

Approach to ESG and the Financial Performance of European Enterprises*

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Abstract

The purpose of this article is to empirically assess the relationship between companies' ESG performance (Environmental, Social, and Governance) and their financial profitability, measured by ROA, ROE, and Operating Margin. The existing literature still lacks conclusive evidence on the direction and strength of the ESG–financial performance relationship, particularly in the context of European enterprises operating under a regulatory framework oriented toward sustainable development (CSRD, ESRS).

This study aims to fill that gap by analysing a large cross-sectional sample of European companies, enabling the observation of diverse ESG practices and their performance effects. The analysis is based on a dataset comprising a subset of 600 European firms ($N \approx 600$) drawn from the Refinitiv database, including average values over the last five fiscal years.

To identify the relationships between ESG components and profitability, a Pearson correlation analysis was applied after data cleaning and conversion into a numerical format.

The results indicate significant positive correlations between ESG performance and financial efficiency measures, particularly in the environmental and governance dimensions. The strongest associations were observed for Resource Use Score ($r \approx 0.47$), Emissions Score ($r \approx 0.45$), and CSR Strategy Score ($r \approx 0.45$). Moderate correlations were found for social components (e.g., Workforce Score, Human Rights Score). At the same time, the only negative relationship was identified for the Shareholders Score, which may suggest the limitations of short-term shareholder orientation.

Overall, the findings confirm that high-quality ESG practices contribute to higher corporate profitability, supporting the concept of “sustainable profitability” and providing a foundation for further empirical investigation.

Keywords: ESG, financial profitability, sustainable development.

Introduction

In recent years, the concepts of sustainable development and Corporate Social Responsibility (CSR) have become integral parts of corporate strategy. As stakeholder expectations and regulatory pressures have evolved, CSR has transformed into a modern analytical framework known as ESG (Environmental, Social, Governance). ESG represents a comprehensive framework for evaluating a company's performance, encompassing its environmental impact, social responsibility, and corporate governance practices.

The introduction of unified reporting standards, such as the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS), has made ESG analysis not only a regulatory requirement but also a key component of corporate risk assessment and market valuation.

In financial literature, the debate over the relationship between ESG performance and corporate financial performance (CFP) has been ongoing for years. Early studies, including those by Friede, Busch, and Bassen (2015), showed that in approximately 90% of empirical analyses, this relationship was positive or neutral, suggesting that incorporating ESG factors does not reduce profitability and often enhances it. More recent works, such as Velte (2021) and García-Sánchez et al. (2022), indicate that the impact of ESG varies depending on the region, industry, and organizational structure. European research frequently highlights the importance of the environmental and strategic components (Sassen et al., 2016; Nollet et al., 2016), while findings concerning the social and governance dimensions remain inconclusive.

Despite the growing number of studies, a significant research gap remains regarding the relationship between ESG and profitability within an integrated and international framework. Previous studies have often focused on narrow national or sectoral samples, which limits the generalizability of conclusions. Moreover, many analyses rely on single financial performance measures (e.g., ROE or Tobin's Q), overlooking the complex structure of profitability determinants. There is also a lack of studies employing the extended Du Pont model, which decomposes profitability into operational, efficiency, and capital components, providing a more comprehensive understanding of how specific ESG elements influence the internal mechanisms of profit generation.

In the European context, examining the ESG-profitability relationship gains particular relevance due to the dynamic implementation of EU regulations (CSRD, EU Taxonomy) and the increasing pressure from institutional investors for non-financial disclosures. For many companies, adopting ESG policies is no longer merely a matter of reputation but has become a strategic requirement and an essential element of financial and operational risk management.

This article aims to empirically investigate the relationship between ESG performance and the profitability of European enterprises, utilizing data from the Refinitiv/Thomson Reuters database, which covers 1,788 companies. A subset of approximately 600 European firms was extracted from this dataset. The analysis covers the five most recent fiscal years. It focuses on assessing the relationships between ESG indicators (across the three pillars: environmental, social, and governance) and key profitability measures: ROA, ROE, and Operating Margin.

