

UNPACKING THE ESG–FINANCIAL PERFORMANCE RELATIONSHIP: A NARRATIVE SYNTHESIS IN NORTH AMERICA

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ABSTRACT

The current research focus on the association between ESG practices and CFP among the North American organizations. In particular, it will consider the effect of ESG on corporate financial performance in the U.S. In today's reality, the inclusion of ESG issues into the organizational strategy is becoming increasingly essential because of the growth of governmental pressure, demands from investors, and the overall necessity of socially responsible practices. This study uses the narrative review approach to analyze the results of the most recent empirical researches (2020-2025) concerning the effect of ESG on the company's financial performance. The review includes three groups of empirical studies depending on whether they claim the presence of a positive, negative or a complex correlation between ESG and CFP in different sectors. Based on the findings, it is possible to conclude that in most cases, the implementation of ESG strategies can help achieve financial success over time. It is especially true for those areas which require additional attention to environmental factors (such as energy and utilities). At the same time, some negative trends can be noticed in the field, especially in the technological industry. Another aspect discussed in the literature under analysis concerns the utilization of digital solutions for ESG reporting and operations improvement.

Keywords: ESG Practices; Corporate Financial Performance; Narrative, North American Firms; Digital ESG Reporting; Long-term Value Creation

1. INTRODUCTION

Sustainability in corporations, specifically when viewed through the prism of Environmental, Social, and Governance (ESG), has recently become an essential component of strategy formulation for many companies, particularly those operating in North America. Over the past few years, there has been considerable interest in incorporating sustainable development targets into the agendas of many businesses due to a number of factors, including increased regulatory pressure, higher expectations from investors, and

the importance of corporate social responsibility (Bamiatzi et al., 2023; Poursoleyman et al., 2023). The US based firms, in particular, have increasingly incorporated ESG targets into their corporate strategy frameworks to achieve sustainable development goals that would help them remain successful in the constantly changing global market environment (Lins et al., 2017; Poursoleyman et al., 2023).

The core issue at stake when discussing corporate sustainability involves a rather intricate correlation

between ESG and CFP. While the shareholder theory asserts that the use of resources on ESG practices leads to short-run financial performance losses because of higher operational costs, there are different theoretical paradigms which consider ESG to be beneficial for a firm. For example, according to Stakeholder Theory and the (Resource based View) RBV, ESG can help to increase the reputation of an organization, reduce its risks and establish sustainable competitive advantages that will boost financial performance in the future (Freeman, 1984; Barney, 1991). Another paradigm worth mentioning when discussing the role of ESG concerns the idea of CSR as some kind of insurance for companies. The literature suggests that engaging in CSR practices helps organizations to survive in various crises – starting from cyber-attacks and ending with pandemics (Godfrey et al., 2009; Minor and Morgan, 2011; Poursoleyman et al., 2023). It has been proven by many researchers that CSR can actually play the role of protection for companies facing financial and reputational challenges during the crisis (Peloza, 2006; Shiu and Yang, 2017).

Evidence regarding the link between ESG and CFP remains mixed, with conflicting findings being reported in multiple studies. While some studies have found a strong association between ESG activities and the financial performance of an organization, implying that organizations investing in sustainable operations not only meet social objectives but also generate value for their stakeholders, others suggest that ESG activities may result in insignificant or even negative effects on the performance of the business, implying that the integration of ESG activities does not always guarantee financial returns (Eccles and Klimenko, 2019; Poursoleyman et al., 2023). More interestingly, it is worth mentioning that CSR has insurance-like characteristics in situations of crisis on a global scale, whereby socially responsible organizations tend to perform better than their irresponsible peers during the coronavirus pandemic era, implying that CSR has a protective effect on firms' finances when facing global shocks (Poursoleyman et al., 2023; Lins et al., 2017; Bamiatzi et al., 2023). Research studies also

confirm the positive results of CSR when firms encounter turbulent markets, reinforcing the idea that CSR works as an insurance mechanism for companies facing systemic crises (Jia et al., 2020; Gong et al., 2021).

