

Environmental, Social, and Governance (ESG) Integration as a Driver of Corporate Financial Sustainability: A Conceptual Synthesis

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ABSTRACT

This paper develops a conceptual framework to understand how integrating Environmental, Social, and Governance (ESG) dimensions drives corporate financial sustainability (CFS). Despite a voluminous empirical literature, the field remains fragmented by inconsistent construct definitions, theoretical eclecticism, and methodological shortcomings that collectively obscure the mechanisms underlying the relationship between ESG and CFS. This study addresses this theoretical deficit. A conceptual synthesis was conducted based on 100 peer-reviewed articles retrieved from Scopus (2015–2025), following a structured PRISMA-informed filtering process across Business, Management and Accounting, and Economics, Econometrics and Finance subject areas. The literature was critically appraised for theoretical coherence, construct validity, and explanatory adequacy. The paper proposes a three-tiered conceptual framework that positions ESG integration dimensions (Environmental, Social, and Governance) as independent constructs, ESG Risk Management and Sustainability Reporting Quality as mediating mechanisms, and CFS as the dependent outcome. Board Oversight Quality and Regulatory & Institutional Pressure are posited as boundary-setting moderators. Seven formal propositions are advanced. The framework is theoretical and has not been empirically validated. Its generalisability is bounded by contextual factors, including market maturity, regulatory environment, and industry sector. The Scopus corpus, while rigorous, may under-represent grey literature, practitioner-driven insights, and regional perspectives from under-researched contexts such as Sub-Saharan Africa and the Middle East. The framework provides corporate boards, sustainability officers, and institutional investors with a theoretically grounded map for strategically embedding ESG into financial planning, risk governance, and disclosure practices. This paper makes a distinctive contribution by critically interrogating the theoretical fragmentation of the ESG–CFS literature, integrating agency, stakeholder, legitimacy, and resource-based perspectives into a unified explanatory architecture, and advancing testable propositions that address identified construct ambiguity.

Keywords: ESG integration; corporate financial sustainability; sustainability reporting; ESG risk management; agency theory

INTRODUCTION

The ascendancy of ESG criteria as a central axis of corporate strategy has been among the most consequential shifts in global business discourse over the past decade. Once relegated to the margins of investor relations and corporate communications, ESG considerations have migrated into mainstream financial decision-making, regulatory architecture, and academic inquiry. Global interest in ESG investing has expanded rapidly over the past decade, driven by policy shifts, investor demand, and regulatory changes. Multiple papers report very large and fast-growing ESG and sustainable asset pools that align closely with the figures in the query, reflecting a structural rather than cyclical transformation in how capital markets assess corporate value (Foley et al., 2024; Jung & Yoo, 2023; Pacelli et al., 2022). Yet, despite this institutional momentum, the academic literature has struggled to keep pace with the conceptual demands this transformation imposes.

The empirical literature on the relationship between ESG performance and CFS outcomes is voluminous but dissonant. A growing body of studies confirms a positive association between composite ESG scores and financial performance (Narula et al., 2025; Rahi et al., 2024; Weston & Nnadi, 2023; Sandberg et al., 2023).

However, contrasting studies report null or even negative associations, particularly in emerging markets and during periods of systemic financial stress (Kaminskyi et al., 2025; Kamugisha & Sun, 2025; Jatmiko et al., 2025). This ambivalence is not merely a function of data heterogeneity; it reflects deeper theoretical under-specification. The field has yet to produce a coherent conceptual architecture that adequately delineates the constructs under examination, identifies the mechanisms through which ESG integration affects CFS, and specifies the boundary conditions under which those mechanisms operate.

Several critical weaknesses pervade the extant literature. First, the construct 'ESG' is treated as an undifferentiated composite in most studies, masking fundamentally distinct mechanisms that operate differently across the ESG dimensions (Paridhi & Ritika, 2025; Linnenluecke, 2022). Second, 'financial sustainability' is routinely conflated with short-term profitability proxies such as return on assets (ROA) or return on equity (ROE), obscuring the long-term, multi-dimensional nature of financial sustainability as a construct (Kala et al., 2025; Nazir et al., 2024). Third, the mediating architecture, the mechanisms by which ESG integration translates into financial outcomes, remains theoretically underspecified, with most empirical studies testing direct effects without acknowledging that ESG operates through risk attenuation, disclosure signaling, and reputational capital (Mahanta et al., 2024; Rahi et al., 2024). Fourth, moderating conditions are inconsistently controlled, making cross-study comparisons largely unreliable.

This paper addresses these gaps through a conceptual synthesis grounded in a critical review of 100 Scopus-indexed articles published between 2015 and 2025. The purpose is threefold: (a) to critically examine the theoretical landscape of ESG–CFS research and identify its definitional and explanatory lacunae; (b) to develop a conceptually rigorous framework that disaggregates ESG into constituent dimensions, identifies mediating mechanisms, and specifies moderating conditions; and (c) to advance a set of formally stated propositions that render the framework empirically falsifiable. The paper proceeds as follows: Section 2 describes the literature methodology; Section 3 develops the theoretical foundations; Section 4 defines and distinguishes core constructs; Section 5 presents the proposed conceptual framework and propositions; Section 6 discusses theoretical and practical implications; Section 7 outlines the research agenda; and Section 8 concludes.

