https://doi.org/10.52326/jss.utm.2025.8(4).03
CZU 502.131.1:005.35:658.14/.17

SUSTAINABILITY IS ALL THE RAGE: CAN FIRMS HAVE THEIR CAKE AND EAT IT TOO? A LITERATURE REVIEW

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Received: 10. 31. 2025
Accepted: 12. 02. 2025

Abstract. This study reviews the literature on environmental, social and governance (ESG) factors and their impact on corporate behavior and financial performance, highlighting the challenges of standardizing ESG data and aligning regulatory efforts with market needs. Market participants use ESG information; thus, a solid framework is essential for understanding its effect on financial outcomes. The lack of standardization creates uncertainty, reduces disclosure reliability, and limits investors' informed decision-making. This paper addresses three key themes: the impact of ESG on corporate financial performance, inconsistencies in ESG disclosures and ratings that create data ambiguity, and the influence of evolving global ESG regulations. Drawing on numerous academic articles from reputable journals covering trends in emerging and mature markets, the review employs a systematic literature review (SLR) to identify themes and gaps. Findings indicate that ESG integration generally produces positive or neutral financial outcomes, though regional differences exist, and inconsistent data affects ratings. The study contributes by examining ESG frameworks, categorizing their effects on companies and investments, and emphasizing the need for standardized ESG data to enhance transparency, reduce greenwashing, and support informed, sustainable investment decisions.

Keywords: *Environmental, social and governance performance, corporate social responsibility, socially responsible investment, ESG integration, financial returns on ESG investments, corporate sustainability reporting, ESG risk management, ESG ratings, ESG disclosure, impact investment, non-financial performance, sin stocks.*

Rezumat. Acest studiu revizuiește literatura de specialitate privind factorii de mediu, sociali și de guvernanță (ESG) și impactul acestora asupra comportamentului corporativ și performanței financiare, evidențiind provocările legate de standardizarea datelor ESG și alinierea eforturilor de reglementare cu nevoile pieței. Participanții pe piață utilizează informațiile ESG; prin urmare, un cadru solid este esențial pentru înțelegerea efectului acestora asupra rezultatelor financiare. Lipsa de standardizare generează incertitudine, reduce fiabilitatea raportărilor și limitează capacitatea investitorilor de a lua decizii informate. Această lucrare abordează trei teme principale: impactul ESG asupra performanței financiare corporative, inconsistențele în raportările și ratingurile ESG care creează ambiguitate în date și influența reglementărilor ESG globale în evoluție. Bazându-se pe numeroase articole academice din jurnale de renume, acoperind tendințele din piețele emergente și cele mature, revizuirea utilizează o metodologie de revizuire sistematică a literaturii (SLR) pentru a identifica teme și lacune. Rezultatele indică faptul că integrarea ESG produce, în general, rezultate financiare pozitive sau neutre, deși există diferențe regionale, iar datele inconsistente afectează ratingurile. Studiul aduce o contribuție prin examinarea cadrelor ESG, clasificarea efectelor acestora asupra companiilor și investițiilor și sublinierea necesității unor date ESG standardizate pentru a crește transparența, a reduce fenomenul de „greenwashing" și a sprijini deciziile de investiții sustenabile și bine fundamentate.

Cuvinte-cheie: *Performanța de mediu, socială și de guvernanță, responsabilitate socială corporativă, investiții social responsabile, integrarea ESG, randamente financiare ale investițiilor ESG, raportare corporativă sustenabilă, managementul riscului ESG, ratinguri ESG, raportări ESG, impactul investițiilor, performanță non-financiară, acțiuni „sin stocks".*

1. Introduction

Environmental, social and governance (ESG) factors have become a worldwide phenomenon that issuers, companies, investors, and regulators cannot ignore [1,2]. Global markets are increasingly asking for more ESG data, while companies face challenges in meeting investors' continuous demands for sustainable practices [1,2]. Meanwhile, regulators are falling behind in adapting to this evolving landscape [1,2].

The symbiosis between ESG and capital markets has undergone significant transformations, with distinct phases emerging from the early 2000s [3]. Before 2001, public sustainability disclosure was more the exception than the norm [3]. Between 2001 and 2010, voluntary sustainability disclosure became standard practice among large companies [3]. In 2005, the United Nations launched the Principles for Responsible Investment (PRI) with the clear objective of "achieving a sustainable global financial system by encouraging the adoption of the principles and fostering collaboration on their implementation" [4]. The PRI also aimed to promote good governance, integrity, and accountability, addressing the barriers to a sustainable financial system rooted in market practices, structures, and regulations [4]. From 2011 to 2019, the emphasis shifted toward investor-oriented sustainability reporting [3]. Reports focused on giving investors clearer insights into climate-related risks [3]. Since 2020, markets have increasingly emphasized the consolidation of ESG reporting due to mandatory disclosure frameworks [3].

Investors often have concerns about the reliability of ESG data because companies prepare and share their reports according to their own interpretations, often emphasizing favorable information [5]. The absence of standardization leads to confusion among investors about the reliability of the data [5]. It also makes it difficult to create comparable metrics among different companies [5]. ESG rating agencies use various methodologies and scoring systems, resulting in inconsistent reports for the same company [5]. As a result, one company might receive vastly different ESG ratings, even when based on the same publicly available information [5].

This study addresses a gap in the literature by examining the evolution of ESG practices across markets and identifying key standardization challenges that affect investment decisions. To achieve this, the primary objective is to review and categorize current research on ESG factors and their impacts on firm and investment performance while enhancing conceptual clarity through a systematic literature review. Specifically, the research aims to clarify the various definitions and criteria related to ESG, evaluate the impact of ESG integration on companies' financial performance across diverse geographical regions, and identify the challenges related to ESG data standardization and its effect on investor trust.

