INTERNATIONAL JOURNAL OF POLITICAL SCIENCES AND ECONOMICS
Impact Factor (research bib) - 9,78
https://ijmri.de/index.php/ijpse , German international journals company
ISSN 2751-9708

THE ROLE OF ESG FACTORS IN INVESTMENT DECISION MAKING AND CORPORATE FINANCIAL PERFORMANCE

Kimsanova Gulsanam
Andijon state universitety
faculty of law and Economics
First-year student of Accounting
https://doi.org/10.5281/zenodo.19997377

Abstract Environmental, Social, and Governance (ESG) factors have become central to modern investment strategies and corporate management. This paper reviews the role of ESG in investment decision-making and its impact on corporate financial performance (CFP) based on recent literature and meta-analyses. The findings generally indicate a positive relationship between strong ESG practices and corporate metrics such as ROA, ROE, firm value, and risk reduction, while portfolio-level investment returns tend to be neutral to slightly positive. Practical implications for investors and companies are discussed.
Keywords: ESG factors, sustainable investing, corporate financial performance, investment decision-making, ESG disclosure, meta-analysis, responsible investment, firm value.

In recent decades, sustainability considerations have shifted from peripheral concerns to core elements of business and finance. ESG factors—Environmental (climate change, resource efficiency), Social (labor rights, diversity, community relations), and Governance (board independence, transparency, anti-corruption)—provide a structured framework for assessing non-financial risks and opportunities that materially affect long-term company value.

Investors increasingly integrate ESG criteria into decision-making processes to identify resilient companies, manage risks, and align portfolios with stakeholder expectations. Rapid growth in ESG assets under management, regulatory developments, and shifting consumer/investor preferences have accelerated this trend.

This paper aims to synthesize the existing evidence on two key questions:

1. How do ESG factors influence investment decision-making?
2. What is the empirical relationship between ESG performance and corporate financial performance?

This study is based on a systematic literature review. Key sources were identified through academic search engines using combinations of terms such as “ESG financial performance,” “ESG investment,” “ESG meta-analysis,” and “ESG disclosure.” Priority was given to meta-analyses and high-impact peer-reviewed studies published mainly between 2015 and 2025. Over 1,000 underlying studies from major meta-analyses were considered indirectly. Qualitative synthesis was performed, focusing on consensus findings, variations, and mechanisms. Limitations include differences in ESG measurement methodologies and regional contexts.

ESG and Corporate Financial Performance Meta-analyses consistently show a positive link. A major review of more than 1,000 studies (2015–2020) found that 58% of corporate-focused studies reported a positive relationship between ESG and financial metrics (ROE, ROA, stock price, firm value), while only 8% found negative effects.

Strong ESG performance is associated with higher profitability, lower cost of capital, better investment efficiency, and enhanced firm value. Environmental and Governance pillars often demonstrate the strongest positive effects. Mechanisms include improved risk management, innovation, operational efficiency, and stronger stakeholder relationships.

ESG in Investment Decision-Making Institutional investors widely use ESG data for risk assessment and opportunity identification. Surveys show that the vast majority now incorporate

ESG factors, viewing them as indicators of long-term resilience and lower downside risk. ESG integration often delivers comparable or slightly superior risk-adjusted returns, with notable protection during market crises. However, broad ESG portfolios frequently show returns indistinguishable from conventional benchmarks.

Transparent ESG disclosure enhances investor confidence and can reduce financing costs, though actual performance improvements matter more than disclosure alone.

The literature supports that proactive ESG management generally contributes to better corporate financial performance by mitigating risks and creating competitive advantages. For investors, ESG serves as a valuable complement to traditional financial analysis, especially for long-term and responsible investment strategies.

Challenges remain: lack of standardization in ESG ratings, potential short-term costs, greenwashing risks, and contextual variations (by region, industry, or time period). Governance factors tend to show the most consistent benefits, while environmental investments may involve trade-offs.

Future research should emphasize causal relationships, standardized metrics, and emerging market contexts.

ESG factors play a significant and growing role in both investment decisions and corporate financial performance. Companies and investors that genuinely integrate ESG principles are better positioned for sustainable value creation in an evolving global environment.

REFERENCES

1. NYU Stern Center for Sustainable Business Rockefeller Asset Management
2. Friede, G. Busch, T.Bassen, A. ESG and financial performance: aggregated evidence from more than 2000 empirical studies.
3. Atz, U. Does sustainability generate better financial performance? Review, meta-analysis, and proposition
4. Wang, K. Heterogeneous impact of ESG Disclosure: A meta-analysis.
5. Aydogmuş, M. Impact of ESG performance on firm value and profitability.
6. EY. Why ESG performance is growing in importance for investors
7. Investopedia . various academic sources on ESG investing.