LITERATURE METHODOLOGY

This conceptual synthesis follows a structured, PRISMA-informed filtering process to ensure transparency, replicability, and representativeness. Unlike a systematic review, which aims to answer a specific causal question exhaustively, a conceptual synthesis employs the literature as a theoretical building block, selecting articles for their capacity to illuminate constructs, reveal theoretical tensions, and inform framework development rather than for statistical pooling. The corpus of 100 Scopus-indexed articles provides a theoretically adequate foundation for a conceptual paper, consistent with established benchmarks for this article type (40–80 articles). The full filtering process is presented in Table 1 below.

Table 1. PRISMA-Informed Filtering Process — Scopus Database

Filter Step	Criteria	Records Remaining	Records Excluded
Initial search (TITLE-ABS-KEY)	“ESG” OR “environmental social governance” AND “financial sustainability” AND “firm performance”	265	—
Year filter	2015–2025	211	54
Subject area filter	Business, Management and Accounting; Economics, Econometrics and Finance	141	70
Document type filter	Article; Review	112	29
Publication stage filter	Final	101	11
Source type filter	Journal	101	0

Language filter	English	100	1
Final corpus	—	100	—

Source: Scopus database search conducted on 10 May 2026. Search string: ("ESG" OR "environmental, social and governance") AND ("financial sustainability" OR "corporate sustainability") AND ("firm performance" OR "financial performance").

The final corpus of 100 articles spans a decade of peer-reviewed scholarship across the subject areas of Business, Management, and Accounting; Economics; Econometrics; and Finance. The literature exhibits notable geographic concentration in European, South-East Asian, and North American contexts, with an emerging yet still limited representation from Sub-Saharan Africa and the Middle East, a gap that has direct implications for the contextual scope of any generalized framework. Methodologically, the corpus is dominated by panel data regression studies (approximately 62%), with bibliometric reviews (approximately 18%) and conceptual or theoretical papers (approximately 12%) representing secondary strands. This methodological monoculture, which marginalizes qualitative and mixed-methods approaches, is itself a critical limitation of the field and is addressed further in the research agenda.

Theoretical Foundations

The ESG–CFS relationship is not theoretically homeless; rather, it has been inhabited simultaneously by multiple theoretical traditions whose assumptions are not always mutually consistent. A critical analysis of the theoretical landscape reveals four dominant frameworks and exposes both their explanatory strengths and their boundary failures.

Agency Theory

Agency theory, rooted in the seminal contributions of Jensen and Meckling (1976), posits that ESG adoption can be understood as a governance mechanism designed to reduce agency costs and principal-agent misalignment. Governance integration, the G-pillar, is most directly theorized through this lens: independent boards, audit committees, and remuneration structures that incorporate sustainability targets are understood as devices to constrain managerial opportunism and align executive behavior with long-run shareholder value. Several studies confirm that governance quality moderates the relationship between ESG and financial performance (Sahu et al., 2025; Collevicchio et al., 2025; Peng & Chen, 2024). However, agency theory encounters a critical limitation in the ESG context: it is fundamentally shareholder-centric and, in its conventional form, treats environmental and social expenditures as potential manifestations of managerial self-interest or political capture rather than as value-creating investments (Grewal & Serafeim, 2020). This ideological boundary significantly circumscribes agency theory's explanatory adequacy for the full ESG construct.

Stakeholder Theory

Stakeholder theory, as developed by Freeman (1984) and extended by subsequent scholars, argues that firms that satisfy the demands of a broad coalition of stakeholders, including employees, communities, regulators, and civil society, enjoy superior long-run viability compared with those that optimize exclusively for shareholders. In the ESG context, the theory predicts that environmental and social responsiveness creates relational capital, reduces stakeholder-imposed risks (such as regulatory penalties, labor disputes, and reputational crises), and generates demand-side advantages by aligning consumer and investor preferences (Velte, 2023; Weston & Nnadi, 2023).

Empirical support is broad but heterogeneous: the relationship is notably stronger in consumer-facing industries and stakeholder-oriented regulatory environments, and considerably weaker in extractive or capital-intensive industries where compliance costs dominate stakeholder benefits (Paridhi & Ritika, 2025; Jatmiko et al., 2025). Critically, stakeholder theory does not specify the financial mechanisms through which stakeholder satisfaction translates into CFS; it provides a normative rationale but an underdeveloped causal architecture.

Legitimacy Theory

Legitimacy theory contends that firms must continuously align their conduct with societal norms and

expectations in order to maintain the license to operate that underpins long-term survival (Suchman, 1995). ESG integration, particularly sustainability disclosure, is theorized as a legitimation strategy through which firms manage institutional expectations. This perspective is strongly supported by studies documenting the role of sustainability reporting in reducing information asymmetry between firms and capital market participants (Stefan et al., 2025; Diwan & Amarayil Sreeraman, 2024; Saini et al., 2022). However, legitimacy theory carries a critical vulnerability: it cannot distinguish genuine ESG commitment from performative disclosure or greenwashing. The proliferating literature on greenwashing (Gallas et al., 2025; Kumar & Joseph, 2025; Tatomir et al., 2023) directly challenges legitimacy theory's assumption that disclosure signals authentic value creation. When ESG scores reflect strategic impression management rather than substantive integration, the legitimacy-CFS link is severed, a theoretical gap that the present framework directly addresses.

Resource-Based View (RBV)

The Resource-Based View, as advanced by Barney (1991), holds that sustained competitive advantage derives from firm-specific resources and capabilities that are valuable, rare, inimitable, and non-substitutable. ESG integration can be theorized as a distinctive organizational capability, a dynamic capacity for stakeholder management, environmental stewardship, and governance discipline, that generates durable competitive advantage and thereby sustains financial performance over time (Nazir et al., 2024; Grewal & Serafeim, 2020). The RBV is particularly well-suited to explaining the heterogeneity of ESG-CFS outcomes across firms: firms with deeply embedded ESG capabilities extract more value from ESG investments than those engaging in surface-level compliance. This capability-based argument also directly grounds the mediating role of ESG risk management and sustainability reporting quality in the proposed framework, both of which are understood as manifestations of firm-specific ESG capability. Critically, however, the RBV is a static theory of competitive advantage that does not adequately capture the dynamic, co-evolutionary relationship between institutional pressures and ESG capability development, a limitation that calls for integrating institutional theory as a moderating perspective.

