THE ASIAN BULLETIN OF GREEN MANAGEMENT AND CIRCULAR ECONOMY
Vol 5, Issue 1(2025)
THE ASIAN BULLETIN OF GREEN MANAGEMENT AND CIRCULAR ECONOMY
ISSN (online): 2959-0035
http://abgmce.com/ 10.62019/abgmce. v5i1.126
ISSN (Print): 2959-0027

A Comparative Analysis of Financial Performance in Companies with Robust ESG Practices Versus Traditional Firms: A case of an emerging Asian Economy

Syed Muhammad Raza*, Sohaib-Uz-Zaman

Chronicle

Article history
Received: Jan 3, 2025
Received in the revised format: Jan 10, 2025
Accepted: Feb 28, 2025
Available online: March 12, 2025

Syed Muhammad Raza and Sohaib-Uz-Zaman are currently affiliated with Karachi University Business School, University of Karachi, Pakistan.
Email: syedmr1998@gmail.com
Email: sohaibuzzaman@uok.edu.pk

***Corresponding Author:**

Abstract

The main focus of this study is to analyze the role ESG (Environmental, Social and Governance) factors in the financial performance of companies that are incorporating these factors versus the companies that are not. Financial metrics that are used for the matter are ROA, ROE, net profit margins and stock performance, which will help to compare the impact of ESG factors on the financial performance of both group of companies. The results of this study indicates that indeed incorporation of ESG factors will positively impact the financial performance of companies. Moreover, adoption of ESG is also tied with positive public image, investor confidence and reduced regulatory risk. Firms adhering to ESG practices are able to adapt to economic decline and also attract investors that prefer ethical investments. This study focuses to highlight the importance ESG factors and encourage firms to adapt ESG practices which will have a positive impact in their financial condition, moreover, these practices will also reflect in positive recognition of their brand name as there is an evident rise population preferring companies and products that are playing their role in order to better off the environment.

Keywords: ESG, financial performance, ethical investing, environment, economy, return on asset, return on equity, stock performance, sustainability

INTRODUCTION

Investors and stakeholders in recent times have been interested in incorporating the Environmental, Social and Governance (ESG) factors in corporate strategy. Long term sustainability and profitability is something companies which adopt strong ESG practices are considered to be better capable of. The aim of this thesis is to compare the behaviour of financial performance between companies having strong ESG commitment and the regular companies that focus more on short term financial gains. Recently financial studies have stressed the importance of ESG practices in the shaping of financial performance. There are several analyses that reveal that firms with high ESG ratings perform better financially. Eccles et al. (2014) demonstrate that companies with better sustainability initiatives have better stock market performance along with superior operational performance. Friede et al. (2015), in a Meta-analysis, also found that more than 90 percent of studies found that link of ESG criteria to corporate financial performance. On the other hand, traditional firms often focus on the short-term financial returns that neglects the long term sustainability. Concentrating on this may cause short term, superficial thinking, which can put companies at risk of change in regulatory positions, changing predilection of consumers and environmental hassles (Porter & Kramer 2011). For instance, ignoring ESG issues can result in damage to the company's reputation, regulatory penalties, reduced market share, as well as harm to financial health (Luo & Bhattacharya, 2006). This research will execute the idea using different financial performance indicators like return on equity (ROE), profit margins and performance of stocks between companies with strong ESG practice and traditional companies. By this route, the study seeks to offer empirical basis of the financial ramifications of adopting ESG principles in the course of the ongoing discussion around sustainable business practices. Finally, it will conclude by investigating the hypothesis about the fact that financial performance of companies with strong ESG practices outperforms traditional companies. These results will provide valuable knowledge for investors, policymakers, and senior corporate leaders on how to establish a link between the two and financial success.

Evolution of ESG: Understanding the Shift in Financial Performance Metrics

In modern days, ESG practices comprise of various stages, going from a specific interest to become an essential element of the corporate strategy and financial analysis. ESG factors are first of all of socially responsible investing (SRI) nature, which entered in the phenomenon in 1960s and 1970s, and, more recently, have formed influential elements in defining the investment choices, regulatory policy and control structures of a firm. It was a period of a critical juncture with the launch of global initiatives such as UN Principles for Responsible Investment (UNPRI) in 2006 which called for investors to take into account ESG factors in their decision-making (UNPRI, 2006). At this time, ESG reporting standards and frameworks were created (Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) for example) to help companies report their ESG performance on a structured basis (Eccles, Ioannou, & Serafeim 2014). There has been recently a huge number of empirical studies that indicate a strong correlation between ESG practices' performance and financial performance. Yet, ESG profiles have been shown to reduce capital costs, improve operational performances and profitability (Gibson, Krueger, & Schmidt, 2020). Traditional firms are now taking a growing perspective on these ESG strategies as they realize that adopting sustainable practices in the business is a good way to gain a competitive and robust business in the market with a social awareness and regulation.