Overall, although the general connection between ESG efforts and financial success is complicated, there is strong empirical evidence to support the substantial contribution that ESG initiatives make to increasing organizational resilience amid crisis situations. In light of evolving regulations, especially considering the importance of environmental, social, and governance issues, organizations must find a way to balance short-term gains and long-term advantages. This discussion becomes increasingly important when one considers North America, where the integration of ESG issues has been a primary concern of both regulators and stakeholders.

In this review, an attempt will be made to summarize and interpret the results of the latest empirical research (2020-2025) on the relationship between the implementation of ESG practices and the financial performance of firms in North America, with a focus on companies located in the United States. Moreover, global studies will also be taken into account, thereby offering a more generalized perspective on the topic, which can help understand how ESG practices might impact firms operating in different economic contexts.

2. Methodology

The proposed paper is based on a narrative literature review approach, which synthesizes empirical research conducted during the period 2020-2025 on the association between Environmental, Social, and Governance practices (ESG) and corporate financial performance (CFP). The narrative review method is especially appropriate for such a task since it allows a thorough investigation of various findings and theories within many research papers, giving more insight into the ongoing discussion regarding ESG and CFP.

In particular, the review centers around organizations that operate within the U.S. This is because there are certain unique dynamics of the region when it comes to regulation, economics,

and the general state of affairs. Since ESG and CFP involve many interdependencies, the papers selected for consideration have used various quantitative research techniques, which include but are not limited to: panel data, regressions, and longitudinal approaches. Such research designs offer a strong basis to study the cause-and-effect relationship between ESG practices and corporate performance.

Eight major empirical articles that relate directly to North American organizations and apply advanced statistical methodology were reviewed. The selected studies were grouped based on the type of correlation between ESG and CFP as mentioned by each author as follows:

Positive Correlations: Articles where statistically significant positive correlations between ESG and CFP have been found, indicating that organizations implementing sustainable practices achieve greater success in terms of their finances.

Negative Correlations: Papers where negative correlations were noted, meaning that practicing ESG resulted in lower profits or increased expenses within a relatively short period of time, contradicting the idea that ESG will positively influence company performance.

Mixed Correlations: Papers where both positive and negative correlations have been found, proving that the connection between ESG and CFP is not straightforward.

This review seeks to present the above findings into one single coherent review that will provide an understanding of where we stand today, pointing out the limitations in the existing literature. These three categories will provide a framework upon which we can analyze the advantages and disadvantages associated with the use of ESGs within company strategy, especially U.S. companies.

3. Literature Review

3.1. Theoretical Background

Corporate sustainability practices (ESG in particular) and financial performance share connections, and these are based on various theoretical foundations that help examine their interaction from a variety of perspectives. Such theoretical backgrounds include Stakeholder

Theory, the Resource-Based View (RBV), and Shareholder Theory.

The Stakeholder Theory (Freeman, 1984) suggests that organizations are not only accountable to their shareholders, but they should also be accountable to multiple stakeholders like employees, consumers, suppliers, and communities in which they operate. By adopting ESG principles, organizations will develop and sustain positive relationships with these stakeholders, which will eventually help them in improving their reputation, minimizing their costs of operation, and generating sustainable financial returns. Empirical evidence shows that firms having good relationships with various stakeholders perform better financially in the long run, especially in industries where reputation and trust are significant sources of organizational success (Herman et al., 2025; Burinskiene et al., 2025). In addition, it is evident from literature that organizations with robust CSR policies are well-prepared for handling external disturbances and are more resilient and financially successful (Wang et al., 2022; Engelhardt et al., 2021).

The Resource Based View (RBV) theory holds that companies having valuable, rare, and non-imitable resources benefit from a sustained competitive advantage. Within the realm of ESG, companies that adopt environmental sustainability measures such as green technology or improve their governance practices develop intangible resources (e.g., reputation, stakeholder relations) that give them a competitive advantage over other organizations within the market space. The notion is consistent with the argument made by Barney (1991), which states that developing resources that cannot be easily imitated helps firms achieve sustained competitive advantages. In addition, initiatives related to ESG such as investments in renewable energy and robust corporate governance systems play a pivotal role in the formation of such intangible resources, which enable the longevity and financial success of firms (Bamiatzi et al., 2023; Burinskiene et al., 2025). Empirical studies indicate that companies investing in sustainable technologies also tend to enjoy greater profitability and increased levels of

investor confidence (Morea et al., 2025; Lee and Koh, 2024).

