# Strategic Value of ESG Integration on Organizational Performance: Evidence from Sectoral Analysis

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## ABSTRACT

This paper critically reviews the strategic position of environmental, social and Governance (ESG) in corporate strategy focusing on differences across industry sectors. Using simulated data and global investment data, this research de-constructs ESG into its constituents and assesses their differential impact on firm performance within-industry sectors. The studies show that environmental factors have a significant effect on the level of energy, manufacturing companies' cost reduction and productivity improvement and good governance structure reduces valuation uncertainty and strategic value enhancement in financial, technology industry. Measures for the social sustainability, especially in sectors with a high share of manual labour, increase the trustworthiness of stakeholders and effectiveness of employees. This paper takes the debate forward by framing ESG integration in governance and risk management views, leaving behind compliance-based approaches towards an understanding of ESG as a strategic tool for value creation and long run sustainability. Importantly the research demonstrates that sector weightings in the ESG space are contributing to performance.

**Keywords:** ESG integration; organizational performance; sectoral analysis; governance; sustainability strategy

## INTRODUCTION

The inclusion of Environmental, Social and Governance (ESG) criteria into business planning has evolved considerably - from an optional governance process to a strategic imperative that has tangible effects on firm performance, risk exposure, and the position of securities in the market. ESG has moved from a marginal reputational issue to the heart of business sustainability, in part because of regulatory pressures and shifting investor attitudes, as well as stakeholder engagement (Aydoğmuş et al., 2022; PRI, 2025).

A large body of research finds a positive association between ESG performance and financial performance, but much of this literature focuses on aggregate ESG ratings that mask the differential effects of each dimension. Even though there is increasing acknowledgment that the materiality of ESG varies substantially among industries, prior literature fails to adequately accommodate industry heterogeneity (Global Sustainable Investment Alliance et al., 2022).

To fill these gaps, this paper takes a sectoral approach to exploring the varying impacts of different dimensions of ESG on firm performance. This study contributes to the literature in three ways: (i) ESG is deconstructed into environmental, social, and governance sub-dimensional elements; (ii) the importance of governance and risk management as a conduit for delivering ESG efficacy is highlighted; and (iii) it has been revealed that there must be industry-specific rather than homogenized strategies across all industries. The study repositioned ESG as a philosophy from the top rather than obligatory regulatory reporting.

# LITERATURE REVIEW

## ESG and Organizational Performance:

Furthermore, a large number of institutional and commercial researches indicate that there is a positive relation between ESG integration and the firm performance measures as defined in terms of profitability, asset efficiency and market-to-book ratio (Aydoğmuş et al., 2022). Summarizing research notes that well over two-thirds of published studies yield positive results for the link between ESG and financial performance – suggesting that ESG considerations are considered material, rather than merely moral, business objects.

The size and type of ESG impact varies greatly by industry, depending on the industries' exposure to regulation or stakeholder pressure and its intensity of operations. In the area of energy or production, environmental concerns give a clear advantage to such initiatives while in finance or technology, information asymmetry and regulatory changes are much larger (Vongpatchim & Chainirun, 2025).

## Governance and Risk Mitigation

The ESG promises are transformed into tangible results through the basic governance mechanisms. Firms with strong governance structures have lower valuation risk, more incentive for their managers to be accountable and they incorporate ESG considerations effectively into their enterprise (Smith, 2024). These companies are more likely to manage their exposure to regulatory fines, loss of reputation and operational failure.

## Social Sustainability and Stakeholder Legitimacy

A firm's legitimacy and trustworthiness are heavily driven by the social dimensions of ESG, such as engaging with stakeholders, contributing to society and caring for employees. Studies have confirmed that social sustainability investments are connected with greater stakeholder trust, retention rates and employee productivity, especially in the labour-intensive and service industries (Štreimikienė & Ahmed, 2021).

## 1. The history: CSR to ESG

Corporate social responsibility (CSR) emerged as Business scheme in mid 20th century as a model to demonstrate Corporate Responsibility towards society and community. A sophisticated understanding of CSR came to be highlighted through Carroll's (1980) Pyramid of CSR and then in 1990s the concept of Triple Bottom Line was introduced with a focus on reputation (Štreimikienė & Ahmed, 2021). Increasing pressure from investors, regulators and civil society – all emboldened by environmental calamities and corporate scandals – precipitated the change in mindset. The appendix of the 2004 UN Global Compact report "Who Cares Wins" had the official introduction of ESG as an integrated model between sustainability indicators and financial decision making (Macesar, 2025). This historical context is illustrated in Figure 1.