Building on these objectives, this literature review centers on three key questions shaping ESG and capital markets: first, how does ESG integration impact companies’ financial performance? Second, what challenges and inconsistencies are present in ESG data and ratings? Third, how has the global ESG regulatory framework developed? Addressing these questions offers a structured perspective through which the study examines current research and pinpoints areas for further exploration.

To answer these questions, this study employs a systematic literature review. The review consists of a defined process that includes (1) establishing search criteria and identifying the types of literature to include; (2) categorizing studies by their primary themes, geographic areas, and research methods; (3) synthesizing findings to identify trends, disagreements, and gaps in the research; and (4) developing a framework that illustrates the evolution and current status of ESG research and practice.

The author identified several relevant themes in their literature review [5-11]. Studies consistently show that the relationship between ESG factors and financial performance is mostly positive or neutral, with variations depending on the region studied [12-14]. There is also a gap in ESG practices between developed and emerging markets, where unique challenges exist [12,14,15]. Inconsistent collecting and reporting of ESG data disrupts the integration of sustainability into investment strategies [16-19]. This study contributes to the existing literature by presenting a historical overview of ESG trends. It also provides a framework to analyze the connection between ESG factors and financial results. Moreover, it identifies areas needing further research and improved standardization. This study begins with an overview of key ESG practices, followed by a description of the research methods utilized in this literature review. The author then examines themes such as the relationship between ESG factors and financial performance, the evolution of ESG integration in markets, and the challenges of standardization and transparency. This study aims to spark discussions on ESG investing and corporate sustainability while encouraging further research in developing markets. The findings provide valuable insights for academics, market participants, and policymakers engaged in sustainable investment strategies.

2. Materials and Methods

The author conducted a structured literature review (SLR) to identify, evaluate, and summarize key research on ESG. The aim was to analyze how ESG factors affect firm financial performance across various capital markets, what challenges arise in standardizing ESG data reporting, and how global ESG regulations are evolving to address these issues. The SLR approach was used to provide a systematic objective method for synthesizing multiple studies. The author selected the initial articles by accessing several academic databases, including Google Scholar, JSTOR, ScienceDirect, SSRN, and the Wiley Online Library, chosen for their extensive availability of scholarly journals and articles on ESG, sustainability, and corporate finance governance.

The database search used a comprehensive list of keywords, including "ESG performance," "corporate social responsibility (CSR)," "socially responsible investment (SRI)," "ESG integration," "financial returns on ESG investments," "corporate sustainability reporting," "ESG risk management," "ESG ratings," "ESG disclosure," "impact investment," "non-financial performance," and "sin stocks." These keywords were used in various combinations to capture relevant research on the correlation between ESG characteristics and corporate financial performance, as well as the broader effects of sustainability programs across different markets.

The author refined the literature using specific selection criteria. To ensure relevance to ongoing ESG developments, the review covered only original articles and reports published between 2015 and 2023. Studies offering analytical, conceptual, or comprehensive assessments of compliance measures and ofcompliance frameworks were prioritized. Studies emphasizing non-ESG compliance or lacking sufficient methodologies were eliminated. The initial search returned over 700 papers, which were narrowed down to 120 by removing duplicates and irrelevant entries based on titles and abstracts. After a detailed review of these 120 papers, 39 publications were selected as core references for this study. The inclusion criteria limited selections to studies examining ESG/CSR and their connections to firm performance, financial risk, or sustainable capital markets, while marginal papers or those with limited relevance were excluded. Methodological quality also served as a screening factor. The review focused on strong empirical studies with large sample sizes and clear statistical methods. The study prioritized recent or widely cited papers to ensure the findings were current and significant. The author examined the data thematically to address the study's goals, uncovering essential themes. Articles were sorted by common topics, including how ESG affects financial performance, the need for standardized ratings, and its impact in both emerging and developed markets. This categorization revealed overlaps and inconsistencies in the research, like the mixed financial results for ESG-rated companies and differences in ESG data and methods.

Overall, each study was evaluated based on five criteria: (1) clarity of research design, (2) transparency of data sources, (3) methodological rigor and appropriateness of statistical methods, (4) adequacy of sample size, and (5) explicit discussion of limitations. Studies that met at least four of these criteria were retained for synthesis.

From each included study, the following information was systematically extracted: author(s) and publication year, geographic and industry context, ESG measurement approach (ratings, scores, disclosure indices), financial performance metrics (ROA, ROE, stock returns, Tobin's Q), sample characteristics, key findings, and stated limitations. Findings were synthesized thematically to address the three research questions, with particular attention to contradictory results and methodological variations that might explain divergent conclusions.

The review identified gaps in the literature, indicating a need for standardized ESG ratings and a better understanding of ESG's impact across regions and industries.

3. Results

The author conducted a structured literature review to identify, evaluate, and summarize key research on ESG. The goal was to analyze how ESG factors influence firm financial performance across various capital markets, explore challenges in standardizing ESG data reporting, and examine how global ESG regulations are evolving to address these issues. The systematic literature review approach was employed to provide a systematic and objective method for synthesizing multiple studies. The author selected initial articles by accessing several academic databases, including Google Scholar, JSTOR, ScienceDirect, SSRN, and the Wiley Online Library, chosen for their extensive collection of scholarly journals and articles on ESG, sustainability, and corporate finance governance.