The study employs a quantitative approach, utilizing Pearson correlation analysis to assess the direction and strength of relationships among the analyzed variables. This correlation stage serves as a preliminary step toward further regression analyses based on an extended DuPont model, which will enable the identification of transmission channels through which ESG affects financial outcomes.

The article contributes to the literature by providing an integrated analysis of the ESG-profitability relationship for a broad sample of European firms and by incorporating ESG performance metrics into the conceptual structure of the DuPont model. The results obtained help to understand better how sustainable business practices translate into economic efficiency, thereby supporting the concept of sustainable profitability as a new paradigm in corporate financial management.

Literature Review

The relationship between ESG performance (Environmental, Social, Governance) and corporate financial performance (CFP) currently ranks among the most extensively studied topics in financial and sustainability literature. Over the past two decades, numerous empirical studies, including cross-sectional analyses, panel data models, and meta-analyses, have consistently confirmed that, in most cases, the relationship between ESG and financial performance is positive or neutral.

Two landmark review studies, Orlitzky, Schmidt, and Rynes (2003) and Friede, Busch, and Bassen (2015), represent milestones in this research area. Orlitzky et al. (2003) confirmed a significant positive correlation between corporate social responsibility (CSR) and financial performance, with the relationship being stronger in studies using market-based rather than accounting-based measures. The authors also emphasized the bidirectional nature of the relationship: firms with higher profitability are more likely to engage in CSR activities, which in turn strengthen their financial results, creating a feedback mechanism.

Similarly, Friede et al. (2015) demonstrated that the “business case for ESG” is empirically well established. In about 90% of cases examined, no negative impact of ESG on financial performance was found, and in most analyses, the relationship was positive. These findings indicate that integrating environmental, social, and governance factors not only does not weaken firms’ economic efficiency but can also serve as a source of competitive advantage.

A significant advancement in ESG–CFP research emerged with the introduction of the materiality concept. Khan, Serafeim, and Yoon (2016) found that the positive and significant impact of ESG on financial performance applies only to ESG activities considered “material” for a given industry, as defined by the Sustainability Accounting Standards Board (SASB) framework. Investments in immaterial ESG aspects did not improve, and sometimes even weakened, financial performance. This finding refined earlier general observations by introducing the notion of relevance and quality of sustainability strategies as a condition for deriving economic benefits. Similarly, Eccles, Ioannou, and Serafeim (2014) compared 180 “high-sustainability” firms with a control group of firms with low ESG implementation levels over a long-term horizon. Their results showed that firms with well-developed sustainability practices achieved higher operating profits, greater shareholder returns, and lower operational risk. The authors argued that embedding ESG into strategic management strengthens organizational culture, fosters long-term thinking, and enhances crisis resilience.

In European research, special attention has been paid to indirect mechanisms through which ESG affects firm value and performance. Many studies highlight the role of risk and cost of capital channels. Sassen, Hinze, and Hardeck (2016), analyzing European firms, confirmed that high ESG performance reduces corporate risk, although the effect varies by industry and dominant ESG pillar. El Ghoul, Guedhami, Kwok, and Mishra (2011) showed that firms with higher CSR levels face a lower cost of equity capital, a finding later extended to debt costs and credit ratings (Oikonomou, Brooks, & Pavelin, 2014).

From a financial theory perspective, ESG can act as an insurance mechanism against reputational and regulatory risk. Albuquerque, Koskinen, and Zhang (2019) and Bouslah, Kryzanowski, and M’Zali (2013) found that strong ESG performance reduces both systematic and firm-specific risk, leading to more stable financial outcomes and higher market valuations. Conversely, part of the literature points to market asymmetry in responses to ESG-related information. Krüger (2015) employed an event-study approach to demonstrate that adverse ESG events (e.g., environmental scandals or human rights violations) are heavily penalized by investors, whereas positive news elicits only limited reactions. Capelle-Blancard and Petit (2019) confirmed this asymmetry, demonstrating that markets respond more strongly to controversies than to achievements, implying that ESG value manifests primarily through reputation risk mitigation rather than immediate market premiums.

