
Corporate Sustainability and Firm Value: Understanding the Conditions Under Which CSR and ESG Performance Translate into Financial Valuation

Paluku Kambale

University of Goma - DRC

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Abstract

This paper examines the relationship between corporate social responsibility (CSR), environmental, social and governance (ESG) performance, and firm value by synthesizing recent theoretical and empirical contributions on corporate sustainability and financial outcomes. The literature indicates that CSR and ESG activities can influence valuation through several interconnected mechanisms, including stakeholder trust, reputational capital, information transparency, operating efficiency, risk reduction, governance quality, access to finance, and resilience during periods of uncertainty. However, the relationship is neither automatic nor uniformly positive. Its magnitude depends on the materiality of sustainability issues, the quality of disclosure, industry exposure, institutional conditions, ownership characteristics, board structures, and the credibility of ESG measurement. Particular attention is given to ESG controversies, carbon risk, sustainability reporting, governance mechanisms, and emerging-market conditions. The evidence also highlights substantial methodological challenges arising from disagreement among ESG rating providers and differences between accounting and market-based performance measures. Overall, the literature suggests that CSR and ESG contribute to firm value when sustainability initiatives are strategically aligned with financially material risks and opportunities, credibly communicated, and supported by effective governance. The paper therefore presents sustainability as a conditional corporate value mechanism rather than a universal source of superior financial performance.

Keywords: Corporate social responsibility; ESG performance; Firm value; Sustainability disclosure; Corporate governance

JEL classification: G32; G34; M14; Q56; G12

Introduction

Corporate social responsibility and environmental, social and governance considerations have become increasingly integrated into corporate strategy, investment decisions and financial-market assessment. Firms are no longer evaluated exclusively through traditional accounting indicators, since investors and other stakeholders increasingly consider environmental exposure, social relationships, governance structures and the credibility of sustainability commitments when assessing long-term economic prospects. This development has generated an extensive literature examining whether CSR and ESG activities create shareholder value or instead



represent additional expenditures whose financial consequences depend on managerial discretion. Existing research generally rejects both extreme interpretations. CSR can strengthen firm value by improving stakeholder relationships, customer loyalty, reputation, employee productivity and organizational legitimacy, while ESG practices may reduce information asymmetry, operating risk and financing constraints. At the same time, excessive or poorly targeted sustainability expenditure can produce diminishing marginal returns, and responsible practices may generate limited financial benefits when investors perceive them as symbolic, immaterial or weakly connected with corporate operations. The relationship between sustainability and valuation must therefore be understood as a multidimensional process in which financial benefits emerge from the economic substance, strategic relevance and credibility of corporate environmental and social commitments.

The growing importance of ESG has also broadened research beyond the simple question of whether socially responsible firms outperform less responsible firms. Recent studies increasingly examine the channels through which sustainability affects expected cash flows, risk, cost of capital, investor expectations and market valuation. Particular attention has been directed toward ESG disclosure, climate risk, carbon emissions, sustainability controversies, corporate governance and rating disagreement. This literature shows that the economic consequences of ESG depend strongly on how sustainability characteristics are measured and communicated. Differences among ESG rating providers, for example, can generate substantial uncertainty concerning the actual sustainability position of a company, while mandatory disclosure can improve transparency but simultaneously impose compliance costs. Institutional and sectoral differences create additional heterogeneity because environmental and social factors are more financially material in some industries and countries than in others. Emerging-market evidence is particularly relevant because responsible practices may compensate partly for weaker institutional protection and higher information asymmetry. Against this background, the paper examines CSR, ESG performance and firm value by connecting direct valuation effects with stakeholder, informational, governance, risk, resilience and institutional mechanisms.

1. Corporate Social Responsibility and Firm Value

1.1. Direct effects of CSR on firm valuation and financial performance

Flammer (2015) implies that carefully selected CSR initiatives can generate shareholder value rather than merely redistribute corporate resources, since narrowly approved CSR proposals are followed by positive announcement returns and improvements in accounting performance, labor productivity, and sales growth. This causal evidence connects with Fatemi et al. (2015), whose valuation framework shows that social and environmental expenditures create value when their expected benefits to stakeholders and future cash flows exceed implementation costs. Chintrakarn et al. (2017) qualify this relationship by showing that the positive effect of CSR on firm value can exhibit diminishing marginal returns, meaning that progressively higher engagement does not necessarily produce proportionally greater benefits. Awaysheh et al. (2020) add a competitive perspective by demonstrating that stronger CSR performance is associated with superior financial outcomes particularly when firms are compared with economically relevant peers. Together, these contributions imply that the CSR–value relationship is conditional rather than universally positive. Responsible investment can improve firm performance when expenditures are economically justified, strategically differentiated, and appropriately scaled, but excessive engagement may reduce incremental benefits. The value consequences of CSR therefore depend on both the economic efficiency of the investment and the competitive context in which stakeholder-oriented activities are implemented.