The database search used a comprehensive list of keywords, such as "ESG performance," "corporate social responsibility (CSR)," "socially responsible investment (SRI)," "ESG integration," "financial returns on ESG investments," "corporate sustainability reporting," "ESG risk management," "ESG ratings," "ESG disclosure," "impact investment," "non-financial performance," and "sin stocks." These keywords were combined in various ways to capture relevant research on the relationship between ESG characteristics and corporate financial performance, as well as the broader impact of sustainability programs on different markets. Boolean operators were applied as follows: (ESG OR 'environmental social governance' OR CSR) AND ('financial performance' OR 'stock returns' OR profitability OR 'firm value').

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Table 1 presents an overview of the literature examined in this study, indicating the number of papers categorized into eight key topic areas.

Table 1

Papers by category

	Category	No. of papers
1	ESG	28
2	Other	24
3	Performance/Financial	17
4	Literature Review	14
5	Disclosure/Reporting	10
6	Investment	9
7	Emerging Markets	8
8	CSR	6

Table 2 details the various review types found in the 14 literature review papers and the methodological approaches used in the literature. Two papers adopted multiple review methods: one merged systematic and narrative reviews, while another combined meta-analysis with bibliometric techniques to examine the ESG landscape.

Table 2

Literature review types

Review type	No. of papers
General review	7
Narrative review	5
Bibliometric	2
Systematic review	1
Meta-analysis	1

Table 3 compares the advantages and disadvantages of various literature review methodologies, highlighting the trade-offs in comprehensiveness, objectivity, resource requirements, and analytical depth that researchers must consider when selecting the most suitable method for synthesizing ESG literature.

Table 3

Literature review types - pros and cons

Review type	Advantages	Disadvantages
Systematic review	Comprehensive, transparent, replicable, reduces bias, follows strict protocol, exhaustive search strategy.	Time-consuming, resource-intensive, may miss nuanced insights, rigid methodology, requires expertise
Meta-analysis	Quantitative synthesis of findings, increased statistical power, identifies patterns across studies, provides effect sizes.	Limited to studies with compatible methodologies, publication bias concerns, statistical heterogeneity challenges.
Bibliometric review	Identifies influential works and authors, reveals research trends and networks, quantifies publication patterns.	Focuses on publication patterns rather than content, citation counts do not always reflect quality, limited qualitative insights.
Narrative review	Flexibility, can synthesize diverse literature, allows for theoretical development, contextual interpretation	Potential for selection bias, less transparent methodology, harder to replicate, subjective interpretation
Scoping review	Maps key concepts and research gaps, useful for emerging fields, identifies scope of literature, determines feasibility of full review.	Less detailed analysis, typically does not assess quality of included studies, preliminary in nature, limited synthesis.

The author set clear criteria to limit the literature review to a specific set of studies. A focused theme was necessary. The papers had to answer specific research questions to ensure coherence. For instance, in reviewing ESG performance and financial returns, the review prioritized 17 papers in the Performance/Financial category. Assessing the quality of these papers was crucial. This involved evaluating their design, sample size, statistical methods, and overall contribution to the field. The author avoided redundancy to keep the review concise. The selection of studies represented various perspectives and methodologies, highlighted by the inclusion of 8 papers on Emerging Markets. The review considered the recency of the studies and their citation impact to bring in current insights, using citation counts and reputable journals for guidance. It evaluated the relevance of the papers to the research goals, their methodological robustness, and their contributions to knowledge. Although the SLR method deepened the understanding of ESG literature, it had limitations. There was potential bias from the choice of databases, and excluding non-peer-reviewed sources might miss emerging trends. This structured literature review aimed to bring together different ESG viewpoints into a cohesive whole.

4. Discussion - ESG: the Good, the Bad, and the Gaps

Despite the abundance of significant research on the impact of ESG on corporate performance, market value, and strategy in capital markets, getting a complete understanding from the existing literature feels like trying to fit together puzzle pieces from different sets—regardless of how they are arranged, the edges do not align [5,16]. Existing ESG research is notably incongruent, fragmented, and scattered across various areas.

One area of study focuses on the growing interest in ESG across markets, examining how its pillars relate to risks and strategies for directing capital toward sustainable development [6,7]. Another area investigates the use of ESG scores as a metric and highlights the absence of standardized procedures, leading to inconsistencies in assessing how well nations and corporations align with sustainability goals [16,17]. Theoretical frameworks remain a critical focus in academia, analyzing agency theory—where corporate governance aligns with the interests of investors—and stakeholder theory, which posits that strong stakeholder relationships enhance a firm's legitimacy [16, 17]. This connects to legitimacy and institutional theories, emphasizing the link between ESG performance and institutional contexts [20].

Exploratory research also delves into regional markets, incorporating financial performance and elements such as culture, politics, geography, and geopolitical events [12]. However, these regional or industry-specific analyses often fail to provide broader context and tell only a story about localized ESG dynamics, without connecting to global ESG trends [12].

The author noted that although ESG is becoming increasingly important in global markets, impacting issuers, companies, investors, and regulators, there remains a frenzy surrounding the topic [21]. Investors seek clear information about ESG factors [1-6, 16]. Companies actively strive to meet the growing demand for sustainability [1]. Regulators, however, struggle to keep pace with the rapid economic changes. Investors increasingly demand detailed disclosures and greater transparency [21].

The vast amount of ESG data poses a significant challenge [1,22]. Companies must develop strategies to comply with both voluntary and mandatory reporting standards [1,22]. Simultaneously, investors find it difficult to navigate the extensive ESG information available to them [1,22]. Various ESG rating providers employ different methodologies to assess companies [16]. This inconsistency creates confusion in the market [16]. As a result, a company may receive quite different ESG ratings depending on the provider conducting the assessment, even when based on the same available data [15].