Differences across studies often stem from the use of divergent measures of financial performance. Velte (2017) found a positive impact of overall ESG performance on ROA, but no significant effect on market-based indicators (Tobin’s Q). Nollet, Filis, and Mitrokostas (2016) identified a nonlinear relationship between ESG and financial outcomes, with the environmental component (E) being the most dominant in energy-intensive industries. Cornett, Erhemjamts, and Tehranian (2016) focused on the banking sector and demonstrated that governance (G) and social (S) factors, linked to reputational risk management, had the most significant influence on performance.

During crisis periods, high ESG performance serves as a stabilizing factor. Broadstock, Chan, Cheng, and Wang (2021) found that Chinese firms with higher ESG scores performed better in withstanding market downturns during the COVID-19 pandemic. Similarly, Ding, Levine, Lin, and Xie (2021) showed that globally, firms with strong governance quality and social responsibility practices exhibited greater stock price resilience amid the crisis.

A key contemporary challenge in ESG research is the disagreement over ratings problem. Different ESG rating providers employ distinct methodologies, indicators, and weighting systems, resulting in significant discrepancies in classification. Berg, Kölbel, and Rigobon (2022) found that inter-provider ESG rating alignment is moderate and primarily driven by differences in subcategory selection rather than weighting. Gibson, Krueger, and Schmidt (2021) further showed that high rating divergence can itself constitute a priced risk factor, as informational uncertainty surrounding ESG influences investors’ risk perceptions.

The transmission channels linking ESG to financial performance are multifaceted. Chava (2014) and Cheng, Ioannou, and Serafeim (2014) demonstrated that stronger ESG performance enhances access to financing and reduces the cost of capital, as investors perceive such firms as less risky and more transparent. Other studies emphasize the effects of reputation and customer satisfaction. Luo and Bhattacharya (2006) and Servaes and Tamayo (2013) demonstrated that CSR activities enhance customer loyalty, resulting in higher sales and increased firm value. Lins, Servaes, and Tamayo (2017) found that during the 2008–2009 financial crisis, firms with higher social capital, as measured through CSR engagement, maintained investor trust and achieved higher returns than their peers.

Each ESG pillar affects financial outcomes through different mechanisms. The environmental component (E) is linked to regulatory risk, energy costs, and resource efficiency, contributing to higher operational profitability (Clarkson, Li, Richardson, & Vasvari, 2008). The social dimension (S) relates to labor productivity and employee satisfaction; Edmans (2011) demonstrated that firms with high employee satisfaction generate higher stock returns. The governance pillar (G) reduces agency costs and enhances strategic predictability, as shown by Ferrell, Liang, and Renneboog (2016).

In investment literature, ESG is also analyzed from the perspective of portfolio strategies. Auer and Schuhmacher (2016) found that portfolios based on top-rated ESG firms do not consistently outperform the market after adjusting for risk, but also do not exhibit persistent underperformance. Derwall, Guenster, Bauer, and Koedijk (2005) demonstrated that eco-efficiency-oriented investment strategies deliver long-term excess returns. Conversely, Hong and Kacperczyk (2009) and Statman and Glushkov (2009) suggested that purely “ethical” sector exclusions (sin stocks) may limit diversification and impose opportunity costs. However, they do not undermine the overall validity of ESG investing.

A vast body of empirical evidence thus indicates that ESG does not harm corporate financial performance—and in most cases, enhances it. The mechanisms of this impact include risk reduction, lower capital costs, improved reputation, greater employee engagement, and higher operational efficiency. Differences among studies primarily arise from the choice of financial performance measures, the materiality of ESG aspects analyzed, and the regulatory or industry context in which they are evaluated.

In light of new European regulations, particularly the CSRD and ESRS standards, the importance of empirical studies using European firm-level data is increasing. The growing standardization and comparability of ESG disclosures across Europe provide favorable conditions for in-depth analyses of the structural linkages between ESG components and traditional profitability determinants, laying a foundation for further research.

