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Impact Of ESG Performance on Firm Performance – A Systemic Literature Review

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***Abstract*—With increased adoption of ESG practices, it has become interesting area of research to explore relationship between ESG performance and corporate financial performance. A good body of research has been published on this theme. In this study we have attempted to analyze and synthesize available relevant literature published on this theme using systemic literature review and bibliometric analysis. Total 90 papers were analyzed. Results suggest business case for sustainability as over 52% of the published studies indicate a positive impact of ESG performance on financial outcomes. Some studies have found negative influence while a few studies have found non-linear relationship between the ESG and CFP.**

***Index Terms*—ESG Scores, Corporate Financial Performance (CFP), Firm Value, Tobin's Q, Systematic Literature Review, Capital Structure.**

I. INTRODUCTION

Ultimate aim of organizations is to create value. Shareholder Theory (Friedman et al., 1962) emphasizes that firms to strive to maximize value for shareholders while Stakeholder Theory (Freeman, 2010) states that firms should create value for all stakeholders. One of the measures of the financial success is valuation of the firm. On the other hand, performance on Environmental, Social, and Governance (ESG) aspects can be considered as a measure of stakeholder centricity of the firms. ESG Ratings provided by various independent Rating agencies provides quantitative measure of ESG performance of the respective firms.

It has been a topic of keen interest by several researchers to understand if a good ESG performance can result in good financial outcomes. Several studies have been conducted to explore this relationship based on empirical data, however literature provides mixed results. Conceptually, good performance on ESG should have a positive influence on financial outcomes of the firm. All valuation models – Discounted Cash Flow (DCF)), Relative Valuation (RV), and Contingent Claim Valuation (CCV), rely on the potential future cash flows. Good ESG performance helps companies to mitigate future risks and thus help in future proofing. This should result in lower risk and a higher valuation of the firms. In addition, good ESG performance ensures a higher customer trust and investor confidence. These factors can also affect cash flows and profitability resulting in a higher valuation.

The first mention of ESG was in a Report developed by the Joint Convention of eighteen financial institutions intended to strengthen implementation of the Principles of the "United Nations Global Compact (UNGC)" (Pollman, 2024). ESG comprises three pillars of Environment, Social, and Governance. Environmental pillar deals with issues associated with firm's interaction with the external environment. The specific topics included are energy consumption, greenhouse gas emissions, water and waste management, resource efficiency, pollution, etc. Social pillar is concerned with how organizations manage expectations of internal and external stakeholders. Topics included under social pillar are human capital management, local community development, supplier engagement, customer centricity, etc. Governance pillar informs how organizations ensure business ethics, compliance, and data security. ESG has a broad coverage and it covers various business functions.

Several disclosure standards and frameworks have been developed to standardize ESG Reporting. Most commonly used are Integrated Reporting (*Integrated Reporting*, n.d.), GRI Standards, (*GRI - Home*, n.d.), SASB (*SASB*, n.d.) and IFRS S1/S2 (*IFRS - About*, n.d.). There have been regulatory mandates on ESG disclosures – BRSR (*SEBI | BRSR Core - Framework for Assurance and ESG Disclosures for Value Chain*, n.d.) and CSRD (*Directive - 2022/2464 - EN - CSRD Directive - EUR-Lex*, n.d.) from Indian and EU regulators respectively. Based on the information disclosed by firms, responses provided against questionnaire various rating agencies provide ESG Ratings. Popular ESG Ratings are S&P CSA (*Corporate Sustainability Assessment (CSA)*, 2025), MSCI (*ESG Ratings | MSCI*, n.d.), Refinitiv (*ESG Scores*, n.d.), and Sustainalytics (*Home - Sustainalytics*, n.d.).

II. RESEARCH METHODS

Objective of this research was to identify trends in published literature on the theme of "Impact of ESG Performance on Corporate Financial Performance", analyse empirical results, and identify gaps in literature. We used Scopus database for sourcing the published papers. It is one of the largest curated abstract and citation databases of peer-reviewed literature. We used checklist recommended by the PRISMA Statement 2020 (Page et al., 2021) to documenting and reporting. Time period used was from 2010 to 2025. Studies which had aanluyzed the impact of ESG Performance on the corporate financial performance were included in the study. Various bibliometric techniques were used for analysis.