Significance of the study

Importance of this study lies in that it could help in better understanding of the relationship between the Environmental, Social and Governance (ESG) practices and the financial performance. Sustainability is more and more inclusive in a business strategy. The objective of this study is to close the gap between the theoretical models on ESG and its application to the business. On the basis of analysis of financial performance metrics of companies with good ESG practice and traditional companies, the empirical data based on the research sheds light for academic discussion and business strategies (Eccles et al., 2014). It is noted that this study points out the financial edge of strong ESG practices which are useful for investors who wish to invest in an ESG fashion while also attaining competitive performance (Friede et al., 2015). This might spur on more practical investment decisions. Those who realize the advantage that ESG integration brings to profitability and sustainability can strategically opt for enhancing firm's long term profitability and sustainability. Results of this research will enable corporate leaders to decide which functions of ESG are more likely to have social and financial outcomes (Porter & Kramer, 2011). If it would inform the policymakers on the economic gain from pushing for ESG practices. Such a strong link between ESG initiatives and financial success is shown in this study and may illustrate the usefulness of making regulations and/or incentives for the sustainable business practice of all sectors (Luo, f. 2006). The ongoing discussions about corporate sustainability contribute to growing literature of the importance of ESG practices. It can be used as a reference point that helps spur further research into how sustainability impacts financial metrics and corporate behavior (Eccles et al., 2014). Companies can understand the financial outcomes of ESG practices in terms of how their reputation and brand equity can be leveraged. The importance of ESG in the current marketplace is demonstrated by this work since ESG is in correlation with customer loyalty (Brealey et al., 2011). This study should be important in filling the gap of the academic study on ESG and financial performance in addition to lessons for investors, the corporate leaders and the policymakers. It attempts to demonstrate the financial advantages of strong ESG practice by making the case for wider adoption of sustainable business strategy that befits economic growth and social responsibility.

LITERATURE REVIEW

ESG is an acronym used to interpret an important set of criteria to evaluate a company's environmental effect and performance, social responsibility and corporate governance. This framework came about as the result of the idea that this should be the result of investing, namely responsible or what we call the integration of these factors into the decision making of investors. By evaluating a company's financial returns in ESG terms, investors are actually judging the company on its ethical practices as well as its long term sustainability. Therefore, these have been considered as key factors in the analysis of the manner in which firms manage risk and opportunities in terms of environmental impact, social responsibility and governance structure. ESG has been part of investment strategies so that market investors can find the companies that address their values and are part of responsible business practices. Companies can improve their reputation, reduce risk and make a positive contribution to more general goal of sustainable development if they integrate ESG factors (Sustainability 2021, 13(21), 11663).

Environmental factors in ESG

The ESG criteria is dependent on environmental factors which are important to how businesses respond to their environmental responsibilities. Since then, these have skyrocketed as important driving forces for investment decisions and corporate strategies given the urgency experienced with respect to climate change, resource depletion and ecological harm. More and more companies are being scrutinized for their role in climate change, and greenhouse gas emissions are being singled out in particular. Research highlights the fact that businesses should adopt sustainable practices and shift towards renewable energy as critical strategies to mitigate their climate impact (Eccles et al., 2014). It is essential to manage the resources efficiently, for example, water, energy and raw materials. Researches reveal that companies that concentrate on resource efficiency decrease their operational costs while improving their sustainability profiles (Wang & Hsu, 2020). Assessing environmental performance involves a significant amount of minimizing pollution. Research shows that there is a positive relationship between effective pollution management and financial success (Gibson, 2006) and organizations are encouraged to adopt strategies to reduce waste and emissions. Investors and stakeholders tend to view more favorably companies that actively work to protect and promote biodiversity. Habitat restoration, sustainable land use practices, and biodiversity in supply chains are some of the initiatives that may be taken. Not paying attention to biodiversity can deal reputational damage and regulatory problems (Benayas et al., 2009). Companies are compelled to have strong environmental management systems because the changing landscape of environmental regulations. Adherence to these regulations in a pro-active manner, can reduce legal risks and improve firms' reputation, increasing positive stakeholder trust (Aragon-Correa & Sharma, 2003).