However, Shareholder Theory (Friedman, 1970) posits that the main goal of an enterprise is maximizing the profit of its shareholders. Therefore, according to this theory, all ESG investments are considered unnecessary expenditure that do not bring profits. Yet, several scholarly articles prove that ESG may still provide long-term financial gains for an organization in accordance with Shareholder Theory as long as the investments in social or environmental sustainability correspond to the interests of

shareholders. For instance, in US technology firms, environmental ESG initiatives may cause short-term financial losses owing to huge implementation expenses. Nevertheless, in the long term, the positive effects of brand-building and innovations will surpass those losses (Hui, 2025; Bamiatzi et al., 2023). Additionally, other researchers have highlighted the positive influence of using digital technology and artificial intelligence on ESG reporting and its effect on the financial state of the company (Morea et al., 2025; Mazumder, 2020).



Figure 1. ESG framework and its linkage to financial performance through stakeholder engagement, risk mitigation, and competitive advantage.

3.2. Sector-Specific studies in North America

North American empirical evidence from various industries has shown that the correlation between ESG activities and corporate profitability depends on industry. The following sectors demonstrates these differences based on insights from all eight articles:

3.3. Energy and Utilities:

The nature of firms operating within energy-based industries such as oil, gas, and utilities requires them to handle high environmental risks through

their ESG activities. According to Burinskiene et al. (2025), environmental aspects of ESG activities are positively associated with profitability among firms in energy-based industries because of factors like carbon emission reductions and greening innovations. Engagement in ESG activities does not only ensure compliance with regulations but increases the ability of firms to handle risks, thereby creating financial value. Further, according to Shad et al. (2020), environmental sustainability efforts in the energy industry reduce costs.

3.4. Technology Firms:

Regarding the implementation of ESG practices in the United States' technology sector, there will be initial high costs associated with the adherence to energy efficiency requirements. Nevertheless, the benefits of these activities are much greater than their costs because these companies acquire more market value and take advantage of innovations driven by sustainability. According to Hui (2025), although environmental ESG practices resulted in reduced profitability in the short term, social and governance factors had little impact. In the long run, however, these aspects helped to build better brand loyalty and investor trust. Similarly, Lee and Koh (2024) have stated that good governance and social practices would mitigate risks in the technology industry.

3.5. Financial Service:

The findings from studies on U.S. financial institutions indicate that strong ESG practices leads to lower risks, improved stability, and consequently increases the level of investor confidence. The research done by Wang et al. (2022) showed that corporate governance practices play a more important role in enhancing the stability of firms compared to environmental considerations, which positively impact the financial performance of firms. Despite the above findings, the link between the adoption of ESG practices and stock market performances in the financial sector cannot be conclusively determined, as social and governance considerations have a greater impact than environmental ones on business performance. Moreover, Morea et al. (2025) found that digital technologies could be used to increase transparency in the ESG process, which positively impacts financial services in terms of stakeholder engagement.

Table 1. summarizing the studies related to ESG practices and their impact on financial performance:

Study Title	Sector	Relationship Type	Key Findings
Herman et al., (2025)	U.S. Firms (General)	Positive	Higher ESG ratings correlate with better ROA and ROE.
Hui (2025)	U.S. Technology	Negative	Short-term profitability reductions due to environmental ESG practices.
Burinskiene et al., (2025)	Energy and Utilities	Positive	Green innovation and carbon reduction enhance profitability in energy sectors.
Lee and Koh (2024)	U.S. Financial Services	Mixed	Strong ESG performance reduces firm risk, boosts investor confidence.
Bamiatzi et al., (2023)	U.S. Firms (General)	Positive	CSR mitigates risks, enhances brand loyalty, improves long-term profitability.
Shad et al. (2020)	Energy	Positive	Environmental sustainability reduces operational costs in energy sector.
Wang et al., (2022)	Financial Services	Positive	Governance sustainability increases investor confidence and stability.
Morea et al. (2025)	U.S. Firms (General)	Positive	Digital tools help enhance ESG reporting and operational efficiency.
Anckar (2025)	U.S. Firms (11 Sectors)	Mixed	Mixed results; positive in some sectors, negative in others.
Bhuiyan (2025)	U.S. Firms (2017–2023)	Positive	ESG improves financial flexibility but not always profitability.