Based on the literature review, the following research questions were formulated:

- How does the overall level of corporate ESG performance affect financial profitability?
- Which ESG component (environmental (E), social (S), or governance (G)) has the strongest impact on corporate financial profitability?
- Does a high shareholder orientation (high Shareholders Score) correlate with lower long-term corporate profitability?

Methods

The objective of this study was to provide an initial empirical identification and description of the relationship between companies’ financial performance and their ESG (Environmental, Social, and Governance) performance. The analysis represents an exploratory stage of a broader project focused on integrating ESG factors into classical profitability analysis models. The study concentrates on European companies, for which sustainability issues are of particular importance due to the implementation of EU regulations on non-financial reporting (CSRD, ESRS).

The literature indicates that the impact of ESG on firms’ financial performance may be multidimensional and vary depending on regulatory, industry, and temporal contexts (Friede, Busch, & Bassen, 2015; Sassen, Hinze, & Hardeck, 2016; Velte, 2017). On one hand, a high level of ESG practices may contribute to improved operational efficiency, better reputation, and a lower cost of capital; on the other hand, their implementation requires investment and compliance expenditures that may burden profitability in the short term. Consequently, the following research hypotheses were formulated:

H1: There is a positive relationship between the overall level of ESG performance and the financial profitability of European companies.

H2: The environmental component (E) shows the strongest positive association with profitability compared to the social (S) and governance (G) components

H3: Excessive orientation toward shareholder interests (high Shareholders Score) may be associated with lower long-term profitability.

To verify these hypotheses, a correlation analysis was conducted between ESG indicators and measures of companies' financial profitability. After applying a filtering process, a subset of firms headquartered in European countries was selected (n = 600). The analysis was performed using five-year average values to reduce the influence of short-term fluctuations and obtain more stable estimators.

In the first stage, variable selection was carried out (Table 1). The dependent variables included the primary measures of corporate financial profitability:

- ROA (Return on Assets) – profitability of assets,
- ROE (Return on Equity) – profitability of equity,
- Operating Margin – operating margin, serving as an approximation of the Net Profit Margin (NPM).

The independent variables were the ESG performance indicators, grouped into three pillars:

- Environmental (E): Emissions Score, Environmental Innovation Score, Resource Use Score;
- Social (S): Workforce Score, Human Rights Score, Community Score, Product Responsibility Score;
- Governance (G): CSR Strategy Score, Shareholders Score, Management Score.

Table 1. Variables Used in the Correlation Analysis of ESG–Profitability (Sample: European Companies)

Category	Variable	Unit / Scale	Economic Interpretation
Dependent variables	ROA (Return on Assets)	%	An indicator of how effectively assets generate profit. The higher the value, the better the company's ability to create value from its resources.
	ROE (Return on Equity)	%	Measure of return for shareholders; reflects financial efficiency relative to the amount of equity invested.
	Operating Margin	%	Profitability indicator of core operating activities, independent of financing structure and taxation.
Independent variables – ESG components	Emissions Score	Scale 0–100	Assesses management of greenhouse gas emissions, climate policy, and the level of environmental reporting.
	Environmental Innovation Score	Scale 0–100	Reflects engagement in environmental innovations and technologies that aim to reduce negative environmental impacts.
	Resource Use Score	Scale 0–100	Measures the efficiency of raw material, energy, and resource utilization in production processes.
	Workforce Score	Scale 0–100	Evaluates employment practices, training, workplace safety, and diversity.
	Human Rights Score	Scale 0–100	Measures respect for human rights within the organization and across the supply chain.

	Community Score	Scale 0–100	Evaluates relationships with local communities, philanthropic initiatives, and overall social impact.
	Product Responsibility Score	Scale 0–100	Concerns product quality, user safety, and ethical marketing practices.
	CSR Strategy Score	Scale 0–100	Evaluates the extent to which a company has an integrated, long-term CSR/ESG strategy embedded in its operations.
	Shareholders Score	Scale 0–100	Assesses transparency in relations with shareholders, ownership structure, and investor rights practices.
	Management Score	Scale 0–100	Evaluates the quality of management, board structure, and corporate governance practices.
Aggregated variable	ESG Composite (average score)	Scale 0–100	Represents the overall sustainability performance of a company by averaging the three ESG pillars (E, S, G).

