

## **Does ESG Create Financial Value? A Systematic Literature Review Of Corporate Financial Performance And Firm Characteristics**

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### **Abstract**

*This study examines whether Environmental, Social, and Governance (ESG) creates financial value for companies by reviewing the relationship between ESG and corporate financial performance through a Systematic Literature Review (SLR) approach. A total of 61 peer-reviewed journal articles published between 2021 and 2026 were analyzed based on PRISMA guidelines. The review focuses on the relationship between ESG and financial performance, firm characteristics, ESG measurement, and accounting-based and market-based measures of financial value. The findings indicate that the relationship between ESG and financial performance is not uniform, with studies reporting positive, negative, insignificant, and conditional relationships. The variation in findings is associated with differences in firm characteristics, including firm size, cash holdings, leverage, and industry sensitivity, as well as differences in ESG measurement and financial performance proxies. This study contributes to the ESG and corporate finance literature by synthesizing the existing evidence on ESG-related financial value and identifying research gaps for future studies.*

**Keywords:** ESG; Financial Performance; Financial Value; Firm Characteristics; Sustainability; Corporate Finance; Systematic Literature Review.



## INTRODUCTION

The issue of sustainability is now an important part of a company's strategic decisions and is increasingly being paid attention to by investors and stakeholders (Giese et al., 2021; Velte, 2021). Environmental, Social, and Governance (ESG) practices are no longer only related to social and environmental responsibility, but also part of corporate governance and risk management (Kim & Li, 2021; Grewal & Serafeim, 2021). ESG disclosures are increasingly used by investors to assess transparency, governance quality, and a company's ability to deal with economic risks and uncertainties (Broadstock et al., 2021; Engelhardt et al., 2021). Thus, ESG has an increasingly strong relationship with financial aspects and the company's business continuity (Fatemi et al., 2021; Giese et al., 2021).

The increased attention to ESG raises the question of whether ESG practices are truly capable of creating financial value for companies. Previous literature has generally measured the impact of ESG through two approaches, namely accounting-based performance such as ROA, ROE, and profitability to reflect the company's internal performance, and market-based performance such as Tobin's Q, market value, and stock performance to reflect market valuation (Kim & Li, 2021; Brogi & Lagasio, 2021; Buallay et al., 2021; Sassen et al., 2021; Aydoğmuş et al., 2022). The difference between the two approaches suggests that ESG can incur investment costs in the short term, but has the potential to increase the value of companies in the long term (Kim & Li, 2021; Ahmed & Abu Khalaf, 2025).

Although many studies have examined the relationship between ESG and financial performance and value, the results are still mixed. Some studies have found positive associations because ESG can lower capital costs, reduce risk, and increase profitability (Broadstock et al., 2021; Ruan & Liu, 2021; Li et al., 2021). In contrast, other studies have shown a negative association because ESG investments can increase short-term financial burdens, especially in companies with limited resources (Duque-Grisales & Aguilera-Caracuel, 2021; Garcia & Orsato, 2021). Some studies also found no significant influence, while others showed mixed or dependent results on sectors, ESG pillars, and institutional contexts (Pulino et al., 2022; Cek & Eyupoglu, 2021; Bae et al., 2021; Naeem et al., 2022; Zengin, 2025).

The inconsistency of these findings shows that the relationship between ESG and financial performance can be influenced by firm characteristics. Firm size is one of the important factors because large companies generally have more adequate resources to bear ESG costs and optimize their financial benefits (Zengin, 2025; Puspitasari & Wuryani, 2026; Chen et al., 2026). In addition, cash holdings, leverage, firm age, and industry sensitivity to environmental issues can also affect



a company's ability to implement ESG and generate financial benefits (Ahmed & Abu Khalaf, 2025; Yuan et al., 2025; Luthfi & Atmini, 2025; Sihotang & Siregar, 2025).

Based on the literature review, there are at least seven research gaps. First, the results of research on the relationship between ESG and financial performance still show different directions (Duque-Grisales & Aguilera-Caracuel, 2021; Naeem et al., 2022). Second, there are differences in ESG measurement, both using aggregate scores and based on each ESG pillar (Al Amosh & Khatib, 2022; Chouaibi et al., 2022). Third, the use of different financial value proxies, both accounting and market-based, resulted in diverse findings (Beretta et al., 2024; Aydoğmuş et al., 2022). Fourth, company characteristics and country contexts also influenced the results of the study (El Khoury et al., 2023; Bae et al., 2021). Fifth, previous research has used various theoretical foundations, such as Stakeholder Theory, Legitimacy Theory, and Agency Theory (Kim & Li, 2021; Velte, 2021). Sixth, differences in research methods limit the comparison and generalization of findings. Seventh, there is still limited research that integrates ESG, financial performance, and firm characteristics in a systematic literature synthesis (Grewal & Serafeim, 2021; Fatemi et al., 2021).

Given that the ESG literature is rapidly evolving but still fragmented in theory, methods, countries, sectors, ESG measurements, and financial performance metrics (Velte, 2021; Giese et al., 2021), a systematic review is needed to integrate these findings. Systematic Literature Review (SLR) with the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) protocol is used to identify, evaluate, and synthesize evidence in a structured manner so as to provide a clearer understanding of the relationship between ESG and financial value and the conditions that influence it (Velte, 2021; Grewal & Seraphaeim, 2021).