Ferrell et al. (2016) imply that CSR and corporate governance can operate as complementary mechanisms of value creation rather than as competing uses of shareholder resources. Their international evidence that better-governed firms tend to exhibit stronger CSR and that CSR is positively associated with firm value weakens the interpretation of social investment as a systematic managerial agency problem. Krüger (2015) provides an important qualification by showing that shareholder reactions are strongly asymmetric, with adverse CSR events producing particularly negative market responses while positive events generate less uniform rewards. Governance conditions further shape how investors interpret responsible behavior. Gao and Zhang (2015) extend this relationship to financial reporting by showing that stronger CSR among income-smoothing firms is associated with higher Tobin's Q and more informative earnings–return relations, suggesting that responsible practices may reinforce investor confidence in reporting credibility. Benjamin and Biswas (2022) add a signaling mechanism by demonstrating that CSR awards, especially repeated recognition, are associated with higher valuation. Taken together, these studies imply that CSR can support firm value through governance quality, reputational protection, reporting credibility, and external recognition. Its strongest financial contribution may therefore arise from reducing stakeholder and information-related risks while signaling trustworthy corporate conduct.

Jitmaneroj (2018) implies that the observed CSR–firm-value relationship depends partly on how both constructs are measured, since latent-variable methods reveal relationships that may be obscured when isolated CSR indicators or individual valuation measures are used. This implication helps explain why empirical findings can differ across studies employing alternative proxies. Benjamin and Biswas (2022) illustrate the relevance of observable external signals by showing that CSR awards are associated with significantly higher Tobin's Q, with repeated recognition producing stronger valuation effects. Gao and Zhang (2015) provide another informational mechanism by demonstrating that stronger CSR performance can enhance the informativeness of earnings and reinforce valuation among firms engaging in income smoothing. Krüger (2015), however, shows that capital markets respond more severely to negative CSR events than they reward positive ones, indicating that responsible performance also has an important downside-risk dimension. Considered together, these contributions imply that CSR affects market valuation through both underlying corporate behavior and the manner in which that behavior becomes observable to investors. Measurement choices, external recognition, reporting credibility, and adverse-event exposure all influence whether stakeholder-related activities are translated into market value, making the informational environment an important component of the CSR–valuation relationship.

1.2. Stakeholder, reputation, institutional and strategic channels

Albuquerque et al. (2019) imply that CSR can contribute to firm value by altering the economic characteristics of stakeholder relationships rather than merely improving corporate image. Their framework suggests that stronger customer loyalty and less price-elastic demand can reduce operating risk and support valuation through more stable cash flows. Lins et al. (2017) reinforce this mechanism by showing that firms with stronger pre-existing CSR and stakeholder-oriented social capital performed better during the 2008–2009 financial crisis in terms of returns, profitability, growth, and sales. Their findings imply that accumulated stakeholder trust can become particularly valuable when conventional confidence mechanisms deteriorate. Harjoto and Laksmana (2018) add that socially responsible behavior may also contribute to value by moving corporate risk taking toward economically appropriate levels rather than simply reducing risk indiscriminately. Bae et al. (2021), however, qualify the insurance interpretation by showing that high CSR did not universally protect shareholder value during the



COVID-19 market collapse. Taken together, these contributions imply that CSR can strengthen resilience through customer relationships, stakeholder trust, and more disciplined risk taking, but the magnitude of this protection depends on the nature of the shock and the institutional conditions under which previously accumulated stakeholder capital becomes economically relevant.

Buchanan et al. (2018) imply that the valuation consequences of CSR depend partly on ownership and monitoring structures, since institutional investors influence whether responsible expenditures are interpreted as disciplined value creation or potentially costly managerial discretion. This governance perspective connects with Choukar et al. (2021), who show among Moroccan SMEs that CSR-related transparency and contractual effectiveness can reduce information-search, negotiation, and contract-execution costs. Their findings imply that responsible practices may contribute to profitability and financial stability by reducing organizational frictions rather than operating solely through reputation. Li et al. (2017) introduce an informational channel by demonstrating that media attention mediates the positive relationship between CSR performance and firm value among Chinese manufacturing firms. Substantive responsible behavior therefore requires sufficient visibility if capital-market participants are to incorporate it fully into valuation. Khanchel et al. (2023) further show that CSR can support firm value during periods of elevated uncertainty in the French context, emphasizing the importance of national institutions and stakeholder relationships. Together, these contributions imply that CSR becomes more economically effective when governance constrains managerial discretion, organizational practices reduce transaction costs, information intermediaries communicate responsible behavior, and the institutional environment allows stakeholder capital to support confidence during periods of stress.

El Hamidi (2022) implies that CSR can contribute to firm value through customer-related mechanisms because responsible practices are positively associated with brand image, satisfaction, and loyalty, with brand image and satisfaction mediating important parts of this relationship. These outcomes can support revenues and reduce customer-acquisition pressures by strengthening durable commercial relationships. Albuquerque et al. (2019) provide a closely related financial mechanism by showing that loyal customers and less price-sensitive demand can reduce systematic operating risk and increase firm value. Li et al. (2017) add that such underlying CSR benefits may not be fully reflected in valuation unless they become visible to investors and stakeholders, since media attention mediates the CSR–firm-value relationship. Lins et al. (2017) further demonstrate that stakeholder-oriented social capital accumulated before a crisis can support profitability, sales, growth, and stock performance when trust becomes scarce. Considered together, these contributions imply that CSR value can develop progressively from stakeholder responses to financial outcomes. Responsible behavior can strengthen brand perceptions and customer loyalty, improve demand stability, increase external visibility, and accumulate relational trust that becomes especially useful under adverse conditions. CSR therefore affects expected cash flows not only through immediate market reactions but also through durable stakeholder relationships that influence revenue stability and organizational resilience.

