

**LITERATURE REVIEW: RELATIONSHIP BETWEEN ENVIRONMENTAL,  
SOCIAL AND GOVERNANCE (ESG) ON FINANCIAL PERFORMANCE (FP)**

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**Abstract:** This literature review article discusses the relationship between environmental, social and corporate governance (ESG) on the company's financial performance. By using a systematic literature review method, this article tries to collect various research results on ESG-FP. By using the main theory of stakeholders and agency theory.

**Keywords:** *Social and Governance (ESG), Corporate Social Responsibility (CSR), Financial Performance (FP)*

## **1. Introduction**

The discussion on Environmental, Social and Governance (ESG) has always been a hot topic to be discussed in the business world (Awaysheh et al., 2020). The environment, society, corporate governance are interrelated and indirectly affect the company's performance and activities (López-Toro et al., 2021). The company is one of the governance in generating profit. In running its business, the company and the environment are an inseparable unit. In carrying out good corporate governance, one must be able to be responsible for the environment in which the company operates. The company must be responsible for environmental problems that occur, especially those resulting from or which have a direct impact on the company's operations. Environmental problems that occur today will affect the company's performance in the long term. Global warming and climate change are serious problems facing the world (Buallay et al., 2020). Changes that occur in the environment, have become public attention today. People pay more attention in terms of environmental preservation, environmental damage caused by companies (Zhang et al., 2020). Environmentalists will be more critical of environmental damage caused by company operations. This is in order to protect the environment in order to maintain its sustainability in the future companies (Zhang et al., 2020). Environmentalists will be more critical of environmental damage caused by company operations. This is in order to protect the environment in order to maintain its sustainability in the future.

Environmental problems that occur today will affect the company's performance in the long term. Global warming and climate change are serious problems facing the world. The company is the concern of many parties in running the company's operations. Various stakeholders are very concerned about whether the company running its business will have a good or bad impact on the environment (Gillan et al., 2021). Operations carried out by the company aim to generate profit for the owner. Many companies ignore environmental problems because they are worried that it will affect the profits to be obtained. Responding to pressure from various parties and stakeholders, the company must have a strategy in fulfilling and complying with the rules in preserving the environment, social and applicable regulations (Alareeni & Hamdan, 2020).

Much debate in research has been conducted regarding ESG and firm performance, as well as financial performance (Elsayed & Paton, 2005; Gillan et al., 2021). This study tries to summarize various studies that conduct research that relates the influence of environmental, social and corporate governance responsibility on company performance, especially company financial performance.

The company seeks to improve environmental, social and governance (ESG) performance as part of the company's important strategy in sustainable development, which ultimately affects the company's overall performance (Kuo et al., 2021).

## **2. Literature Review**

ESG is an important concept in carrying out a company's strategy related to company performance. ESG is an important thing that is considered by various parties, so that it becomes a demand for companies in carrying out these demands (Aouadi & Marsat, 2018).

Several previous studies have stated that ESG is closely related to company performance. The literature discusses environmental problems in companies from various aspects. Research conducted by (Flammer, 2021) states that issuers who are committed to the environment get an increase in long-term investment. With environmental conservation efforts in the global supply chain between customers and companies, this collaborative effort will increase operational efficiency and customer and supplier assessments, as well as increase sales growth in the long term (Dai et al., 2021). This is also in line with research conducted (Pástor et al., 2021) which states that by considering environmental, social and governance (ESG) criteria, sustainable investment produces positive social impacts with a shift in consumer tastes towards green products and green ownership by investors.

Research conducted (Baker et al., 2021) examining the relationship between risk management, ESG and IPO underpricing found the negative impact of ESG ratings on IPO underpricing was more pronounced in countries with more transparent financial disclosures, higher liability standards, and stronger shareholder protection. Research on natural disasters affecting ESG disclosure policies located near disaster areas was conducted by (Huang et al., 2022). In the study it was stated that after the disaster, these companies further increased the transparency of their ESG disclosures.

There are many differences of opinion from the results of research on the relationship between environmental problems and financial performance. Several studies have stated that by paying attention to environmental preservation, it will have an impact on increasing the company's revenue performance in the long term. This encourages companies to reduce production costs and increase sales as well as increase consumer satisfaction, so that it is a "win-win" solution for companies and society (Hart, 1995; Majumdar & Reji, 2020). In another study it was stated that ESG performance was not related to the company's financial performance (Saygili et al., 2022).

## **3. Research Method**

This article uses a systematic literature review method (Brooks & Oikonomou, 2018). Using the search application Harzing's Publish or Perish, the authors mapped searches with keywords: Environmental Social Performance, Corporate Social Responsibility and Financial Performance. The method used here to make it easier for writers to map the problem is to collect articles or journals related to those that will be written only for journals published from 2017 to 2021. The stages discussed in this article are the first to map the publisher/outlet where the journal is published, then the country under study, the theories used in previous

research, and the relationship between Environmental Social Responsibility and Financial Performance.