III. RESULTS

"Impact of ESG Performance on Firm's Corporate Financial Performance" was searched in Scopus database. Tiem period 2010 to 2025 was selected. Output was subjected to screening as per PRIMA Statement flow diagramme. Result of screening has been summarized in Figure-1:

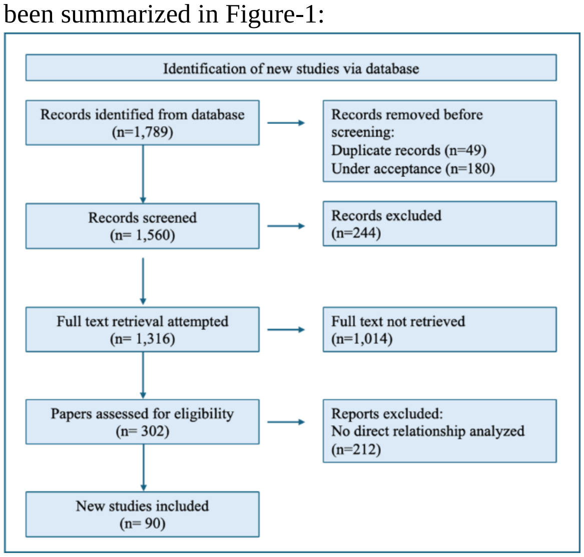

Figure 1: Screening of Records

Trend in publishing on the theme of ESG and CFP saw a surge over past 6-7 years. Increasing adoption of good ESG practices and COVID-19 have played a crucial role.

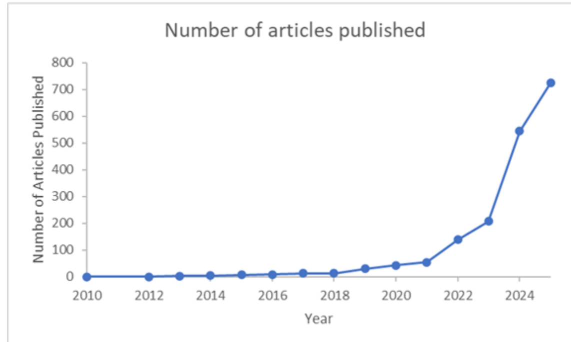

Figure 2: Year-wise trend in publications

Of the studied papers (n=90), 18 studies (20%) were found to be focused on a sector while others (80%) were found to be sector agnostic. 41% of the papers covered Chinese companies while 29% of the papers covered multi-country geography.

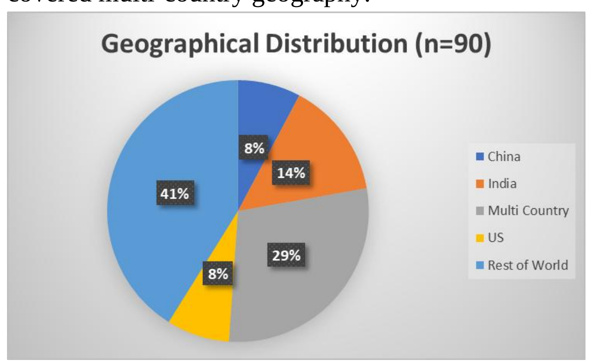

Figure 3: Geographical distribution

Qualitative analysis of paper titles suggested wide use of firm value and ESG scores in the studies. Word cloud developed from the titles has been provided below:

Figure 4: Word cloud developed from titles

An analysis of the selected literature reveals that ESG Scores serve as the predominant independent variable, featured in 77% of the reviewed studies. A smaller subset of research instead evaluates independent metrics such as ESG Disclosure Scores, ESG Risk, and TCFD Disclosures. Concurrently, corporate financial outcomes are primarily captured through predicted variables like Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE), Tobin's Q (TQ), Market Capitalization, and Market Value. Additionally, several papers investigate the direct impact of ESG scores on specialized financial metrics, including the Weighted Average Cost of Capital (WACC), Credit Risk, Credit Ratings, and the Sharpe Ratio.

In terms of empirical outcomes, more than half of the analysed literature (over 52%) establishes a positive correlation between robust ESG performance and corporate financial performance (CFP). Conversely, roughly 15.5% of the papers indicate that ESG initiatives negatively affect financial outcomes, while a few studies identify a non-linear, inverted U-shaped relationship between ESG metrics and corporate returns. Among the 52 papers demonstrating a favourable link between ESG and CFP, a significant majority (71%) utilize valuation-based metrics as their dependent variables. Specifically, these comprise Firm Value (n=18), Tobin's Q (n=13), and Market Capitalization or Market Value (n=6). Another group of six studies examines how ESG metrics influence capital availability risks and capital structure, utilizing dependent variables such as credit risk (n=3), Credit Rating/Risk (n=2), and the Debt-to-Equity (D/E) Ratio (n=1). Finally, for the eight studies concluding that ESG performance detrimentally impacts CFP, the chosen dependent variables vary: three incorporate valuation-focused metrics, four assess Return on Assets (ROA), one evaluates cash holdings (n=1), and another measures the leverage ratio (n=1).