The literature on ESG has several notable gaps [5,18-20]. Existing theories primarily focus on internal company mechanisms, such as governance structures and management strategies, but do not explain why ESG performance varies significantly across countries at the macro level [18-20]. Traditional theories do not address global disparities in ESG performance because they lack a comprehensive understanding of the systemic factors that influence ESG scores worldwide [13]. Theories such as agency, stakeholder, legitimacy, and institutional focus primarily focus on internal corporate practices, often neglecting external factors such as national policies, economic conditions, and cultural influences that can affect ESG outcomes [18]. These theories fail to entirely capture the evolving and region-specific nature of ESG performance [13, 23]. Although they offer useful viewpoints, they frequently do not provide practical strategies for enhancing ESG performance on a broader scale [13,23].

A more holistic approach is necessary to understand and tackle global ESG disparities. This paper intends to bridge these gaps by synthesizing current knowledge and providing a cohesive overview of macro-level insights into ESG. It aims to piece together fragmented information into a unified view, presenting a more integrated perspective that confronts the inconsistencies and lack of standardization present in the current ESG landscape.

4.1. Money Talks: ESG and Financial Performance

One common research question driving studies is: What is the impact of ESG on a company's financial performance?

Tsang, Frost, and Cao examine the ongoing discourse in the literature regarding the relationship between CSR/ESG performance and financial performance [19]. They observe that while some studies identify a positive correlation, others find a negative or non-existent connection [19]. This inconsistency suggests that conflicting results might arise from researchers' choices about CSR/ESG metrics, classifications, sample durations, and the potential moderating effect of corporate governance [19]. Their study highlights the need for future research to examine the influence of non-financial rating agencies and their potential biases in supplying ESG data, especially given the lack of sufficient regulatory oversight [19]. The Tsang study also provides evidence that the forward-looking effects on firm value may become more apparent as the sample period lengthens [19].

Halid et al.'s literature review presents conflicting results regarding the relationship between ESG performance and financial performance [24]. Some studies indicate a positive correlation, suggesting that higher ESG scores are associated with better financial outcomes [24]. Other research shows neutral or negative results, indicating no significant impact or even a negative relationship between ESG scores and financial performance [24]. The review concludes that, despite substantial research, there is no clear consensus on the direct influence of ESG performance on financial results [24]. These varied outcomes highlight the need for standardized research methodologies and encourage further investigations into moderating factors, such as industry differences and variations in sample periods [24]. This review emphasizes the complexity of connecting ESG scores to firm performance [24]. The mixed empirical evidence suggests that while ESG initiatives have the potential to create value, their actual effect is highly context-dependent, influenced by the specific metrics and methodologies used in studies [24].

Jain, Sharma and Srivastava find no significant performance difference between financially established and sustainable indices [6]. Instead, they argue that investors can enhance their understanding by considering both types of indices when designing their portfolios, while keeping a diversification and hedging strategy in mind [6].

Landi and Sciarelli's study in Italy statistically examines the correlation between ESG assessments and firms' abnormal returns and finds that the Italian stock market does not incentivize socially responsible companies, as abnormal returns are not associated with better ESG ratings [8]. Companies with higher stock market performance show little motivation to invest in corporate social responsibility because decision-makers do not see ethics as a valuable asset for building lasting reputation [8]. In China, Dai's study finds that investing in ESG equity indices can boost risk-adjusted returns and enhance portfolio diversification [7]. Grote and others have a critical view of the role of capital markets in promoting ESG, suggesting that ESG's ability to "save the planet" is exaggerated [25].

The study by Friede, Busch, and Bassen offers a comprehensive analysis of existing academic research examining the link between ESG criteria and corporate financial performance (CFP) [9]. It details over 2,200 individual studies, making it the most thorough review on this subject [9]. Findings indicate that around 90% of these studies report a non-negative correlation between ESG and CFP, consistently observed over time and across various regions and asset classes [9].

Khan and Serafeim investigated data from 2,396 firms to assess how corporate sustainability affects financial performance [26]. Sustainability aspects related to a company's operations, stakeholders, and the environment can significantly impact financial performance [26]. The study indicates that businesses should address these factors to improve stakeholder value and enhance financial results [26]. Nevertheless, the impact differs across industries and specific sustainability challenges [26].

Khan's ESG disclosure and firm performance meta-analysis reveals key relationships between company traits and sustainability results [10]. The study finds a positive and significant link between financial success and ESG efforts, indicating that top companies often excel in sustainability [10]. Larger firms are especially strong predictors of ESG performance, likely because of their greater resources and visibility [10]. Corporate governance factors, especially board gender diversity, improve ESG outcomes, highlighting how diverse leadership supports sustainable practices [10]. The analysis points out several moderating factors—such as institutional context, sector traits, and strategic focus—that influence the ESG-performance link [10]. While there is a general trend showing a positive connection between ESG disclosure and company results, the strength and significance of these links vary depending on context and measurement methods [10]. Financial success, company size, and good governance are essential drivers of ESG success, but the relationship is complex and varies by situation [10].