The four theories are not alternative explanations but partially overlapping, partially competing lenses. A critical reading reveals that each theory captures a distinct dimension of the ESG-CFS relationship: agency theory explains governance effects; stakeholder theory contextualizes social and relational value creation; legitimacy theory explains disclosure behavior and its limits; and RBV explains the capability-based heterogeneity of outcomes. The proposed framework integrates all four rather than arbitrarily selecting one.

Construct Definition And Development

One of the most persistent sources of theoretical confusion and empirical inconsistency in the ESG-CFS literature is construct ambiguity. Four constructs require critical clarification before the framework can be advanced.

ESG Integration: Dimensions and Definitional Boundaries

'ESG' has been operationalized as a composite score by rating agencies (MSCI, Sustainalytics, Bloomberg), as a binary disclosure indicator, as a self-reported index, and as a researcher-constructed proxy, each with distinct measurement properties that render cross-study comparison largely untenable (Cardillo & Basso, 2025; Linnenluecke, 2022). More fundamentally, treating ESG as a unidimensional composite suppresses the theoretically and empirically distinct mechanisms operating within each pillar. Environmental integration encompasses firms' material management of climate risk, resource efficiency, pollution reduction, and green innovation, practices whose financial relevance operates primarily through operational cost reduction, regulatory risk mitigation, and access to green capital (Dong et al., 2024; Doni & Fiamemi, 2024). Social integration encompasses human capital management, community relations, supply chain governance, and consumer protection, practices whose financial relevance is mediated primarily through reputational capital, employee

productivity, and brand equity (Ermawati & Harymawan, 2025; Wang et al., 2023). Governance integration encompasses board independence, executive remuneration alignment, audit quality, transparency, and shareholder rights, practices whose financial relevance operates through reduced agency costs and enhanced investor confidence (Peng & Chen, 2024; Bektur & Arzova, 2020).

For the purposes of this paper, ESG integration is defined as the systematic embedding of environmental stewardship, social responsibility, and governance integrity into corporate strategy, operations, and reporting processes, with the explicit intent to manage non-financial risks and generate long-term value. This definition is purposefully forward-looking and process-oriented, distinguishing ESG integration from mere disclosure compliance, a distinction with profound implications for the hypothesized CFS outcomes.

CFS: Beyond Short-Term Profitability

The conflation of 'financial sustainability' with short-run profitability proxies is arguably the most consequential construct error in the extant literature. Return on assets, return on equity, and Tobin's Q are valid measures of financial performance but inadequate proxies for sustainability, which, by definition, implies durability across market cycles, systemic crises, and shifting regulatory environments. CFS, as deployed in this paper, is defined as the enduring capacity of a firm to generate sufficient financial returns to cover its cost of capital, service its obligations, sustain strategic investment, and absorb exogenous shocks without compromising operational integrity, over a multi-year horizon. This definition incorporates both profitability and resilience dimensions (Kala et al., 2025; Muneer et al., 2025; Nazir et al., 2024) and explicitly rejects the reductive conflation of sustainability with any single accounting metric. This reconceptualization has a direct implication: any empirical study that operationalizes CFS through ROA or ROE alone mis-specifies the dependent variable and therefore yields theoretically incoherent findings, a problem that afflicts the majority of the reviewed corpus.

ESG Risk Management as a Mediating Mechanism

ESG risk management is the organizational process by which material environmental, social, and governance risks are identified, assessed, priced, and mitigated within the firm's enterprise risk architecture. Its mediating role in the ESG–CFS relationship is theoretically grounded in both the RBV (as a distinctive capability) and stakeholder theory (as a mechanism for anticipating stakeholder-imposed disruptions before they materialize as financial losses). Studies confirm that ESG risk identification is associated with reduced cost of capital, lower earnings volatility, and improved credit ratings (Wang et al., 2025; Mahanta et al., 2024). Critically, however, ESG risk management is distinct from ESG reporting quality: a firm may report extensively on ESG without embedding ESG considerations into its risk governance, and vice versa. Treating these as a single construct, as several studies implicitly do, raises serious concerns about measurement validity.

Sustainability Reporting Quality as a Mediating Mechanism

Sustainability reporting quality refers to the degree to which a firm's non-financial disclosures are credible, material, verified, and decision-useful for capital market participants and other stakeholders. This construct is distinct from reporting quantity (volume of disclosure) and from ESG rating scores, both of which have been used as proxies, conflating measurement with substance. High-quality sustainability reporting mediates the relationship between ESG and CFS by reducing information asymmetry, signaling investor trust, and enhancing regulatory legitimacy (Stefan et al., 2025; Diwan & Amarayil Sreeraman, 2024). The proliferation of unverified ESG claims and greenwashing critically weakens this mediating pathway (Gallas et al., 2025; Tatomir et al., 2023): when reporting quality is low, the legitimacy mechanism by which disclosure is theoretically expected to generate financial benefit is negated. This is not a marginal problem; studies estimate that a significant proportion of corporate ESG disclosures fail basic materiality and comparability standards.

