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Impact of Corporate Sustainability Performance on Financial Performance: A Sectoral Analysis

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Abstract

Sustainability has emerged as a hot topic in academia and the corporate world. A large number of studies emphasizes the importance of Corporate Sustainability Performance and how it may affect various measures of corporate performance and value creation. Hence, this study investigates the impact of Corporate Sustainability Performance, which reflects Environmental, Social and Governance performance, on the Financial Performance of companies operating in 5 regions around the world: Africa, America, Asia, Europe and Australia. Our empirical analysis is based on Refinitiv Eikon's ESG Scores of companies in 8 economic sectors: energy, basic materials, industrials, consumer cyclical, consumer non-cyclical, healthcare, technology, and utilities. Our data base covers annual data of ESG scores and financial performance measures of 2094 companies from 56 countries, during 2012 – 2021. We aim to reveal how specific dimensions of Environmental, Social and Governance performance impact financial ratios related with profitability, liquidity, efficiency, leverage, market value. We conduct Path Analysis to identify which Corporate Sustainability Performance measures are critical in terms of financial performance for each sector. Sector-wise path models demonstrate statistically significant relationships between various Corporate Sustainability Performance Scores and Financial Performance measures and thus provide implications for sectoral comparisons. The findings of the study may help corporate executives in different sectors to focus on specific sustainability policies and make effective ESG investment decisions to strengthen corporate financial performance.

Keywords: Environmental Performance, ESG Scores, Governance Performance, Path Analysis, Social Performance