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Environmental, Social, and Governance (ESG) and Corporate Financial Performance

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ABSTRACT

Growing attention to sustainability has encouraged companies to integrate Environmental, Social, and Governance (ESG) principles into their business strategies. ESG is no longer viewed solely as a sustainability framework but also as a factor that may influence corporate financial performance. This study aims to examine the relationship between ESG and corporate financial performance using a Systematic Literature Review (SLR) approach. The study collected data from scholarly articles indexed in Google Scholar and published over the last five years. The literature selection process was conducted using predefined inclusion and exclusion criteria, resulting in fifteen relevant articles for analysis. The findings indicate that ESG generally contributes positively to financial performance through improved operational efficiency, enhanced corporate reputation, better risk management, and greater access to financial resources. However, several studies report inconsistent results due to differences in research contexts, firm characteristics, and measurement indicators. These findings suggest that ESG has become a strategic factor that supports long-term corporate sustainability and value creation. The study contributes to the growing literature on sustainable business practices and provides insights for managers, investors, and policymakers regarding the economic implications of ESG implementation.

Keywords: *Corporate Sustainability, ESG, Financial Performance, Risk Management.*

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1. | INTRODUCTION

In recent years, sustainability issues have become one of the main focuses in global economic development. Climate change, economic uncertainty, digital transformation, as well as society's increasing demands for responsible business practices are pushing companies to not only be oriented towards achieving financial profits, but also consider the social and environmental impacts of their operational activities. This paradigm shift has caused the concept of sustainability to be increasingly integrated in modern business strategies and has become an important factor in determining the competitiveness of companies in the contemporary economic era (Giese et al., 2019). In the midst of increasing attention to sustainable development, companies are required to be able to create economic value while meeting the expectations of various stakeholders.

One of the widely used approaches to measure a company's sustainability level is Environmental, Social, and Governance (ESG). ESG is a framework that assesses a company's performance based on environmental, social, and governance aspects. This concept is evolving into an important indicator that investors, regulators, and other stakeholders use in evaluating the quality and long-term prospects of a company. According to Cornell (2021), companies with good ESG practices tend to have more effective risk management capabilities and a higher level of resilience to market uncertainty. In addition, the implementation of ESG is also considered to be able to increase operational efficiency and strengthen the company's reputation in the eyes of investors and the public.

The development of ESG is gaining more attention after various studies showed that there is a link between sustainability practices and the financial performance of companies. Zamfiroiu & Pinzaru (2021) explain that companies that successfully integrate ESG into their business strategies have the potential to gain cost efficiency, wider access to funding, and increased company value. In the context of the capital market, ESG is also beginning to be seen as an indicator that can reduce investment risks and increase investor confidence in the company's prospects. Therefore, the relationship between ESG and financial performance is one of the topics that is widely studied in the economics and management literature.

However, the results of previous studies still show mixed findings. Naeem et al. (2022) found that ESG has a positive influence on company profitability, especially on the Return on Assets (ROA) and Return on Equity (ROE) indicators. Similar findings were also reported by Chen et al. (2023), who stated that high ESG performance can improve financial performance and strengthen company value. In contrast, research by Strekalina et al. (2023) shows that the relationship between ESG and some financial performance indicators is not always significant. These differences in results indicate that the relationship between ESG and financial performance still needs further study to gain a more comprehensive understanding.

In addition to the inconsistencies of research results, most of the previous studies were conducted in the context of developed countries or certain groups of countries, so the generalization of research results is still limited. The article written by Mustajirin and Putri (2024) also shows that the influence of ESG on financial performance is not always consistent across all companies' financial indicators. This condition shows that there is a research gap in the form of differences in empirical findings and limitations in the research context that still require further exploration.

Based on this description, this study aims to systematically examine the relationship between ESG implementation and corporate financial performance through the Systematic Literature Review (SLR) approach. This study is expected to provide a more comprehensive synthesis of the influence of ESG on financial performance, identify patterns of previous research findings, and contribute to the development of the sustainability economics literature and business practices oriented towards long-term value creation.

2. | LITERATURE REVIEW

Environmental, Social, and Governance (ESG)

Environmental, Social, and Governance (ESG) is a framework used to assess the level of sustainability of a company based on environmental, social, and governance aspects. The concept evolved in response to the increasing demands of stakeholders on business practices that are not only oriented towards financial profits, but also concerned with social and environmental impacts. The environmental dimension includes resource management, energy efficiency, carbon emission reduction, and operational impact control on the environment (Ali et al., 2019). The social dimension relates to the company's relationships with employees, customers, communities, and various other stakeholder groups. Meanwhile, the governance dimension focuses on transparency, accountability, leadership structure, and oversight mechanisms within the company (Mason, 2020).