Social factors in ESG

The Environmental, Social, and Governance (ESG) criteria includes social factors that refer to the relationships and reputation the company builds with its stakeholders such as employees, customers, suppliers, and local communities. As social issues are becoming more and more important in business strategy and investment, these factors are becoming more and more important. Harter et al. (2002) have done research on organizations with high employee engagement that outperform their peers in terms of productivity and profitability. We know that employee satisfaction is directly tied to work environment, job design and management practices (Locke, 1976) and that these variables together make up motivation and retention. A diverse workforce brings in all kinds of perspectives that add to innovation and decision making. The studies show that companies with more diversity tend to have better financial results (Hunt et al. 2018). Furthermore, an inclusive environment supports the fact that every employee is important and thus supports higher engagement and retention rates (Nishii, 2013).

Building up good relationship with local communities can increase a company's reputation and build up the brand loyalty. According to research, positive effects of community initiatives on customer satisfaction and the overall market position are usually seen in companies (Porter & Kramer, 2011). In this theme, the adherence to labor rights, equitable wages and safe working environments. The companies which comply with the human rights not only fulfill the legal obligations but also improve their reputation and grow the stakeholder trust. According to the UN Guiding Principles on Business and Human Rights, businesses should respect human rights in all operations and supply chains (United Nations, 2011). Zadek (2004) states that companies that have strong human rights records usually experience better risk management and more sustainable financial outcomes. The more consumers are aware of social issues, the more likely businesses are to have a competitive advantage if they align their practices with those values. Brands who are well known for their social responsibility can earn higher prices and engender customer loyalty (Bhattacharya & Sen, 2004).

Governance factors in ESG

Environmental, Social, and Governance (ESG) framework includes governance factors which are an important part of this framework, which is about how companies are led, controlled and held responsible. Ethical conduct, transparency and stakeholder engagement are all important aspects of governance which are necessary to support long term business sustainability and performance and which require strong governance practices. This overview provides a snapshot of some of the main themes pertaining to governance factors in ESG. A diverse board brings a variety of perspectives to bear on decision making. It is known that companies with a diverse board achieve superior financial results and strategic success (Adams & Ferreira, 2009).

Executive remuneration should be aligned to long term performance objectives. According to studies, well-structured compensation frameworks can motivate executives to pay attention to sustainable practices (Bebchuk & Fried, 2004). Maintaining trust among the investment community is important to safeguarding shareholder rights and to provide fair treatment. Firms that engage with shareholders tend to perform better in the stock market (Bebchuk, 2007). Transparency in the ESG context is an important aspect of governance which refers to how organizations disclose information about their governance practices, financial performance and risk management to stakeholders. Transparency leads to greater trust and accountability and is important for building good relationships with clients, investors and the broader community (Brennan and Solomon, 2008). A robust ethical culture is essential for good governance. Generally, companies that promote ethical behavior are better prepared to avoid scandals and legal challenges so as to protect their reputation (Treviño and Nelson, 2011).

Financial Performance and ESG

A company's financial performance is a key metric to evaluate how well it can make profits, manage resources and deliver value to shareholders. The terms include various financial metrics such as profitability, efficiency and returns on investment that aid investors and analysts in understanding the health of a company's operations. Research has also been building that companies with ESG practices tend to outperform their competitors financially, which validates the notion that sustainability can indeed increase profitability (Friede et al., 2015). Integrating ESG considerations in a firm's strategy results in reduced risks, like regulatory compliance and reputational damage, which stabilizes the firm's long term financial performance. This stability is a big advantage in an ever more volatile business environment and helps to deliver better overall financial outcomes. By adopting sustainable practices not only do you mitigate risks but the resulting efficiencies are significant. Reduction of waste, improvement in energy efficiency, and optimization of supply chain often leads to cost savings, which enhance profit margins and financial health (Wang & Hsu, 2020). These cost reductions directly drive profitability and allow companies to redeploy savings to growth or shareholder return initiatives.

Additionally, a company can be differentiator in the marketplace by practicing sustainable practices, attracting consumers and investors that are more interested in responsible business practices. Companies with strong ESG credentials, Gibson (2006) says, often get to command premium pricing, secure long term contracts and access cheaper capital which all contributes to their financial performance. It is equally important to establish the relationship between long term value creation and financial performance. Eccles, Ioannou and Serafeim (2014) research shows that companies that invest more in innovation, employee development and sustainability, are more likely to have superior financial outcomes over time. These firms concentrate not only on short term profitability but also on building long term value, which can translate into better stock performance, higher profitability and more market resilience. Also, companies with robust ESG practices enjoy a competitive edge, and they have an increased market share and higher revenue growth. These companies focus on long term strategies which help them to navigate upcoming challenges and exploit the future opportunities thus leading to sustained financial performance and better shareholder value (Eccles, Ioannou, & Serafeim, 2014).