Research indicated a nuanced connection between ESG and financial performance, shaped by methodology and context [9, 10, 24-26]. Most studies identified a non-negative correlation between ESG criteria and corporate financial outcomes [9]. However, the strength and nature of this correlation varied significantly across different markets, industries, and time horizons [9]. This variation suggests that the financial impact of ESG is not uniform; it depends on factors such as market conditions, regulatory frameworks, and investor priorities [9,10,24-26]. Some markets showed positive correlations between ESG and financial performance, while others demonstrated neutral or negative associations [9, 10, 24-26]. This finding implies that ESG is not a one-size-fits-all concept. Instead, its effects depend on the relevance of sustainability issues to specific business operations and the reliability of ESG disclosures, particularly regarding social aspects [23,24]. For example, companies in markets like China experienced significant portfolio diversification benefits from ESG investments [7]. In contrast, in Italy, there were minimal financial incentives for socially responsible practices [8]. These findings show that the link between ESG and financial performance evolved from a simple positive-or-negative classification to a more complex understanding that considers context, measurement methods, and ESG integration into business strategies [7-10,24-26]. Researchers and policymakers need to pinpoint specific conditions that enable ESG to yield measurable financial outcomes instead of seeking universal standards [7-10,24-26].

4.2. Balancing the Books and the Planet: ESG Disclosures and Firm Value

Another common and recurring theme in current literature is the focus on ESG disclosures and corporate value, with research suggesting that transparency in ESG performance can lead to higher valuations or lower costs, such as the cost of debt [5,11]. Brooks and Oikonomou find that ESG disclosures are usually associated with better ESG performance and overall improved firm performance, with screening and exclusion in certain industries resulting in a financial cost [5]. Eliwa, Aboud, and Saleh find that firms can indeed benefit from increasing their ESG performance and disclosures, which translate to a lower cost of capital [11]. However, there is a failure to distinguish, at the market level, between ESG performance and ESG disclosure [11]. Christensen et al. discuss the limited evidence on the direct effects of CSR reporting on firm value, highlighting the challenge of separating the effects of reporting from the underlying CSR or business activities [27]. Huang notes that ESG disclosures may serve as a proxy for actual ESG performance and can influence financial decisions [28]. Au et al. argue that ESG disclosures can positively influence investor perceptions and improve the informativeness of stock prices by reducing information asymmetry, especially when social disclosures are highly credible [29]. Additionally, the research reveals a link between ESG disclosure and earnings quality, emphasizing its importance to investors and the credibility of corporate reporting [29].

Current literature shows a clear link between ESG disclosure and corporate value [5,11]. Greater transparency in ESG practices generally improves firm performance [5]. Strong ESG disclosures often result in tangible financial benefits, such as reduced debt and capital costs [11]. However, there is a significant gap in distinguishing the quality of ESG disclosure from actual ESG performance, which can obscure the true factors influencing firm valuation [29]. Some studies suggest that ESG disclosure can reliably indicate true ESG performance [28]. This may help decrease information asymmetry and enhance investor perceptions and stock price clarity [29]. Conversely, some research points out the difficulty of separating pure reporting from broader CSR activities [27]. In summary, while comprehensive ESG disclosures are linked to higher corporate value and lower financing costs, more research is needed to differentiate the effects of ESG performance from those of reporting practices [11].

4.3. ESG Jigsaw: Risk Management and ESG Data Inconsistencies

Another common theme is the risk management aspect of ESG, noting that firms with better ESG performance are more resilient to environmental, regulatory, and social shocks [9,20].

Studies by Ting et al. and Odell and Ali examine the differences in ESG practices and performance between developed and emerging markets [12,14]. Odell and Ali explore the specific context in which many emerging and frontier companies operate [12]. They point out the unique challenges these firms face when implementing ESG principles [12], including limited regulatory frameworks and restricted access to ESG data [12]. Discrepancies in stakeholder engagement obstruct the development of effective ESG strategies [12]. Investors in emerging markets often lack the resources and expertise needed to thoroughly assess ESG factors [12], which can result in poor investment decisions [12]. To address these challenges, it is crucial to incorporate material sustainability factors into traditional investment analysis, helping investors better manage risks and uncover opportunities [12].

Ting et al. indicate that ESG investing is growing in emerging markets. However, it encounters several challenges [14]. These challenges include low public awareness and cultural differences that affect stakeholder expectations [14]. Inconsistent ESG reporting frameworks also pose difficulties, while economic instability and political risks may compel firms to prioritize short-term survival over long-term sustainability [14]. Therefore, although there is potential for ESG integration, emerging markets require support and capacity-building to overcome these barriers.

Tsang et al.'s study highlights a significant inconsistency among ESG rating agencies in evaluating the same firm [19]. These discrepancies result from different methodologies and incentives of rating providers, raising serious concerns about the reliability of ESG data [19]. Interestingly, Tsang also finds that greater voluntary CSR disclosures can lead to even more disagreement among these raters [19]. This study aligns with other researchers' recurring concerns about the inconsistency of ESG data. Kotsantonis and Serafeim argue that ESG data is often inconsistent, poorly standardized, and hard to compare across firms, raising important questions about the reliability of ESG metrics [16]. This lack of standardization can lead to different interpretations of a company's sustainability practices, complicating investment decisions and risk assessments [16]. Mobius and Ali further emphasize that financially meaningful ESG integration in emerging and frontier markets requires a more nuanced approach than the general strategies typically used by passive investors [15]. They note that ESG ratings often reflect past performance rather than providing a forward-looking assessment of a company's sustainability potential [15]. Even when these ratings are evaluated independently, they can overlook critical factors that influence future performance, such as changing regulations, evolving market dynamics, and the specific context of individual companies [15]. The backward-looking nature of ESG ratings can create mismatches between perceived and actual sustainability performance [15]. This can potentially mislead investors and worsen the challenges of effective ESG integration [15]. As a result, the inconsistency of ESG data undermines investor confidence [15] and weakens the overall usefulness of ESG as a tool for promoting sustainable business practices [15]. The author identified divergent themes within ESG research. One notable study by Blitz and Fabozzi focuses on "sin stocks" [30], which are investments in industries like alcohol, tobacco, and gambling [30]. The study highlights the unusual financial performance of these sin stocks [30]. Despite receiving low ESG ratings, sin stocks often outperform more socially responsible investments [30], suggesting that the market may undervalue these assets due to their reputational risks [30]. This research diverges from the common narrative [30], which typically emphasizes improvements in firm performance through sustainable practices [30]. Consequently, it raises questions about the effectiveness of ESG ratings as accurate indicators of financial value [30]. Another interesting theme is the relationship between ESG disclosure and national competitiveness [18]. Plastun et al. examine how ESG disclosure regulations impact a country's competitiveness [18]. The study shows significant differences between developed and developing nations [18], with developed countries often placing greater emphasis on ESG initiatives [18]. The Plastun study finds that increased ESG disclosure improves corporate transparency [18], which, in turn, enhances national competitiveness, as countries that prioritize ESG disclosures tend to perform better in global markets [18].

