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THE IMPACT OF ESG ON THE CORPORATE FINANCIAL PERFORMANCE [1]

In the era of globalization and the growing influence of companies on the global economy and social processes, business responsibility for the social and environmental parts of the world is becoming one of the critical topics of discussion. Companies that take on social responsibilities more often achieve better results in the long run by increasing customer loyalty, employee motivation, and business stability.

The concept of ESG (Environmental, Social, Governance) has become an essential framework for measuring the social responsibility of companies as an indicator. ESG covers three key aspects:

– Environmental – refers to the impact of the company's activities on the environment, including greenhouse gas emissions, waste, and resource management.

– Social – covers human rights, working conditions, human capital development, product safety, and the company's contribution to social initiatives.

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– Governance – refers to the transparency of the company's management, ethics, anti-corruption, equality in management processes, and respect for shareholders' rights.

These three components are essential for analyzing how well a company adheres to the principles of social responsibility, considering the interests of various stakeholders. ESG factors are increasingly crucial for assessing companies' financial sustainability and long-term growth. Integrating ESG standards allows companies to improve their reputation, reduce operational risks, and attract investors focused on sustainable development.

Numerous studies have examined the relationship between ESG and companies' financial performance in recent years. Social responsibility is a concept that means that companies should not only strive to make a profit but also be responsible to society and the environment in which they operate and adhere to the principles of sustainable development. This includes implementing environmentally sustainable solutions and ethical behavior towards employees and partners, as well as contributing to improving social conditions. Social responsibility covers various aspects, from charitable initiatives to comprehensive development strategies integrated into business processes.

ESG factors are becoming increasingly important in today's corporate world as long-term financial sustainability and growth indicators. A high ESG rating indicates a company's responsibility to society and the environment and is an essential element for attracting investment and reducing operational risks. In recent years, ESG factors have become a crucial criterion in evaluating companies among investors focused on sustainable development.

One of the critical aspects is the ability of highly rated companies to attract investors focused on sustainable development. Investors such as pension funds and large institutional players increasingly favor companies that demonstrate financial success and social responsibility. Based on an analysis of ESG performance obtained from Institutional Shareholder Services' (ISS) ESG Corporate Rating data (end of 2013 through March/September 2019), it was shown that high/favorable ISS ESG corporate rating performance is generally positively related to valuation (EVA margin) and profitability (ROIC) and negatively correlated with share volatility [1].

According to the study by NYU Stern Business School [2], about 65% of investments considering the ESG rating show returns similar to or higher return than traditional investments. This suggests that such approaches not only do not reduce profitability but, on the contrary, become a tool for minimizing long-term risks.

Financial investors increasingly consider a high rating as an indicator of a company's resilience to changes in the regulatory environment and market requirements. Companies that effectively manage social and environmental risks reduce the likelihood of reputational problems, which, in turn, has a positive impact on their ability to raise capital on favorable terms. Nowadays, transparency of governance and compliance with standards are critical factors in maintaining trust with customers and investors. Additionally, human capital management plays an essential role in employee satisfaction, especially for those who can be identified as Z-generation and Millennials. However, with rising concerns around greenwashing, just having an ESG-focused business model may no longer be enough to demonstrate ESG leadership or accountability [3].

Companies that integrate ESG into their strategy have a significant advantage in terms of reducing risks associated with legal restrictions, environmental standards, and reputational threats. For example, a study by Sang Kim and Zhichuan Li [4] shows that companies with high ESG management scores have higher credit ratings and are less prone to financial crises. This is especially relevant for companies operating in complex regulatory environments, where transparency and effective corporate governance are key to reducing compliance costs. By implementing ESG practices, companies also have the opportunity to avoid environmental fines and conflicts with stakeholders. Social responsibility and good governance ensure a positive image of the company, which helps to reduce the likelihood of lawsuits and other reputational risks.

Taking all the above into consideration, it can be concluded that the impact of ESG on companies' financial performance is significant, especially in the long term. In particular, social and governance aspects play an important role for corporations, especially those that are acting in the field of innovation and digital technologies, like the FinTech industry. Transparent management and care for employees allow such companies not only to attract investment but also to increase customer confidence. Meanwhile, environmental aspects may play a lesser role in the FinTech industry, but they are equally important for long-term sustainable growth, especially in the context of global requirements to reduce the carbon footprint.

Table 1

Main sources of ESG impact on companies' financial results

ESG factor	Financial impact	Influence sources
Environmental	Reduced resource costs, increased efficiency	Use of "green" technologies, compliance with environmental standards
Social	Increasing employee satisfaction and productivity, enhancing customer loyalty	Employee engagement, social responsibility programs
Governance	Reducing corporate and reputational risks, simplified access to capital market	Transparent corporate governance, reduction of the likelihood of lawsuits, shareholders' activism

Source: [1; 2]

To sum up, the following conclusion can be made. First of all, ESG practices have a positive impact on companies' financial results, and their integration into the strategy can contribute to sustainable growth, risk reduction, and improved investor relations. The second point is that ESG is especially important for FinTech companies as the implementation of social responsibility practices refers to the ESG rating, so companies are recommended to continuously improve these indicators to ensure long-term success and maintain competitiveness in a rapidly changing market environment.

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