

The Impact of ESG Performance on Firms -- Based on the Perspective of Financial Performance and Corporate Loyalty

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Abstract. With the advancement of global sustainable development, corporate environmental, social, and governance (ESG) performance is becoming a crucial indicator of corporate value and competitiveness. Drawing on stakeholder theory and signaling theory, this paper employs a literature review approach to systematically examine the pathways and mechanisms through which ESG performance influences corporate financial performance and corporate loyalty. Financially, ESG contributes to improved corporate profitability and market valuation, with the environmental and governance dimensions, in particular, exhibiting significant positive effects on risk control and institutional stability. At the brand level, ESG enhances consumer loyalty and brand equity by improving brand cognition (e.g., trust and image) and emotional connections (e.g., brand love and customer engagement). The study also found that different industries, consumer characteristics, and digital communication methods moderate the intensity and direction of ESG effects. This paper concludes that ESG positively shapes corporate value through a multi-pathway of "cognition, emotion, and behavior," emphasizes its crucial role in long-term corporate strategy, and proposes further research into dynamic effects, cultural differences, and communication risks.

Keywords: ESG performance, financial performance, corporate loyalty.

1. Introduction

Against the backdrop of the deepening global sustainable development agenda, the concept of Environmental, Social and Governance (ESG) has rapidly emerged and has become an important indicator for measuring the comprehensive value and long-term development capabilities of enterprises. Enterprises have also gradually transitioned from the traditional "profit maximization" logic to the development strategy of "diversified value creation" and "sustainable win-win".

Although the ESG concept has received widespread attention, there are still many controversies and uncertainties in practice. First, under the reality of limited resources and high performance pressure, enterprises face the trade-off between ESG investment and short-term financial returns. Some studies support that ESG can help improve corporate profitability and market valuation, but some views question the cost burden and input-output efficiency it brings. Secondly, there is no consensus on the pathways through which ESG influences corporate loyalty (e.g., employee retention, customer loyalty, supplier stability, and investor support). In particular, the measurement

and mechanisms of non-financial performance variables such as emotional identification and behavioral loyalty require further exploration. Furthermore, there is a lack of systematic research on whether financial performance and corporate loyalty have synergistic or interactive effects within the ESG impact chain.

Based on this, this article focuses on the following research questions. First, how does ESG performance affect a company's financial performance, including profitability, risk control capabilities, and market value? Second, how does ESG shape the loyalty of corporate stakeholders through cognitive, emotional, and behavioral mechanisms? Third, do financial performance and corporate loyalty interact and form a linkage in the ESG-to-corporate value pathway? By systematically reviewing existing literature and summarizing the economic consequences of ESG practices across different dimensions, this article aims to clarify the diverse pathways and synergistic logic of ESG in brand building and financial performance improvement.

This research has important theoretical and practical significance. On a theoretical level, this paper helps to expand the research boundaries of ESG economic consequences, expanding from the traditional financial indicator perspective to non-financial performance dimensions such as brand, emotion and loyalty, and revealing the performance generation mechanism of "financial-non-financial" synergy. On a practical level, this paper provides a systematic analytical framework and strategic reference for how companies can achieve a dynamic balance between responsibility fulfillment and value creation when formulating ESG strategies; it also provides a basis for governments, regulators, investors and other relevant parties to optimize ESG evaluation systems and incentive policies.

2. Concepts and theoretical basis

The introduction of ESG has promoted companies to incorporate environmental, social and governance concepts into their operations, accept social supervision through public information disclosure and other means, and achieve a more comprehensive performance evaluation system [1]. Through ESG reports, third-party ratings and other means, companies transform their performance in environmental, social and governance aspects into quantifiable public signals, alleviating market information asymmetry. These signals convey "risk control capabilities" and "long-term value potential" to investors, "responsibility concepts" to consumers, and "development concepts" to employees, becoming a reference for stakeholders' decision-making. Ultimately, high-quality ESG signals help companies attract investment, gain consumer recognition, and build employee engagement. However, negative performance can undermine stakeholder trust, hindering their access to resources and development opportunities.