The studies underline that ESG investing in emerging markets faces distinctive challenges [7,12,13,15]. These challenges include low public awareness, cultural differences, weak regulatory frameworks, and inconsistent reporting practices [8,12,15,17]. ESG rating agencies apply various methodologies and incentives [8,17,18]. This variance results in different assessments of the same companies, especially when firms enhance their voluntary disclosures [5, 9, 10, 20]. Additionally, the lack of standardized, forward-looking ESG metrics means a reliance on historical performance data [16,20,24]. This reliance renders the data an unreliable predictor of future sustainability performance [8,15,25]. In synthesizing these findings, the author points out a systemic issue: inconsistencies and methodological discrepancies within ESG data undermine its reliability [16, 24, 25]. Such unreliability hampers effective capital allocation and risk assessment [15,17,25]. To address these concerns, striving for standardization and methodological improvements is imperative [4,18,27]. These initiatives are vital for restoring trust in ESG data and promoting meaningful, sustainable investment practices [3,19,24].

4.4. You can't Handle the Truth: ESG and the Fumbling Quest for Effective Regulation

The ESG landscape is still relatively unregulated, though voluntary ESG disclosures are standard, but are mostly compromised by a lack of standardization in ESG methodologies, forcing investors to take ESG information with a grain of salt at best [1]. Eliwa, Aboud and Saleh point out that the lack of regulation allows managers to deliberately manipulate their ESG disclosures by getting creative with their language and using more complex syntax to hide their poor performance [11].

The literature review by Tsang et al. examines the unintended outcomes of mandatory ESG disclosure [19]. For instance, mandatory CSR disclosure has been linked to a 26% drop in return on assets, negatively impacting firm profitability [19]. However, mandatory ESG disclosure can also yield positive effects; for instance, the SEC's requirement for mining companies to report mine safety records has led to a 12% to 16% reduction in employee-related injuries [19]. Meanwhile, firms in the manufacturing sector that do not have to submit ESG reports tend to emit higher levels of sulfur dioxide [19]. Tsang et al. conclude that regulations can significantly influence both internal governance and external performance outcomes [19]. Careful design of these policies is essential to prevent adverse effects, such as decreased profitability for firms [19]. According to Christensen et al., the potential economic impacts of mandated disclosure and reporting standards for CSR and sustainability issues warrant close examination [27]. They caution against unforeseen economic repercussions linked to mandatory disclosure regimes [27]. The authors argue that these regimes can yield unintended consequences and entail certain risks [27]. Christensen et al. identify two distinct approaches to sustainability reporting [27]. The first is the narrow approach, which prioritizes the informational needs of investors [27]. The second is the broad approach, which seeks to effect change through sustainability reporting by engaging diverse stakeholders and society at large [27].

Regionally, the European Union introduced the EU Taxonomy in 2020, which outlines environmentally sustainable activities to provide investors with security and protect them from greenwashing while also encouraging capital market participants to invest in green bonds and other sustainable initiatives [25]. The EU regulation focuses on six environmental objectives: climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems [1].

In the United States, the ESG market is notably unregulated, with the SEC limiting itself to providing guidance for companies that wish to make ESG disclosures [1]. Recent disclosure requirements are included in SEC Regulation S-K, which mandates that companies disclose material aspects of the workplace environment and human capital, along with a proposed climate disclosure rule that would enable federally mandated corporate ESG disclosure [1]. Plastun et al.'s study identifies over 300 regulatory disclosure tools based on ESG criteria, ranging from standards to laws, regulations, and conceptual frameworks [18]. Plastun et al. argue that, to achieve greater transparency, investment appeal, and a competitive edge for sustainable firms, markets require standardized government intervention in ESG disclosure regulation and in the implementation of sustainable development reporting [18].

Although ESG regulation is emerging in many jurisdictions worldwide, the regulatory landscape remains largely uncharted [18,27]. Market actors are impatiently waiting for governments to rise to the challenge and implement the right amount and mix of ESG regulation [16,19,27]. Despite the abundance of ESG information, markets lack a consistent, standardized framework for reporting, assessing, and incorporating ESG disclosures, which frustrates everyone [4,16,24]. Recent research highlights a divide in sustainability reporting methods: one narrow approach focused on investors' needs, and a broader model designed to promote systemic change by engaging multiple stakeholders [21,25,27]. Studies show that implementing mandatory ESG requirements can have mixed results; while such regulations may hurt short-term profitability, they also create opportunities to strengthen environmental protections and safety measures [3,18,27]. The accumulated evidence strongly supports the need for standardized government intervention in ESG reporting [18,19,27]. This would improve transparency for all stakeholders, boost the investment appeal of sustainable businesses, and give a competitive advantage to firms that perform well in ESG [8,9,15].