#### 4. Results and Discussion

All previous journals that have been collected can be seen in Table 1.

**Table 1.** Journal Publisher Name and Year Published

No	Journal	Jumlah Publikasi					Total
		2017	2018	2019	2020	2021	
1	Journal of Corporate Finance		1			4	5
2	Journal of Financial Economics					2	2
3	Journal of Finance						0
4	Journal of Banking and Finance					1	1
5	Accounting Research Journal						0
6	Asian Journal of Sustainability & Social Resp.				1		1
7	Borsa Istanbul Review					1	1
8	Corporate Governance				1		1
9	Corporate Social Responsibility and Environmental Management	1					1
10	Financial Analysts Journal			1			1
11	Financial Analysts Journal		1				1
12	Global Finance Journal	1				2	3
13	IJAFAME					1	1
14	Int. Journal of Accounting & Information Management				1		1
15	Int. Journal of Environmental Research and Public Health					1	1
16	Int. Journal of Financial Research			1			1
17	Int. Journal of Hospitality Management			1			1
18	Int. Journal of Logistics Research & Applications				1		1
19	Int. Journal of Production Research		1				1
20	IPTEK Journal of Proceeding			1			1
21	IUP Journal of Corporate Governance			1			1
22	Journal of Assets Management				1		1
23	Journal of Business Economics and Management				1		1
24	Journal of Business Ethics			1		1	2
25	Journal of Business Research						0
26	Journal of Cleaner Production	2				3	5
27	Journal of Global Responsibility	1					1
28	Journal of Management Development	1					1
29	Journal of Multi Financial Management			1			1
30	Journal of Sustainable Finance & Investment				1	2	3
31	Journal Public Affairs				1		1
32	Management of Environmental Quality: an Int. J			1			1
33	Social Responsibility Journal	1	2		1		4
34	South African Journal of Economic & Management Sciences				1		1
35	Strategic Management Journal				1		1
36	Sustainability		1				1
37	The British Accounting Review		1				1
38	The European Journal of Development Research					1	1
39	The Journal of Portofolio Management			1			1
<b>Total</b>		<b>7</b>	<b>7</b>	<b>9</b>	<b>11</b>	<b>19</b>	<b>52</b>

Source: Processed Data, 2022

From the table above, it can be seen that there are 52 journals spread over 39 publishers. The journals that are most widely used are journals published in 2021, followed by 2020 and 2019. While the publishers that are widely used are the Journal of Corporate Finance and the Journal of Cleaner Production, followed by the Social Responsibility Journal and the Global Finance Journal.

#### Country of Research

Table 2 shows the countries where the study was conducted.

**Table 2.** List of Countries Where the Research Was Conducted

No	Country	Jumlah Publikasi					Total
		2017	2018	2019	2020	2021	
1	Afrika Selatan				1		1
2	Amerika Latin					1	1
3	AS	4	1		1	9	15
4	Brasil			1			1
5	Chili			1			1
6	Eropa		3			1	4
7	Global	1		4	4	4	13
8	India			2	1		3
9	Indonesia	1					1
10	Inggris				1		1
11	Istambul					1	1
12	Italia	1	1				2
13	Jerman	1					1
14	Kanada				1		1
15	Kolombia			1			1
16	Korea		1				1
17	Malaysia			1			1
18	Meksiko			1			1
19	Negara Berkembang	1		1	1	1	4
20	Negara Maju					1	1
21	Negara Mediterania (Yunani, Spanyol, Italia, Perancis, Portugal, Turki)				1		1
22	Nordic Region (Sweden, Denmark, Finland, Norway)				1		1
23	Perancis				1		1
24	Peru			1			1
25	Timur Tengah-Afrika					1	1
<b>Total</b>		<b>9</b>	<b>6</b>	<b>13</b>	<b>13</b>	<b>19</b>	<b>60</b>

Source: Processed Data, 2022

From the table above, it can be seen that the most studied country for 5 years is the United States, 15 times, namely 4 times in 2017, 1 time in 2018, 1 time in 2020 and 9 times in 2021, while in 2019, in data processing not found.

### Research Theory

Table 3 in this article shows the theories used in the literature review.