This study aims to conduct a Systematic Literature Review (SLR) of research on the relationship between ESG and financial performance and financial value during the period 2021–2026, taking into account firm characteristics, research context, theories, methods, and indicators used. This research is expected to contribute by mapping the findings and theoretical perspectives used, explaining the differences in research results based on company characteristics and research contexts, and identifying research gaps as the basis for future research agendas (Kim & Li, 2021; Fatemi et al., 2021; Zengin, 2025; Grewal & Serafeim, 2021).

## **LITERATURE REVIEW**

### **Environmental, Social, and Governance (ESG)**

ESG describes a comprehensive framework used to evaluate the extent to which



companies operate sustainably and ethically (Kim & Li, 2021; Grewal & Serafeim, 2021). The Environmental Pillar focuses on the ecological impacts of a company's operations, such as emissions management, energy efficiency, and green innovation (Garcia & Orsato, 2021; Luthfi & Atmini, 2025). The Social Pillar evaluates a company's relationship with employees, communities, and customers, including issues of diversity, occupational safety, and social well-being (Velte, 2021; Buallay et al., 2021). Meanwhile, the Governance pillar assesses the quality of governance structures, the independence of the board of directors, and managerial transparency in strategic decision-making (Kim & Li, 2021; Fatemi et al., 2021).

Previous studies have shown very wide variations in how a company's ESG commitments are measured. The literature uses a variety of measurement proxies, ranging from ESG scores and ESG ratings provided by third-party institutions, to ESG disclosures built through sustainability reporting analysis (Mohammad & Wasiuzzaman, 2021; Al Amosh & Khatib, 2022). Based on the literature analyzed, the most commonly used databases include Refinitiv Eikon/LSEG, MSCI, Bloomberg, Morningstar Sustainalytics, and Huazheng ESG (Al Amosh & Khatib, 2022; Tan & Zhu, 2022). A critical debate in the literature is whether ESG should be measured compositely (combined scores) or broken down into pillars E, S, and G individually, given that each pillar requires a different allocation of resources and generates varied stakeholder responses (Chouaibi et al., 2022; Tan & Zhu, 2022).

### **Financial Performance and Financial Value**

In evaluating the financial impact of ESG, the literature distinguishes two main concepts: Financial Performance and Financial Value (financial/market value) (Kim & Li, 2021; Brogi & Lagasio, 2021). This distinction is crucial to understanding why the findings of previous research have not always been consistent (Aydoğmuş et al., 2022; Sassen et al., 2021).

Financial Performance focuses on accounting-based measures that reflect the company's historical operational efficiency and profitability (Brogi & Lagasio, 2021; Buallay et al., 2021). The dominant indicators used include Return on Assets (ROA), Return on Equity (ROE), and operating profit proxies such as Earnings Before Interest and Taxes (EBIT) (Buallay et al., 2021; Duque-Grisales & Aguilera-Caracuel, 2021). This accounting-based performance is highly sensitive to short-term operational cost burdens, so ESG implementations that require large capital often suppress these proxies at the beginning of the investment period (Brogi & Lagasio, 2021; Buallay et al., 2021).

In contrast, Financial Value represents future-oriented market-based performance ,



reflecting investors' expectations and valuations of a company's growth potential (Sassen et al., 2021; Aydoğmuş et al., 2022). The most dominant proxies used are Tobin's Q and Market Value (Sassen et al., 2021; Aydoğmuş et al., 2022). Based on Signaling Theory, ESG disclosures send signals to capital markets regarding the quality of long-term risk mitigation, which is able to boost market valuations despite fluctuations in short-term operational profitability (Fatemi et al., 2021; Giese et al., 2021). In addition to these two main categories, several studies also measure financial value through cost of capital, financial risk, and financial distress (Eliwa et al., 2021; Bofinger et al., 2022; Danisman, 2023).

### **Firm Characteristics**

Variation in results regarding the relationship between ESG and financial performance is highly dependent on the company's internal conditions or firm characteristics (Zengin, 2025; Bae et al., 2021). In many studies, these characteristics operate as boundary conditions or moderation variables that affect the effectiveness of ESG implementation (Naeem et al., 2022; El Khoury et al., 2023).

Firm size is the most discussed characteristic. Large-scale companies have economies of scale, greater resources, and higher public spotlight, so firm size often strengthens a company's ability to turn ESG practices into financial performance (Zengin, 2025; Chen et al., 2026; Puspitasari & Wuryani, 2026). The availability of cash and liquidity (cash holdings) acts as a strategic cushion that allows companies to finance ESG initiatives consistently (Ahmed & Abu Khalaf, 2025; Yuan et al., 2025; Febriana & Gantowati, 2026).

Debt levels (leverage) with a high debt-burdened capital structure tend to limit the company's room to adopt high-cost ESG practices (Duque-Grisales & Aguilera-Caracuel, 2021; Shakil, 2021). Industry sensitivity determines the level of stakeholder pressure that companies face: in environmentally sensitive sectors such as energy and manufacturing, ESG is no longer an optional strategic choice but a legitimate need (Garcia & Orsato, 2021; Luthfi & Atmini, 2025). Firm age affects the level of flexibility and adaptability to emerging sustainability regulations (Abdi et al., 2022).

### **Theoretical Foundations**

The literature examining the relationship between ESG and financial performance is built on various theoretical foundations. Based on the mapping of 61 high-profile articles that are a sample of SLRs, several dominant perspectives are found.