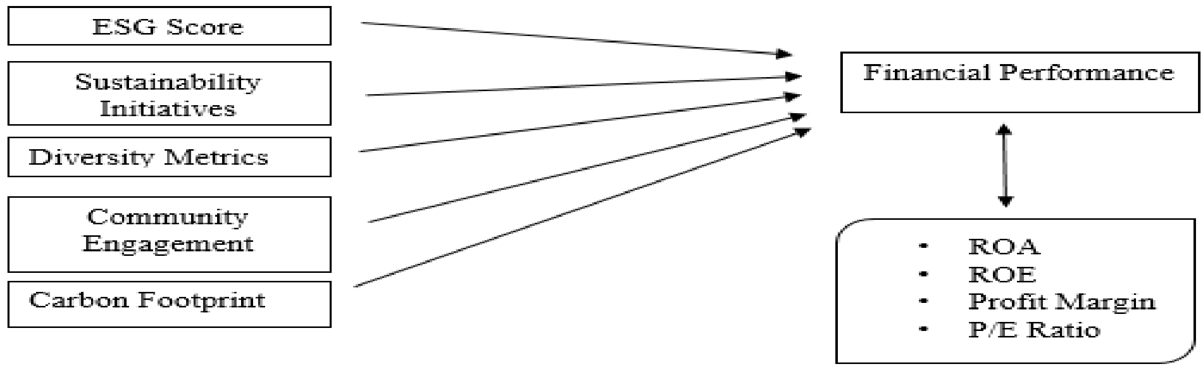

Figure 1.
Theoretical Framework

The theoretical framework in this study investigates the relationship between five independent variables: ESG Score, Sustainability Initiatives, Diversity Metrics, Community Engagement and Carbon Footprint, and a single dependent variable, Financial Performance. For the dependent variable Financial Performance, key financial metrics such as Return on Assets (ROA), Return on Investment (ROI) and Profit Margin are used to assess. Financial such indicators are used to measure the ability of a company to generate profit in relation to its assets, investments and revenue. The framework posits that the five independent variables (corporate practices of sustainability and social responsibility) have direct or indirect impact on the financial success of a company. The independent variables are each an aspect of a company's sustainability and corporate responsibility. ESG Score is the score of how well a company performs in the environmental, social, and governance areas, and Sustainability Initiatives are the company's efforts to reduce its environmental impact and contribute to social causes. Diversity Metrics are used to measure diversity and inclusion within the organization, how diverse are the different demographic groups in the company.

The last two terms are Community Engagement which refers to the degree to which a company is engaged in supporting and developing the local communities that it operates in, and Carbon Footprint which is an indicator of a company's environmental responsibility and indicates the total greenhouse gas emissions generated by a company's operations. In the framework, it is proposed that companies that have made Sustainability Initiatives investments, have Diversity Metrics betterment, interact with Communities, and lower their Carbon Footprint may see positive outcomes in Financial Performance. For example, a strong ESG Score can help a company improve its reputation, attract investors, and reduce the risks associated with environmental and social issues, which in turn can lead to better financial outcomes. On top of that, companies that focus on diversity and community engagement generally have more engaged employees, more loyal customers, and less competitive positions, which can lead to higher profitability. When companies embed sustainability and social responsibility into their business models they can use it to drive financial performance through not just cost savings (e.g. energy efficiency, waste reduction) but also enhance brand value and ultimately increase their ROA, ROI and Profit Margins.

RESEARCH METHODOLOGY

One attempt of this current study aims to compare the financial performance of companies that have good Environmental, Social and Governance (ESG) results to common firms who did not address ESG factors. The study adopts a quantitative approach which tries to systematically evaluate the impact that ESG performance has on some, particularly, financial indicators like revenue growth, stock price performance, profit margins and market valuation. The quantitative methodology allows statistical data analysis to be applied on ESG engagement data of companies at varying levels of commitment and to ascertain exactly how sustainable practices may be related to financials. This research will lead to valuable contributions in the form of insights into the financial benefits or challenges of incorporating ESG factors into business strategies by focusing on these specific financial metrics. That is why this analysis is important to help investors, businesses and policymakers understand if ESG practices help a company's financial performance over time compared to companies that do not consider such factors.