According to Giese et al. (2019), ESG has become one of the important indicators in assessing company quality because it is able to reflect a company's ability to manage risk and create long-term value. Companies that effectively implement ESG practices tend to have a better reputation, lower risk levels, and higher adaptability to changing business environments. In addition, ESG is also increasingly becoming a key consideration in investment decision-making because investors consider that sustainability factors can affect the stability and future prospects of companies. Cornell (2021) explains that companies with high ESG scores generally show better resilience in the face of market uncertainty and economic pressures. These findings are reinforced by Zamfiroiu & Pinzaru (2021) who stated that the integration of ESG in business strategies can improve operational efficiency while creating a sustainable competitive advantage.

ESG and Corporate Financial Performance

The relationship between ESG and corporate financial performance is one of the most discussed topics in the sustainability literature. Theoretically, the implementation of ESG can improve operational efficiency, strengthen a company's reputation, lower capital costs, and increase investor confidence. This condition has the potential to have a positive impact on various financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and company value. Therefore, many studies have sought to test the extent to which ESG is able to contribute to the creation of corporate economic value.

Previous research results show that the relationship between ESG and financial performance still produces mixed findings. Naeem et al. (2022) found that companies with better ESG performance tend to have higher profitability than companies with low ESG levels. The findings indicate that sustainability practices can be a source of competitive advantage that supports improved financial performance. Furthermore, Chen et al. (2023) show that ESG contributes to increasing company value through strengthening reputation, reducing risk, and increasing access to funding sources. However, research by Strekalina et al. (2023) shows that the influence of ESG on several financial performance indicators is not always significant and can differ between sectors and economic conditions. The difference in the results of the study shows that the relationship between ESG and financial performance still needs further study to gain a more comprehensive understanding of the mechanisms of ESG's influence on a company's economic success.

3. | RESEARCH METHOD

Research Methods

This study uses the Systematic Literature Review (SLR) approach to identify, evaluate, and synthesize the results of previous research that discusses the relationship between Environmental, Social, and Governance (ESG) and corporate financial performance. The SLR method was chosen because it is able to provide a comprehensive overview of the development of research on a topic through the process of searching, selection, and analyzing literature carried out in a systematic and structured manner. This approach allows researchers to identify patterns of findings, research gaps, and the direction of development of ESG studies in economic and business contexts.

The research process begins with determining the focus of the study, namely the influence of ESG on the company's financial performance. Furthermore, a literature search was carried out using an academic database indexed by Google Scholar with a range of publications in the last five years. The keywords used in the search process include "Environmental, Social, and Governance (ESG)", "financial performance", "firm value", "sustainability", "corporate performance", and "ESG investing". The selection of the time range was made to ensure that the articles analyzed represented the latest developments in the literature related to ESG and financial performance. In addition to international articles, this study also uses several articles as supporting references to strengthen understanding of ESG implementation and its impact on the company's financial performance.

The next stage is the process of filtering articles based on inclusion and exclusion criteria. Inclusion criteria include articles published in scientific journals, discussing the relationship between ESG and financial performance or company value, available in full text form, and published in the last five-year period. Meanwhile, articles that are not relevant to the research topic, lack clear methodological information, or only discuss one of the ESG dimensions separately are excluded from the analysis process. After the selection process was carried out, fifteen articles were obtained that met the criteria and were used as the main source in this study.

Data analysis was carried out through narrative synthesis techniques by grouping research results based on themes, variables used, research methods, and empirical findings produced. Furthermore, comparisons were made between studies to identify similarities, differences, and inconsistencies in the results that appeared in the literature. The results of the synthesis are used to explain the pattern of the relationship between ESG and corporate financial performance and formulate theoretical and practical implications relevant for the development of research in the field of sustainability economics.

4. | RESULTS

The results of the literature review show that research on the relationship between Environmental, Social, and Governance (ESG) and financial performance has developed very rapidly in the last five-year period. Increased attention to sustainability issues encourages academics, investors, regulators, and business practitioners to evaluate the extent to which ESG implementation is able to provide economic value for companies. Based on the results of an analysis of fifteen articles that met the selection criteria, it was found that most studies showed a positive relationship between ESG and corporate financial performance, although there were still some studies that produced different findings.