Table 1. Distribution Theory

| Main Theory                  | Number of Articles | Percentage  | Usage Focus                                                                                                                      |
|------------------------------|--------------------|-------------|----------------------------------------------------------------------------------------------------------------------------------|
| Stakeholder Theory           | 15                 | 24,6%       | Balancing the interests of all parties (investors, employees, society, environment) for long-term sustainability                 |
| Agency Theory                | 8                  | 13,1%       | ESG as a governance mechanism to reduce information asymmetry and prevent managerial opportunism                                 |
| Legitimacy Theory            | 6                  | 9,8%        | ESG disclosure as an instrument to obtain and maintain a social license to operate                                               |
| Signaling Theory             | 5                  | 8,2%        | ESG performance and reporting as a positive signal to the capital market regarding the quality of management and risk mitigation |
| Resource-Based View / NRBV   | 4                  | 6,6%        | ESG practices as an intangible resource and dynamic capability to achieve a competitive advantage                                |
| Unexplicit / Empirical Focus | 23                 | 37,7%       | Focuses directly on large-scale econometric empirical testing without addressing one grand theory in particular                  |
| <b>Total</b>                 | <b>61</b>          | <b>100%</b> |                                                                                                                                  |

Based on Table 1, Stakeholder Theory is the most dominant theoretical foundation, in line with the basic ESG philosophy that companies should accommodate the well-being of a wider range of stakeholders, not just shareholders. The dominance of this theory is followed by Agency Theory, Legitimacy Theory, and Signaling Theory. The diverse use of this theoretical foundation confirms why the impact of ESG on financial metrics is so multidimensional and requires a careful synthesis approach.



## METHOD

### Research Design

This research uses a design Systematic Literature Review (SLR) to identify, evaluate, and synthesize the previous literature in a structured manner regarding the relationship between ESG and corporate financial performance. To ensure transparency, rigor, and replicationability, this study adopted the PRISMA guidelines (Preferred Reporting Items for Systematic Reviews and Meta-Analyses). This SLR process includes four main stages: identification of the initial search (Identification), abstract and title filtering (Screening), full-text eligibility assessment (Eligibility), and the designation of the final literature included in the synthesis (included).

### Database and Search Strategy

The literature search was conducted comprehensively on Database A highly reputable academic who requires a Peer-review strict and Scopus indexed. Database The main uses include Scopus, Web of Science, ScienceDirect, SpringerLink, Emerald Insight, Wiley Online Library, Taylor & Francis, and MDPI. The search strategy is designed using a combination of operators Boolean with Search String as follows: ("ESG" OR "Environmental Social Governance" OR "ESG performance" OR "ESG disclosure"), ("financial performance" OR "financial value" OR "firm value" OR "profitability" OR "market value"), ("firm characteristics" OR "firm size" OR "leverage" OR "ownership" OR "cash holdings").

### Inclusion and Exclusion Criteria

To ensure the quality of the synthesized literature, this study established inclusion criteria and Exclusion strict, especially with regard to standards Indexing journal. The selection criteria are summarized in Table 2.

**Table 2. Literature Inclusion Criteria**

| Criteria            | Inclusions                                                             |
|---------------------|------------------------------------------------------------------------|
| Year of Publication | 2021–2026                                                              |
| Publication Type    | Academic Journal Articles (Peer-reviewed)                              |
| Indexation          | Scopus Indexed (Q1, Q2, Q3)                                            |
| Language            | English (English)                                                      |
| Focus Topics        | The empirical relationship between ESG and financial performance/value |

Criteria Exclusion which are expressly applied include: (1) duplicate articles; (2) Proceedings conference, Book Chapter, and editorial; (3) articles that do not have quartiles Scopus

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clear (Non-Q) or published in a local journal that is not Indexed; (4) articles outside the 2021–2026 research period; and (5) articles that do not empirically test the relationship between ESG and financial performance.

### **Literature Selection Flow (PRISMA Flow)**

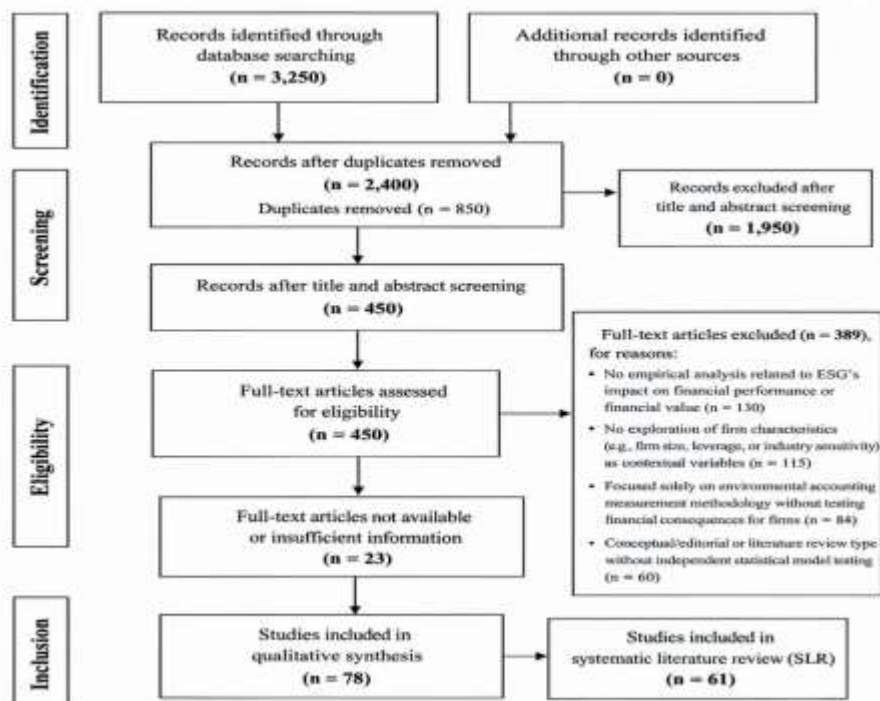
Based on the PRISMA protocol, the literature selection flow resulted in 61 final articles that were assessed to meet all the criteria for synthesis. At the Identification stage, a comprehensive search process through various international academic databases resulted in a total of 3,250 documents. After the initial examination, as many as 850 documents were identified as duplicates and removed, leaving 2,400 articles to proceed to the title and abstract screening stage.