Research Design

Research design is comparative descriptive research design that is suitable to identify and analyze the patterns of financial performance between companies with varying levels of ESG commitment. To explore the quantitative differences between ESG focused and traditional firms, a positivist research philosophy and a quantitative approach are needed. The approach here is to focus on the use of objective, measurable data to test hypotheses and identify correlations between ESG practices and financial outcomes. This study will utilize secondary data which will allow for a comprehensive and cost effective way of analyzing the financial and ESG variables for a large sample of firms. The study uses existing data to ensure that a large, diverse dataset is considered to enable robust analysis of financial impacts of ESG practices on business performance. This method is highly suitable for evaluating the relationship between ESG and financial outcomes without any original data collection, thus providing a reliable and efficient way to evaluate the research questions.

Data Sources

Secondary data will be collected from a range of sources:

- The valuation used will be the audited financials and quarterly reports of the companies as they will be valuables in terms of giving insights of the ratios being used to test the financial performance of the company.

- ESG related data will be extracted from firms' sustainability reports or CSR disclosures. The reports reveal the practice of ESG within a company's sustainability initiatives, leadership diversity and community engagement.

Population and Sample

The target population for this study comprises the firms listed on the Pakistan Stock Exchange (PSX). The research will be done particularly on the PSX and PSX 100 Index, represented by the top 100 companies of the exchange. About 85% of market capitalization and ranging from a wide spectrum of industry, the sample is very representative of the overall market (Wang & Yekini, 2019).

The Time Period is from 2020 to 2023. This period of time was brought into effect due to the introduction of the newly introduced corporate governance code 2019 in Pakistan, which was focusing on ESG practices. In the study, the data will be analyzed using pre and post analysis of the data from the two years before and two years after the issuance of the amended CG code to see if the new governance code has any impact on how firm's financial performance is linked to the firm's ESG practices. The sample size will include Firms which have been for the study period in the PSX-100 Index. Using purposive sampling technique the firms will be selected available with complete financial and ESG data. Bryman & Bell (2015) emphasize that the purposive method ensures that only firms with complete ESG disclosures and financial reports are included, making a solid ground for comparison.

DATA ANALYSIS

SPSS (Statistical Package for the Social Sciences) is well suited for the performance of complex statistical analyses on the data. The following will be used for statistical techniques:

- Mean, standard deviation, range and descriptive statistics: To summarize the financial and ESG related characteristics of the sample.

- Correlation Analysis: Find out the relationship between ESG scores and financial performance indicators. To test the strength and direction of these relationships, Pearson's correlation coefficient will be used (Field, 2013).

- Multiple Regression Analysis: Analyzing the effect of ESG factors on financial performance. Multiple regression will enable us to control other variables like industry sector, firm size and market conditions to assess the impact of ESG practices on financial outcomes (Hair et al., 2010).

- Analysis of Variance (ANOVA): To compare the financial performance across companies of group of companies based on their ESG performance (high, medium, low). The purpose of this test is to determine if there is a significant difference between firms with different levels of ESG commitment in financial performance (Field, 2013).

Data Collection

Secondary data comprising of financial statements, sustainability reports and stock performance was used for data collection. The study is based on the data available for the period 2020-2023 in which relevant data was collected from the firms listed on the Pakistan Stock Exchange (PSX-100 Index). Reliable sources such as company's annual reports and corporate disclosures were used for data collection. Return on Assets (ROA), Return on Equity (ROE), Net Profit Margins, and stock price trends were the variables included in this study as indicators of financial performance. Data related to ESG was extracted from the company's sustainability reports and disclosures which was analyzed with content analysis to depict true picture and accurate results. Furthermore, data was cross referenced from third party sources and reliable disclosures to eliminate any possible anomalies and to ensure true analysis between companies with robust ESG practices and Traditional Companies.

Independent Variables Score

Despite the fact that content analysis is a robust and flexible method to evaluate corporate sustainability practices based on textual data, it has not been used extensively. It allows the extraction of quantifiable metrics from unstructured sources like corporate sustainability reports, media content and online disclosures. It has been a recent focus of studies to identify the trends in sustainability initiatives, ESG practices, and community engagement. Lozano (2020) argues that content analysis helps to systematically identify sustainability themes, which better aligns with global frameworks such as the SDGs. In addition, the computational tools of this character have now reached a degree and a level of quality in the analysis of the content of sustainability research, and this makes incumbent for such research as a matter of a stand for assaying corporate behavior and the level of transparency.