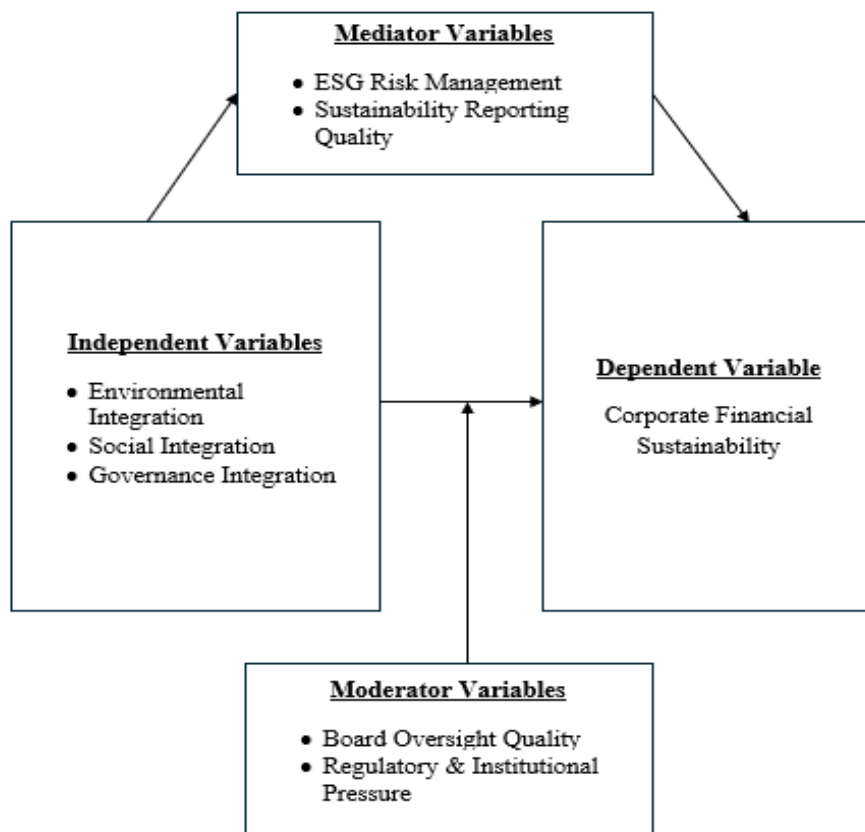
Consequently, greenwashing functions as a structural disruptor of the Sustainability Reporting Quality–CFS pathway: when firms project sustainability virtue without substantive operational commitment, the investor trust and regulatory legitimacy benefits expected from credible disclosure are negated, and the pathway through which reporting quality translates into financial resilience collapses. This dynamic is explicitly accommodated in

Proposition 5, which conditions the mediating role of reporting quality on the absence of material greenwashing exposure.

The Proposed Conceptual Framework

The proposed framework, presented in Figure 1, integrates the four theoretical perspectives and four constructs identified in preceding sections into a unified explanatory architecture. The framework positions the three ESG integration dimensions, i.e., Environmental, Social, and Governance, as independent variables that affect CFS through two mediating mechanisms: ESG Risk Management and Sustainability Reporting Quality. Two moderating variables, Board Oversight Quality and Regulatory & Institutional Pressure, govern the strength and direction of both the IV-to-mediator and mediator-to-DV pathways.

Figure 1. Conceptual Framework: ESG Integration as a Driver of Corporate Financial Sustainability



Source: Authors' conceptual development.

Table 2. Summary of Variables: ESG Integration as a Driver of Corporate Financial Sustainability

Variable Name	Variable Type	Conceptual Definition	Dimensions / Components	Measurement Indicators (Proxies)	Theoretical Basis	Key References
Environmental Integration	Independent Variable (IV1)	The systematic embedding of environmental stewardship principles — including climate risk governance, resource efficiency, pollution reduction, and green	- Climate risk governance & carbon management - Resource and energy efficiency practices - Pollution abatement and waste reduction	- Environmental pillar score (MSCI, Sustainalytics, Bloomberg ESG) - Carbon emission intensity (Scope 1, 2, 3) - Energy consumption per unit of output - Green R&D expenditure ratio	Resource-Based View (RBV): Environmental capabilities as inimitable, value-generating assets Legitimacy Theory:	- Dong et al. (2024) - Doni & Fiamemi (2024) - Luo et al. (2025) - Linnenluecke (2022) - Nazir et al. (2024)