At the screening stage, the title and abstract were carefully reviewed. A total of 1,950 articles were eliminated because they did not specifically address the relationship between ESG and financial performance, did not meet the standards of peer-reviewed journal publications, or were outside the focus of the research topic. The results of the screening left 450 articles that were considered to have initial relevance and proceeded to the full-text evaluation stage.

At the Eligibility stage, a total of 450 full-text articles were evaluated in depth to ensure their suitability for inclusion criteria. Of these, 389 articles were excluded based on more specific reasons for exclusion, namely: 130 articles did not have adequate empirical analysis regarding the impact of ESG on financial performance or financial value, 115 articles did not explore firm characteristics variables (such as company size, leverage, or industry sensitivities) as an explanatory context, 84 articles are publications that focus purely on environmental accounting measurement methodologies without examining the financial consequences for companies, as well as 60 articles of the conceptual, editorial or literature review types that do not present independent statistical model testing.

After all stages of the PRISMA protocol were strictly completed, a total of 61 articles met the inclusion criteria and were designated as the final sample (included studies) in this SLR synthesis process. The selected articles were then mapped into a master database based on the year of publication, country of research, method, ESG proxy, financial performance measure, and company characteristics for further analysis.





Source : Data processed, 2026

**Figure 1. PRISMA Flow Diagram**

Figure 1 shows the stages of research article selection which was carried out systematically using the PRISMA approach, starting from the process of identifying literature, eliminating duplicate articles, filtering by title and abstract, to feasibility evaluation through full-text review based on the inclusion and exclusion criteria that have been set. From the entire selection process, 61 international journal articles were obtained that met all criteria and were used as the basis for analysis in this study. The selected articles represent various research perspectives on ESG, company characteristics, and financial performance, especially related to the influence of ESG on financial performance or financial value as well as the role of company characteristics as a research context.

## RESEARCH RESULTS

### Publication Trends

The distribution of articles by year of publication was used to see the development of research on the relationship between ESG and financial performance and financial value during

the period 2021–2026. A total of 61 articles that met the inclusion criteria were then mapped based on the year of publication. The results of the mapping are presented in Figure 2.



Source : Data processed, 2026

**Figure 2. Publication Trends**

Based on the publication trend in the images, it shows that the most publications were in 2021, which was 33 articles (54.1%), followed in 2022 by 15 articles (24.6%). The number of publications then decreased in 2023 by 3 articles (4.9%) and in 2024 by 1 article (1.6%). In 2025, the number of publications will increase again to 8 articles (13.1%), while in 2026 there will be 1 article (1.6%). This pattern shows that the literature on the relationship between ESG and financial performance and financial value in this study is most concentrated in the 2021–2022 period.

### Journal Index Distribution

The rigorous screening that requires Scopus indexed articles results in a very high quality distribution of literature. More than 98% of the literature synthesized in this study was published in top journals (Q1 and Q2) such as the Journal of Cleaner Production, Finance Research Letters, Sustainability, Business Strategy and the Environment, and Heliyon. This ensures that the findings and conclusions in this SLR are built on a highly credible empirical foundation.



**Table 3. Journal Index Distribution**

| Journal Index | Number of Articles | Percentage  |
|---------------|--------------------|-------------|
| Scopus Q1     | 46                 | 75,4%       |
| Scopus Q2     | 14                 | 23,0%       |
| Scopus Q3     | 1                  | 1,6%        |
| <b>Total</b>  | <b>61</b>          | <b>100%</b> |

Source : Data processed, 2026

Based on Table 3, out of a total of 61 articles analyzed, as many as 46 articles (75.4%) were published in journals Scopus Q1, while 14 articles (23.0%) came from journals Scopus Q2 and 1 article (1.6%) came from a journal Scopus Q3. Thus, as many as 98.4% of articles come from journals Scopus Q1 and Q2, which show that most of the literature in this SLR comes from journals with relatively high indexing rates. The composition reinforces the quality of the sources used as the basis for the literature synthesis, while the existence of a single Q3 article is maintained because it is relevant to the focus of the research.

### Country Distribution

The geographical distribution of the literature studied shows the dominance of cross-country research and China-based research. Since unindexed local journals have been excluded, this distribution is highly representative of international research.

**Table 4. Distribution of Countries/Research Regions**

| Country/Region                     | Number of Articles | Percentage  |
|------------------------------------|--------------------|-------------|
| Global/Cross-country               | 14                 | 23,0%       |
| China                              | 8                  | 13,1%       |
| Europe / EU (Cross-country)        | 8                  | 13,1%       |
| Malaysia                           | 3                  | 4,9%        |
| Italy                              | 3                  | 4,9%        |
| South Korea                        | 3                  | 4,9%        |
| United States (USA)                | 2                  | 3,3%        |
| Turkey                             | 2                  | 3,3%        |
| Pakistan                           | 2                  | 3,3%        |
| Other Regions (ASEAN, MENA, LatAm) | 16                 | 26,3%       |
| <b>Total</b>                       | <b>61</b>          | <b>100%</b> |

Source : Data processed, 2026

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Based on Table 4, of the 61 articles analyzed, cross-border research (Cross-Country) had the largest proportion, with 14 articles (23.0%), followed by other regions including ASEAN, MENA, and Latin America with 16 articles (26.3%). The study, which specifically focused on China and Europe/the European Union, amounted to 8 articles each (13.1%). Meanwhile, Malaysia, Italy, and South Korea each contributed 3 articles (4.9%), while the United States, Turkey, and Pakistan each had 2 articles (3.3%). The distribution shows that ESG studies and Financial Value It has a fairly wide geographical scope, with research not only focusing on a single country, but also using cross-border and multi-regional contexts.