Table 1.
Results and Findings

Hypothesis	T-Test Result	Correlation Result	Regression Result	ANOVA Result
H1: Companies with higher ESG scores exhibit superior financial performance (ROA & ROE).	ROA: t = 8.053, p < .001, Cohen's d = .637; ROE: t = 5.020, p < .001, Cohen's d = .397	-	-	-
H2: Sustainability initiatives positively correlate with revenue growth.	-	r = .060, r = .060, p = .452	-	-
H3: Firms with diverse leadership teams have higher market valuations.	-	-	R² = .019, β = .137, p = .085	F =3.012, p =.085
H4: Community investments lead to higher profit margins.	NP: t = 8.197, p < .001, Cohen's d = .648; Community Engagement: t = 41.183, p < .001, Cohen's d = 3.256	-	-	-
H5: A lower carbon footprint improves stock price performance.	-	r = .039, r = .039, p = .628	R² = .001, β = .039, p = .628	F =.236, p = .628

Interpretation

H1: Companies with higher ESG scores exhibit superior financial performance (measured by ROA and ROE) compared to traditional firms.

ROA Results

- **t-value = 8.053, p-value < .001**: This indicates that the difference between the sample's mean ROA and the hypothetical mean (0) is statistically significant. The positive mean ROA of 0.041429 suggests that companies with higher ESG scores are generating positive returns on assets, supporting the hypothesis.
- **Effect Size (Cohen's d = 0.637)**: This suggests a medium to large effect, showing that ESG performance has a moderate to strong influence on ROA.

ROE Results

- **t-value = 5.020, p-value < .001**: This indicates a statistically significant positive difference between the sample's ROE and the hypothetical mean (0), with a positive mean ROE of 0.181631, again supporting the hypothesis.
- **Effect Size (Cohen's d = 0.397)**: This is a moderate effect size, suggesting that companies with higher ESG scores exhibit a moderate to strong relationship with ROE.

Interpretation: Both ROA and ROE show statistically significant positive relationships with ESG scores, suggesting that companies with better ESG practices tend to have better financial performance.

H2: There is a positive correlation between sustainability initiatives and revenue growth in firms with strong ESG practices.

Correlation

Pearson Correlation = 0.060, p-value = 0.452: The correlation is weak and not statistically significant. This means there is no significant relationship between sustainability initiatives and revenue growth in firms with strong ESG practices.

Interpretation: The hypothesis is not supported. Sustainability initiatives do not show a significant positive correlation with revenue growth in these firms.

H3: Firms with diverse leadership teams demonstrate higher market valuations than those with less diversity.

Regression Results

- **R^2 = 0.019**: Only 1.9% of the variation in market valuation can be explained by the diversity of leadership teams, which is a very weak relationship.
- **p-value = 0.085**: This is above the typical 0.05 threshold for significance, indicating that the relationship between leadership diversity and market valuation is not statistically significant.
- **Beta (0.137)**: The positive beta indicates a slight positive relationship, but the lack of significance weakens this.

Interpretation: There is insufficient evidence to support the hypothesis. The relationship between leadership diversity and market valuation is weak and statistically insignificant.

H4: Companies that actively engage in community investments show higher profit margins than those that do not prioritize community engagement.

T-test Results

- **NP Margin (t = 8.197, p-value < .001)**: The positive t-value and significant p-value suggest that companies in this sample have significantly higher profit margins compared to the hypothetical mean.
- **Community Engagement (t = 41.183, p-value < .001)**: This also shows a significant result, with a mean value of 1.600, suggesting a strong relationship between community engagement and profit margin.

Effect Sizes

- **NP Margin (Cohen's d = 0.649)**: A moderate effect size, indicating that community engagement has a notable effect on profit margins.
- **Community Engagement (Cohen's d = 3.256)**: This is a large effect size, suggesting a very strong relationship between community engagement and profit margins.

Interpretation: The hypothesis is supported. Companies that actively engage in community investments tend to have higher profit margins, with a strong effect size.

H5: A lower carbon footprint is associated with better stock price performance over time.

Correlation Results

Pearson Correlation = 0.039, p-value = 0.628: The correlation is very weak and not statistically significant, meaning that carbon footprint does not have a significant relationship with stock price performance.