In general, the research analyzed shows that ESG is no longer seen as an ancillary activity of a company, but rather has evolved to become an integral part of long-term business strategy. Giese et al. (2019) explain that companies with good ESG performance tend to have lower risk profiles and better ability to create long-term value. The findings show that the integration of environmental, social, and governance factors into corporate decision-making is able to improve management quality and operational efficiency. Thus, ESG not only provides non-financial benefits but also contributes to the achievement of the company's economic goals.

On the environmental aspect, various studies show that companies that implement energy efficiency policies, carbon emission reduction, and better resource management tend to obtain higher operational profits. Zamfiroiu & Pinzaru (2021) explained that the implementation of environmental sustainability practices is able to reduce operational costs and increase the company's productivity in the long run. In addition, investment in environmentally friendly technology can increase the efficiency of resource use so that it has a positive impact on the company's profitability. The findings show that the environmental dimension in ESG has great potential in creating sustainable economic value.

On the social dimension, various studies emphasize the importance of the relationship between companies with employees, customers, and society. Companies that pay attention to employee well-being, workforce diversity, and social responsibility tend to earn higher levels of loyalty from various stakeholders. Broadstock et al. (2021) found that companies with strong ESG practices show better resilience during periods of economic uncertainty, including when facing pressures due to the global pandemic. These results indicate that social aspects can strengthen a company's reputation and improve adaptability to changes in the business environment.

Meanwhile, the corporate governance dimension is one of the most consistent factors associated with improving financial performance. Good governance can increase transparency, reduce conflicts of interest, and strengthen investor trust in the company. Cornell (2021) explained that companies with high quality governance tend to have a lower level of risk than companies with weak governance practices. This condition can ultimately improve the company's financial stability and expand access to external funding sources.

Although the majority of studies show a positive relationship between ESG and financial performance, the results of the study also found inconsistencies in empirical findings. Naeem et al. (2022) found that ESG has a positive effect on profitability indicators such as ROA and ROE, especially in companies operating in environmentally sensitive industries. The research shows that ESG can be a source of competitive advantage that increases the efficiency and productivity of companies. Similar findings were also reported by Zhang et al. (2022), who stated that companies with higher ESG levels tend to obtain better valuations from investors and the capital market.

However, not all studies have come to the same conclusion. Strekalina et al. (2023) found that the influence of ESG on some financial performance indicators is not always significant. In some cases, the relationship between ESG and a company's profitability is influenced by industry characteristics, economic conditions, and differences in the ESG measurement methods used. These findings show that the effectiveness of ESG implementation is not universal and can vary based on the context of the company and the business environment in which the company operates.

The results of the study also show that ESG has a fairly strong relationship with company value. Yu & Xiao (2022) found that companies with high ESG scores tend to have better market value than companies with low ESG scores. Investors are increasingly considering ESG information as one of the indicators of company quality and long-term business sustainability. These findings show that ESG has evolved from just a sustainability reporting instrument to a strategic factor influencing investment decisions.

In addition, research by Chen et al. (2023) shows that ESG can improve financial performance through several mechanisms, such as improving a company's reputation, reducing operational risks, and increasing access to capital. Companies that obtain high ESG ratings tend to be more trusted by investors and financial institutions, so they have a greater chance of obtaining financing with a lower cost of capital. This condition ultimately has a positive impact on the company's growth and profitability.

A literature review also found that the influence of ESG on financial performance is often influenced by contextual factors. Xie et al. (2019) show that the benefits of ESG on corporate value are greater in companies that have strong financial conditions than in companies that experience limited resources. These results indicate that the success of ESG implementation does not only depend on the quality of sustainability programs, but is also influenced by the company's ability to integrate ESG into its overall business strategy.

In the context of developing countries, research shows that ESG implementation still faces various challenges. Ismail and Saad (2022) explained that the level of ESG disclosure in companies in emerging markets is still relatively diverse. Differences in regulations, the level of corporate awareness, and institutional readiness are factors that affect the effectiveness of ESG implementation. Nonetheless, global trends show that companies in developing countries are starting to pay more attention to sustainability issues as part of efforts to increase competitiveness and attract investment.

Similar findings can also be seen in the research of Husada and Handayani (2021), which shows that companies that adopt ESG practices tend to produce better financial performance than companies that have not implemented sustainability principles optimally. These results strengthen the argument that ESG can be a strategic instrument in improving operational efficiency and strengthening a company's position in the market.