**Table 3.** The theories used

No	Theory	Jumlah Publikasi					Total
		2017	2018	2019	2020	2021	
1	Agency				3	6	9
2	Based on Pure Ethical	1					1
3	Business Ethics Theory		2				2
4	Capabilities Theory			1			1
5	Dynamic Capabilities			1			1
6	GMM				1		1
7	Legitimacy	3		1	2	1	7
8	Resource-based Theory (RBT)	1			1	2	4
9	Resource-based View			1	1	1	3
10	Stakeholders	7	3	7	7	13	37
11	Value-enhancing Theory.		1				1
<b>Total</b>		<b>12</b>	<b>6</b>	<b>11</b>	<b>15</b>	<b>23</b>	<b>67</b>

Source: Processed Data, 2022

In table 3 it can be seen that the theory that is widely used is the stakeholder theory, in which this theory states that the company is not only an entity that only operates for its own interests, but must also bring benefits to other parties, such as shareholders, creditors, consumers, suppliers and others. government. Stakeholders and management are directly related to the efficiency and productivity of the company (Brooks & Oikonomou, 2018).

### **Relationship between Environmental, Social and Governance with Financial Performance**

Table 4 below shows the relationship or influence between environmental, social and governance with financial performance. Here the relationship is marked with significant or not which is indicated by +/-.

**Table 4.** Relationship between ESG and Financial Performance

Independent Variabel	Dependent Variabel	Sign	Citation
ESG ratings	IPO underpricing	-	(Baker et al., 2021)
Firm's global extra-financial performance	ESG-related events	-	(Champagne et al., 2021)
Information processing costs	Environmental prformance	+	(Griffin et al., 2020)
ESG investment industry	Green investment firms	+	(Pástor et al., 2021)
ESG	Firms operasional (ROA, ROE, Tobins Q	+	(Alareeni & Hamdan, 2020)
ESG	Financial performance	+	(López-Toro et al., 2021)
ESG	Financial performance	+	(Albitar et al., 2020)
ESG	Financial performance	+	(Almeyda & Darmansya, 2019)
ESG	Corporate financial performance	+	(Awaysheh et al., 2020)
Emisi Reduction	Financial performance	+	(Bătae et al., 2021)
Increase of quality corporate governance	Financial performance	-	(Bătae et al., 2021)
CSR	Financial performance	-	(Buallay et al., 2020)
CSR	Operational & market performance	+	(Buallay et al., 2020)
ESG	Financial performance	+	(Dorfleitner et al., 2020)
ESG	Corporate financial performance	-	(Duque-Grisales & Aguilera-Caracuel, 2021)
ESG	Financial performance	+	(Fatemi et al., 2018)

ESG/CSR	Firm Value	+	(Fiandrino et al., 2019)
ESG	Financial performance	-	(Duque-Grisales & Aguilera-Caracuel, 2021)
ESG	Financial performance	-	(Ismail et al., 2019)
ESG	Financial performance	+	(Janah & Sassi, 2021)
ESG (negara maju)	Financial performance	+	(Janah & Sassi, 2021)
ESG (negara berkembang)	Corporate financial performance	0	(Jha & Cox, 2015)
Corporate sustainability performance (CSP)	Corporate financial performance	-	(Khattak, 2021)
Sustainability performance	Corporate financial performance	-	(Khattak, 2021)
ESG	Financial performance	+	(Landi & Sciarelli, 2019)
Integrated reporting quality (IRQ)	Financial performance	-	(Mans-Kemp & van der Lugt, 2020)
	Financial performance	+	(Min et al., 2017)
CSR		+	(Nizam et al., 2019)
ESG	CSP	+	(Okafor et al., 2021)
CSR	Financial performance	+	(Rahi et al., 2021)
ESG	Corporate financial performance	-	
	Financial performance (return on invested capital, ROE, eraning per share)	-	(Rahi et al., 2021)
ESG		+	(Saygili et al., 2022)
ESG disclosure	Financial performance (ROA)	-	(Shakil et al., 2019)
Environmental, social and governance performance (ESGP)	Corporate financial performance	+	(Velte, 2017)
	Financial performance (ROA)	+	(Velte, 2017)
Environmental, social and governance performance (ESGP)		-	(Velte, 2017)
	Financial performance (Tobin's Q)	-	(Velte, 2017)

Source: Processed Data, 2022

Many previous researchers have conducted research related to ESG and financial performance, using various methods and measures. Performance measurement can be done with financial indicators such as ROE, ROA, Tobin's Q, and so on (Gillan et al., 2021). But not all research results show the same results. This can be seen in table 4 above.

## 5. Conclusion

Basically, previous research on ESG-FP has had mixed results. Although many previous studies have shown a relationship between ESG and FP, there are also studies which state otherwise that there is no relationship between ESG and FP (Gillan et al., 2021). Many things caused these differences in results to occur, including differences in the type of business industry, differences in countries and geographical locations (López-Toro et al., 2021). ESG disclosures by companies are basically related to company performance, both financial performance and managerial performance (Brooks & Oikonomou, 2018).

## Future Research

With regard to research on ESG and FP, there are still many variations, for future research it is hoped to examine the differences between the relationship between ESG & FP in various countries with different backgrounds. So that conclusions can be drawn about the causes of the differences that occur in the study.



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