### Distribution Method

Quantitative methods strongly dominated research in Q1 and Q2 journals. This reflects the characteristics of ESG research that relies heavily on panel data and large-scale econometric testing.

**Table 5. Distribution of Research Methods**

| Method                                              | Number of Articles | Percentage  |
|-----------------------------------------------------|--------------------|-------------|
| Quantitative (Panel Data, Regression, GMM, PLS-SEM) | 59                 | 96,7%       |
| <u>Systematic Literature</u> Review / Literature    | 2                  | 3,3%        |
| <b>Total</b>                                        | <b>61</b>          | <b>100%</b> |

Source : Data processed, 2026

Based on Table 5, of the 61 articles analyzed, as many as 59 articles (96.7%) used quantitative methods, such as Data Panel, regression, GMM, and PLS-SEM. Meanwhile, only 2 articles (3.3%) used the Review or systematic literature. The dominance of quantitative methods shows that ESG research and Financial Value In the literature reviewed, more companies use empirical data and statistical testing techniques to analyze the relationship between variables. These findings also show that the quantitative approach is the main approach in examining the relationship between ESG and company performance and financial value.

### Sector Distribution

Industry characteristics are an important element as the level of environmental regulatory pressure varies between sectors. The majority of research is cross-industry, which while increasing generalizability, can also obscure sector-specific effects.



**Table 6. Distribution of Research Sectors/Industries**

| Sector / Industry                             | Number of Articles | Percentage  |
|-----------------------------------------------|--------------------|-------------|
| Cross-industry (All listed / Cross-industry)  | 28                 | 45,9%       |
| Non-financial Sectors                         | 12                 | 19,7%       |
| Banking & Financial                           | 10                 | 16,4%       |
| Sensitive Industries / Energy / Manufacturing | 9                  | 14,8%       |
| Special Type (SOEs, Family Firms)             | 2                  | 3,3%        |
| <b>Total</b>                                  | <b>61</b>          | <b>100%</b> |

Source : Data processed, 2026

Based on Table 6, cross-industry research dominated with 28 articles (45.9%). Furthermore, research on the non-financial sector amounted to 12 articles (19.7%), banking and finance sectors 10 articles (16.4%), and industries sensitive to environmental issues, such as energy and manufacturing, as many as 9 articles (14.8%). Meanwhile, research focusing on SOEs and family companies included only 2 articles (3.3%). This distribution shows that the ESG literature studied tends to use cross-industry samples, while research that specifically considers the characteristics of certain sectors is still relatively limited. This condition is important to consider because differences in regulatory pressures, environmental risks, and operational characteristics between industries can affect the relationship between ESG and financial performance and financial value.

### Distribution of ESG Measurement

Differences in ESG measurement proxies are one of the main causes of inconsistencies in research results. Composite ESG Scores from databases such as Refinitiv, Bloomberg, and MSCI dominated (52.5%), while individual E, S, and G pillar measurements were used separately in only 6.6% of articles.

**Table 7. Distribution of ESG Measurement in the Literature**

| ESG Measure                                      | Number of Articles | Percentage  |
|--------------------------------------------------|--------------------|-------------|
| Composite ESG Score (Refinitiv, Bloomberg, etc.) | 32                 | 52,5%       |
| ESG Disclosure (Index / Reporting Quality)       | 15                 | 24,6%       |
| ESG Performance (Rating)                         | 10                 | 16,4%       |
| E, S, G Scores Individually Separate             | 4                  | 6,6%        |
| <b>Total</b>                                     | <b>61</b>          | <b>100%</b> |

Source : Data processed, 2026



Based on Table 7, of the 61 articles analyzed, ESG Score composite is the most widely used measurement, namely 32 articles (52.5%), mainly sourced from Database such as Refinitiv and Bloomberg. Furthermore, 15 articles (24.6%) used ESG disclosure, while 10 articles (16.4%) use ESG performance in the form of ratings or rankings. Only 4 articles (6.6%) measured the pillars Environmental, Social, and Governance separately. This distribution shows that the literature uses more ESG measures in aggregate than analyzing individual pillars, so differences in measurement methods may be one of the factors that cause variations in findings regarding the relationship between ESG and Financial Performance and Financial Value.

### Distribution of Financial Performance and Financial Value

Table 8 summarizes the financial performance measures and market valuations used in the sample articles. Accounting-based measures dominate the literature, but the combination of the two is increasingly being used to capture the complexity of the ESG-financial performance relationship.