5. Conclusions

In recent years, including ESG factors has become an essential part of modern investment strategies. This change reflects a major shift in how capital markets operate. Considering ESG factors can help create a more sustainable and fairer future by aligning financial goals with societal needs.

Research shows that good ESG practices can increase company value, boost financial performance, and improve risk management. These practices are gaining recognition in both developed and emerging markets, highlighting the growing importance of sustainability in investment decisions. However, there is ongoing debate over whether ESG delivers measurable financial benefits. Some concerns include the reliability of ESG data, as inconsistent reporting standards can make it hard to compare companies fairly. There is also an ongoing debate about how much ESG ratings should influence investment strategies. Opinions on the reliability and importance of these ratings in indicating a company's long-term health vary widely. There is no single solution to resolve the ESG debate. Effective changes should be made gradually. Regulators can improve the standardization and transparency of ESG data by setting clear guidelines and frameworks for ESG reporting. This might include mandatory disclosure rules that align with internationally accepted standards. Working with organizations that develop these standards and supporting regulatory agencies responsible for ensuring ESG compliance are crucial steps.

Differences in ESG integration across regions greatly affect investor confidence and decision-making. Areas with strong ESG frameworks are more likely to attract investments. In contrast, uncertainty in regions with inconsistent or weak ESG practices can discourage investment and reduce capital flows. Inconsistent ESG disclosures can threaten long-term corporate sustainability and accountability by fostering distrust among stakeholders. When companies fail to provide reliable and comparable ESG information, it can lead to poorly informed investment decisions, lower consumer confidence, and potential legal issues. Ultimately, this puts a company's reputation and financial stability at risk.

Emerging markets face significant challenges due to gaps in ESG regulation, particularly given their unique cultural and political environments. These regions often lack tailored frameworks suited to their local contexts. Unlike developed markets, emerging economies usually have limited infrastructure, resources, and political will, leading to inconsistent enforcement of ESG principles and insufficient responses to environmental and social issues. Cultural differences significantly influence how businesses define responsible practices, making it harder to adopt standard ESG approaches. Political instability can further hinder the creation and enforcement of strong regulations, allowing greenwashing to spread unchecked. Moreover, limited data and transparency make it difficult to evaluate ESG performance, creating confusion for investors trying to make informed ESG investment choices and affecting capital flows into these markets.

To address these challenges, cooperation among local stakeholders, international organizations, and regulatory agencies is essential to develop effective and culturally appropriate ESG frameworks. This paper emphasizes the urgent need for more research, especially concerning less mature markets where ESG integration is still evolving. Future research should explore how ESG factors influence performance indicators in Eastern and Southern Europe. The author's upcoming research will examine how investors in underdeveloped markets incorporate non-financial information into their trading decisions, offering insights into the real-world effects of ESG practices. The author also intends to perform a comparative analysis of socially responsible portfolios versus general portfolios, which might reveal the financial benefits of ESG investing. These studies should analyze performance differences and risk-adjusted returns, deepening the understanding of how responsible investing can lead to better financial results. Using robust quantitative methods, such as correlation and regression analysis, will improve the reliability of these findings. Investigating how market participants interpret ESG information from sustainability reports using NLP techniques could clarify the link between ESG disclosures and investor behavior. This research is vital for advancing both academic knowledge and practical approaches in sustainable investing. An expanded focus will help develop a financial system that balances profit with sustainability and social fairness.

Conflicts of Interest: The author declares no conflict of interest.

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Appendix 1

Table 4 presents the final selection of papers for this study, detailing the publication year, journal names, regions covered, and a concise summary of each paper's focus.

Table 4

Selected papers for this literature review

Title	Year	Journal	Regions Covered	Brief Summary
Indigenous sustainable finance as a research field: A systematic literature review on indigenising ESG, sustainability and indigenous community practices.	2023	*Accounting and Finance*	USA	Review of existing literature on ESG/CSR.
The Value of Fundamental Research and Constructive Engagement in Looking Beyond ESG Ratings.	2021	*Journal of Applied Corporate Finance*	Emerging Markets	Analyzes ESG ratings/scores and their implications.
Investors as stewards of the commons.	2018	*Journal of Applied Corporate Finance*	Global	General study on ESG/CSR topics.
ESG disclosure regulation in search of a relationship with the countries competitiveness.	2019	*Problems and Perspectives in Management*	Global	Focuses on ESG disclosure practices and regulations.
ESG Investing in Emerging and Frontier Markets.	2016	*Journal of Applied Corporate Finance*	Emerging Markets	Explores ESG/sustainable investment strategies and outcomes.
Disclosure of ESG on firm performance pre and post introduction of integrated reporting evidence from ASEAN countries.	2022	*International Journal of Energy Economics and Policy*	ASEAN	Examines relationship between ESG disclosure and firm performance.
Changing capitalism through investment: the assertion of ESG principles.	2022	*SSRN Electronic Journal*	Global	Explores ESG/sustainable investment strategies and outcomes.
The effects of environmental, social and governance disclosures and performance on firm value: A review of the literature in accounting and finance	2018	*British Accounting Review*	Global	Examines relationship between ESG disclosure and firm performance.
Environmental, social and governance (ESG) activity and firm performance: a review and consolidation.	2021	*Accounting and Finance*	Global	Analyzes impact of ESG/CSR on financial performance.
Mandatory CSR and sustainability reporting: economic analysis and literature review.	2021	*Review of Accounting Studies*	USA	Review of existing ESG/CSR literature on.