Burinskiene et al., (2025)	U.S. & EU Industries	Mixed	Mixed results; environmental positive, others vary.
Hui (2025)	U.S. Technology	Negative	Negative short-term effect (cost effect).

3.6. Recent Evidence (2020-2025)

Research carried out during 2020 to 2025 has contributed immensely towards the understanding of the changing dynamics of the connection between ESG implementation and

CFP. These findings reveal that the effectiveness of implementing ESG practices can differ from one industry to another depending on the type of ESG practices, dynamics within the industry, and performance measurement methods employed.



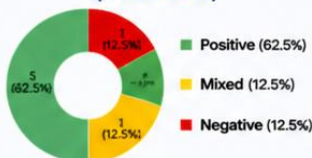
Recent Empirical Studies (2020–2025) on ESG Practices and Corporate Financial Performance (CFP) in North America



This table summarizes **8** recent empirical studies (2020–2025) that examine the relationship between ESG practices and corporate financial performance in North America using rigorous quantitative methods.

No.	Study (Year)	Sector / Sample	Relationship Type	Key Findings	Notes
1	Herman et al. (2025)	U.S. Firms (General)	↑ Positive	Higher ESG ratings correlate with better ROA and ROE.	Large sample of U.S. public firms
2	Hui (2025)	U.S. Technology	↓ Negative	Short-term profitability reductions due to environmental ESG practices.	Focus on tech firms and compliance costs
3	Burinskiene et al. (2025)	Energy and Utilities	↑ Positive	Green innovation and carbon reduction enhance profitability in energy sectors.	Emphasis on green innovation
4	Lee & Koh (2024)	U.S. Financial Services	↔ Mixed	Strong ESG performance reduces firm risk, boosts investor confidence.	Mixed impact on financial returns
5	Bamiatzi et al. (2023)	U.S. Firms (General)	↑ Positive	CSR mitigates risks, enhances brand loyalty, improves long-term profitability.	CSR as a key mechanism
6	Shad et al. (2020)	Energy	↑ Positive	Environmental sustainability reduces operational costs in energy sector.	Cost efficiency improvements
7	Wang et al. (2022)	Financial Services	↑ Positive	Governance sustainability increases investor confidence and stability.	Focus on governance and investor trust
8	Morea et al. (2025)	U.S. Firms (General)	↑ Positive	Digital tools help enhance ESG reporting and operational efficiency.	Digital transformation enablers

Summary of Relationship (N = 8 Studies)



Methodologies Used



- Regression Analysis
- Panel Regression
- GMM / Dynamic Panel
- Fixed Effects Regression
- Quantitative Modeling

Geographical Focus



North America
(U.S. Firms and Industries)

Time Frame



2020–2025
(Studies Published in Past 5 Years)



Key Takeaway: Most recent evidence from North America suggests a predominantly positive relationship between ESG practices and corporate financial performance, with variation across sectors, ESG dimensions, and short-term vs. long-term horizons.

Sources: Herman et al. (2025); Hui (2025); Burinskiene et al. (2025); Lee & Koh (2024); Bamiatzi et al. (2023); Shad et al. (2020); Wang et al. (2022); Morea et al. (2025).

Figure 2: Summary of Key Studies on ESG Practices and Financial Performance (2020-2025)

3.7. Positive Impact on Financial Performance

Several studies have reported a direct relationship between ESG activities and the financial performance of firms, especially in respect to profitability and financial stability. For instance, Herman et al. (2025) revealed that firms in the United States that had high ESG ratings recorded higher Return on Assets (ROA) and Return on Equity (ROE) compared to other firms. The findings of these studies are consistent with the concept of Stakeholder Theory because firms can increase their profitability through the development of good relationships with different stakeholders other than shareholders. They will be able to achieve their objectives of increasing reputation and relationships with their stakeholders. Bamiatzi et al. (2023) confirmed that the practice of CSR contributes to long-term profitability in firms.