Figure 1: Historical Transformation from CSR to ESG

## Landscape of ESG global investment

### Regional distribution and growth dynamics

ESG-related assets have grown massively, not just in terms of assets but also the development of the market, depending on what regulatory environment they find themselves or how much demand there is from investors. In geographical terms, the European region is home to about 45% of ESG assets, with around 25% in the United States and between 20-25% in Asia-Pacific where Japan, China, South Korea and Taiwan are growth leaders. Emerging power markets in MEA and South America are still relatively small but growing, prompting from the same forces such as sovereign wealth funds and renewable energy investments (Table 1).

Table 1: Distribution of market share of global ESG investment

| Name of Region | Approximate share of global ESG investment | Key Factors |
|---|---|---|
| Europe | 45% | Strong regulation and investors' demand |
| USA | 25% | Slow growth due to government unpredictability |
| Asia-Pacific | 20-25% | Fastest growth with significant government incentive |
| Middle East & Africa | Relatively small but growing | Key consideration on climate risks and sovereign wealth funds |
| South America | Small market but growing | Investment in renewables |

*(Adopted from: ESG Investing Market Size, Share and Growth Report, 2030)*

### Fluctuation of fund flow and growth of asset

Sustainable global fund flows have seen balance swings, plunging to USD 645bn in 2021 before a sudden drop in 2022 as the Ukraine conflict, inflation and recession fears cause economic contractions. Sustainable fund subscriptions surged in 2023, but fell by almost 50% in 2024 despite the overall investment fund market doing well (Pucci, 2025). On the positive side, worldwide sustainable fund assets were up to USD 3.2 trillion at the end of 2024 (an increase of 8% from 2023) and have quadrupled since 2018. Today's share of ownership of these assets in Europe is at 84%, while the US has seen an 11% drop off during 2023, as Figures 2 and 3 illustrate.

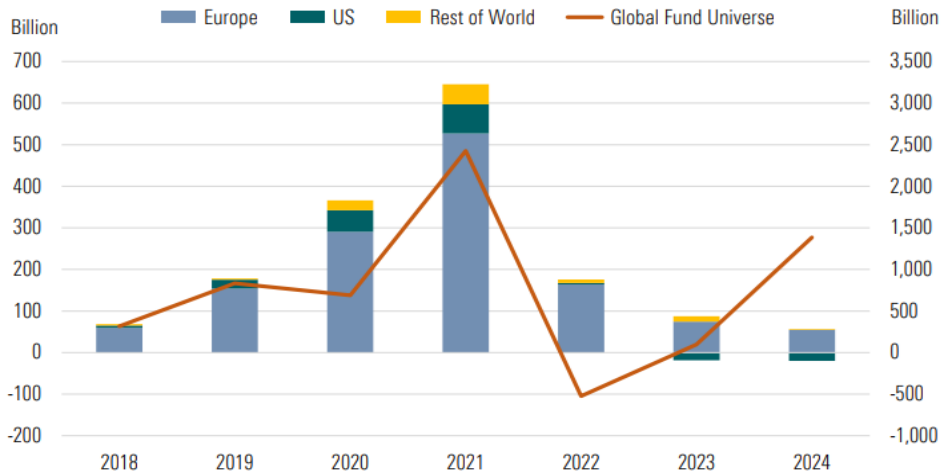


Figure 2: Annual Global ESG Fund injection, USD Billion *(Adopted From: Morningstar Global Sustainable Fund Flows Report (Q4 2024)*