The article written by Mustajirin and Putri (2024) also shows that the influence of ESG on financial performance is not always consistent across all indicators used. The study found a positive relationship between ESG and ROA, but found no significant effect on ROE or Tobin's Q. These findings reinforce the research gap that shows that the relationship between ESG and financial performance still needs further study to gain a more comprehensive understanding.

Overall, the results of the Systematic Literature Review show that ESG has a tendency to have a positive impact on a company's financial performance through improved operational efficiency, risk management, corporate reputation, and access to funding sources. However, these influences are not always consistent across all financial indicators or across research contexts. The variation in results found in various studies shows that the relationship between ESG and financial performance is a complex phenomenon and is influenced by various internal and external factors of the company. Therefore, further research is still needed to deepen our understanding of the mechanisms that explain the relationship between ESG and financial performance in various economic and business contexts.

5. | DISCUSSION

The results of the Systematic Literature Review show that Environmental, Social, and Governance (ESG) in general has a tendency to have a positive impact on the company's financial performance. These findings reinforce the view that sustainability is no longer seen as a complementary activity, but rather has become an essential part of modern business strategies. Companies that are able to integrate environmental, social, and governance aspects into their operational processes tend to have better ability to manage risk, increase efficiency, and create long-term value for stakeholders. The findings are in line with Giese et al. (2019) who explained that ESG contributes to improving the quality of risk management and corporate stability so that it can support the achievement of better financial performance.

This study also shows that ESG implementation is able to create various economic benefits through different mechanisms. In the environmental dimension, companies can achieve cost efficiency through more effective resource management. In the social dimension, companies gain benefits in the form of increased reputation, customer loyalty, and workforce productivity. Meanwhile, the governance dimension contributes through increased transparency and accountability that can strengthen investor confidence. This condition supports the argument of Zamfiroiu & Pinzaru (2021) who stated that ESG can be a source of corporate value creation through reduced costs, increased revenue, and better access to capital.

However, the results of the analyzed study show that there are inconsistencies in empirical findings related to the relationship between ESG and financial performance. Some studies found significant positive effects, while others showed insignificant results. These differences indicate that the effectiveness of ESG is not universal and is influenced by various factors, such as industry characteristics, company size, ESG implementation maturity level, and the economic conditions surrounding the company. These findings are in line with the results of Naeem et al.'s (2022) research which shows that the influence of ESG on financial performance can differ between developing and developed countries, as well as between industrial sectors that have different environmental sensitivities.

In addition, this study confirms the existence of a research gap that is the basis of the research. Most of the previous research focused on developed countries or specific economic regions, so there are still limitations in generalizing research results. In addition, the use of different financial performance indicators, such as ROA, ROE, Tobin's Q, and firm value, also caused variations in the research results found. This condition can be seen in the research of Strekalina et al. (2023) and Mustajirin and Putri

(2024) which shows that the influence of ESG is not always consistent on all financial performance indicators used.

Thus, the results of this study show that ESG has great potential to support economic value creation and corporate sustainability. However, the success of ESG implementation is greatly influenced by the company's ability to integrate sustainability principles into its overall business strategy. Therefore, further research is needed that is able to identify factors that strengthen or weaken the relationship between ESG and financial performance so that the understanding of the economic benefits of ESG can be more comprehensive and applicable.

6. | CONCLUSION

This study aims to analyze the relationship between Environmental, Social, and Governance (ESG) and corporate financial performance through the Systematic Literature Review (SLR) approach. Based on the results of a synthesis of various studies published in the 2019–2023 period, it was found that ESG in general has a tendency to have a positive influence on the company's financial performance. ESG implementation has been proven to improve operational efficiency, strengthen the company's reputation, reduce business risks, and increase investor confidence and access to funding sources.

However, the results of the study also show that the relationship between ESG and financial performance is not completely consistent. Some studies have found a significant positive influence on indicators of profitability and company value, while others have shown a weak or insignificant relationship. These differences are influenced by variations in company characteristics, industry sectors, economic conditions, and differences in ESG measurement methods and financial performance indicators used.

The findings of this study confirm that ESG has developed into one of the strategic factors that plays an important role in supporting the sustainability and competitiveness of companies. From the theoretical side, this study provides a more comprehensive understanding of the patterns of ESG relationships and financial performance. From a practical perspective, the results of the study can be a reference for companies, investors, and policymakers in encouraging the implementation of sustainable business practices. Further research is recommended to examine the moderation and mediation factors that can influence ESG relationships and financial performance in a variety of different economic and industry contexts.

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Conflict of Interest Statement

The authors declare that there is no conflict of interest.

Ethical Approval and Originality Statement

Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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