Regression Results:

- **R^2 = 0.001**: Only 0.1% of the variation in stock price performance can be explained by the carbon footprint, which is negligible.
- **p-value = 0.628**: This suggests that there is no significant relationship between the carbon footprint and stock price performance.

Interpretation: The hypothesis is not supported. The results show no significant relationship between a company's carbon footprint and its stock price performance.

Table 2.
Hypothesis Key Findings

Hypothesis	Decision	Key Findings
H1: Companies with higher ESG scores exhibit superior financial performance (measured by ROA and ROE) compared to traditional firms.	**Accepted**	Cohen's d = 0.637 (moderate effect), $p < 0.001$. Cohen's d = 0.997 (large effect), $p < 0.001$. The analysis shows that companies with higher ESG scores have significantly better ROA and financial performance (ROE).
H2: There is a positive correlation between sustainability initiatives and profitability in firms with strong ESG practices.	**Not Accepted**	The Pearson correlation is very weak (0.060) and not significant ($p = 0.452$), indicating no strong correlation between sustainability initiatives and NP margin.
H3: Firms with diverse leadership teams demonstrate higher market valuations than those with less diversity.	**Not Accepted**	The regression model shows weak correlation ($R^2 = 0.019$), and the p-value (0.085) indicates that diversity does not significantly predict market valuation.
H4: Companies that actively engage in community investments show higher profit margins than those that do not prioritize community engagement.	**Accepted**	Cohen's d = 0.648 (moderate effect), $p < 0.001$. Cohen's d = 3.256 (large effect), $p < 0.001$. Community engagement is positively associated with higher profit margins
H5: A lower carbon footprint is associated with better stock price performance over time	**Not Accepted**	The correlation between carbon footprint and PE ratio is very weak (0.039) and not significant ($p = 0.628$). The regression model shows $R^2 = 0.001$, $p = 0.628$, confirming the absence of a significant effect.

CONCLUSION

In comparing the financial performance of companies with robust ESG practices to that of traditional firms, it is evident that companies adhering to comprehensive sustainability and ESG principles generally exhibit more favorable financial outcomes across key performance indicators. These companies demonstrate higher profitability, with consistent growth in Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margins. Additionally, their Price-to-Earnings (P/E) ratios suggest that they are valued more highly in the market, often reflecting investor confidence in their long-term stability and ethical business practices. In contrast, traditional firms, while demonstrating strong financial metrics in some dimensions, are more variable in performance and their market valuation appears lower. This may be a reflection of sustainability, governance and other ESG related factors that may impact investor sentiment. Sometimes traditional firms perform less well in the key metrics, especially in profitability and market valuation, and this could be related to the lack of the clear and measurable sustainability initiatives. Furthermore, the ESG focused companies also tend to perform better on sustainability initiatives, diversity metrics, and community engagement, which may also be a reason for the better overall financial performance of these companies. Their alignment with global trends towards sustainability and responsible business practices through their commitment to environmental stewardship, employee welfare, diversity and transparency create trust and long-term value. On the other hand, with many traditional companies still in the process of implementing fully integrated sustainability programs or not meeting key ESG related standards, these companies seem to lag behind. This may be due to the fact that these companies have less financial performance compared to others because they are not integrating ESG into the corporate strategy. Overall, robust ESG practices are not only associated with more ethical and responsible corporate behavior but also with a positive correlation between better financial performance, especially in terms of profitability, market valuation and long-term sustainability. ESG prioritizing companies are likely to win the competition, to attract investment, customers, talent, and stronger financial outcomes.

DECLARATIONS

Acknowledgement: We appreciate the generous support from all the contributor of research and their different affiliations.

Funding: No funding body in the public, private, or nonprofit sectors provided a particular grant for this research.

Availability of data and material: In the approach, the data sources for the variables are stated.

Authors' contributions: Each author participated equally to the creation of this work.

Conflicts of Interests: The authors declare no conflict of interest.

Consent to Participate: Yes

Consent for publication and Ethical approval: Because this study does not include human or animal data, ethical approval is not required for publication. All authors have given their consent.

REFERENCES

Adams, R. B., & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. Journal of Financial Economics, 94(2), 291-309. https://doi.org/10.1016/j.jfineco.2008.10.007

Aragon-Correa, J. A., & Sharma, S. (2003). A contingent resource-based view of proactive corporate environmental strategy. Academy of Management Review, 28(1), 71-88. https://doi.org/10.5465/amr.2003.8925233

Bebchuk, L. A. (2007). The myth of the shareholder franchise. Virginia Law Review, 93(3), 675-732.