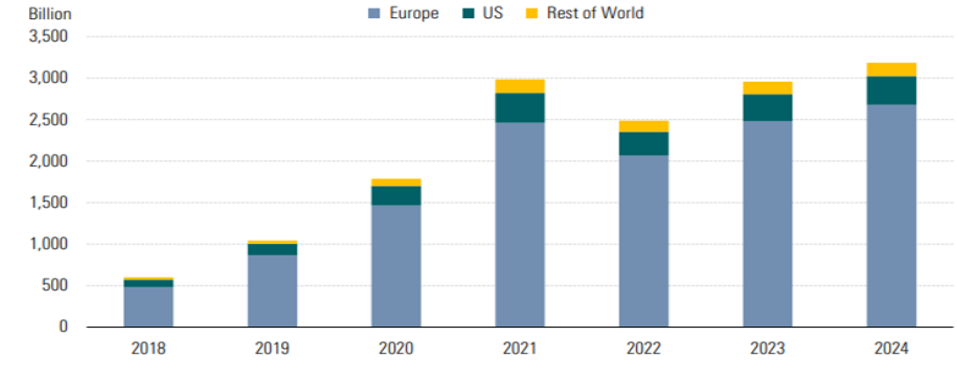


Figure 3: Annual Global ESG Fund Assets, USD Billion (*Adopted from: Morningstar Global Sustainable Fund Flows Report, Q4 2024)*

**Market forecast**

The ESG investment market is forecast to expand at a compound annual growth rate of 18.8% between 2024 and 2030, and is expected to reach a total of approximately $79.91 trillion. The region of Europe is anticipated to maintain its position as the leading region, with forecasted ESG assets totaling USD 18 trillion by 2030, as depicted in Figure 4.

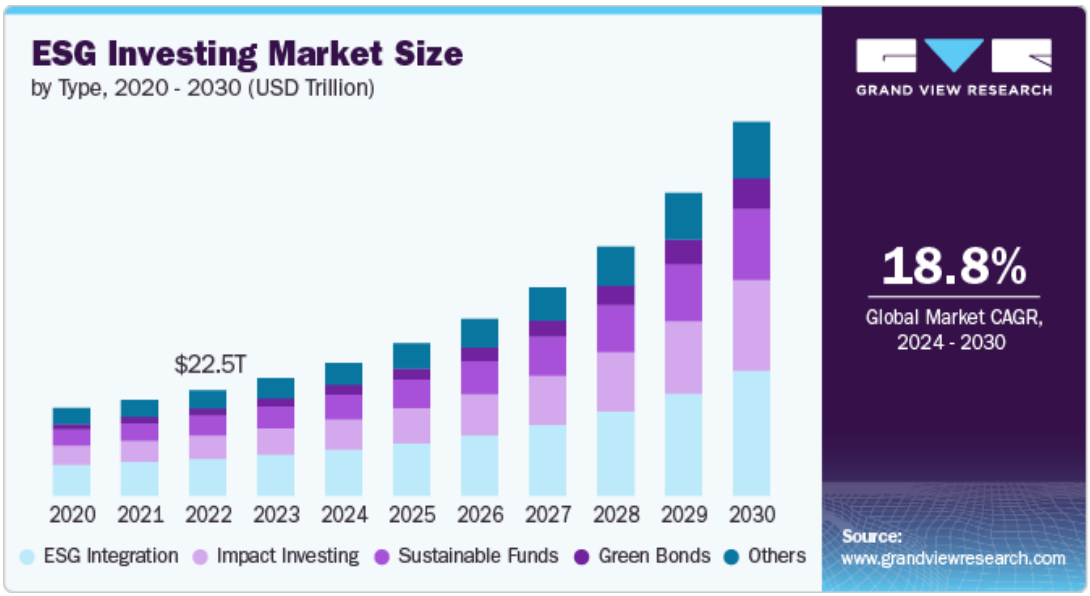


Figure 4: ESG investing market size forecast, USD Trillion *(Adopted from: ESG Investing Market Size, Share and Growth Report, 2030)*

## METHODOLOGY

The approach employed in this study is based on systematic literature review and synthesis as well as peer reviewed empirical studies, industry reports and global investment datasets pertinent from 2015–2025. The method consisted of three stages: (1) a systematic literature review using academic databases such as Scopus, Web of Science, Google Scholar and institutional repositories like PRI, GSIA and Morningstar with the help of search terms “ESG integration”, “sector analysis”, “governance” and “financial performance”; (2) the application of inclusion criteria to studies preferably quantitative empirical studies focusing on fixed data from specific industries and published in peer-reviewed outlets; and (3) thematic synthesis to elucidate common patterns across sectors/industries dimensions. While this method facilitates strong basis for comparison across multiple studies, the authors also acknowledge limitations involved with aggregating secondary data (e.g., publication bias and varying ESG measurement frameworks). Future research could confirm these findings by using panel data of firm level and conducting additional empirical studies.

