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Environmental, social, and governance (ESG) performance and financial outcomes: Analyzing the impact of ESG on financial performance

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Introduction

- Background: ESG investment has rapidly grown amid global uncertainties and "carbon-neutral" initiatives. Companies benefit from ESG disclosures through improved brand image, funding attraction, and lower financing costs.
- Research Gap: Existing studies show mixed results on the ESG-financial performance link (positive, neutral, or negative), with limited focus on risk levels, firm size, and regional/industry variations.
- Significance: This study addresses inconsistencies by analyzing ESG's impact across diverse contexts, emphasizing its role in mitigating risks and enhancing corporate resilience.

Objectives

- To explore how ESG drives corporate financial performance (CFP).
- To examine the interrelation between ESG performance and corporate outcomes.
- To assess ESG's impact across firm sizes, risk levels, industries, and countries.

Framework

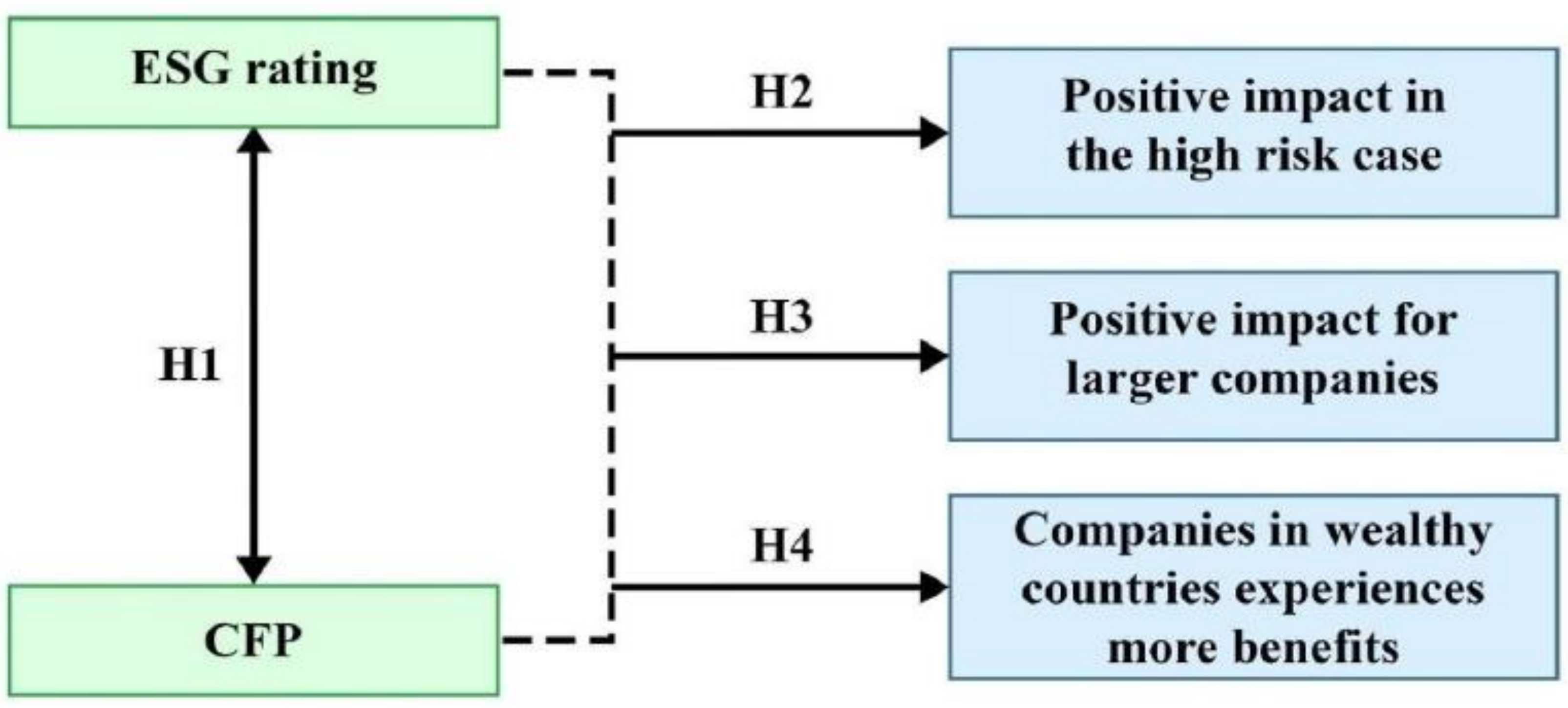

Figure 1.*Conceptual framework.*

- H1. ESG rating positively affects CFP.
- H2. The positive impact of ESG rating on CFP is more pronounced in the high risk case than in the low risk case.
- H3. The positive impact of ESG rating on CFP is more significant for larger companies than for smaller companies.
- H4. Companies in wealthy countries experience the benefits of ESG rating on CFP more so than those in developing countries.