ESG practices specifically address the core needs of different groups through environmental responsibility (such as emission reduction), social responsibility (such as employee benefits), and governance optimization (such as transparent operations). Companies' ESG investments (such as green production) for environmental stakeholders (such as environmental protection organizations) can reduce ecological risks, while caring for employees (such as safety assurance) can enhance cohesion. These actions align closely with the core principle of "balancing multiple values" in stakeholder theory. When ESG practices effectively meet the needs of various stakeholders, they can reduce conflict, enhance trust, and win external support for sustainable development, confirming the inherent requirement of stakeholder theory for "coexistence and win-win cooperation between companies and multiple stakeholders."

3. The impact of ESG performance on companies

3.1. The impact of ESG performance on corporate financial performance

Firstly, most research supports the view that overall ESG performance is positively correlated with corporate financial performance. Based on data from the Indian energy industry, Canli & Sercemeli found that the overall ESG score showed a significant positive correlation with Return on Assets (ROA) and Tobin's Q, indicating that companies' active actions in sustainable development can obtain both financial and market returns [2]. Dou & Yin also confirmed that after controlling for factors such as company size and growth potential, the ESG comprehensive score and Tobin's Q still maintained a stable positive relationship, indicating that ESG can improve corporate market valuations [3]. Velte found that the ESG performance of German listed companies significantly improved ROA, although the impact on Tobin's Q was not obvious [4]. Yavuz et.al also pointed out in their study of Turkish companies that the environmental and governance dimensions can improve Return on Equity (ROE) and Tobin's Q, although the impact on ROA was not significant [5]. This series of studies shows that overall ESG performance can usually enhance corporate profitability or market recognition through mechanisms such as risk control and reputation effects.

Secondly, in terms of the impact of various ESG dimensions on financial performance, governance and environment are the more critical driving factors. Velte pointed out that among the three dimensions of ESG, governance scores have the strongest driving effect on ROA [4]. Canli & Sercemeli agree with this conclusion and further point out that the impact of social dimensions is relatively weak [2]. Dou & Yin emphasize the dominant role of environmental factors in promoting financial performance, while the effects of governance and social dimensions are not significant [3]. This shows that the marginal effects of each sub-dimension of ESG may vary in different regions or industry contexts, but governance and environment are generally considered to be the key links that have a more direct impact on corporate performance.

Lastly, some studies also revealed the "regional differences" and "mechanism paths" of ESG's impact on financial performance. Dou & Yin found that the performance improvement effect of ESG in eastern China is significantly stronger than that in central and western regions, reflecting the moderating effect of regional development level and resource allocation on ESG effects [3]. Yavuz et al. also pointed out that in developing countries, external environments such as macroeconomic institutions and regulatory intensity may affect the relationship between ESG and financial performance [5]. In addition, most studies are based on sustainable development theory and stakeholder theory and believe that ESG can achieve positive financial returns by enhancing corporate reputation, reducing compliance risks, and improving stakeholder relationships. In summary, despite the different research backgrounds, existing literature generally believes that ESG performance can improve corporate financial performance to a certain extent, especially in situations where the governance structure is sound, the environmental strategy is clear, or the institutional environment is supportive.

3.2. The impact of ESG performance on corporate brand loyalty and value

The impact of the mechanism of corporate ESG performance on brand was widely studied and confirmed to have a significant positive effect. Its path not only covers cognitive evaluation and emotional connection but also extends to behavioral loyalty and social communication. ESG practices in different dimensions construct a multi-dimensional and multi-stage brand influence chain through variables at the cognitive, emotional and behavioral levels. First, ESG indirectly

enhances brand assets and loyalty by improving brand cognition. A large number of empirical studies have shown that a company's performance in the ESG dimension helps to shape a positive brand image, brand trust and consumer attitude, thereby enhancing brand loyalty and purchase intention. Among them, the social and governance dimensions were found to have the strongest impact on brand cognition variables [6]. Social responsibility can significantly enhance brand credibility ($\beta=0.562$), while governance behavior enhances perceived quality and trust stability [6]. In contrast, the environmental dimension has a more volatile effect and is often limited by the risk of "greenwashing" [7]. Bae et al. further pointed out that the environmental and social dimensions can enhance brand trust and word-of-mouth communication, while the governance dimension requires clearer information dissemination to enhance its perceptibility [8].