		innovation — into corporate strategy, operations, and capital allocation decisions.	• Green product and process innovation • Environmental supply chain management	• Environmental certification (ISO 14001) • GRI 300 Environmental Standards disclosures	Environmental disclosure as societal licence maintenance	
Social Integration	Independent Variable (IV2)	The deliberate and substantive incorporation of social responsibility commitments — including human capital development, workforce diversity, community engagement, and supply chain due diligence — into corporate governance structures and operational practices.	• Employee health, safety, and well-being • Workforce diversity, equity, and inclusion (DEI) • Labor rights and fair employment practices • Community investment and stakeholder engagement • Responsible supply chain and human rights due diligence	• Social pillar score (MSCI, Sustainalytics, Bloomberg ESG) • Employee turnover and engagement index • Gender diversity ratio at the board and management level • Community investment as % of operating profit • Lost-time injury frequency rate (LTIFR) • GRI 400 Social Standards disclosures	Stakeholder Theory: Social responsiveness builds relational capital and stakeholder coalitions Legitimacy Theory: Social disclosure maintains institutional acceptability	• Rahi et al. (2024) — hybrid review • Ermawati & Harymawan (2025) • Sahu et al. (2025) • Weston & Nnadi (2023) • Grewal & Serafeim (2020)
Governance Integration	Independent Variable (IV3)	The alignment of board structure, executive remuneration, audit quality, transparency mechanisms, and shareholder rights with long-run, stakeholder-inclusive value creation — ensuring that governance architecture enables and enforces substantive ESG commitment.	• Board independence and composition • Sustainability-linked executive remuneration • Audit committee quality and independence • Anti-corruption and ethics policies • Shareholder rights and equitable treatment • ESG governance committee and sustainability strategy	• Governance pillar score (MSCI, Sustainalytics, Bloomberg ESG) • Board independence ratio (%) • ESG-linked CEO pay ratio • Audit quality proxy (Big-4 engagement) • Board gender diversity ratio • GRI 200 / GRI 400 Governance disclosures	Agency Theory: Governance mechanisms reduce principal-agent misalignment and agency costs Resource-Based View: Governance quality as organisational capability supporting strategic ESG integration	• Peng & Chen (2024) • Bektur & Arzova (2020) • Collevicchio et al. (2025) • Kampoowale et al. (2025) • Aladwan et al. (2025)
ESG Risk Management	Mediator Variable (MED1)	The organizational process through which material environmental, social, and governance risks are systematically identified, assessed, priced, and	• ESG materiality assessment and risk identification • Climate risk scenario analysis (TCFD-aligned)	• ESG risk score (Sustainalytics Unmanaged Risk Score) • TCFD disclosure completeness score • Credit rating ESG risk adjustment • Earnings volatility (standard deviation of ROE/ROA)	Resource-Based View (RBV): ESG risk management capability as a distinctive, inimitable organizational asset	• Mahanta et al. (2024) • Wang et al. (2025) — ESG & firm risk • Nazir et al. (2024) • Narula et al. (2025) • Kaminskyi et al. (2025)

		mitigated within the firm's enterprise risk management (ERM) architecture — translating ESG integration into reduced earnings volatility, lower cost of capital, and improved financial resilience.	• Social and reputational risk monitoring • Governance risk controls and compliance • Integration of ESG risks into ERM frameworks • ESG risk disclosure and investor communication	• Cost of debt (interest expense / total debt) • ESG incident frequency and financial impact	Stakeholder Theory: Proactive stakeholder risk identification prevents value-destructive disruptions	
Sustainability Reporting Quality	Mediator Variable (MED2)	The degree to which a firm's non-financial disclosures are credible, material, comparable, externally verified, and decision-useful for capital market participants and stakeholders, reducing information asymmetry and generating investor trust beyond what can be achieved through financial reporting alone.	• Disclosure materiality (relevance to stakeholder decisions) • Comparability (alignment with GRI, SASB, TCFD, ISSB standards) • Credibility (third-party assurance / verification) • Completeness (coverage of E, S, and G dimensions) • Timeliness (frequency and currency of disclosures) • Absence of greenwashing (substantive vs. performative)	• GRI disclosure index score • Integrated Reporting (IR) framework adoption • External assurance engagement (limited/reasonable) • ESG rating agency consistency score (inter-agency correlation) • CSRD / Non-Financial Reporting Directive compliance index • Greenwashing exposure score (controversy-adjusted rating)	Legitimacy Theory: High-quality disclosure maintains institutional legitimacy and investor confidence Agency Theory: Credible disclosure reduces information asymmetry and monitoring costs	• Stefan et al. (2025) • Diwan & Amarayil Sreeraman (2024) • Dinh et al. (2023) • Tatomir et al. (2023) • Gallas et al. (2025) • Saini et al. (2022)
Board Oversight Quality	Moderator Variable (MOD1)	The rigour, independence, and competency with which the board of directors oversees ESG integration, risk management processes, and sustainability reporting — determining whether ESG commitments are strategically embedded in corporate decision-	• Board independence (proportion of non-executive directors) • Board sustainability expertise and experience • Dedicated sustainability/ESG committee • Board gender and demographic diversity • Board engagement	• Independent director ratio (%) • Board sustainability committee existence (dummy) • Female director ratio (%) • Board ESG competency score (director sustainability credentials) • Frequency of ESG agenda items in board minutes • CEO/CFO ESG accountability index	Agency Theory: Strong board oversight constrains managerial opportunism and enforces ESG accountability Upper Echelons Theory: Board composition and experience shape strategic	• Collevocchio et al. (2025) • Clare et al. (2025) • Sahu et al. (2025) • Kampooowale et al. (2025) • Peng & Chen (2024) • Abubakr et al. (2025)

