random sampling will be applied to select respondents. This minimizes bias and ensures that every individual within each stratum has an equal chance of being included in the study.

DATA INTERPRETATION

1. Companies that care about social issues are more likely to perform well financially.

Response	Respondents(100)	Percentage (%)
strongly disagree	11	11.0%

disagree	16	15.8%
neutral	17	16.8%
agree	35	34.7%
strongly agree	21	21%

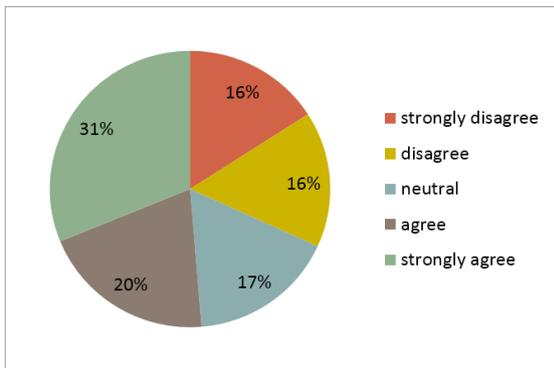


**INTERPRETATION:**

The majority (56%) either agree or strongly agree that companies focusing on social issues Tend to perform well financially, while a smaller portion (27%) disagrees or strongly disagrees. This suggests that most people see corporate social responsibility as a beneficial strategy for financial success, but there is still some skepticism.

**2. Investors are more likely to invest in companies with strong ESG practices.**

Response	Respondents(100)	Percentage (%)
strongly disagree	16	15.8%
disagree	16	15.8%
neutral	17	16.8%
agree	20	19.8%
strongly agree	31	31%



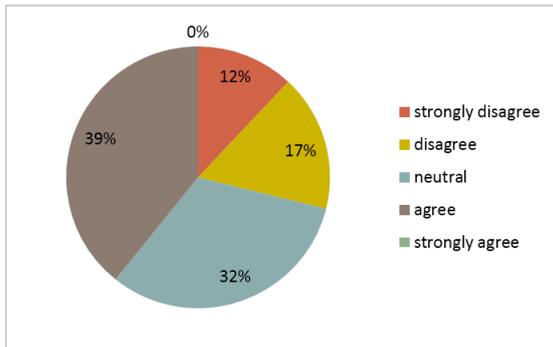
- 15.8% disagree and another 15.8 % strongly disagree making a total of 31.6 % of respondents skeptical about ESG impact on investment decisions.
- A majority of respondents (31%) strongly agree that investors are more likely to invest in companies with strong ESG practices.
- Another 19.8 % agree meaning a respondents have to positive view on the importance of ESG practices in investment decisions.

**INTERPRETATION:**

- 16.8% of respondents are neutral , meaning they neither agree nor disagree

**3. ESG factors help companies reduce financial risks.**

Response	Respondents(100)	Percentage (%)
strongly disagree	12	11.9%
disagree	17	16.8%
neutral	32	31.7%
agree	39	38.6%
strongly agree	0	0%

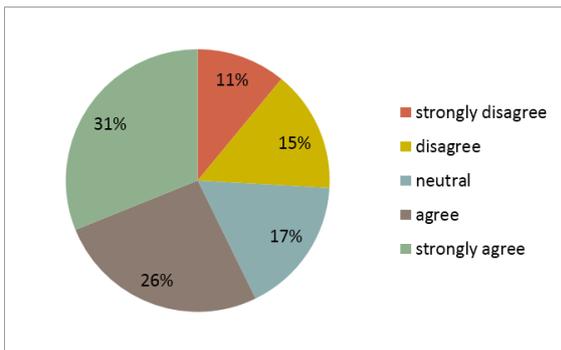


**INTERPRETATION:**

The largest group (39%) agrees that ESG factors help reduce financial risks and a significant portion (32%) remains neutral on the subject and a combined 28.7 % disagreement suggest about the ESG financial impact.

**4. Companies with a focus on sustainability tend to be more profitable**

Response	Respondents(100)	Percentage (%)
strongly disagree	11	10.9%
disagree	15	14.9%
neutral	17	16.8%
agree	26	26.0%
strongly agree	31	31%

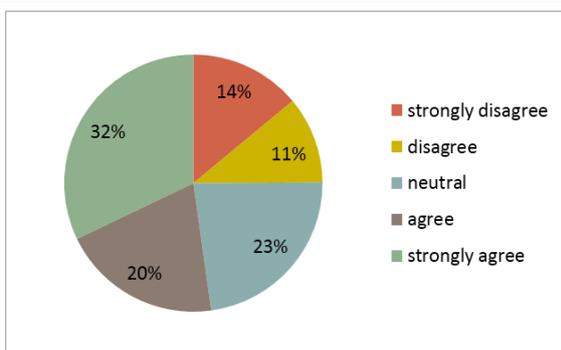


**INTERPRETATION:**

A total of 57 % of respondents (26% agree+31%strongly agree) believe that sustainability focused companies tend to be more profitable. Around 16.8% of respondents are undecided. About 25.8 % of respondents (10.9% strongly agree +14.9 % disagree ) do not believe sustainability leads to profitability.

**5. Companies with good ESG practices attract more customers**

Response	Respondents(100)	Percentage (%)
strongly disagree	14	13.9%
disagree	11	10.9%
neutral	23	22.8%
agree	20	19.8%
strongly agree	32	32%



1. A majority (52%) of respondents agree or strongly agree that good esg practices attract more customers.
2. Neutral responses (23%) suggest some uncertainty about the impact of esg practices on customer attraction.
3. A smaller portion (25%) disagree or strongly disagree , indicating skepticism about esg's influence on customer behavior.

**INTERPRETATION:**

**CONCLUSIONS**

The role of environmental, social, and governance (ESG) factors in corporate financial performance has become increasingly significant. Research and real world evidence suggest that strong ESG practices can enhance long term financial performance by improving risk management, operational efficiency, and brand reputation. Companies with strong ESG commitments often attract investors, reduce regulatory and legal risk and foster customer and employee loyalty.

However, the impact of ESG on financial performance is not uniform across industries or timeframes. While some studies show a positive correlation between ESG and profitability, others indicates that short term costs associated with ESG investments may outweigh immediate financial gains. Ultimately, integrating ESG into corporate strategy can create long term value, provided it aligns with business objectives and stakeholder expectations.

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