IV. DISCUSSION

ESG comprehensively covers various aspects of business operations and strategy. Good ESG performance affects business operations positively by risk mitigation, regulatory compliance, and stakeholder confidence. These factors have potential to collectively influence corporate financial performance positively. Based on the literature review, following framework can be devised to map impact of ESG performance on corporate financial performance.

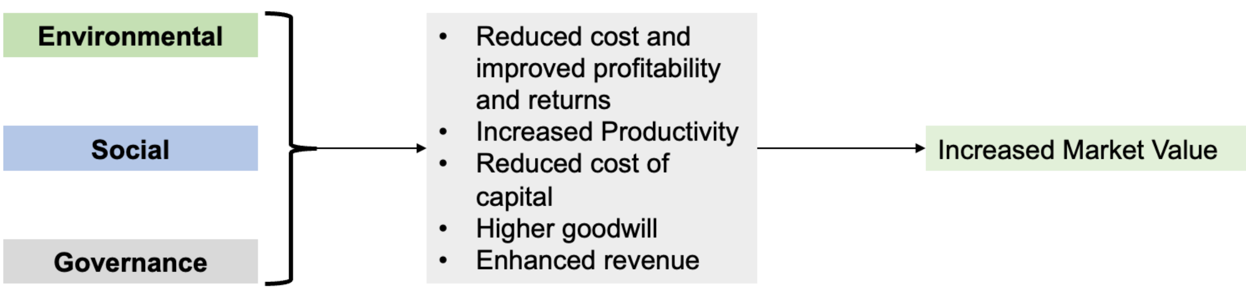

Figure 5: Conceptual framework

V. CONCLUSION

In this study, we have synthesized relevant literature exploring the influence of Environmental, Social, and Governance (ESG) performance on corporate financial outcomes. The overriding consensus of the analysed data positions ESG Scores as the definitive independent predictor of for CFP. Empirically, the data presents a compelling business case for sustainable corporate strategies. This favourable relationship has been observed with valuation enhancements, reflected in market-based indicators such as Firm Value and Tobin's Q. Furthermore, the literature highlights the strategic role of ESG metrics in optimizing capital structures and mitigating risk, notably influencing a firm's creditworthiness, Debt-to-Equity (D/E) ratios, and Weighted Average Cost of Capital (WACC).

However, the findings also caution against a generalized interpretation. A subset of the research has observed adverse financial impacts. A few studies have concluded complex, non-linear, inverted U-shaped relationships. These variations are frequently observed in cases of operational metrics, such as

Return on Assets (ROA), cash holdings, and leverage ratios. Ultimately, these findings indicate that while ESG initiatives generally act as powerful drivers of long-term market valuation and risk mitigation, their immediate impact on short-term accounting performance remains complex and mixed.

Annexure

Summary of findings from key studies:

Author	Year	Study Geography	Independent Variable	Dependent Variable	Time Period	Results
(Li et al., 2018)	2018	US	ESG Disclosure Scores	Firm Value		Positive impact
(Aouadi & Marsat, 2018)	2018	58 Countries	ESG Score	Firm Value	2002-2011	Positive impact
(Atan et al., 2018)	2018	Malaysia	ESG Score	ROE, Tobin's Q, WACC	2010-2013	No significant relationship
(E. P. Yu et al., 2018)	2018	47 Countries	Bloomberg ESG Disclosure Score	Tobin's Q		Positive impact
(Aydoğmuş et al., 2022)	2022		ESG Score	Firm Profitability, Firm Value		Positive Impact
(Yoon et al., 2018)	2018	Korea	CSR Performance	Market Value		Positive impact
(Abdi et al., 2022)	2022	Worldwide	ESG Performance	Market to Book Ratio	2009-2019	Positive Impact
(S. Kim & Li, 2021)	2021	Global	ESG Score	RoA, Credit Rating	1991-2013	Positive Impact
(Behl et al., 2022)	2022	India	ESG Score	Tobin's Q	2016-2019	Positive impact of third lagged
(Buallay et al., 2020)	2020	MENA	ESG Score	ROA, ROE, Tobin's Q	2008-2017	Heterogenous Effect
(Bodhanwala & Bodhanwala, 2018)	2018	India	Sustainability	RoCE, ROE, ROA, EPS		Positive impact
(Ting et al., 2019)	2020	Worldwide	ESG Score	Firm Value		Positive Impact
(Ionescu et al., 2019)	2019	Global	ESG Score	Market Value	2010-2015	Positive impact
(Nekhili et al., 2021)	2021	France	ESG Score	Firm Market Value	2007-2017	Heterogenous
(Atif et al., 2022)	2022	Multi Country	ESG Disclosure Scores	Cash Holding	2006-2015	ESG Disclosures associated with lower cash holding
(Jyoti & Khanna, 2021)	2021	India	ESG Score	RoA, ROCE, RoE		Negative Impact