Bebchuk, L. A., & Fried, J. M. (2004). Pay without performance: The unfulfilled promise of executive compensation. Harvard University Press.

Benayas, J. M. R., Newton, A. C., Diaz, A., & Bullock, J. M. (2009). Enhancement of biodiversity and ecosystem services by ecological restoration: A meta-analysis. Science, 325(5944), 1121-1124. https://doi.org/10.1126/science.1172460

Bhattacharya, C. B., & Sen, S. (2004). Doing better at doing good: When, why, and how consumers respond to corporate social initiatives. California Management Review, 47(1), 9-24. https://doi.org/10.2307/41166284

Brealey, R. A., Myers, S. C., & Allen, F. (2011). *Principles of corporate finance* (10th ed.). McGraw-Hill Education.

Brennan, N. M., & Solomon, J. (2008). Corporate governance, accountability, and mechanisms of accountability: An overview. Accounting, Auditing & Accountability Journal, 21(7), 885-906. https://doi.org/10.1108/09513570810907401

Bryman, A., & Bell, E. (2015). Business research methods (4th ed.). Oxford University Press.
Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. Management Science, 60(11), 2835-2857. https://doi.org/10.1287/mnsc.2014.1984
Field, A. (2013). Discovering statistics using IBM SPSS statistics (4th ed.). SAGE Publications.
Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment, 5(4), 210-233. https://doi.org/10.1080/20430795.2015.1118917
Gibson, K. (2006). The moral basis of stakeholder theory. Journal of Business Ethics, 66(3), 377-391. https://doi.org/10.1007/s10551-006-0011-5
Gibson, R., Krueger, P., & Schmidt, P. S. (2020). ESG rating disagreement and stock returns. Financial Analysts Journal, 76(3), 61-75. https://doi.org/10.1080/0015198X.2020.1775980
Global Reporting Initiative (GRI). (2020). *GRI standards: Sustainability reporting standards.* https://www.globalreporting.org
Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2010). Multivariate data analysis (7th ed.). Pearson Education.
Harter, J. K., Schmidt, F. L., & Hayes, T. L. (2002). Business-unit-level relationship between employee satisfaction, employee engagement, and business outcomes: A meta-analysis. Journal of Applied Psychology, 87(2), 268-279. https://doi.org/10.1037/0021-9010.87.2.268
Hunt, V., Layton, D., & Prince, S. (2018). Delivering through diversity. McKinsey & Company.
Locke, E. A. (1976). The nature and causes of job satisfaction. In M. D. Dunnette (Ed.), Handbook of industrial and organizational psychology (pp. 1297-1349). Rand McNally.
Lozano, R. (2020). Analysing the use of tools, initiatives, and approaches to promote sustainability in corporations. Corporate Social Responsibility and Environmental Management, 27(2), 615-632. https://doi.org/10.1002/csr.1823
Luo, X., & Bhattacharya, C. B. (2006). Corporate social responsibility, customer satisfaction, and market value. *Journal of Marketing, 70*(4), 1-18. https://doi.org/10.1509/jmkg.70.4.1
Nishii, L. H. (2013). The benefits of climate for inclusion for gender-diverse groups. Academy of Management Journal, 56(6), 1754-1774. https://doi.org/10.5465/amj.2009.0823
Porter, M. E., & Kramer, M. R. (2011). Creating shared value. Harvard Business Review, 89(1/2), 62-77.
Sustainability. (2021). Sustainability, 13(21), 11663. https://doi.org/10.3390/su132111663
Treviño, L. K., & Nelson, K. A. (2011). Managing business ethics: Straight talk about how to do it right (5th ed.). John Wiley & Sons.
United Nations. (2011). Guiding principles on business and human rights: Implementing the United Nations "Protect, Respect and Remedy" framework. United Nations Human Rights Office.
UNPRI. (2006). Principles for responsible investment. United Nations Principles for Responsible Investment. Retrieved from https://www.unpri.org/
Wang, M., & Hsu, T. (2020). Corporate sustainability and financial performance: A meta-analysis approach. Journal of Cleaner Production, 260, 121011.
https://doi.org/10.1016/j.jclepro.2020.121011
Wang, M., & Yekini, S. (2019). ESG disclosure and firm performance: A study of listed firms in Pakistan. Journal of Business Ethics, 158(2), 543-559. https://doi.org/10.1007/s10551-017-3779-
Zadek, S. (2004). The path to corporate responsibility. Harvard Business Review, 82(12), 125-132.