Source: own study.

Text data containing decimal commas or percentage symbols (“%”) were cleaned and standardized. To ensure data quality and comparability, the listwise deletion procedure was applied, removing observations with missing values in any of the variables. Subsequently, to identify the strength and direction of linear relationships, Pearson correlation coefficients were calculated between individual ESG indicators and profitability measures.

The use of the Pearson coefficient was justified by the nature of the variables (continuous, numerical) and its widespread application in financial research as a tool for assessing relationships between two quantitative measures. The Pearson correlation coefficient was applied because all analyzed variables (both ESG indicators and financial performance measures such as ROA, ROE, and Operating Margin) are quantitative and continuous, which is a fundamental condition for applying this measure. The study aimed to identify the strength and direction of the linear relationship between the variables. The Pearson coefficient enables the determination of whether an increase in one variable (e.g., ESG score) is associated with a proportional increase or decrease in another variable (e.g., ROE). The Pearson correlation coefficient is the most commonly used measure of linear association in economic and financial analyses, especially when examining relationships between efficiency, profitability, leverage, or market value indicators. Its results are easy to interpret and allow comparability with prior studies (e.g., Friede et al., 2015; Velte, 2017). Although the Pearson coefficient assumes approximate normality and linearity of the variables, the analysis conducted on a large sample ($n = 600$) ensures that the results are sufficiently stable and robust to moderate deviations from these assumptions. The research period covered the years 2020–2024.

Results

The analysis of the correlation matrix reveals several clear and economically consistent relationships (Table 2). Robust positive correlations are observed among the profitability measures themselves ($r = 0.97–0.98$), indicating their internal coherence and confirming that all three indicators describe the same domain of financial efficiency, albeit from slightly different perspectives. The high convergence of ROA, ROE, and operating margin is typical in corporate analyses, where both the capital structure and operating margins tend to remain relatively stable over time.

Table 2. Correlation between Profitability Indicators (ROA, ROE, Operating Margin) and ESG Components

ESG Indicator	ROA	ROE	Operating Margin
Emissions Score	0.44	0.45	0.43
Environmental Innovation Score	0.10	0.12	0.13
Resource Use Score	0.44	0.47	0.42
Workforce Score	0.35	0.37	0.35

Human Rights Score	0.37	0.39	0.37
Community Score	0.28	0.28	0.32
Product Responsibility Score	0.32	0.37	0.33
CSR Strategy Score	0.45	0.45	0.43
Shareholders Score	-0.15	-0.11	-0.13
Management Score	0.20	0.18	0.18

Source: own study.

Among the ESG components, the strongest associations with financial profitability are observed for environmental and strategic indicators. The Emissions Score correlates with ROA at 0.44, with ROE at 0.45, and with operating margin at 0.43, confirming that reducing greenhouse gas emissions, improving energy efficiency, and implementing climate policies generate tangible economic benefits. A similar level of correlation ($r = 0.44-0.47$) was found for the Resource Use Score, which measures the efficient use of raw materials and energy. These results suggest that improving resource efficiency lowers operating costs and increases profit margins, thereby contributing to higher ROA and ROE ratios.

Comparable results were obtained for the CSR Strategy Score ($r \approx 0.43-0.45$), which reflects the degree to which a company integrates a long-term sustainability strategy into its management framework. The positive and relatively strong correlations with profitability confirm that companies with more mature ESG strategies are better prepared for regulatory and market changes, and their actions result in sustained value growth. The high intercorrelations among Emissions Score, Resource Use Score, and CSR Strategy Score ($r = 0.42-0.45$) further suggest that these three areas constitute a mutually reinforcing set of practices that positively affect financial outcomes.