1.3. CSR/ESG disclosure, reporting and transparency

Fatemi et al. (2018) imply that ESG performance and ESG disclosure should be treated as distinct but interacting determinants of firm value, since transparency can strengthen market recognition of favorable sustainability performance while also exposing weaknesses when underlying ESG outcomes are poor. This perspective connects with Plumlee et al. (2015), who show that the quality and type of environmental disclosure matter more than disclosure volume alone, with different forms of information affecting valuation through expected cash-flow and



cost-of-capital channels. Yu et al. (2018) reinforce the informational mechanism by demonstrating internationally that greater ESG transparency is positively associated with firm value, suggesting that reduced information asymmetry can strengthen investor confidence when sustainability practices become externally observable. Li et al. (2018) add a governance dimension by showing that CEO power moderates the positive association between ESG disclosure and value, indicating that investors interpret nonfinancial information partly through the internal authority structures responsible for producing it. Taken together, these contributions imply that sustainability reporting creates valuation effects when disclosure is credible, informative, and supported by governance arrangements that increase confidence in reported information. More extensive reporting alone is therefore insufficient; market benefits depend on disclosure quality, underlying ESG performance, and the organizational context surrounding communication.

Cahan et al. (2016) imply that the value relevance of CSR disclosure is conditioned by national institutional environments, since unexpectedly high transparency generates different market responses according to investor protection, stakeholder expectations, and prevailing information structures. Qiu et al. (2016) complement this perspective by showing that environmental and social disclosure is associated with financial performance, while also indicating that stronger-performing firms may possess greater resources to undertake sustainability activities and provide extensive reporting. This relationship makes causal interpretation important when assessing disclosure effects. Grewal et al. (2019) further demonstrate that mandatory nonfinancial reporting produces heterogeneous stock-market reactions depending partly on firms' previous sustainability performance and disclosure practices, meaning that regulation can generate both informational benefits and compliance costs. Christensen et al. (2021) broaden this implication by showing that mandatory sustainability reporting operates through multiple channels involving transparency, comparability, stakeholder responses, corporate behavior, implementation costs, and enforcement. Together, these contributions imply that no universal disclosure premium should be expected. The valuation consequences of ESG reporting depend on institutional context, existing corporate preparedness, prior transparency, enforcement quality, and whether new disclosure provides economically useful information beyond what investors already possess.

Tsang et al. (2024) imply that the valuation benefits of sustainability reporting depend partly on the capacity of financial analysts to interpret complex nonfinancial information and translate it into signals that investors can use. This intermediary mechanism connects with Yu et al. (2018), who show that greater ESG transparency can enhance firm value by reducing information asymmetry between corporations and external stakeholders. Plumlee et al. (2015) provide an important qualification by demonstrating that environmental disclosure differs in value relevance according to its type and quality, meaning that analysts and investors must distinguish informative content from reporting that adds limited economic information. Fatemi et al. (2018) further show that disclosure moderates the relationship between ESG performance and firm value, so transparency can amplify recognition of strong sustainability performance while also making ESG concerns more visible. Considered together, these contributions imply that the market value of nonfinancial reporting emerges through an information-processing chain rather than through publication alone. Firms must generate credible and economically relevant sustainability information, external intermediaries must interpret its implications, and investors must incorporate those signals into valuation. ESG disclosure therefore contributes more effectively to firm value when transparency, information quality, analyst processing, and underlying sustainability performance are mutually consistent.



2. ESG Performance and Market Valuation

2.1. Aggregate ESG performance and corporate financial outcomes

Friede et al. (2015) imply that ESG considerations are broadly compatible with financial performance, since their synthesis of more than 2,000 empirical studies finds that most reported ESG–financial-performance relationships are non-negative and many are positive. This general tendency does not establish a universal ESG premium, a qualification reinforced by Halbritter and Dorfleitner (2015), who show that financial conclusions vary with the rating provider, sample period, and methodological specification. Their findings imply that ESG measurement can itself generate apparent inconsistencies across empirical studies. Velte (2017) adds another distinction by showing that ESG performance is positively associated with accounting performance among German firms, particularly return on assets, while the relationship with Tobin's Q is less pronounced. Atan et al. (2018) similarly find that ESG effects among Malaysian companies depend on the performance indicator and empirical specification employed. Taken together, these contributions imply that the financial relevance of ESG should be interpreted through the specific measure of sustainability and the particular dimension of corporate performance being examined. ESG engagement can be economically compatible with stronger outcomes, but its effects may appear differently in accounting results, market valuation, and investment performance depending on measurement choices and institutional context.