**Linking organization with global integration**

Table 2: Evolution from Normative formation to the technical structure of ESG

| Phase | Period | Core Agenda | Outcome |
|---|---|---|---|
| Normative Foundation | 2000–2010 | Promote ethical and sustainable business conduct | Voluntary adoption |
| Operational Expansion | 2011–2018 | Standardize climate and sustainability reporting | Growing investor pressure for comparable ESG metrics |
| Regulatory Institutionalization | 2019–2024 | Transform ESG principles into enforceable reporting and compliance requirements | Mandatory ESG disclosure across multiple jurisdictions |
| Global Adaptation | 2024–present | Align ESG standards globally across markets | Over US$30 trillion in ESG AUM; 5,000+ PRI signatories; 40+ countries adopting ISSB standards |

*(Adapted from: UN Global Compact, 2000; International Finance Corporation, 2024; PRI, 2025)*

**Integration into regulation and benchmark-driven measure approach:**

Strong influence of regulatory standards and improved disclosure structure contributed to the organization to practice of sustainable asset under management (AUM). To comply with reporting benchmark standards, ani-greenwashing assessment has fueled organizations to re-categorize investment products. Despite these activities, there is greater clarity with the integrity of ESG actions. Therefore, it is important that ESG AUM statistics to analyzed within an extended framework regulatory structure ***(Global Sustainable Investment Alliance et al., 2022).***

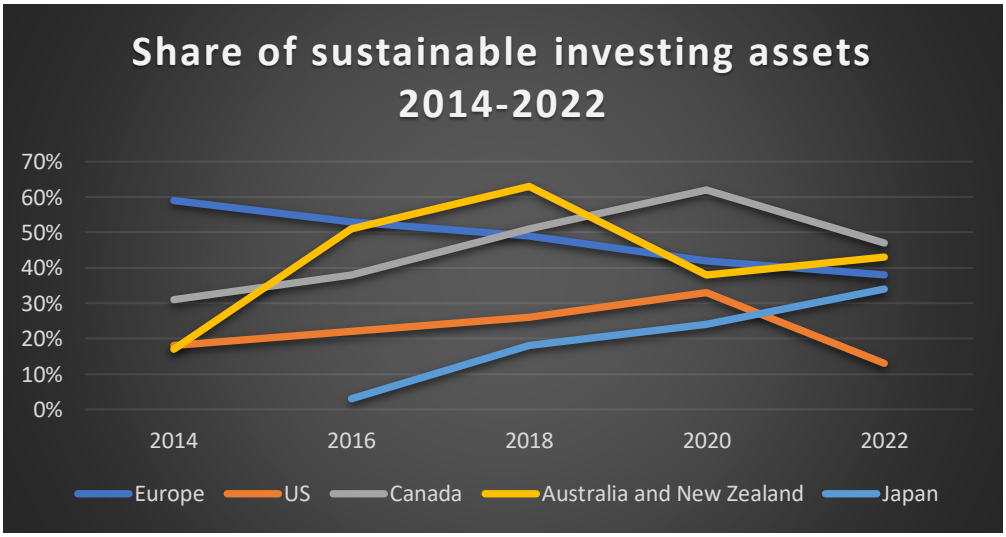


Figure 5: Region-wise share of sustainable investing assets from 2014 to 2022 *(Adopted from: Global Sustainable Investment Alliance, 2022)*

From Figure 5, it is evident that Japan's investment in sustainable assets grew significantly. Investment increased to 34% from 24%. Conversely, the US and Canada showed a declining trend in managing assets from 2020 to 2022. Simultaneously, the declining traction of Europe, from 42% to 38%, indicates the prominence of regulatory obligations that promote a restrictive approach in terms of fund classification and disclosure. The Australian and New Zealand market experienced a gradual increase in sustainable investment, from 38% to 43%, although it suffered a decline in 2020 ***(Global Sustainable Investment Alliance et al., 2022b***).