For social components, the relationships are also positive but of moderate strength. The Workforce Score correlates with ROA at 0.35, with ROE at 0.37, and with operating margin at 0.35, while the Human Rights Score reaches values between 0.37 and 0.39. This indicates that companies investing in human capital, ensuring safe and stable working conditions, and upholding human rights throughout supply chains achieve higher operational efficiency. The positive correlations for these indicators may stem from improved employee motivation, lower turnover rates, an enhanced reputation, and increased productivity.

Slightly weaker but still positive relationships are observed for the Community Score and Product Responsibility Score, with a correlation coefficient (r) between 0.28 and 0.33. This may imply that social engagement and product responsibility yield financial benefits in the long term, primarily through strengthened stakeholder relations, increased customer loyalty, and enhanced brand reputation. At the same time, their short-term impact on profitability remains less direct.

Within the governance pillar (G), the results are more diverse. The Management Score exhibits a positive, though weak, correlation with profitability ($r \approx 0.18-0.20$), which can be interpreted as an indirect yet favorable effect of management quality on financial results. In contrast, the Shareholders Score is the only indicator with a negative sign ($r \approx -0.11$ to -0.15). This may reflect the fact that firms with a strong focus on maximizing shareholder value often pursue short-term strategies that place less emphasis on sustainability, potentially undermining their long-term financial stability and profit-generating capacity.

Several additional interrelations among ESG indicators were also observed. Environmental indicators are strongly correlated with each other, particularly Emissions Score and Resource Use Score ($r = 0.68$), confirming that firms reducing emissions typically also implement measures to improve resource efficiency. Social components, such as Workforce Score and Human Rights Score, also form a closely related cluster ($r = 0.54$), reflecting the shared foundations of human capital management and ethical labor practices.

Overall, the correlation matrix indicates that the relationships between ESG performance and financial profitability are positive and consistent with the theory of sustainable development. The environmental and strategic components exhibit the most significant economic significance, while social factors show a moderate but systematic influence. The negative correlations for the Shareholders Score may suggest a tension between

short-term shareholder orientation and the concept of long-term “sustainable profitability.” Thus, the findings confirm the hypothesis of a positive relationship between ESG and financial performance, with environmental and strategic activities offering the highest potential to enhance overall efficiency.

Table 3 presents an aggregated analysis of the relationships between the three main ESG pillars (Environmental, Social, and Governance) and financial profitability indicators for the sample of European companies. The purpose of this table is to provide a simplified and synthetic overview of the results obtained from the previous, more detailed analyses that examined individual ESG sub-indicators. In this case, the values were averaged within each of the three ESG pillars, allowing for an assessment of which dimension of sustainable development shows the strongest relationship with corporate profitability.

Table 3. Correlation between ESG Pillars and Profitability Indicators

ESG Pillar	ROA	ROE	Operating Margin
Environmental (E)	0.43	0.45	0.43
Social (S)	0.33	0.35	0.34
Governance (G)	0.17	0.17	0.16

Source: own study.

The results indicate a positive and economically significant relationship between ESG performance and financial profitability among the European companies in the sample. The Environmental pillar (E) exhibits the strongest positive correlation with all profitability indicators ($r \approx 0.43\text{--}0.45$), suggesting that companies effectively managing emissions, resource use, and environmental innovation tend to achieve higher returns on assets, equity, and operating margins.

The Social pillar (S) demonstrates a moderate but consistent positive relationship ($r \approx 0.33\text{--}0.35$), indicating that investment in human capital, employee well-being, and community engagement contributes to improved long-term efficiency and value creation.

The Governance pillar (G) exhibits the weakest yet still positive association ($r \approx 0.16\text{--}0.17$), indicating that good corporate governance primarily supports financial performance through enhanced managerial quality and reduced operational risk.

Overall, the data confirm that the environmental dimension plays the most influential role in shaping financial outcomes. At the same time, social and governance factors contribute to sustainability and resilience in the long term.