Miralles-Quirós et al. (2018) imply that aggregate ESG measures can conceal important differences among environmental, social, and governance dimensions because investors assign different valuation relevance to individual components depending on industry exposure. Their Brazilian evidence shows that environmentally sensitive and non-sensitive sectors do not respond identically, supporting the view that materiality is context dependent. Yoon et al. (2018) reinforce this implication in the Korean market by showing that stronger ESG performance is associated with higher firm value while individual ESG components and industry characteristics produce different effects. Xie et al. (2019) further demonstrate that the ESG–financial-performance relationship can be non-linear, suggesting that moderate and strategically targeted sustainability engagement may generate greater benefits than indiscriminate attempts to maximize aggregate scores. De Lucia et al. (2020) add an organizational perspective by identifying environmental innovation, labor productivity, diversity, and equal-opportunity practices as meaningful channels connecting ESG practices with financial indicators in European public enterprises. Together, these contributions imply that ESG creates financial value through specific mechanisms whose relevance varies by sector, strategic intensity, and organizational characteristics. Firms therefore obtain greater economic benefits when sustainability initiatives correspond to material operational, stakeholder, and risk exposures rather than when ESG performance is treated as a single undifferentiated corporate objective.

Wong et al. (2021) imply that external ESG recognition can influence firm value by reducing information and monitoring costs, since Bloomberg ESG coverage is followed by a lower cost of capital and higher Tobin's Q among Malaysian firms. This signaling mechanism complements Yoon et al. (2018), who show that ESG performance can be positively reflected in market valuation when investors perceive particular sustainability dimensions as relevant to firm characteristics and industry conditions. Halbritter and Dorfleitner (2015), however, caution that ESG signals are not uniform because alternative rating providers and methodological choices can generate different conclusions concerning financial performance. Friede et al. (2015) place this heterogeneity within a broader empirical context by showing that, despite variation among individual studies, the overall body of evidence is predominantly non-negative. Considered to-



gether, these contributions imply that the market consequences of ESG depend on both substantive sustainability performance and the credibility of the information through which investors observe it. External recognition can strengthen valuation effects by making ESG characteristics more visible and interpretable, while disagreement across measurement systems can weaken comparability. ESG-related value therefore emerges from the interaction between underlying corporate practices, information quality, investor interpretation, and the institutional setting in which sustainability signals are produced.

2.2. Materiality, environmental performance, carbon risk and green finance

Bolton and Kacperczyk (2021) imply that environmental performance can affect firm value through required returns, since higher-emission firms earn a carbon premium consistent with investors demanding compensation for carbon-related exposure. This asset-pricing mechanism connects with Ilhan et al. (2021), who show that carbon-intensive firms also face greater option-implied downside tail risk, particularly when public attention to climate change intensifies. Together, these findings indicate that environmental exposure influences not only average expected returns but also investors' assessment of severe downside states. Khan et al. (2016) provide a broader materiality perspective by demonstrating that firms performing strongly on financially material sustainability issues subsequently outperform those performing poorly, whereas strength on immaterial issues does not produce the same outcome. Garcia et al. (2017) reinforce the importance of industrial context by showing that firms in environmentally and socially sensitive sectors often display stronger ESG performance because they face greater stakeholder scrutiny and legitimacy pressures. Taken together, these contributions imply that ESG-related value is concentrated where sustainability factors materially affect operating conditions, stakeholder relations, and risk exposure. Environmental performance therefore becomes economically relevant when carbon intensity, regulation, legitimacy, and sector-specific sustainability pressures influence expected cash flows or the return investors require for bearing corporate risk.

Flammer (2021) implies that credible environmental commitments can generate valuation benefits when firms use externally verifiable financial instruments to signal substantive sustainability strategies. Her evidence that green-bond announcements produce positive abnormal returns, especially for first-time issuers and independently certified bonds, suggests that credibility determines whether environmental commitments are incorporated into market value. Tang and Zhang (2020) provide related international evidence by showing that green-bond issuance is associated with positive stock-price reactions, increased institutional ownership, and improved liquidity, indicating that these instruments can attract sustainability-oriented investors beyond any direct financing-cost effect. Downar et al. (2021) reinforce the importance of substantive environmental outcomes by demonstrating that mandatory greenhouse-gas disclosure can induce actual emissions reductions rather than merely increasing reporting. Zhao et al. (2018) add an operating-performance perspective by showing that stronger ESG performance among Chinese power-generation firms improves financial performance in an industry where emissions, environmental regulation, and resource efficiency are highly material. Together, these contributions imply that environmental initiatives are more likely to support firm value when they produce observable operating improvements and credible signals. Market participants therefore appear to distinguish between symbolic sustainability communication and initiatives supported by verifiable financing, disclosure, and measurable environmental performance.