**Table 8. Distribution of Financial Performance and Financial Value Measurement**

| Performance / Value Measurement             | Number of Articles | Percentage  |
|---------------------------------------------|--------------------|-------------|
| Accounting-based (ROA, ROE, EBIT)           | 31                 | 50,8%       |
| Market-based (Tobin's Q, Market Value)      | 15                 | 24,6%       |
| Combination (Accounting & Market-based)     | 10                 | 16,4%       |
| Risk / Financial Distress / Cost of Capital | 5                  | 8,2%        |
| <b>Total</b>                                | <b>61</b>          | <b>100%</b> |

Source : Data processed, 2026

Based on Table 8, the measurement accounting-based became the most dominant, namely 31 articles (50.8%), with indicators such as ROA, ROE, and EBIT. Furthermore, 15 articles (24.6%) used Market-Based, such as Tobin's Q and Market Value, while 10 articles (16.4%) used a combination of sizes accounting-based and Market-Based. Meanwhile, 5 articles (8.2%) used risk indicators, Financial Distress, or cost of capital.

### Synthesis of Research Relationship Directions

Table 9 presents a synthesis of the direction of the empirical relationship between ESG and Financial Performance/Value From 61 sample articles.



**Table 9. Synthesis of Research Relationship Direction (ESG → Financial Performance/Value)**

| Results                                                    | Number of Articles | Percentage  |
|------------------------------------------------------------|--------------------|-------------|
| Positive (creating financial value)                        | 31                 | 50,8%       |
| Mixed/Conditional (depending on moderation/pillar/context) | 22                 | 36,1%       |
| Negative (cost burden / depreciation)                      | 4                  | 6,6%        |
| Insignificant                                              | 4                  | 6,6%        |
| <b>Total</b>                                               | <b>61</b>          | <b>100%</b> |

Source : Data processed, 2026

Table 9 empirically proves that although half of the literature (50.8%) found a positive association, a very large proportion (36.1%) found a positive result. Mixed or depending on the condition (conditional). This proves that ESG does not guarantee absolute financial value creation, but is highly controlled by the characteristics of the company and the context of the research. A comprehensive discussion of this mechanism is outlined in the next chapter.

## DISCUSSION

### 1. ESG and Corporate Financial Performance: Does ESG Create Financial Value?

A fundamental question in the sustainability literature is whether ESG implementation and disclosure are truly able to create financial value for companies (Grewal & Serafeim, 2021; Velte, 2021). Based on a synthesis of 61 high-reputable journal articles (Scopus Q1–Q3) in this SLR, the answer is not absolute, but rather highly dependent on specific contexts and conditions (Kim & Li, 2021; Naeem et al., 2022). Most of the literature analyzed (50.8%) found consistent positive relationships, namely that good ESG practices have been proven to be able to improve operational efficiency, drive sales revenue, lower capital costs, and increase market valuations such as Tobin's Q (Broadstock et al., 2021; Ruan & Liu, 2021; Li et al., 2021).

Broadstock et al. (2021) proved that companies in China with higher ESG performance showed better resilience during the COVID-19 crisis, which was reflected in the stability of their stock returns. Ruan & Liu (2021) also found that ESG disclosures were positively correlated with the profitability of companies listed in China. Within the framework of Stakeholder Theory and Signaling Theory, companies with high ESG performance are seen as able to send trustworthy signals regarding the quality of long-term management and effective risk management, thereby attracting institutional investors while building consumer loyalty



which ultimately strengthens revenue growth (Fatemi et al., 2021; Giese et al., 2021).

Despite this, a sizable proportion (36.1%) reported results that were mixed or condition-dependent, while a small percentage found negative (6.6%) or insignificant (6.6%) relationships (Bae et al., 2021; Naeem et al., 2022). Negative findings are generally found in accounting-based performance measures, such as ROE or short-term operating profits. This is because ESG initiatives, especially in the capital-intensive environmental pillar, require large initial investment expenditures, thus suppressing operational profitability in the early stages of implementation (Duque-Grisales & Aguilera-Caracuel, 2021; Garcia & Orsato, 2021). As for the insignificant findings, as reported by Pulino et al. (2022) and Cek & Eyupoglu (2021), indicate that in a number of specific contexts, the market has not fully taken ESG information into account in the asset valuation process, so ESG signals have not been able to translate into measurable financial premiums (Pulino et al., 2022; Cek & Eyupoglu, 2021).

These conditions suggest that the financial value of ESG is not always formed directly in short-term income statements, but rather accumulates gradually as an intangible asset that is only reflected in market valuations over the long term (Sassen et al., 2021; Aydoğmuş et al., 2022). These findings are in line with the arguments of Fatemi et al. (2021) that ESG values are asymmetrical: ESG excellence contributes to value creation, while ESG weakness contributes to value destruction (Fatemi et al., 2021; Eliwa et al., 2021).

## **2. Environmental, Social, and Governance: Do the Three Dimensions Have the Same Impact?**

Mapping the literature consistently shows that the impact of the three ESG pillars on financial performance is not uniform. Only 6.6% of the articles in the sample explicitly separated the analysis on pillars E, S, and G individually, while most used combined scores. Nonetheless, the articles that separated the three pillars provided quite meaningful insights.

The Environmental (E) pillar shows the most diverse results. Studies have shown that environmental initiatives often weigh on short-term profitability, such as ROA and ROE, due to the high cost of transitioning to green technologies and compliance with ecological regulations. However, this pillar has a strong positive impact on market-based measures as markets assess companies' ability to mitigate climate risks as a guarantee of long-term business sustainability (Garcia & Orsato, 2021; Bashir et al., 2025). Tripopsakul (2025) found that in companies in the ASEAN region, green innovation acts as an important intermediary between ESG practices and financial performance.