Discussion

The results obtained for the sample of European companies largely confirm the findings of existing academic research, indicating that higher ESG performance is associated with better financial profitability. Robust positive correlations between the environmental pillar (E) and the profitability indicators ROA, ROE, and operating margin align with the well-established conclusion in prior studies that pro-environmental actions contribute to improved operational efficiency and financial stability. In the classic meta-analysis by Orlitzky, Schmidt, and Rynes (2003), corporate social responsibility (CSR) was shown to be positively related to financial performance, while a more recent review encompassing over 2,000 studies (Friede, Busch, & Bassen, 2015) confirmed that approximately 90% of analyses reported either a positive or neutral relationship between ESG and financial results. In this context, the strong correlations observed between the Emissions Score and Resource Use Score ($r \approx 0.43\text{--}0.47$) in the European sample demonstrate that firms investing in emission reduction technologies and resource-efficient management benefit not only in terms of reputation but also economically.

The link between environmental efficiency and financial performance is most often explained through the reduction of operating costs and both regulatory and market risk. As emphasized by El Ghoul, Guedhami, Kwok, and Mishra (2011) and by Sassen, Hinze, and Hardeck (2016), companies with higher ESG ratings tend to enjoy a lower cost of equity and total capital, likely due to increased investor trust and more stable cash flows. Our findings confirm this relationship, as the environmental pillar exhibits the strongest correlation with profitability. Similar conclusions are drawn by Albuquerque, Koskinen, and Zhang (2019), who argued that high ESG standards act as a form of “reputational insurance,” mitigating the adverse effects of market and regulatory shocks. Likewise,

Khan, Serafeim, and Yoon (2016) demonstrated that the positive impact of ESG on financial outcomes is more substantial when companies focus on issues that are material to their specific industries—that is, those that genuinely affect value creation. This explains why, in our analysis, the most significant correlations concern emissions and resource management, areas that are particularly relevant to industrial activity in Europe.

The moderately positive associations for social components such as *Workforce Score* and *Human Rights Score* are also consistent with the patterns reported in the literature. Numerous studies have found that investments in human capital and responsible social practices lead to higher productivity, lower employee turnover, and improved corporate reputation, all of which translate into better financial results (Luo & Bhattacharya, 2006; Edmans, 2011; Servaes & Tamayo, 2013). Our data confirm this mechanism, as correlations in the range of 0.35–0.39 suggest that companies emphasizing employee engagement, equality, and human rights achieve more stable and predictable earnings. Slightly lower values for *Community Score* and *Product Responsibility Score* ($r \approx 0.28$ – 0.33) indicate that activities in these areas tend to have a longer-term impact, as the reputational and social benefits may take time to materialize in financial performance.

The results for the governance pillar (G) are more complex and reflect the ambivalent nature of this relationship found in the literature. The *Management Score* exhibits a weak yet positive correlation with profitability, indicating that strong management quality and effective corporate governance contribute to financial stability and decision-making efficiency (Ferrell, Liang, & Renneboog, 2016). Conversely, the negative correlations observed for *Shareholders Score* ($r \approx -0.11$ to -0.15) may indicate that an exclusive focus on shareholder interests, typical of short-term value maximization, can conflict with the principles of sustainable development. Similar conclusions were drawn by Krüger (2015) and by Capelle-Blancard and Petit (2019), who demonstrated that financial markets tend to punish adverse ESG events more severely than they reward positive ones, and that excessive shareholder orientation may limit long-term growth potential.

Our results align with research on corporate resilience during crises. Studies by Broadstock, Chan, Cheng, and Wang (2021) and Ding, Levine, Lin, and Xie (2021) found that firms with stronger ESG performance weathered the COVID-19 crisis more effectively, experiencing smaller declines in market value and recovering faster post-crisis. The strong correlations between *Emissions Score* and *Resource Use Score* ($r = 0.68$) and between *Workforce Score* and *Human Rights Score* ($r = 0.54$), observed in our sample, indicate that companies in practice implement integrated ESG strategies that combine environmental efficiency with social responsibility. Such an integrated approach, as noted by Eccles and Serafeim (2013), enhances long-term organizational resilience and helps maintain competitive advantage. Overall, our findings support the hypothesis of sustainable profitability, which posits that incorporating ESG factors into the business model leads to better alignment between operational efficiency, risk management, and the cost of capital. This confirms the broader “business case for ESG” (Friede et al., 2015), which posits that responsible environmental and social actions should not be viewed as costs but as investments in future stability and corporate value.