3.8. Sector-Specific Insights: Energy, Technology and Financial Services

Impacts associated with ESG practices may vary from one sector to another. Within the energy and utilities sector, it was proved by Burinskiene et al. (2025) that green innovations and initiatives, such as the reduction of carbon emissions, have a huge contribution to better financial performance in sectors which are vulnerable to environmental risks. This is because, according to Shad et al. (2020), companies within the energy sector benefit from reduced costs due to environmental sustainability practices. However, when considering the United States technology sector, the scenario changes. As argued by Hui (2025),

even though environmental ESG practices lead to poor financial performance in the short term because of compliance costs, long-term impacts are favorable since these organizations are characterized by increased market value and sustainability-driven innovation. Social and governance practices of ESG are neither good nor bad in the short term; however, they play an important role in building brand loyalty and gaining investor trust.

In the financial services industry, ESG performance has been noted to be more strongly associated with corporate governance and social issues than with the environment. According to Lee & Koh (2024), excellent ESG performance in the financial sector decreases company risks and improves investors' confidence, leading to financial stability. However, ESG performance has not had a consistent impact on stock market returns. This proves that there are considerable differences in ESG effects in various industries, with corporate governance having greater importance than environmental matters in the financial sector.

3.9. The Role of Digitalization

A new trend in ESG literature involves the increasing use of digital technology to strengthen the impact of sustainability efforts. According to Morea et al. (2025), the use of technology, including AI and big data, is critical to achieving efficiency in ESG operations. Firms operating in the United States and implementing digital technology in their ESGs perform much better financially because digital technology increases transparency and enables tracking.

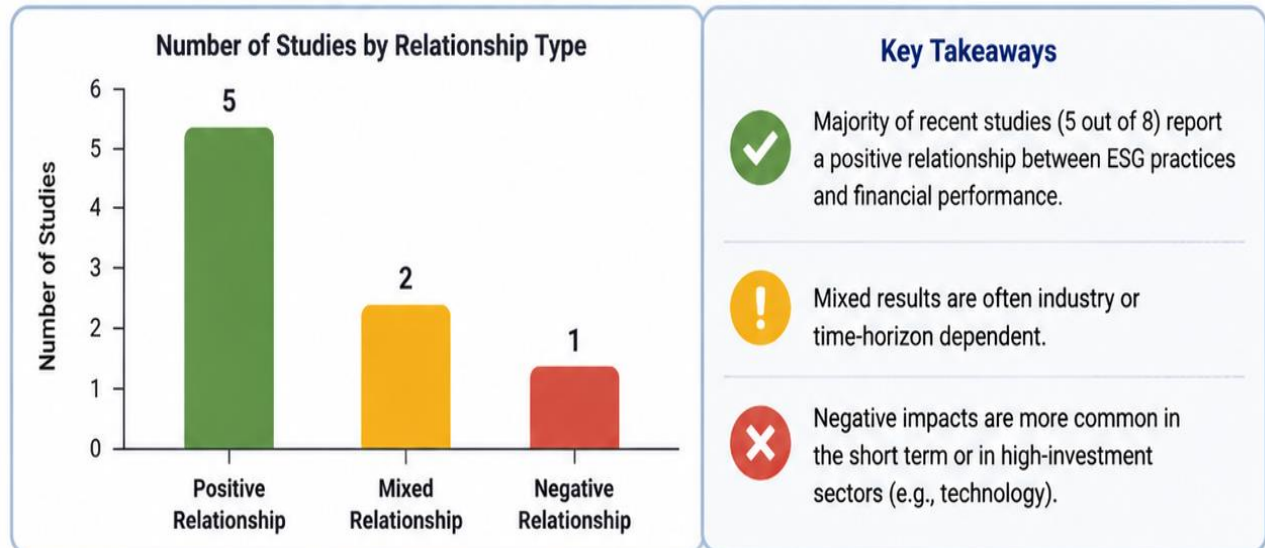


Figure 3: Empirical evidence (2020–2025) on the ESG–financial performance nexus, showing positive, negative, and mixed results.

4. Discussion

The findings of studies conducted between 2020 and 2025, it is apparent that ESG tends to create value in the long run, especially for firms in industries where there is great exposure to environmental risks. For instance, businesses operating in risk-prone sectors such as energy and utility face significant environmental risks and regulations. In such sectors, the implementation of ESG strategies such as carbon emissions reduction and development of greener technologies have helped improve business performance. Besides improved environmental regulations, firms operating in such sectors benefit from strong stakeholder ties and better brand value (Burinskiene et al., 2025).