Touil et al. (2023) imply that environmental performance can originate from operational decisions shaped jointly by efficiency incentives and stakeholder pressures, since economic and energy efficiency, stakeholder influence, and certain government-incentive interactions encourage green-supply-chain adoption among Moroccan SMEs. Their finding that profitability is positively related to these practices suggests a possible operating channel through which environmental engagement can become economically meaningful. Khan et al. (2016) provide a complementary explanation by showing that sustainability investments generate stronger financial consequences when they address issues that are material to the firm's industry rather than immaterial ESG topics. Garcia et al. (2017) further indicate that companies operating in environmentally or socially sensitive sectors face stronger incentives to develop ESG practices because legitimacy, stakeholder scrutiny, and sustainability-related exposures are greater. Zhao et al. (2018) illustrate this mechanism in Chinese power generation, where stronger ESG performance is associated with improved corporate financial performance in a sector directly exposed to environmental regulation and resource-use concerns. Considered together, these contributions imply that sustainability contributes more effectively to economic outcomes when it is embedded in operational choices addressing material industry pressures. Efficiency improvements, stakeholder expectations, regulation, and sector-specific environmental exposure can therefore transform ESG commitments into concrete cost, profitability, and value-related consequences.

2.3. ESG controversies, ratings, news and measurement uncertainty

Capelle-Blancard and Petit (2019) imply that ESG-related value is strongly asymmetric because negative sustainability news produces clearer adverse market reactions than positive news generates favorable ones. This perspective connects with Aouadi and Marsat (2018), who show that ESG controversies can destroy firm value, particularly when corporate visibility and stakeholder attention make discrepancies between expected and actual conduct more salient. Serafeim and Yoon (2023) refine this mechanism by demonstrating that stock-price reactions to ESG news depend on financial materiality and on whether new information changes investors' prior beliefs. Shanaev and Ghimire (2022) further show that ESG rating revisions contain information that markets can incorporate, with upgrades and downgrades affecting investor perceptions and potentially the investor base itself. Taken together, these contributions imply that the valuation consequences of ESG arise substantially through downside-risk and information-revision channels. Investors may consider responsible behavior an expected corporate condition and therefore reward incremental positive developments only modestly, while controversies, materially adverse news, or negative rating changes can trigger larger reassessments of corporate quality. ESG management can consequently protect firm value by reducing exposure to events that damage reputation, alter stakeholder expectations, or generate unfavorable revisions in investors' beliefs about future risks and cash flows.

Berg et al. (2022) imply that ESG ratings cannot be treated as neutral measures of a single underlying sustainability construct because substantial disagreement across providers originates from differences in scope, measurement, and weighting, with measurement divergence playing a particularly important role. Dorfleitner et al. (2015) provide earlier evidence of this problem by documenting weak convergence among major ESG rating approaches and substantial differences in how providers assess both sustainability levels and changes over time. Christensen et al. (2022) further complicate the informational environment by showing that greater ESG disclosure can be associated with increased rating disagreement, since additional information creates more dimensions on which rating agencies can apply different methodologies and interpretations. Gibson Brandon et al. (2021) demonstrate that this disagreement is financially relevant



because greater divergence across ESG ratings is associated with differences in stock returns. Together, these studies imply that ESG measurement uncertainty is itself an economically meaningful characteristic. More sustainability information does not necessarily generate greater consensus, and identical corporate practices can receive substantially different evaluations depending on the provider. Consequently, empirical relationships between ESG and firm value must be interpreted with caution because estimated effects partly reflect rating architecture, while investors may demand compensation when uncertainty about a company's sustainability characteristics remains high.

Avramov et al. (2022) imply that ESG rating uncertainty influences both portfolio allocation and asset pricing because investors cannot treat sustainability scores as perfectly observed characteristics when providers disagree substantially. This mechanism connects with Gibson Brandon et al. (2021), who show that rating disagreement is associated with stock returns, indicating that uncertainty surrounding ESG quality can affect required compensation even without changes in underlying corporate operations. Serafeim and Yoon (2023) add that existing ratings and disagreement condition how investors interpret subsequent ESG news, with stronger market reactions occurring when information is financially material and meaningfully alters prior expectations. Berg et al. (2022) provide the measurement foundation for these effects by demonstrating that ESG-rating divergence reflects systematic differences in scope, measurement, and weighting rather than random noise alone. Considered together, these contributions imply that firm value depends not only on sustainability performance but also on the degree of confidence investors have in its measurement. Rating disagreement can alter investor demand, required returns, and responses to new ESG information, while methodological differences among providers influence the signals entering capital-market decisions. ESG uncertainty therefore represents an additional valuation channel through which measurement architecture and information quality affect the pricing of corporate sustainability.

3. Governance, Risk, Resilience and Institutional Conditions of ESG Value Creation

3.1. Corporate governance and board mechanisms

Hussain et al. (2018) imply that governance should be regarded as an antecedent of sustainability performance because specific board and governance arrangements are associated with environmental, social, and economic outcomes. This perspective connects with Naciti (2019), who shows that board independence, diversity, and structural characteristics influence corporate sustainability by shaping strategic attention toward stakeholder and environmental issues. Li et al. (2016) add an agency perspective by demonstrating that the valuation consequences of CSR depend partly on CEO power. Concentrated managerial authority may support coherent stakeholder strategies, but it may also create concerns about discretionary expenditure and private benefits when monitoring is weak. Ammer et al. (2020) reinforce this governance mechanism in an emerging-market context by showing that independent directors condition the value relevance of environmental sustainability practices in Saudi firms. Taken together, these contributions imply that sustainability initiatives do not affect firm value independently of the organizational structures through which they are selected and supervised. Boards and senior executives determine which ESG issues receive attention, how investments are monitored, and whether environmental and social expenditures are perceived as economically justified. Governance quality can therefore influence whether CSR resources are transformed into credible responses to financially relevant risks and opportunities or remain initiatives with uncertain connections to corporate performance.