The conclusions from this empirical analysis for European companies thus reinforce the growing body of evidence that integrating ESG factors into strategic management represents a genuine source of competitive advantage. Environmental actions, being the most material component of ESG, generate direct financial benefits through cost and risk reduction. At the same time, social and governance factors strengthen stakeholder trust, enhance the quality of human capital, and reduce earnings volatility. As a result, ESG functions both as a risk buffer and as a catalyst of long-term efficiency, a finding consistent with both the global literature and the empirical evidence presented for European enterprises.

Conclusion

The conducted study confirmed that among European companies, a clear and positive relationship exists between ESG performance and financial profitability. The strongest correlations were observed for environmental and strategic components, indicating that firms effectively managing emissions, resource efficiency, and implementing coherent CSR strategies achieve higher financial results, as measured by ROA, ROE, and operating margin. The obtained results support the hypothesis of sustainable profitability, which posits that integrating ESG factors into a company’s operational activities yields economic, reputational, and organizational benefits. The findings also suggest that environmental actions, due to their materiality and direct impact on operating costs, constitute the key channel through which ESG translates into financial performance. At the same time, social and governance factors play a significant but more indirect role by strengthening stakeholder trust, stabilizing employee relations, and improving management quality and long-term organizational resilience.

The conclusions of this study have important practical implications for managers, investors, and market regulators. They suggest that the development of sustainable strategies, particularly in areas such as environmental efficiency and resource management, can be a source of competitive advantage rather than merely a regulatory obligation. For policymakers, the results underscore the importance of supporting investment in green technologies and ESG reporting that aligns with the CSRD and ESRS frameworks. For institutional investors, the findings confirm that ESG information has predictive value and can help assess corporate financial stability and risk. At the same time, the analysis reveals that the governance pillar alone is not a sufficient guarantor of higher profitability if it remains short-term oriented and focused exclusively on shareholder interests.

Despite the consistency of the obtained results with global research, the study has certain limitations. Firstly, it is correlational in nature, which makes it impossible to determine the exact direction of causality. It cannot be stated with certainty whether higher ESG performance leads to improved profitability or whether more profitable firms have greater resources to invest in sustainability initiatives. Secondly, ESG data sourced from external rating agencies are subject to methodological inconsistencies; different rating systems may interpret the same activities differently, leading to the so-called “rating disagreement” problem widely discussed in the literature. Thirdly, the financial indicators used (ROA, ROE, operating margin) capture only part of overall economic performance, omitting other dimensions such as market value, liquidity, or systematic risk. Another limitation concerns the aggregation of data into five-year averages, which facilitates comparison but may obscure short-term fluctuations and cyclical effects.

Future research should focus on exploring the causal and dynamic relationships between ESG and financial performance using panel models and estimation methods that control for firm-specific effects and mitigate the risk of reverse causality. It would also be valuable to consider sectoral and country-specific differences, as the impact of ESG on performance may vary depending on industry characteristics and regulatory environments. Further research could extend the analysis to include market-based indicators, such as the cost of capital, firm value (Tobin’s Q), and stock price volatility, as well as non-financial outcomes, like corporate reputation or investor trust. In the future, it would be exciting to investigate how compliance with the new ESRS reporting standards affects companies’ financial results and market perception.

In conclusion, the study provides empirical evidence of a positive relationship between the quality of ESG practices and the financial profitability of European companies, with the environmental pillar playing the most significant role. At the same time, the results confirm that ESG is not merely a tool for reputation management but a fundamental component of a long-term strategy aimed at enhancing efficiency, resilience, and corporate value in an evolving economic environment.

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