The Social Pillar (S) shows the most stable and direct correlation with improving



internal operational performance and customer loyalty. Fair labor practices, job safety, and contribution to society have been proven to be able to increase labor productivity while reducing the risk of social turmoil in operational activities (Mohammad & Wasiuzzaman, 2021).

The Governance pillar (G) has the most direct impact on equity valuation through reduced agency costs and information asymmetry. Transparent corporate governance signals strong legal certainty for investors, thereby directly improving equity valuations and reducing the risk of bankruptcy (Al Amosh & Khatib, 2022; Yoon et al., 2021). The three pillars need to be interpreted individually because their incorporation into a combined score can obscure the specific impact of each dimension, a limitation that is an important research gap for further studies.

### **3. Firm Characteristics as an Explanation of the Heterogeneity of Research Results**

One of the important contributions of this SLR is to affirm that the diversity of the results of previous research is largely determined by the characteristics of the company that acts as a conditional or moderating variable in the relationship between ESG and financial performance.

Company size is the most identified moderator in the literature. Large-scale companies have a resource advantage and economies of scale that allow them to absorb the costs of ESG compliance without sacrificing operational stability. Zengin (2025) found explicitly that the positive relationship between ESG and profitability is much stronger in large companies than in small companies. Chen et al. (2026) and Puspitasari & Wuryani (2026) also affirm the role of company size moderation in strengthening the relationship between ESG and financial performance in various contexts.

Cash reserves are proving to be a strategic moderator that is gaining increasing attention in the recent literature. Ahmed & Abu Khalaf (2025) found that while cash reserves strengthen the positive relationship between ESG and corporate value, companies with adequate cash reserves can fund ESG initiatives on an ongoing basis without experiencing liquidity disruptions. Yuan et al. (2025) added that high ESG performance actually drives more prudent cash management strategies, reflecting the long-term risk management orientation.

Debt levels act as a constraint on ESG capacity. A capital structure that is burdened with high debt tends to narrow the space for management to allocate funds for sustainability programs that require large costs (Shakil, 2021). Industry sensitivity determines the context in



which ESG operates in vulnerable sectors such as energy, mining, and heavy manufacturing studied by Luthfi & Atmini (2025), the impact of ESG on financial pressures is very real. This confirms that ESG is not just a strategic choice, but a survival mechanism in high-risk industries.

#### **4. Accounting-Based vs Market-Based Financial Value**

The literature synthesis emphasizes the need for a methodological separation between accounting-based measures, such as ROA, ROE, and EBIT, and market-based measures, such as Tobin's Q and market value. Accounting-based measures are highly sensitive to the burden of direct operational costs, so ESG initiatives, especially in the early stages of implementation that require large capital, often show a neutral or even negative correlation in the short term. This condition is reflected in the findings of Duque-Grisales & Aguilera-Caracuel (2021) in Latin American companies and Garcia & Orsato (2021) in environmentally sensitive industries.

In contrast, market-based measures tend to value ESG disclosures more because they take into account long-term strategic value, systematic risk reduction, and improved corporate reputation. Beretta et al. (2024) found that the disclosure of the Sustainable Development Goals (SDGs) correlates more strongly with market-based measures than with accounting-based measures, confirming that capital markets are more sensitive to long-term sustainability signals. The asymmetrical pattern between these two types of measures is one of the main explanations for why research results on ESG and financial performance are so diverse.

#### **5. Theoretical Foundations**

The findings in the literature are best explained through a combination of several major theories. Stakeholder Theory explains that corporate value creation is not only focused on shareholders, but is the result of meeting the expectations of various stakeholders through social and environmental commitment. The dominance of this theory in the literature, which comprises 24.6% of articles, is in line with the argument that companies that successfully manage relationships with various stakeholders, including regulators, employees, and society, ultimately result in better financial performance.

Agency Theory and Signaling Theory together explain how good governance and openness of ESG disclosure can reduce the information gap between management and outside investors, while sending positive signals about the fundamental quality of the company (Kim & Li, 2021). Legitimacy Theory explains the motivation of companies in complying with social norms in order to obtain and maintain social permission to operate, which indirectly protects



the company's value from reputational risks. The Resource-Based View (RBV) and Natural Resource-Based View (NRBV) position ESG capabilities as intangible resources that can be a source of sustainable competitive advantage, and in the long run can translate into superior financial value.

## **6. Why are the findings of previous research inconsistent?**

Based on this synthesis of SLRs, the inconsistency of the global literature on the relationship between ESG and financial performance can be explained by at least ten key factors. First, the difference in ESG measurement proxies: the combined scores obscure the specific impact of each pillar, while various rating agencies such as Refinitiv, MSCI, Bloomberg, and Sustainalytics often assign different scores to the same company (Al Amosh & Khatib, 2022). Second, differences in performance measures: accounting-based measures and market-based measures respond to ESG implementation in fundamentally different ways, including in unequal time frames (Beretta et al., 2024).

Third, the diversity of company characteristics: company size, cash reserves, debt levels, and industry sensitivity moderate the relationship between ESG and performance in different directions and strengths (Zengin, 2025; Ahmed & Abu Khalaf, 2025). Fourth, differences in institutional and regulatory contexts between countries: developed countries with stricter ESG regulations show different patterns than developing countries (El Khoury et al., 2023). Fifth, differences in observation time spans: short-term studies are more likely to find negative or insignificant associations, while longitudinal studies are better able to capture ESG values in the long term (Al Azizah & Haron, 2025).