Nekhili et al. (2017) imply that board diversity can influence both CSR reporting and the way sustainability information is interpreted by stakeholders because female board participation affects monitoring, stakeholder sensitivity, and disclosure decisions. Cucari et al. (2018) extend this implication by showing that board characteristics shape ESG transparency among Italian listed companies, although different dimensions of diversity do not necessarily generate identical effects. Birindelli et al. (2018) provide related evidence from banks by demonstrating that board composition and functioning influence ESG performance and that some effects are non-linear, meaning that greater representation of a particular characteristic does not mechanically produce better sustainability outcomes. Wu et al. (2024) further show that boardroom diversity conditions the relationship between ESG and financial performance by affecting how sustainability resources are converted into economic outcomes. Together, these contributions imply that diversity generates value through governance processes rather than through representation alone. A more heterogeneous board can broaden information, stakeholder knowledge, and monitoring perspectives, but these resources need to be effectively incorporated into strategic decisions and sustainability oversight. Consequently, the effect of board diversity on firm value depends on whether differences in director backgrounds improve ESG implementation, enhance disclosure credibility, and strengthen the organizational capacity to translate sustainability objectives into financially relevant corporate outcomes.

Karim et al. (2020) imply that governance, CSR practices, and organizational returns should be understood as a connected process rather than as separate bilateral relationships. Their findings suggest that board composition first influences responsible practices, which can subsequently affect stakeholder relationships and corporate outcomes over time. Naciti (2019) reinforces this sequential mechanism by showing that director characteristics and board structure shape sustainability performance through their influence on strategic attention and oversight. Hussain et al. (2018) similarly demonstrate that governance arrangements precede differences in environmental, social, and economic sustainability outcomes, indicating that board design affects the substance of ESG performance rather than merely its reporting. Li et al. (2016) add that the distribution of authority between executives and oversight structures also conditions how capital markets interpret CSR investments, since CEO power can support coordinated implementation while simultaneously increasing agency concerns. Considered together, these contributions imply that the financial consequences of sustainability may emerge indirectly through governance mechanisms. Board structure, director characteristics, and executive authority shape the adoption and implementation of CSR practices before stakeholder or financial outcomes become observable, meaning that governance can determine both the quality of sustainability decisions and the credibility with which investors interpret their expected contribution to firm value.

3.2. Risk, resilience, financing and operating-performance channels

Giese et al. (2019) imply that the financial contribution of ESG should be understood through identifiable channels involving expected cash flows, idiosyncratic risk, and systematic risk rather than through a general assumption that sustainability automatically improves performance. This framework connects with Sassen et al. (2016), who show that environmental and social performance is associated with lower firm risk, although the effects differ across systematic, idiosyncratic, and total-risk measures. Bae et al. (2019) provide a more specific cash-flow mechanism by demonstrating that high-CSR firms suffer smaller product-market losses when leverage is elevated, suggesting that stakeholder capital can protect sales and reduce indirect distress costs. Touil et al. (2024) further identify operational channels among Moroccan com-



panies, showing that sourcing-cost management, sustainability-oriented contracts, process optimization, green technologies, customer engagement, transparency, and traceability are associated with stronger financial outcomes. Taken together, these contributions imply that ESG can create value when it changes the underlying economics of the firm. Reduced risk, lower distress costs, stronger stakeholder relationships, and improved operating efficiency can support future cash flows or lower required returns. Sustainability therefore contributes most meaningfully to financial performance when it is embedded in operational and risk-management practices rather than treated as an isolated reputational activity.

Albuquerque et al. (2020) imply that environmental and social performance can function as a resilience asset during periods of systemic stress, since firms with stronger performance experienced relatively better returns and lower volatility during the initial COVID-19 market collapse. Broadstock et al. (2021) provide related evidence from China, showing that higher-ESG firms displayed comparatively favorable market behavior during the crisis, while also emphasizing variation across industries and individual ESG dimensions. Demers et al. (2021), however, qualify this interpretation by finding that ESG scores did not systematically explain crisis resilience once other firm characteristics were considered, with intangible assets providing a more consistent explanation. Abedifar et al. (2023) reinforce this caution through cross-country evidence showing that environmental and social rankings were associated with lower volatility in some markets but did not produce uniformly superior returns across all countries. Together, these contributions imply that ESG resilience is conditional rather than universal. Sustainability characteristics may help stabilize investor and customer relationships during severe shocks, but their effects depend on institutional context, industry exposure, the specific risk measure considered, and other organizational resources. ESG should therefore be viewed as one potential component of corporate resilience rather than as an automatic hedge against systemic crises.