Author	Year	Study Geography	Independent Variable	Dependent Variable	Time Period	Results
(Maji & Lohia, 2022)	2023	India	ESG Score	Firm Profitability		Positive association
(Chauhan & Kumar, 2018)	2018	India	Bloomberg ESG Disclosure Score	Firm Value		Positive impact
(Ademi & Klungseth, 2022)	2022	US	ESG Score	ROCE, Tobin's Q	2017-2020	Positive Impact
(Kalia & Aggarwal, 2022)	2022	Global	ESG Score	Firm Profitability	2020	Heterogenous
(Adeneye et al., 2022)	2023	Southeast Asia	ESG Score	Leverage Ratio	2012-2019	Negative relationship with market leverage, Positive relationship with book leverage
(Abdi et al., 2020)	2020	Worldwide	ESG Score	Tobin's Q	2013-2019	Positive Impact
(Cheng et al., 2024)	2024	China	ESG Score	Firm Value		Positive Impact
(Bhattacharya & Sharma, 2019)	2019	India	ESG Score	Credit Rating Market Value		Positive Impact
(Ersoy et al., 2022)	2022	US	ESG Score	Market Value	2016-2020	Non-linear Relationship
(Malik & Kashiramka, 2024)	2024	India	ESG Score	Market Value Cost of Debt	2015-2021	Positive Impact
(Gull et al., 2022)	2022		ESG Scores	Firm Value		Positive Impact
(Gavrilakis & Floros, 2023)	2023	Europe	ESG Score	Stock Returns	2010-2020	No significant relationship
(X. Yu & Xiao, 2022)	2022	China	ESG Score	RoA Tobin's Q	2010-2019	Positive Impact
(Ramirez et al., 2022)	2022	Latin America	ESG Score	Cost of Capital	2017-2019	Higher ESG Score reduces Cost of Capital
(Buallay et al., 2020)	2020	Multi Country	ESG Score	RoA, Tobin's Q	2008-2017	Non-linear Relationship (Inverted U)
(Tahmid et al., 2022)	2022	Global	ESG Score	Firm Value	2008-2020	Positive Impact
(Makridou et al., 2023)	2024	Europe	ESG Score	ROA	1995-2020	Negative Impact

Author	Year	Study Geography	Independent Variable	Dependent Variable	Time Period	Results
(Anwer et al., 2023)	2023	Multi Country	ESG Score	Default Risk	2010-2021	ESG Performance reduces default risk
(Kang & Jung, 2020)	2020		ESG Score	Firm Value		Positive Impact
(Vuong, 2022)	2022	Japan	ESG Score	ROA and Tobin's Q	2015-2019	Positive Impact on TQ
(Teng et al., 2021)	2021	Taiwan	ESG Risk	Sustainable Growth Rate (SGR)	2020	Negative Impact of Risk, i.e., Positive impact of ESG Performance
(Buallay, 2021)	2022	Multi Country	ESG Score	ROA ROE Tobin's Q	2008-2017	Heterogenous Effect
(Grishunin et al., 2022)	2022	US	SESG Disclosure	Tobin's Q	2011-2021	Positive Impact
(Rahat & Nguyen, 2024)	2024	Emerging Markets	ESG Score	Tobin's Q EV/Sales		Positive impact
(Chen et al., 2024)	2024	Japan	ESG Score	Tobin's Q		Positive
(Priem & Gabellone, 2024)	2024	Multi Country	ESG Score	Cost of Capital	2018-2021	ESG Score reduces CoC
(Remo-Diez et al., 2023)	2023	Global	ESG Score	Profitability Market Value	2018-2021	Positive Impact
(Abdul Razak et al., 2023)	2023	Global	ESG Score	Credit Risk	2013-2016	ESG performance reduces credit risk
(Barka et al., 2023)	2023	France	ESG Score	Equity Misevaluation	2002-2021	Halo Effect of ESG Score
(Sharma et al., 2022)	2022	GCC	ESG Scores	RoA Market Capitalization	2019-2021	Heterogenous Effect
(Yen-Yen, 2019)	2019	Malaysia	ESG Score	Firm Value	2012-2017	Positive impact
(Buallay & Al Marri, 2022)	2022	Global	ESG Score	TQ RoA	2008-2017	Negative Impact
(Bodhanwala & Bodhanwala, 2019)	2019	India	ESG Score	Market Value	2010-2015	Positive impact
(Maquieira et al., 2024)	2024	Global	ESG Score	Dividend Payout	2015-2021	Positive Impact