Methods

- Data: 10-year panel data (2011–2020) from 3,332 global listed firms (24,076 observations).
- Variables: ESG ratings (explanatory), ROA (dependent), and controls (e.g., leverage, revenue growth).
- Analysis: Multiple regression and heterogeneity tests using STATA 16.0. Stakeholder/signaling theories underpin the framework.
- Subgroup Analysis: Differentiated by risk exposure, firm size (asset-based), country development status, and industry (NAICS classification).
- Robustness: Endogeneity checks with lagged variables and alternative performance metrics (ROE).

Results

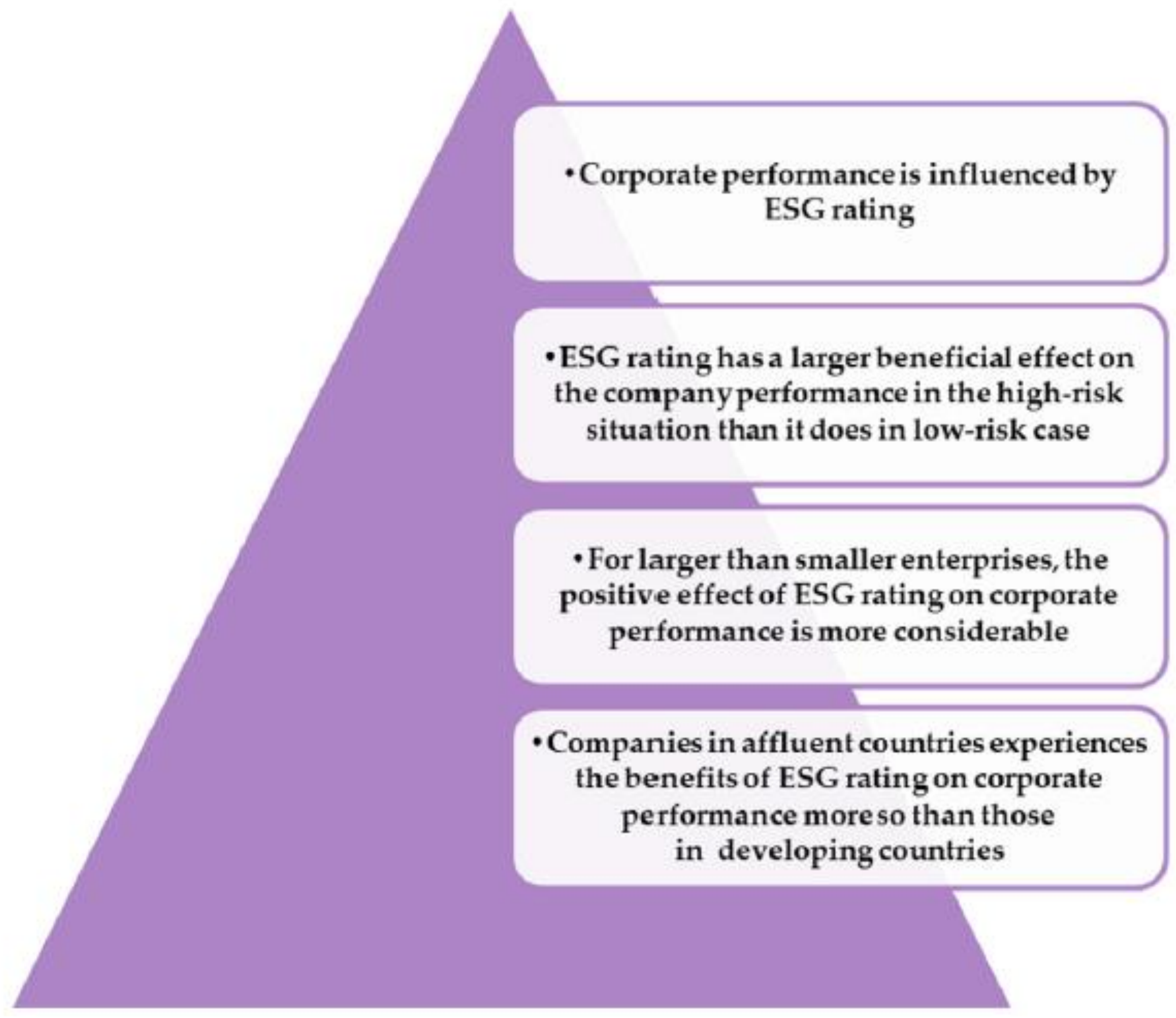

Figure 2. *Results of the analysis*

- Positive Correlation: ESG significantly boosts CFP ($p < 0.01$), especially for large firms and high-risk scenarios.
- Heterogeneity: Impact is stronger in developed countries and environmentally sensitive industries (e.g., real estate, energy). No significant effect found for small firms or developing nations.

Conclusions

- ESG enhances financial performance, particularly for large firms and high-risk environments. It aids risk mitigation, stakeholder trust, and long-term sustainability. Policymakers and businesses should prioritize ESG integration, especially in regulated sectors. Limitations include data constraints on investor behavior, suggesting future research on ESG's liquidity and sector-specific dynamics.

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