Azmi et al. (2021) imply that the relationship between ESG engagement and financial performance can be non-linear, since moderate sustainability investment may generate benefits for banks while additional expenditure can exhibit diminishing returns. This implication complements Giese et al. (2019), whose framework suggests that ESG creates value only when it alters expected profitability, company-specific risk, or the market's required return. Sassen et al. (2016) provide evidence for the risk channel by showing that stronger corporate social performance is associated with lower levels of several forms of firm risk, although the magnitude varies according to the risk measure employed. Touil et al. (2024) add an operating perspective by demonstrating that sustainable supply-chain quality practices can improve financial outcomes through cost management, optimized processes, green technologies, contractual arrangements, and greater transparency. Considered together, these contributions imply that ESG value depends on the efficiency and strategic relevance of sustainability investments rather than on their sheer intensity. Firms can benefit when ESG practices reduce risk, lower transaction and operating costs, or strengthen cash-flow generation, but excessive or poorly targeted expenditure may yield diminishing economic returns. The appropriate objective is therefore effective allocation toward sustainability practices with identifiable financial and operational consequences.

3.3. Emerging-market, regulatory and institutional contexts

El Ghouli et al. (2017) imply that the value consequences of CSR depend substantially on national institutional conditions, since responsible corporate practices can partly substitute for weaker formal mechanisms by strengthening stakeholder protection and trust. This institutional perspective connects with Aboud and Diab (2018), who show that ESG disclosure is associated with firm value among Egyptian listed companies, where nonfinancial transparency can reduce relatively pronounced information asymmetry. Their findings nevertheless indicate that disclosure



benefits depend on credibility and institutional enforcement. Chung et al. (2018) reinforce the importance of context through Korean evidence showing that the CSR–value relationship varies with firm and market characteristics, including local governance and stakeholder structures. Buallay (2019) extends this reasoning to European banks by demonstrating that ESG reporting is related to operational, financial, and market performance even in an industry where sustainability materiality differs from manufacturing or energy. Taken together, these contributions imply that CSR and ESG do not produce a uniform valuation effect across countries or sectors. Their economic relevance depends on institutional quality, information asymmetry, governance structures, stakeholder expectations, and industry-specific sources of sustainability exposure. Responsible practices may therefore substitute for institutional weaknesses, strengthen transparency, or support stakeholder trust through mechanisms whose relative importance varies across financial and nonfinancial settings.

Jadiyappa and Iyer (2021) imply that the regulatory status of CSR changes how its valuation consequences should be interpreted, because mandatory expenditure differs fundamentally from voluntarily chosen stakeholder investment. When regulation determines part of corporate social spending, managerial discretion, investor expectations, and the informational content of CSR are altered. Bing and Li (2019) provide a related dynamic perspective by showing that the initially negative CSR–firm–value relationship among Chinese firms weakens over time and becomes positive for certain state-owned and environmentally sensitive companies after 2015. Their findings suggest that evolving regulation, investor awareness, and social expectations can change the economic meaning of responsible practices. Dalal and Thaker (2019) add evidence from India showing that stronger ESG performance is positively associated with both accounting and market-based performance in an environment undergoing substantial CSR regulatory development. Yu and Xiao (2022) further demonstrate that ESG performance is positively related to firm value in Chinese A-share companies, with stronger effects among state-owned firms and variation according to pollution status. Together, these contributions imply that ESG valuation is institutionally dynamic. Regulation can change whether responsible behavior represents voluntary differentiation, mandated compliance, or an increasingly material strategic capability, while ownership structures and environmental exposure determine how these changes are reflected in corporate value.

Yu and Xiao (2022) imply that ESG measurement and institutional heterogeneity jointly shape observed valuation effects, since their alternative scoring framework identifies a positive association with firm value while environmental and social dimensions remain more robust than governance across specifications. The stronger effects among state-owned and pollution-sensitive firms further indicate that ownership and environmental exposure condition the economic relevance of sustainability practices. Dalal and Thaker (2019) provide complementary evidence from India by showing that aggregate ESG performance is associated with stronger ROA and Tobin's Q, suggesting that responsible practices can influence both realized operating outcomes and market valuation in an emerging-market setting. Aboud and Diab (2018) add that ESG disclosure can increase firm value in Egypt by reducing information asymmetry, although this mechanism depends on reporting credibility and institutional enforcement. El Ghouli et al. (2017) provide the broader international explanation by showing that country-level institutions moderate the CSR–value relationship and that responsible practices can partly compensate for weaker formal institutional protections. Considered together, these contributions imply that emerging-market ESG value is generated through the interaction of substantive sustainability performance, credible disclosure, ownership characteristics, and institutional quality. The



financial effect of ESG therefore depends not only on what firms do, but also on how those activities are measured, communicated, and interpreted within their national governance environment.