**Sectoral impact of ESG dimensions**

ESG (Environmental, Social, and Governance) factors contribute significantly to business strategy, strengthening an organization's financial results, risk mitigation, and ensuring a competitive edge. Through the implementation of ESG factors, companies comply with regulatory compliance, align with investors' requirements, and sustainable consumer preferences. Multiple studies have confirmed a progressive connection between ESG and an organization's financial outcome, although result varies across sectors and regions.

**Risk mitigation and financial health**

Firms with structured ESG policies can anticipate and mitigate regulatory, environmentaland social risks more effectively. A proactive approach to risk management shields the firm from being fined, supply chain interruptions (for failure of coupled suppliers), and harm to a reputation, thus promoting organizational resilience and financial stability (Smith, 2024). Investor polls support this: 80% of institutional investors consider ESG integration essential for managing risk over the long-term while 72% insist on governance as a condition for trust in which to invest (Table 3).

Table 3: Investors' consideration to invest, reducing the impact of penalties

| ESG Aspect | Investor Support (%) | Impact on Investment Focus |
|---|---|---|
| ESG importance in decision making | 80 | ESG integration lowers investment risks and ensures long-term stability |
| ESG embedding in corporate strategy | 71 | Encourages companies to align sustainability with business goals |
| Increased investment in companies with an ESG focus | 75 | Investors favor firms with active climate and ESG actions |
| Emphasis on governance in transition plans | 72 | Strong governance is a prerequisite for investment confidence |
| Demand for credible ESG reporting | 73 | Reliable reporting enhances investor trust and capital access |

*(Adapted from Source: PwC Global Investor Survey, 2024)*

**Impact on operation efficiency and cost minimization**

ESG initiatives yield tangible operational improvements. Minimized waste, higher-energy performance and more efficient use of resources all help reduce costs as well as drive investor confidence. Study results indicate that ESG disclosure reduces operational costs by 44%, while programmed to reduce carbon emissions and waste translate into a corresponding 43% cost savings. Though research has connected strategic ESG budgets with profit improvement of some 60%, as in Table 4.

Table 4: Impact of ESG initiatives to operational efficiency and cost reduction

| ESG Initiative | Impact Metric | Business Benefit |
|---|---|---|
| ESG Reporting | 44% improved efficiency | Improved operational efficiency |
| Carbon Emissions & Waste Reduction | 43% cost minimization | minimized energy consumption expense with material costs |

| | | |
|---|---|---|
| ESG Compliance & Investor Value | 72% increased company value | Improved sustainable business practice boosted investor confidence |
| Strategic ESG Budgeting | Up to 60% increase in operating profits | Resource allocation based on priorities |
| Energy Efficiency Programs | 7% reduction in energy intensity | Reduction in environmental related operational costs |

*(Adapted from: University of Cambridge and DNV ESG Regulation Study, 2024; Euronext ESG Trends Report, 2025)*

**Innovative products and competitive edge**

ESG factors encourage the development of sustainable products and technologies. Organizations that drive innovative, sustainable product suits gain a competitive edge.

**Case study**: A study on 114 Indonesian companies, including public and private enterprises in 2024, to examine sustainable innovative products that have a competitive advantage. The research shows that ESG activities are associated with the competitive strategy for private firms, where ESG operates (e.g. green innovation) is more linked to public companies (Widyantoro et al., 2025). More recent research compares 2000 studies and finds a significant positive association between performance of firms along ESG lines (Atrius, 2025).

Table 5: Impact of innovative products gaining competitive position.

| **Particulars** | **Opinion** |
|---|---|
| ESG Activities & Innovation | Positive link with green innovation |
| Public Company Effect | Stronger mediation of innovation between ESG and competitive advantage |
| Private Company Effect | ESG directly enhances competitive advantage |
| Equity Valuation | 63% of firms show positive ESG-equity valuation correlation |

**Research evidence on the relationship between ESG and organizational performance.**

More recent empirical studies have also found a strong positive relationship between ESG performance and financial performance, though variations exist among sectors. This is supported by the results of Vongpatchim and Chainirun (2025), who find that their sample of ESG listed Thai firms over the period, 2019-24, who are within the top quartile for ESG criteria have returns on equity and assets respectively to be 15% and 10%, in comparison with those in the bottom quartile at 9 % and 6% (Table 6). The sectoral effect reveals that the environmental measures help in enhancing financial performance for energy and manufacturing sectors while the governance mechanism plays a big role for financial services and technology sectors (Tables 7,8).