Nevertheless, the short-term consequences of ESG investing can vary considerably among various industries. Companies in the technology industry are likely to encounter short-term financial difficulties in the course of introducing ESG practices. The associated expenses include high compliance costs, expenses related to efficient energy utilization, and changes due to new sustainability requirements. As such, these results confirm the cost-effect hypothesis, which implies that the positive impact on business is not necessarily immediate but can be achieved only through time. In relation to US based companies within the technology sector, this implies a conflict

between costs and profits from long-term increases in the value of their market shares, due to innovations in sustainability and reputation (Hui, 2025).

Among the main observations that have been made through contemporary literature on the topic is the increasingly important moderating influence of digitalization on the association between ESG and financial performance. Using technologies and digital tools that support the monitoring and management of ESG activities proved to be highly effective at enhancing the efficiency and transparency of operations, as well as making data-based decisions. As AI, big data analytics, and IoT become widely used, companies can effectively integrate these technologies into their operations and benefit financially by doing so. The application of such solutions will make it possible to improve ESG reporting and reduce energy costs while also ensuring sustainability and other related metrics (Morea et al., 2025).

Moreover, sector-specific considerations are highly significant in determining the success of ESG investments. For example, whereas energy and utility companies can take advantage of incentives that encourage the development of clean technologies in addition to the demand for green energy in the markets, companies in the technology sector could find it challenging

because of the dynamic nature of the industry as well as the capital expenses associated with developing green technology. The relationship between financial performance and governance/social ESG activities is strong for companies operating in the financial services industry because the two aspects reduce risks and increase investor confidence, thus positively impacting the companies' performance in the financial markets (Lee and Koh, 2024).

In general, the findings of this study suggest that although the adoption of ESG investments may result in some financial losses in the short run, especially in tech-focused enterprises, they create considerable long-run benefits, specifically, for companies operating in high-risk environments. The deployment of digitalization technologies significantly boosts the efficiency of implementing ESG policies by giving businesses better ways to evaluate their sustainability and financial performance.

4.1. Future trends and directions

The future of Corporate Social Responsibility (CSR) in North America will largely be shaped by technology developments in terms of the progress made with digital technology, transition to circular economy concepts, and projects targeting carbon neutrality. With increased investment in digital technologies, tracking and reporting of sustainability metrics will become even easier. It will open up new possibilities of innovation related to sustainability, which will enable companies to monitor and improve their environmental performance more efficiently.

The importance of such digital technologies as artificial intelligence (AI) and big data analytics cannot be overemphasized since they will help companies make optimal decisions in terms of ESG practices. AI, in particular, will play a crucial role in facilitating sustainable business practices. Likewise, water-saving technologies along with technologies related to natural resources conservation are likely to be considered crucial to deal with the emerging environmental threats as a result of climate change and water shortages. The issue of water management, reuse of water, and efficient use of water in agricultural and

manufacturing industries is very important in relation to minimizing an environmental footprint.

The adoption of circular economy practices that entail minimization of wastage and reuse of resources in manufacturing processes may turn into a prevalent trend due to firms' environmental sustainability considerations. With North American firms adopting such technologies and practices, the likelihood of investments being made in nature conservation in view of emerging environmental threats will grow significantly (ESG Global Study, 2025; Bamiatzi et al., 2023).

5. Conclusion

Corporate Social Responsibility (CSR) acts as one of the driving forces for financial sustainability within North American corporations. Even though the expenditure incurred at the onset of incorporating CSR policies might affect the immediate profits, corporations that take strategic steps in implementing sustainable measures, such as green technology innovation, enhancing employees' welfare, and good governance, are bound to experience significant financial gains in the future.

The trend toward greater corporate responsibility both in the business and government sectors means that firms will have all the incentives necessary to incorporate ESG factors into their strategies. This way, companies can gain competitive advantages that will help them succeed in their respective markets.

With the continued development of the CSR framework, companies that embrace sustainability in their operations and align their business strategies with environmental and social responsibility will gain prominence in the industry. Not only will such companies improve their financial performance through strengthened relationships with stakeholders and efficiencies in their operations, but they will also help create a more sustainable economy for the next generation.

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