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THE IMPACT OF ESG STRATEGIES ON CORPORATE FINANCIAL
PERFORMANCE AND REPUTATION

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In today's global economy, not only financial performance indicators but also a company's contribution to solving environmental, social and governance problems are becoming increasingly important. The ESG (Environmental, Social, Governance) concept is becoming an important tool for assessing the long-term sustainability of a business. The period 2020–2024 is characterized by unprecedented regulatory transformation: the introduction of the EU Corporate Sustainability Reporting Directive (CSRD), the standards of the International Sustainability Standards Board (ISSB), and mandatory ESG disclosure requirements in many countries worldwide. Over 30 countries have implemented or committed to mandatory ESG requirements. This paper analyzes the impact of ESG strategies integration on companies' financial performance and reputation.

The topic is highly relevant for several reasons. First, investors increasingly use ESG ratings in their investment decisions, seeing strong sustainability performance as a sign of reliability and lower risk. ESG-focused assets under management are expected to surpass \$30 trillion globally. Second, many countries now require mandatory non-financial reporting, making ESG transparency a necessity rather than a voluntary initiative. Third, consumers and partners prefer companies with a responsible reputation, which directly affects market positions. Fourth, climate change and social inequality have become central topics of public discourse, increasing pressure on businesses from all stakeholders. Finally, the regulatory transformation of 2020–2024 has fundamentally changed how companies approach sustainability, moving from voluntary initiatives to compliance-driven practices.

This paper is based on a systematic literature review of peer-reviewed empirical studies published between 2020 and 2024. The review follows established guidelines for systematic reviews and analyzes quantitative research examining the relationship between ESG practices and corporate performance. The main findings are drawn from three major systematic reviews that collectively cover more than 150 scientific articles and data on 126,000 companies from 67 countries. This comprehensive approach ensures that the conclusions are robust and representative of current scientific knowledge in the field.

Analysis of scientific literature shows that the link between ESG and financial outcomes is predominantly positive. According to recent large-scale systematic reviews, 56 % of studies demonstrate positive relationships between ESG integration and corporate financial performance, 38 % show mixed or neutral results, and

only 6 % reveal negative associations. Companies with high ESG ratings consistently demonstrate higher return on assets (ROA) and return on equity (ROE), as well as a lower cost of debt capital. This is because effective environmental risk management reduces the likelihood of fines and compensation payments, social responsibility increases employee and customer loyalty, and transparent corporate governance lowers agency costs and prevents scandals.

Significant regional differences were identified in the literature. The Asia-Pacific region shows the highest proportion of positive findings – 67 % of studies confirm a positive ESG–performance relationship. This region has emerged as a global leader in ESG regulatory innovation, with countries like South Korea implementing K-ESG standards and Singapore introducing comprehensive reporting guidelines. Europe follows with 56 % positive results, driven by the EU’s regulatory leadership including the CSRD and Taxonomy Regulation. North America lags behind with only 40 % positive results, reflecting a more fragmented regulatory landscape where voluntary frameworks dominate and federal-state tensions create coordination challenges.

Industry analysis also revealed substantial variation in ESG effectiveness. The manufacturing sector leads with 74 % of studies showing positive ESG–performance relationships. This is because manufacturing companies have direct, measurable environmental impacts – emissions, waste, energy and water consumption – and improvements in these areas translate directly into cost savings and regulatory compliance benefits. Financial services follow with 70 % positive findings, as ESG helps banks and investment firms manage credit, market, and reputational risks. Retail shows 61 % positive results. The most challenging situation is observed in the technology sector, where only 33 % of studies confirm a positive ESG impact. This is explained by the fact that the main ESG challenges for technology companies – data privacy, cybersecurity, e-waste, and supply chain labor conditions – are more difficult to measure with standard ESG metrics.

Special attention is paid to the reputational aspect. The implementation of ESG principles contributes to the formation of a positive corporate image, increasing trust from stakeholders and obtaining the so-called “social license to operate” – the informal permission from society to conduct business. In the long term, this translates into sustainable competitive advantage and increased market capitalization. Research shows that companies with high ESG ratings find it easier to attract and retain talented employees, especially among younger generations for whom corporate values and purpose play a key role in employer choice. Furthermore, strong ESG performance helps companies build resilience during crises, as stakeholders are more likely to support businesses they perceive as responsible and trustworthy.

However, the literature also highlights significant risks. The most common problem is “greenwashing” – when a company creates the appearance of responsible behavior without making real changes in its operations. Such a strategy leads to reputational losses when discrepancies are identified and undermines trust in the company. Media exposure of greenwashing often results in consumer boycotts, investor divestment, and regulatory fines. Furthermore, researchers point to the lack of standardization in ESG ratings: correlations between different rating agencies (such as MSCI, Sustainalytics, and Thomson Reuters) range only from 0,38 to 0,71, creating

serious challenges for data comparability and investment decision-making. This divergence complicates the work of investors who rely on these ratings to allocate capital.

The systematic review also identified several important research gaps. First, there is a process gap – very few studies examine how companies actually integrate ESG into their business models, operations, and organizational culture. Most research focuses on outcomes rather than the implementation process itself. Second, there is a methodological gap – almost 90 % of studies use only quantitative methods, while qualitative research such as case studies and interviews is extremely rare. Third, there is a perspective gap – almost no research examines ESG from the employee's point of view. We know what executives and investors think, but we know very little about how ordinary workers perceive ESG initiatives and how these initiatives affect their daily work and wellbeing.

Based on the findings of this systematic review, several practical recommendations for companies can be formulated. First, organizations should start by conducting a materiality assessment to identify which ESG issues are most relevant to their industry and business model.

Second, companies should move beyond compliance-driven ESG adoption and aim for genuine integration into core business processes. This requires establishing clear ESG targets, linking executive compensation to ESG performance, and ensuring transparent reporting aligned with international standards such as GRI or SASB. Third, organizations must invest in employee engagement. Without the support and understanding of ordinary workers, even the most ambitious ESG strategy will fail.

Finally, companies should be aware of the risks of greenwashing. Authenticity matters. Overstating ESG achievements or making misleading claims inevitably leads to reputational damage when exposed. In summary, successful ESG integration requires strategic commitment, operational changes, employee involvement, and genuine transparency.

Thus, the analysis shows that integrating ESG factors into the business model is not a short-term trend but a strategic necessity. Companies that treat ESG as an opportunity to improve efficiency and strengthen their reputation gain a lasting competitive advantage. The most successful practices are observed in the Asia-Pacific region, as well as in the manufacturing sector and financial services. The technology sector requires the development of specialized industry-specific standards that address its unique sustainability challenges.

Future research should focus on how ESG is implemented at the operational level and how ordinary employees can be actively involved in this process. Qualitative research methods – case studies, interviews, and ethnographic observations – are urgently needed to complement the currently predominant quantitative approaches and provide a deeper understanding of how companies actually transition to sustainable business models. Addressing these research gaps will help practitioners and policymakers design more effective ESG strategies that create value for all stakeholders – not just investors and executives, but also employees and society as a whole.