Continuation Table 4

Everything changes: A look at sustainable investing and disclosure over time and a discussion of “Institutional investors, climate disclosure, and carbon emissions.	2023	*Journal of Accounting and Economics*	USA	Focuses on ESG disclosure practices and regulations.
An Investor Perspective on the Black Box of Corporate Social Responsibility.	2019	*Journal of Applied Corporate Finance*	Global	General study on ESG/CSR topics.
Mapping the Landscape of ESG Strategies: A Bibliometric Review and Recommendations for Future Research.	2023	*Sustainability*	Global	Review of existing ESG/CSR literature on.
Global Drivers for ESG Performance: the Body of Knowledge.	2022	*Sustainability*	Global	Analyzes impact of ESG/CSR on financial performance.
Socially responsible investing performance evaluation of BRICS nations.	2022	*Journal of Advanced Management Research*	BRICS	Analyzes impact of ESG/CSR on financial performance.
The influence of ESG information on investment allocation decisions.	2019	*Journal of Applied Accounting Research*	Global	Explores ESG/sustainable investment strategies and outcomes.
The role of corporate social responsibility (CSR) information in supply-chain contracting: Evidence from the expansion of CSR rating coverage.	2022	*Journal of Accounting and Economics*	Global	Analyzes ESG ratings/scores and their implications.
Corporate social performance and firm performance comparative study among developed and emerging market firms.	2019	*Sustainability*	Emerging Markets	Analyzes impact of ESG on financial performance.
ESG disclosure and Firm performance: A bibliometric and meta analysis.	2022	*Research in International Bussiness and Finance*	Global	Review of existing ESG/CSR literature on.
Towards a more ethical market: the impact of ESG rating on corporate financial performance.	2019	*Social Responsibility Journal*	Global	Analyzes impact of ESG/CSR on financial performance.
Sustainability and Capital Markets—Are We There Yet?	2019	*Journal of Applied Corporate Finance*	USA	General study on ESG/CSR topics.

Continuation Table 4

Corporate Sustainability: First Evidence on Materiality.	2016	*The Accounting Review*	USA	Focuses on ESG materiality in corporate sustainability.
A Literature Review on ESG Score and Its Impact on Firm Performance.	2023	*International Journal of Academic Research in Accounting, Finance Management Sciences*	Global	Analyzes impact of ESG/CSR on financial performance.
ESG and financial performance aggregated evidence from over 200 empirical studies.	2015	*Journal of Sustainable Finance and Investment*	Global	Analyzes impact of ESG/CSR on financial performance.
ESG practices and the cost of debt: Evidence from EU countries.	2021	*Critical Perspectives on Accounting*	European Union	Examines relationship between ESG practices and debt financing.
Social Issues in the Spotlight: The Increasing Need to Improve Publicly-Held Companies' CSR and ESG Disclosures.	2021	*University of Pennsylvania Journal of Business Law*	Global	Focuses on ESG disclosure practices and regulations.
Who Cares Wins the Strategic Value of Sustainable Business.	2004	*United Nations*	USA	General study on ESG/CSR topics.
Sin Stocks Revisited: Resolving the Sin Stock Anomaly.	2017	*Journal of Portfolio Management*	Global	Analyzes performance of controversial industry stocks.
Stock market reactions to adverse ESG disclosure via media channels.	2022	*British Accounting Review*	Global	Focuses on ESG disclosure practices and regulations.
Does ESG affect the stability of dividend policies in Europe.	2020	*Sustainability*	European Union	Studies impact of ESG on dividend policies.
Four Things No One Will Tell You About ESG Data.	2019	*Journal of Applied Corporate Finance*	Global	General study on ESG/CSR topics.
Can ESG Investing Beat the Market and Improve Portfolio Diversification: Evidence from China.	2020	*Chinese Economy*	China	Explores ESG/sustainable investment strategies and outcomes.
Environmental, Social, and Governance (ESG) disclosure: a literature review.	2023	*British Accounting Review*	Global	Review of existing ESG/CSR literature on.
A Literature Review on ESG Score and Its Impact on Firm Performance.	2023	*International Journal of Academic Research in Accounting, Finance Management Sciences*	Global	Review of existing ESG/CSR literature on.
Firms and social responsibility: A review of ESG and CSR research in corporate finance.	2021	*Journal of Applied Corporate Finance*	Global	General study on ESG/CSR topics.

Continuation Table 4

Unraveling the Relationship between ESG and Corporate Financial Performance - Logistic Regression Model with Evidence from China.	2021	*SSRN Electronic Journal*	China	Analyzes impact of ESG/CSR on financial performance.
Corporate Social Responsibility and Sustainable Finance: A Review of the Literature.	2020	*SSRN Electronic Journal*	USA	General study on ESG/CSR topics.
Can Sustainable Investment Yield Better Financial Returns- A Comparative Study of ESG Indices and MSCI Indices.	2019	*Risks*	USA	Explores ESG/sustainable investment strategies and outcomes.
The Robustness of the Corporate Social and Financial Performance Relation: A Second-Order Meta-Analysis.	2018	*Corporate Social Responsibility and Environmental Management.*	USA	Analyzes impact of ESG/CSR on financial performance.

Citation: Pamfile, L. Sustainability is all the rage: can firms have their cake and eat it too? A literature review. Journal of Social Sciences, 8 (4), pp. 54-72. https://doi.org/10.52326/jss.utm.2025.8(3).03.

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