

The Impact of ESG Factors on Corporate Financial Performance and Firm's Value



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Abstract

This literature is intended to find the relation between firms' performance and environmental, social and governance (ESG) factors on fronts; one is to find the relation between corporate financial performance and ESG performance of the company with the help of proxy return on assets (ROA) and second is to establish a relationship between market value (MV) of the business entity with ESG by using Market capitalization as a proxy. There have been previous evidences that has proven a substantial positive relationship between the CFP, MV and ESG but the consensus has been reached to make it a universal law in the finance and that why there is still researches being conducted out in regards to ESG impact on different indicator of the business that measure firm financial performance. Already empirically sound result shows a positive impact between CFP, MV and ESG, but all of those researches are conducted in the developed nations developed market environment and there is very little research in the developing or underdeveloped nation as the idea of social capitalization hasn't been introduced in the society. That been said there are still companies that voluntarily invest in ESG. We aim to find that either neo-classical approach that investment in ESG will incur additional cost to shareholder and goes against the mission statement of the company, to maximize wealth of the shareholders, or does it like the developed nations industry actually effects the financial position of the firm in the positive way. This study used GMM/dynamic model to conduct the analysis to counteract the endogeneity issue on both of the equation regressed and the finding were positive on both front that the ESG has a positive influence over corporate financial performance and market value (capitalization) of the firm.

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