		making or remain performative compliance exercises.	with ESG risk oversight ESG metrics in board-level performance evaluation		ESG orientations	
Regulatory & Institutional Pressure	Moderator Variable (MOD2)	The constellation of mandatory regulatory requirements, institutional investor demands, and normative industry expectations that shape the incentive structures and compliance obligations governing ESG integration — modulating both the depth of integration and the financial value extracted from ESG investments.	- Mandatory sustainability disclosure regulation (CSRD, SFDR, SEC climate rule) - Carbon pricing and environmental taxation regimes - Institutional investor ESG engagement and stewardship - Industry ESG norms and peer pressure - National governance quality and rule of law - International ESG standard adoption (GRI, ISSB, TCFD)	- Regulatory disclosure mandate index (country-level; mandatory vs. voluntary) - Carbon price exposure (USD/tonne CO₂e) - Institutional investor ESG engagement score - World Governance Indicators (WGI) — rule of law & regulatory quality - ESG regulatory stringency index (country-level) - Industry membership in ESG standard-setting bodies	Legitimacy Theory: Regulatory mandates raise baseline disclosure quality; defensive compliance produces decoupling Institutional Theory: Coercive, mimetic, and normative isomorphism shapes ESG adoption patterns	- Jatmiko et al. (2025) - Rahmaniati & Ekawati (2024) - Velte (2023) - Dinh et al. (2023) - Kumar & Joseph (2025) - Stefan et al. (2025)
Corporate Financial Sustainability	Dependent Variable (DV)	The enduring capacity of a firm to generate sufficient financial returns to cover its cost of capital, service its obligations, sustain strategic investment, and absorb exogenous shocks — across multiple financial cycles and over a long-term horizon — without compromising operational integrity or stakeholder trust. Note: Deliberately distinguished from short-run profitability	- Profitability sustainability (stable, above-WACC returns over 5+ years) - Liquidity resilience (ability to service obligations in crisis periods) - Capital access & cost of capital (investor confidence signal) - Earnings quality & stability (low volatility, high predictability) - Long-term value creation (market-based and accounting-based) - Financial risk exposure (bankruptcy)	- Return on Assets (ROA) — 5-year rolling average - Return on Equity (ROE) — 5-year rolling average - Tobin's Q (market-based value proxy) - Weighted Average Cost of Capital (WACC) - Altman Z-Score (financial distress predictor) - Earnings before interest and taxes (EBIT) margin stability - Debt-to-equity ratio trajectory (longitudinal) - Credit rating (external agency rating; investment grade proxy)	Stakeholder Theory: Broad stakeholder satisfaction sustains long-run financial viability Resource-Based View: ESG capabilities generate sustained competitive advantage and value creation Agency Theory: Governance quality preserves financial sustainability by reducing agency costs	- Nazir et al. (2024) - Kala et al. (2025) - Muneer et al. (2025) - Rahi et al. (2024) — hybrid review - Weston & Nnadi (2023) - Stefan et al. (2025) - Sandberg et al. (2023)

		proxies (ROA, ROE, Tobin's Q), which capture performance but not the sustainability of that performance.	risk, credit rating stability)			
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Note: IV = Independent Variable; MED = Mediating Variable; MOD = Moderating Variable; DV = Dependent Variable.

All variables are grounded in the Scopus-indexed article corpus (n = 100, 2015–2025). The measurement indicators presented are recommended proxies for empirical testing of the proposed propositions; their operationalization should be guided by data availability and journal conventions. ESG scores should be disaggregated by pillar (E, S, G) rather than used as a composite index to avoid construct conflation. APA 7th edition citations apply throughout. Source: Authors' conceptual development

Direct and Mediated Pathways: Environmental Integration

Environmental integration, encompassing carbon management, resource efficiency, green innovation, and climate risk governance, is hypothesized to enhance CFS through two primary pathways. Firms with superior environmental capabilities directly reduce regulatory exposure and operational costs associated with resource waste and carbon liability, thereby improving financial resilience (Luo et al., 2025; Dong et al., 2024). Indirectly, environmental integration enhances ESG risk management capacity by embedding climate scenario analysis into enterprise risk frameworks and improves sustainability reporting quality by generating credible, material environmental metrics that reduce investor information asymmetry. Critically, the extant literature reveals that environmental scores are the most inconsistently defined pillar across rating agencies, with inter-agency score correlations as low as 0.38 for the environmental dimension (Cardillo & Basso, 2025), a measurement fragility that significantly complicates empirical inference and underscores the value of disaggregating the ESG composite.

Direct and Mediated Pathways: Social Integration

Social integration, encompassing employee well-being, workforce diversity, community investment, and supply chain due diligence, is theorized to contribute to CFS through reputational capital formation, enhanced human capital productivity, and reduced risks of social license disruption. The stakeholder theoretical logic is compelling: firms that invest in relational social assets build durable stakeholder coalitions that provide buffering during periods of financial stress (Rahi et al., 2024; Grewal & Serafeim, 2020). However, the empirical evidence is notably more mixed than for governance effects. Paridhi and Ritika (2025) report that social scores enhance ROA without significant industry-specific differentiation, a finding at odds with the contextual sensitivity that stakeholder theory would predict. This contradiction may be attributable to the operationalization of 'social integration' as composite scores that average across materially different practices, a construct-validity failure that the present framework addresses by insisting on dimension-level analysis.

Direct and Mediated Pathways: Governance Integration

Governance integration, the alignment of board structure, executive incentives, audit quality, and transparency mechanisms with long-run value creation, is the dimension most consistently associated with positive CFS outcomes in the reviewed corpus. The agency-theoretic prediction is strongly supported: firms with higher governance quality exhibit lower agency costs, reduced earnings management, and superior access to capital-market financing (Sahu et al., 2025; Kampoowale et al., 2025; Peng & Chen, 2024; Bektur & Arzova, 2020). Critically, governance integration also plays a distinctive role as an enabler of the other dimensions: it is the board, through its sustainability governance mandate, that creates the organizational conditions under which environmental and social integration become strategically coherent rather than performative. This governance-

as-enabler logic is systematically understated in empirical studies that treat all ESG pillars as coequal independent variables without accounting for their structural interdependence

Moderating Effects: Board Oversight Quality and Regulatory Pressure

Board Oversight Quality functions as a moderator by governing the rigor with which ESG commitments are translated into operational reality. High-quality board oversight strengthens the ESG integration-to-ESG risk management pathway by ensuring that risk identification processes are genuinely embedded in strategic planning rather than delegated to peripheral sustainability teams (Collevecchio et al., 2025; Clare et al., 2025; Aladwan et al., 2025). It also moderates the sustainability reporting quality pathway: firms with strong board oversight are less likely to engage in greenwashing because board-level accountability structures impose reputational penalties on misleading disclosures. Critically, several studies have documented that board gender diversity, a component of governance integration, directly moderates the ESG-financial performance relationship (Sahu et al., 2025; Kampoowale et al., 2025; Abubakr et al., 2025), suggesting that board composition is both a constituent of governance integration and a moderating context for the broader ESG–CFS relationship.