Author	Year	Study Geography	Independent Variable	Dependent Variable	Time Period	Results
(Chacon et al., 2025)	2025					
(Zhao & Zhang, 2024)	2024	China	ESG Score	D/E	2010-2022	Positive impact in favor of equity
(Shi et al., 2024)	2024	China	ESG Score	Cost of Capital		Positive
(Jitmaneeroj, 2017)	2017	US	ESG Score	Firm Value	2002-2016	Positive impact
(Feyisetan et al., 2025)	2025	UK	ESG Score	RoA	2012-2022	Heterogenous
(Gabr & ElBannan, 2025)	2025	Emerging Markets	ESG Score	Firm Profitability	2010-2022	Non-linear Relationship
(Yildiz et al., 2024)	2024		ESG Score	Firm Value	2018-2023	Heterogenous Higher- Long Term Insignificant- Short term
(Gartia & Panda, 2024)	2024	India	ESG Score	Tobin's Q ROA	2010-2022	Heterogenous: Positive impact on Firm Value negative Impact on earnings
(Juca & Fishlow, 2022)	2022	Latin America	Social Capital	Firm Value	2007	Positive Impact
(Constantinescu, 2021)	2021	Europe	ESG Score	Firm Value		Positive Impact
(Son & Lee, 2019)	2019	Korea	ESG Score	Share Price	2011-2016	Heterogenous Effect
(Morri et al., 2024)	2024	Global	ESG Score	ROA Market Value		heterogenous
(Inamdar, 2024)	2024		ESG Score	Financial Position (Piotroski F Score)		Heterogenous Social Score positively affects
(Niblock, 2024)	2024	Australia	ESG Score	Portfolio Returns	2014-2020	No Impact
(X. Yu et al., 2023)	2023	China	ESG Score	Stock Returns	2009-2020	Positive Impact
(Zrigui et al., 2024)	2024	Global	ESG Score	Valuation	2002-2020	Positive
(Srivisal et al., n.d.)	2021	Japan	ESG Score	Credit Rating	2009-2018	Heterogenous Effect

Author	Year	Study Geography	Independent Variable	Dependent Variable	Time Period	Results
(Matsali et al., 2025)	2025	Global	ESG Score	RoA	2017-2021	Negative Impact
(Galema & Gerritsen, 2025)	2025	US	ESG Score	Stock Returns		Heterogenous
(Cherkasova et al., 2023)	2023	Multi Country	ESG Score	Market Returns		Heterogenous
(Wedajo et al., 2024)	2024	China	ESG Score	Firm Value	2013-2019	Positive
(Joshi & Joshi, 2024)	2024	India	Cash Holding	ESG Score	2017-2022	Positive
(Kartikasary et al., 2023)	2023	Southeast Asia	ESG Score	Market Capitalization		Positive Impact
(Enalpe, 2019)	2022		ESG Score	TQ P/E Ratio	2009-2017	Positive Impact
(Lemana et al., 2025)	2025	South Africa	ESG Score	Tobin's Q RoA EPS	2017-2022	Positive Impact
(D. Kim & Yoon, 2024)	2024	South Korea and China	ESG Score	Firm Value	2019-2020	Negative Impact
(Adiwardhana et al., 2025)	2025	Global	ESG Score	Firm Value	2018-2022	Positive Impact
(Wang & Sonenshine, 2025)	2025	US	ESG Score	Alpha Sharpe Ratio		Non-linear Relationship
(Jyoti et al., 2025)	2025	India	ESG Score	Stock Returns Dividend Payout		Positive Impact
(Mondal & Bauri, 2025)	2025	India	TCFD Disclosure	Tobin's Q	2019-2022	Negative Impact
(Fernandez et al., 2024)	2024	India	ESG Score	P/B Ratio		Positive Impact
(Yadav & Hooda, 2024)	2024	Global	ESG Score	Firm Value	2017-2022	Positive Impact

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