Sixth, differences in industrial sectors: companies in sectors that are sensitive to environmental issues face ESG dynamics that are fundamentally different from those that are insensitive (Garcia & Orsato, 2021; Luthfi & Atmini, 2025). Seventh, differences in theoretical foundations used: different theories produce different predictions of mechanisms, for example between Stakeholder Theory, Agency Theory, and Signaling Theory. Eighth, differences in research methods: OLS, GMM, fixed effects, and PLS-SEM result in different levels of sensitivity to endogeneity and heteroscedasticity. Ninth, the dominance of data from specific countries: studies that focus too much on China (13.1%) or Europe (13.1%) limit the possibility of generalization to other contexts. Tenth, the differences in the definition and construct of ESG itself that until now do not have universally agreed standards.



## **7. Research Gap and Future Research Agenda**

First gap is the lack of consistency in ESG measurements: the dominance of combined scores (52.5%) obscures the individual impacts of pillars E, S, and G, a limitation acknowledged by almost all studies that use combined scores. Second gap is the limited analysis of individual ESG pillars: only 6.6% of articles explicitly separate the three pillars, even though all three have different value distribution mechanisms. Third gap is the dominance of developed country contexts: most high-quality research focuses on companies in Europe, the United States, China, and South Korea, so the findings cannot yet be generalized to developing countries in Southeast Asia, Africa, and Latin America.

Fourth gap is the limited integration of mediation variables and Moderation simultaneously: most studies only test the direct relationship between ESG and performance, or add a single moderation variable, without simultaneously integrating mediation mechanisms such as green innovation and capital costs and Moderation, such as the size of the company and the level of debt in a single model. Fifth gap is the lack of longitudinal studies with long spans: the dominance of panel data with short periods of three to five years limits the ability to capture long-term ESG values that often accumulate over a decade.

Based on these gaps, the future research agenda is recommended to: (1) use more standardized ESG proxies or explicitly compare the results of various rating agencies; (2) expand empirical studies that simultaneously examine the mediating effects of green innovation and Moderation capital structure; (3) increase comparative studies between countries with special attention to developing countries in Southeast Asia, including Indonesia; (4) include dynamic variables such as digital transformation and economic policy uncertainty; and (5) develop an integrated model that simultaneously tests the relationship between ESG and financial performance by considering the characteristics of companies as a comprehensive moderation variable.

## **CONCLUSION**

The study concludes that the relationship between ESG and financial performance is not simple and one-sided, but rather highly dependent on specific contexts and conditions. Of the 61 articles analyzed, half of the literature (50.8%) found positive associations where ESG performance was shown to increase operational profitability and market valuation. However, a considerable proportion (36.1%) reported results that were mixed or condition-dependent, while the rest found negative or insignificant relationships.



The diversity of these outcomes is largely explained by the role of company characteristics as conditional variables, including company size, cash reserves, debt levels, and industry sensitivities. Large-scale companies with adequate cash reserves have proven to be more effective in converting ESG initiatives into measurable financial value. In addition, the Environmental pillar tends to suppress short-term profitability due to the large cost of transition, while the Social and Governance pillar shows a more stable path of influence on financial performance.

Practically, the implementation of ESG must be designed in a substantive manner and aligned with the availability of corporate liquidity, not just the fulfillment of symbolic obligations. For regulators, the results of this study confirm the need to align ESG disclosure standards that take into account the structural readiness of companies in various sectors. The future research agenda is recommended to increase studies in developing countries, integrate mediation and moderation analyses simultaneously, and use more standardized proxies for ESG measurement.

#### **RESEARCH LIMITATIONS**

This study has some limitations. Most studies still use composite ESG scores from rating agencies, so the specific influence of each pillar Environmental, Social, and Governance has not been comprehensively identified. In addition, the literature studied is still concentrated in specific countries and regions, so generalization of findings in developing countries with different institutional characteristics is still limited.

Another limitation is related to the observation period which is generally only 3–5 years, so it has not fully captured the benefits of ESG in the long term. In addition, there are variations in econometric methods and models, such as OLS, fixed/random effects, GMM system, and PLS-SEM, can produce differences in estimation and sensitivity to endogeneity problems and data characteristics.

#### **SUGGESTIONS**

Further research is recommended to analyze the pillars Environmental, Social, and Governance separately and comparatively in order to identify more specific ESG dimensions in influencing company performance. Cross-country studies also need to be expanded, in particular by comparing developed and developing countries to see how differences in regulations and institutional characteristics affect the relationship between ESG and financial performance.

In addition, future research can develop models that integrate mediation and moderation variables, such as green innovation, cost of capital, cash holdings, firm size, and Leverage. The use



of panel data with longer periods is also recommended to capture delayed effects (Lagged Effects) and ESG benefits that may only be seen in the long run.

### **PRACTICAL & THEORETICAL IMPLICATIONS**

Theoretically, this study strengthens the application of Stakeholder Theory in explaining that corporate value creation is related to the company's ability to meet the interests of various stakeholders. ESG can also be understood through Agency Theory and Signaling Theory as a mechanism to reduce Asymmetry information and provide signals regarding the quality of the company's risk management. In addition, the characteristics of the company such as firm size, cash holdings, and Leverage can be seen as a condition that affects a company's ability to convert ESG practices into economic value.

In practical terms, companies need to implement ESG in a substantive and long-term oriented manner because the benefits of ESG on financial performance do not always appear directly. Investors need to consider not only the composite ESG score, but also the performance of each pillar and the potential ESG controversy as well as the company's financial condition. Meanwhile, regulators can encourage improvement in the quality of ESG disclosure through proportionate standards and provide support or incentives for companies that invest in sustainability and green innovation.

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