Regulatory & Institutional Pressure operates as a moderator by defining the baseline compliance obligations and incentive structures within which ESG integration is pursued. Mandatory ESG disclosure frameworks (e.g., the EU Corporate Sustainability Reporting Directive) raise the floor of reporting quality by imposing standardization, materiality assessment, and assurance requirements, thereby strengthening the disclosure-to-CFS pathway (Stefan et al., 2025; Dinh et al., 2023).

Equally, regulatory pressure shapes the cost-benefit calculus of environmental and social investments: in jurisdictions with strong carbon pricing or stringent labor standards, ESG integration generates direct cost savings or avoidance, enhancing its financial value.

However, regulatory pressure can also produce defensive compliance behavior rather than genuine integration, particularly when regulatory mandates outpace firm-level ESG capability, a tension documented in emerging market contexts (Jatmiko et al., 2025; Rahmaniati & Ekawati, 2024). This moderating dynamic renders the ESG–CFS relationship inherently context-sensitive and cautions against universal theoretical claims.

Formal Propositions

The following seven propositions render the framework empirically falsifiable. Each proposition is grounded in the theoretical foundations developed in Section 3 and the construct definitions established in Section 4.

Table 3: Research Propositions

Prop.	Relationship	Theoretical Grounding	Direction
P1	Environmental Integration → Corporate Financial Sustainability (mediated by ESG Risk Management)	RBV: environmental capabilities reduce operational costs and regulatory exposure; risk management mediates the pathway (Luo et al., 2025; Doni & Fiamemi, 2024; Dong et al., 2024)	+
P2	Social Integration → Corporate Financial Sustainability (mediated by Sustainability Reporting Quality)	Stakeholder Theory: social responsiveness builds relational capital; reporting quality mediates investor signaling (Rahi et al., 2024; Weston & Nnadi, 2023; Grewal & Serafeim, 2020)	+ (conditional)
P3	Governance Integration → Corporate Financial Sustainability (mediated by both ESG Risk Management and Reporting Quality)	Agency Theory: governance reduces agent-principal misalignment and enables both risk oversight and credible disclosure (Sahu et al., 2025; Peng & Chen, 2024; Bektur & Arzova, 2020)	+

P4	ESG Risk Management mediates the relationship between ESG Integration Dimensions and Corporate Financial Sustainability	RBV + Enterprise Risk Theory: ESG capability embedded in risk governance is a distinctive, inimitable asset that reduces earnings volatility and improves resilience (Wang et al., 2025; Mahanta et al., 2024)	Partial med.
P5	Sustainability Reporting Quality mediates the ESG Integration–Financial Sustainability relationship, but only when the greenwashing risk is low	Legitimacy Theory: high-quality disclosure reduces information asymmetry; greenwashing negates this mechanism (Gallas et al., 2025; Stefan et al., 2025; Tatomir et al., 2023)	Conditional
P6	Board Oversight Quality positively moderates the ESG Integration → ESG Risk Management pathway	Agency + Governance Theory: strong board oversight ensures ESG risk identification is substantive, not performative (Collevecchio et al., 2025; Clare et al., 2025; Kampooale et al., 2025)	+
P7	Regulatory & Institutional Pressure moderates the Sustainability Reporting Quality → Financial Sustainability pathway, positively in contexts of mandatory disclosure and negatively in contexts of defensive compliance	Legitimacy + Institutional Theory: mandatory frameworks elevate disclosure quality; defensive compliance produces decoupling (Jatmiko et al., 2025; Rahmaniati & Ekawati, 2024; Dinh et al., 2023)	Bidirectional

DISCUSSION

Theoretical Contributions

The proposed framework makes several contributions to the theoretical landscape of ESG–CFS research. First, by disaggregating the ESG composite into three theoretically distinct dimensions, each grounded in a different theoretical tradition, the framework resolves a critical construct validity problem that has rendered cross-study comparisons unreliable and has generated misleading null findings when the positive effect of governance integration is averaged against the conditional or context-dependent effects of environmental and social integration. This disaggregation is not merely taxonomic; it carries substantive theoretical consequences: different mechanisms operate within each dimension, implying that effective ESG governance requires dimension-specific management strategies rather than optimizing composite scores.

Second, the framework's explicit specification of ESG Risk Management and Sustainability Reporting Quality as mediating mechanisms addresses the single most significant theoretical gap in the empirical literature, the black box between ESG inputs and financial outputs. The vast majority of empirical studies test direct effects without acknowledging that ESG operates through intermediary organizational processes. This omission is not merely a methodological inconvenience; it produces theoretically misleading conclusions. A firm with high ESG scores but poor risk management processes may not exhibit the financial benefits predicted by theory, and vice versa. The mediation architecture proposed here provides a more precise and falsifiable account of the causal pathway.

Third, by integrating four theoretical frameworks rather than selecting a single one, this paper exposes the theoretical monoculture that afflicts much of ESG research. Stakeholder theory dominates the social dimension; agency theory dominates the governance dimension; legitimacy theory dominates the disclosure dimension; and the RBV provides a capability-based foundation that cuts across all three. A single-theory lens systematically under-explains the multidimensional nature of ESG phenomena and yields incomplete predictions.