4. Discussion

The literature first suggests that CSR and ESG can enhance firm value when responsible practices generate identifiable economic benefits rather than functioning primarily as discretionary expenditure. Flammer (2015) provides causal evidence that narrowly approved CSR initiatives can improve shareholder returns, accounting performance, productivity and sales growth, while Ferrell et al. (2016) show that stronger CSR is compatible with better governance and higher firm value. These results weaken the argument that social expenditure necessarily reflects managerial agency problems. Nevertheless, the effect appears conditional. Chintrakarn et al. (2017) identify diminishing marginal returns to CSR, suggesting that increasingly intensive responsible investment does not continuously generate proportional valuation gains. Albuquerque et al. (2019) explain part of the positive association through customer loyalty and less price-sensitive demand, which can stabilize cash flows and reduce systematic risk. Similarly, Lins et al. (2017) demonstrate that stakeholder-oriented social capital became particularly valuable during the financial crisis, when trust was relatively scarce. These contributions indicate that CSR value arises primarily from its capacity to improve relationships with economically relevant stakeholders, stabilize revenues and strengthen organizational resilience. Consequently, responsible investment contributes to valuation most effectively when its scale and orientation correspond to concrete operational and stakeholder-related objectives.

A second major result concerns the informational and risk-related dimensions of ESG. Fatemi et al. (2018) show that ESG performance and disclosure interact in determining valuation because transparency can reinforce investor recognition of strong sustainability performance while exposing weak outcomes. Yu et al. (2018) similarly associate ESG transparency with higher firm value through reduced information asymmetry, while Plumlee et al. (2015) emphasize that disclosure quality and type are more relevant than reporting quantity alone. These conclusions are particularly significant because ESG information is inherently difficult to standardize. Berg et al. (2022) demonstrate substantial disagreement among ESG rating agencies resulting from differences in scope, measurement and weighting, and Christensen et al. (2022) show that greater disclosure can even increase rating divergence. Environmental exposure also affects required returns. Bolton and Kacperczyk (2021) identify a carbon premium among higher-emission firms, while Ilhan et al. (2021) associate carbon intensity with greater downside tail risk. These findings indicate that sustainability affects valuation through both expected cash flows and discount rates. ESG can therefore reduce financial risk when it addresses material exposure, but uncertainty surrounding sustainability measurement can itself become a source of valuation risk.

A third conclusion is that governance and institutional context determine whether CSR and ESG resources are effectively transformed into corporate value. Hussain et al. (2018) and Naciti (2019) show that board characteristics affect environmental, social and economic sustainability outcomes by shaping corporate oversight and strategic attention. Li et al. (2016) further demonstrate that CEO power influences the valuation consequences of CSR, confirming that investors evaluate responsible expenditure partly through the governance structures controlling managerial discretion. The institutional environment produces comparable effects. El Ghouli et al.



(2017) show that CSR can partly compensate for weaker formal institutions by strengthening stakeholder confidence and protection, while Aboud and Diab (2018) find that ESG disclosure can enhance firm value in Egypt by reducing information asymmetry. Emerging-market studies by Dalal and Thaker (2019) and Yu and Xiao (2022) likewise associate ESG performance with accounting and market-based outcomes, while documenting variation across ownership and environmental characteristics. Crisis evidence remains more mixed: Albuquerque et al. (2020) and Broadstock et al. (2021) report greater resilience among stronger-ESG firms, whereas Demers et al. (2021) question whether ESG independently explains crisis performance. Sustainability should therefore be interpreted as one component of broader governance, institutional and organizational capacity rather than as an automatic financial hedge.

Conclusion

The reviewed literature establishes that the relationship between CSR, ESG performance and firm value is economically meaningful but fundamentally conditional. Corporate sustainability can support shareholder value by improving stakeholder relationships, strengthening customer loyalty, reducing information asymmetry, lowering operational and financial risk, protecting reputational capital and improving organizational efficiency. Environmental performance can also affect valuation through carbon exposure, expected regulatory costs and investors' required rates of return, while credible sustainability instruments and disclosures can improve the visibility of responsible corporate behavior. Nevertheless, the evidence does not support the proposition that higher CSR or ESG scores systematically generate superior financial performance under all circumstances. Diminishing returns, immaterial sustainability investment, symbolic disclosure, weak governance and poorly aligned corporate initiatives can reduce or eliminate the expected benefits. Negative sustainability events may also have stronger market consequences than equivalent positive developments, indicating that ESG performs an important value-protection function. The most consistent interpretation is therefore that sustainability contributes to value when corporate initiatives address financially relevant environmental, social and governance exposures and generate measurable changes in stakeholder behavior, operating performance or risk.

The literature also shows that institutional quality, governance structures and measurement systems must remain central to future research on sustainability and valuation. Board independence, executive authority, diversity and monitoring influence both the implementation of CSR strategies and the credibility attributed to them by investors. National institutions similarly determine the degree to which responsible practices complement or substitute for formal governance mechanisms, particularly in emerging markets characterized by relatively high information asymmetry. At the same time, disagreement among ESG rating providers limits the comparability of empirical findings and demonstrates that sustainability performance cannot be treated as a perfectly observable corporate characteristic. Future research should therefore distinguish more systematically between ESG performance, disclosure, external ratings and controversies while examining their separate effects on cash flows, financing costs and corporate risk. Greater consideration of industry materiality, ownership structure and regulatory development would also improve understanding of heterogeneous outcomes. CSR and ESG should consequently be treated not as universal determinants of financial success, but as strategic corporate resources whose economic contribution depends on credible implementation, effective governance and alignment with the institutional and operational environment.



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