Table 6: Comparative financial position indicator of high and low ESG organization

| **Financial Indicator** | **High ESG Firms (Top Quartile)** | **Low ESG Firms (Bottom Quartile)** | **Impact** |
|---|---|---|---|
| Return on Equity (ROE) | 15% | 9% | +6 percentage points |

| | | | |
|---|---|---|---|
| Return on Assets (ROA) | 10% | 6% | +4 percentage points |
| Market Valuation | Significantly higher | Lower | Due to increased investor confidence and reduced perceived risk |

*(Adapted from: Vongpatchim & Chainirun, 2025)*

Table 7: Key sector wise financial impact of ESG factors

| **ESG Factors** | **Effect on Financial Indicators** | **Sector Examples** |
|---|---|---|
| Environmental (E) | 20% increase in ROA in energy firms with renewable initiatives | Energy, Manufacturing |
| Social (S) | 12% higher ROE with strong employee welfare programs | Tourism, Agriculture |
| Governance (G) | 25% lower market valuation volatility with better governance | Financial, Technology |

*(Adapted from: Vongpatchim & Chainirun, 2025)*

Table 8: Industry wise financial indicators of ESG score and its impact.

| **Industry** | **ESG Average** | **ROE (%)** | **ROA (%)** | **Observations** |
|---|---|---|---|---|
| Energy | 85 | 15 | 8 | Highest ESG scores and financial metrics |
| Manufacturing | 80 | 14 | 7 | Strong positive effect from environmental ESG |
| Technology | N/A | N/A | N/A | Governance enhances market valuation |
| Financial | N/A | N/A | N/A | Governance critical for performance |
| Agriculture | 55 | 5 | 3 | Lowest ESG and financial metrics due to resource dependence |

*(Adapted from: Vongpatchim & Chainirun, 2025)*

**Synthesis of findings:**

The evidence provides statistically significant evidence for the association between ESG performance and corporate financial performance, which is economically meaningful. Firms with better ESG scores tend to enjoy long-term financial stability, enhanced operational performance and a higher degree of trust from their stakeholders. Importantly, disaggregating ESG reveals different results: environmental investment creates operating savings in capital-intensive sectors; governance reforms mitigate risk and volatility in information-sensitive industries; and social initiatives confer legitimacy and productivity where labor is plentiful.

## DISCUSSION AND IMPLICATIONS

### Theorical Contributions

The current work contributes to previous research on ESG-performance relationship by revealing that business payoffs from integrations of ESG would differ, depending on what an industrious-sanctioned and conditionally-supported practice one is applying. The research findings challenge the belief that aggregate ESG ratings are

faithful, and indicate a theoretical framework in which the relative significance of ESG issues differs based on industry. The research also emphasizes the role of governance as an intervening institutional factor, which contributes to the development of agency and stakeholder theories and underscores how established governance mechanisms translate ESG commitments into material outcomes by mitigating downside risk.

**Managerial and policy Implication**

The results of the study underscore the relevance for practitioners to adjust ESG strategy according to industry-specific conditions instead of applying general frameworks. Energy companies and manufacturers should prioritize clean investments that reduce their operating costs and improve the productivity of their assets. Financial and tech companies, meanwhile, should concentrate on governance reforms that will restore investor confidence and reduce the volatility of valuations. The sectors with a high dependence on labor, such as agriculture, tourism, and retail will probably benefit the most from adopting social sustainability projects that improve workforce performance and enhance their stakeholder's reputation.

These findings suggest that there should be ongoing efforts by policymakers to harmonize ESG reporting requirements, primarily through the adoption of the ISSB's framework, to enhance consistency and mitigate the risk of greenwashing. When they create reporting requirements, regulators also need to consider the fact that the materiality of ESG factors varies across sectors.

## CONCLUSION

The findings of this study establish that in addition to ESG factors being integrated on a corporate level when tailored appropriately for each industry sector, they are driving success and long-term economic strength. Delving into the components of ESG— environmental, social and governance— we see how each contributes to value creation in its own distinct way. The evidence shows that ESG is not a "one size fits all" regulatory burden, but instead a wide strategic advantage. More research should use this analysis as a benchmark in order to set up the appropriate level of sectoral contingency framework, also testing it in multiple jurisdictions and with long term firm-level database.

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