Critical Assessment of Existing Evidence

The critical review of 100 articles yields several discomfiting observations about the state of ESG research. The field's most fundamental empirical claim, that ESG positively affects financial performance, is far less settled than the dominant narrative suggests. Several high-quality studies from emerging market contexts (Jatmiko et al., 2025; Kamugisha & Sun, 2025; Rahmaniati & Ekawati, 2024) document divergent or neutral ESG-CFS relationships, attributable to institutional underdevelopment, weak enforcement, and the decoupling of formal ESG commitments from substantive operational practice. These findings are not outliers to be explained away; they are theoretically informative signals that the ESG–CFS relationship is fundamentally context-contingent, and that universal claims are epistemologically unjustified.

The greenwashing literature presents a particularly acute theoretical challenge. Studies by Gallas et al. (2025), Tatomir et al. (2023), and others demonstrate that firms engaging in selective ESG disclosure, projecting environmental and social virtue without commensurate substantive commitment, do not reliably outperform less-disclosing but more genuinely committed firms over longer time horizons. This finding critically undermines the legitimacy theory prediction that disclosure per se generates financial benefit. It implies that the mediating pathway through sustainability reporting quality is conditional on disclosure credibility, a conditionality that the proposed P5 explicitly accommodates.

Practical Implications

For corporate boards and management, the framework provides actionable guidance: ESG integration should be pursued as a dimension-differentiated, risk-embedded strategy rather than as a composite score optimization exercise. The framework predicts that governance integration, mediated by credible risk management and high-quality disclosure, yields the most reliable and theoretically robust effects on CFS, a finding with direct implications for how sustainability officers should prioritize ESG investment.

For institutional investors, the framework cautions against treating ESG ratings as adequate proxies for substantive ESG integration: the greenwashing problem, compounded by low inter-agency score correlation, renders composite scores unreliable signals for portfolio construction.

For policymakers, the moderating role of regulatory pressure within the framework suggests that mandatory, standardized disclosure frameworks (such as the EU CSRD) are necessary but not sufficient to generate authentic ESG–CFS linkages: enforcement quality and board accountability mechanisms must accompany disclosure mandates.

Research Agenda

The proposed framework generates a structured future research agenda organized around five priorities:

- a) Empirical testing of the mediation architecture: Future studies should test the proposed double-mediation model (ESG dimensions → ESG Risk Management → CFS; and ESG dimensions → Sustainability Reporting Quality → CFS) using structural equation modeling (SEM) or path analysis with multi-year longitudinal data. Cross-sectional designs are fundamentally inadequate for testing CFS as a multi-period construct.
- b) Dimension-level analysis across contexts: The disaggregated framework predicts that ESG dimensions have different financial effects in different institutional contexts. Future research should systematically compare ESG dimension-specific effects across developed and emerging markets, mandatory and voluntary disclosure regimes, and stakeholder-oriented and shareholder-oriented governance systems (Jatmiko et al., 2025; Kamugisha & Sun, 2025).
- c) Greenwashing detection and its financial consequences: The conditionality embedded in P5 requires empirical operationalization. Future studies should develop and validate firm-level greenwashing indicators, distinguishing substantive ESG commitment from performative disclosure, and assess whether the CFS

benefits of ESG integration are systematically absent or reversed in high-greenwashing firms (Gallas et al., 2025; Kumar & Joseph, 2025; Tatomir et al., 2023).

- d) Qualitative investigation of ESG capability development: The RBV-grounded claim that ESG capabilities are path-dependent and inimitable calls for qualitative and case-study research that traces the organizational processes through which firms develop authentic ESG integration capacity. The field's near-total reliance on quantitative panel data is a methodological gap that obscures the mechanisms the proposed framework is designed to illuminate.
- e) Islamic finance and ESG: A theoretically underexplored intersection exists between ESG integration and Islamic finance principles. The Maqasid al-Shariah framework, with its focus on the preservation of wealth, life, mind, progeny, and religion, maps onto ESG dimensions in theoretically rich ways that the extant secular ESG literature has yet to engage with. Future conceptual and empirical work should develop this intersection, particularly for Islamic Financial Institutions operating across dual regulatory regimes (Muneer et al., 2025; Kolsi & Al-Hiyari, 2024).

CONCLUSION

This paper has advanced a critical conceptual synthesis of the relationship between ESG integration and CFS. The central argument is that the empirical literature, while voluminous, is theoretically under-specified in three fundamental respects: it treats ESG as an undifferentiated composite, conflates CFS with proxies for short-run profitability, and omits the mediating mechanisms by which ESG produces financial outcomes. Each of these deficiencies generates theoretically incoherent findings that neither confirm nor deny the financial case for ESG, but rather reflect the inadequacy of the theoretical architecture through which the question is posed.

The proposed framework addresses these deficiencies by disaggregating ESG into Environmental, Social, and Governance dimensions; reconceptualizing financial sustainability as a multi-period resilience construct; and specifying ESG Risk Management and Sustainability Reporting Quality as mediating mechanisms moderated by Board Oversight Quality and Regulatory & Institutional Pressure. Seven formal propositions render the framework empirically testable and direct a structured research agenda toward the most consequential unresolved questions in the field.

The broader implication is both epistemological and practical: the relationship between ESG and CFS is neither universally positive nor universally indeterminate. It is context-conditional, mechanism-dependent, and dimension-differentiated, and the field will only generate cumulative, policy-relevant knowledge when its theoretical frameworks match the complexity of the phenomenon they seek to explain.

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