Secondly, ESG can stimulate brand love through emotional pathways, thereby enhancing consumer loyalty behavior. In addition to traditional cognitive mechanisms, research has gradually revealed the mechanism of ESG's effect on brand emotional variables. Purivat & Trippopsakul proposed that ESG not only directly affects brand loyalty, but also indirectly affects loyalty by stimulating brand love, forming an emotionally driven path of "ESG $\rightarrow$ brand love $\rightarrow$ loyalty". This path is particularly significant in low-involvement products (such as daily fast-moving consumer goods) and young consumer groups [9]. Among them, the social dimension has the strongest impact on brand love ($\beta=0.500$), while the governance dimension helps maintain long-term loyalty. This mechanism emphasizes that consumers' emotional resonance with corporate responsibility is a key bridge for building a solid brand relationship.

Additionally, the three dimensions of ESG have different effects on brands, and the impact varies depending on the industry and target group. Research shows that different industries have different sensitivities to ESG dimensions. For example, the environmental dimension is the most critical in green-sensitive industries (such as food and personal care), while governance transparency is more emphasized in heavy asset industries or B2B scenarios [10]. In addition, consumer characteristics also constitute a moderating factor in the ESG impact path: young and highly educated people are more likely to be attracted by social and environmental dimensions, and companies should adjust their ESG communication strategies accordingly [9]. Trippopsakul & Purivat also pointed out that customer engagement plays a mediating role between ESG and brand trust, reflecting the value of the brand interaction mechanism as an intermediate bridge [11].

Finally, in the digital context, the brand influence of ESG is further amplified, especially relying on visualization and interactive communication. In the context of digital communication, companies can use social media, short videos, UGC and other forms to enhance the perception and emotional influence of ESG. Purivat & Trippopsakul proposed the concept of "DESG" (Digital ESG), and empirical evidence shows that the digital social dimension (such as online charity and community initiatives) has the strongest driving effect on brand recognition and customer attitudes, thereby indirectly enhancing brand assets. Bae et al. pointed out that highly visible ESG actions (such as environmental protection short videos and charity live broadcasts) can stimulate positive word-of-mouth, while the governance dimension is difficult to convert into consumer trust if it lacks transparent presentation. Therefore, companies need to focus on "being able to speak" and "being visible" in ESG communication, and strengthen the image of responsibility and public participation [8].

In summary, ESG positively shapes brand value through the triple mechanism of "cognition-emotion-behavior". It is not only a signal mechanism for corporate responsibility, but also an important strategic path to build brand differentiation and customer loyalty. Future research can

further focus on cultural differences, vertical effects and ESG risk prevention and control to deepen the theoretical understanding and management application of the ESG-brand relationship.

4. Conclusion

This article systematically examines the pathways and mechanisms through which ESG performance influences a company's financial performance and brand value. Drawing on several recent empirical studies, it identifies two main themes of ESG's impact on businesses. First, it improves financial performance through risk control and reputational effects. Second, it builds brand loyalty and brand equity through cognitive, emotional, and behavioral pathways.

At the financial level, existing literature generally supports the conclusion that ESG performance is positively correlated with corporate performance. In particular, ESG can effectively enhance profitability and market valuation in companies with sound governance structures and clear environmental responsibilities. While environmental and governance dimensions are often the core drivers of performance improvement, the impact of social dimensions is more context-dependent. Furthermore, research reveals the moderating role of external factors, such as the institutional environment and regional economic level, on the ESG-financial performance relationship.

At the brand level, ESG not only indirectly influences brand loyalty by enhancing cognitive variables such as brand trust, brand image, and consumer attitudes but also strengthens consumer behavioral commitment by stimulating emotional variables such as brand love. The social dimension has the strongest emotional driving force, while the governance dimension helps maintain long-term brand relationships. The environmental dimension has a more complex impact, and the trust crisis caused by "greenwashing" must be avoided. Furthermore, in the context of digital communication, the introduction of the "Digital ESG" concept has expanded the scope of ESG's impact on brand value. Communication methods such as social media and user-generated content have become key venues for co-building a corporate image of responsibility.

Although ESG research has achieved fruitful results, several areas warrant further development, including longitudinal tracking of its dynamic effects and long-term mechanisms, comparative studies of cross-cultural and cross-industry impact pathways, and attention to communication authenticity and risk management in the context of greenwashing. Future research can also integrate diverse theories such as the resource-based view, organizational identity, and social capital to further explore the mechanisms by which ESG can be transformed into sustainable competitive advantage for companies.

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