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ESG Performance and Its Impact Pathways: A Qualitative Systematic Literature Review of Theoretical and Empirical Mechanisms

Erwin E. Kadar Slamet[1], Hembang Nugraha[2]
[1]STIE Kasih Bangsa, Indonesia, erwinkadar@stiekasihbangsa.ac.id
[2]STIE Kasih Bangsa, Indonesia, hembang@stiekasihbangsa.ac.id

ABSTRACT. *This study examines the theoretical and empirical mechanisms through which Environmental, Social, and Governance (ESG) performance influences corporate and sustainability outcomes. Using a qualitative systematic literature review, the study synthesizes relevant theoretical and empirical evidence on ESG performance, its antecedents, mediating mechanisms, moderating conditions, and organizational outcomes. The findings indicate that ESG performance does not generate value through a single direct pathway but operates through interconnected stakeholder, information and disclosure, financial, innovation, risk-management, managerial, governance, and institutional mechanisms. Green innovation, stakeholder trust, corporate reputation, access to finance, reduced information asymmetry, and risk mitigation emerge as important impact pathways. The synthesis also demonstrates that ESG outcomes are context dependent and influenced by managerial characteristics, firm attributes, institutional environments, measurement approaches, and economic conditions. The study contributes a mechanism-oriented framework that explains how ESG performance can create value, strengthen organizational resilience, stimulate innovation, and support sustainable corporate development.*

Keywords *ESG Performance; ESG Impact Pathways; Sustainability; Green Innovation; Systematic Literature Review*

INTRODUCTION

Environmental, Social, and Governance (ESG) performance has become an important framework for assessing sustainable economic, social, and organizational value. Unlike conventional financial measures, ESG incorporates environmental responsibility, social relationships, and corporate governance into evaluations of long-term corporate sustainability. Its growing importance reflects increasing attention from investors, regulators, corporations, and other stakeholders, positioning ESG as a strategic consideration in decision-making, risk management, innovation, investment, and value creation (Gillan et al., 2021; Tsang et al., 2023; Ma et al., 2024).

The growing ESG literature has examined its effects on financial and organizational outcomes, generally finding a positive but heterogeneous relationship across countries, industries, ESG dimensions, and performance measures. Friede et al. (2015), based on more than 2,000 empirical studies, found that ESG was frequently positively associated with financial performance, while Gillan et al. (2021) confirmed its relevance to firm risk, performance, and value but highlighted continuing inconsistencies in the evidence. Corporate Social Responsibility has a negative but not significant effect on accrual earnings management practices (Kumandang, C. & Hendriyeni, N.S., 2021).

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This inconsistency suggests that ESG research should focus not only on whether ESG affects corporate outcomes, but how, why, and under what conditions. Lee and Suh (2022) argue that ESG research should examine mediating and moderating mechanisms, including greenwashing and the balance among ESG dimensions.

ESG can influence corporate outcomes through stakeholder mechanisms, strengthening relationships with customers, employees, investors, communities, and regulators. These relationships may improve trust, commitment, reputation, legitimacy, and investor confidence, thereby creating indirect economic value (Gillan et al., 2021). Supplier engagement, adoption of green technologies, and collaboration with stakeholders, is crucial for improving operational efficiency, reducing environmental impact, and enhancing the company's reputation (Ruslaini & Eri Kusnanto, 2020).

A second pathway concerns information, disclosure, and capital market mechanisms. ESG disclosure can reduce information asymmetry by providing investors and other stakeholders with information about corporate environmental, social, and governance practices. However, disclosure and actual ESG action may not have identical consequences. Yoo and Managi (2022) found that ESG disclosure appears more important for some profit related outcomes, whereas actual ESG actions are more strongly associated with measures such as Tobin's Q and intangible value added scores. This distinction is particularly important because it suggests that the economic consequences of ESG may depend on whether firms merely communicate ESG information or genuinely implement ESG practices. Sharia law provides a strong ethical framework for environmental management, emphasizing sustainability, ecosystem balance, and human religious responsibility toward nature (Eka Wahyu Kasih, et al, 2024).

A third pathway involves innovation and organizational capability. ESG initiatives can stimulate green innovation, resource efficiency, process improvement, and organizational capabilities, while managerial short-termism may constrain these benefits. Liu and Zhang (2023) found that managerial myopia reduces ESG engagement, highlighting the importance of managerial cognition and long-term orientation in supporting ESG strategies and value creation.

A fourth pathway concerns risk reduction and financial resilience. ESG performance can reduce environmental, social, regulatory, reputational, and governance risks while strengthening organizational resilience, particularly during crises. Broadstock et al. (2021) found that ESG performance contributed to resilience during the COVID-19 financial crisis in China, while Gillan et al. (2021) emphasized the relevance of ESG to corporate risk and governance.

Governance and managerial characteristics also influence ESG performance by shaping organizational decision-making. Board characteristics, executive incentives, ownership, political connections, and managerial orientation can affect ESG engagement (Chen et al., 2019; Aabo & Giorici, 2022; Liu & Zhang, 2023). Ma et al. (2024) further found that CEO career concerns can suppress ESG performance, with CEO shareholding and political affiliation moderating this relationship.

Despite growing ESG research, important knowledge gaps remain because existing studies often examine individual relationships without integrating their theoretical and empirical mechanisms into a unified framework (Gillan et al., 2021; Tsang et al., 2023). Therefore, this qualitative systematic literature review synthesizes major ESG impact pathways including stakeholder relationships, information and disclosure, reputation, innovation, risk reduction, access to capital, governance, managerial characteristics, and institutional conditions to advance understanding from "whether ESG matters" to "how and why ESG matters."

LITERATURE REVIEW

ESG performance is a multidimensional construct encompassing environmental responsibility, social relationships, and corporate governance, extending corporate evaluation beyond financial performance (Gillan et al., 2021; Ma et al., 2024). ESG should be distinguished from ESG disclosure because actual ESG actions and reported information may generate different outcomes (Tsang et al., 2023; Yoo & Managi, 2022).

Several theories explain ESG behavior, including stakeholder, legitimacy, signaling, agency, resource-based, institutional, and upper-echelons theories (Gillan et al., 2021; Shen et al., 2023). Empirical evidence indicates that ESG performance can improve financial performance through reputation, information quality, financing conditions, and firm valuation (Chen et al., 2023; Wong et al., 2021).

ESG also promotes green innovation by improving financial resources and managerial environmental awareness (Tan & Zhu, 2022), while strengthening risk management and resilience, particularly during financial crises (Broadstock et al., 2021).

Managerial characteristics further influence ESG engagement, as managerial myopia and CEO career concerns may constrain ESG performance (Liu & Zhang, 2023; Ma et al., 2024).

Overall, ESG impact pathways are multidimensional and context-dependent, involving stakeholder relationships, information, finance, innovation, risk, governance, and institutional factors (Gillan et al., 2021; Tsang et al., 2023). The literature therefore supports a shift from asking "Does ESG matter?" to "How, why, and under what conditions does ESG create value?" (Gillan et al., 2021; Lee & Suh, 2022).

The present qualitative systematic literature review is positioned to synthesize the theoretical and empirical mechanisms underlying ESG performance and its impact pathways, with particular attention to how ESG performance influences financial performance, firm value, innovation, risk, resilience, stakeholder relationships, and broader sustainability outcomes (Gillan et al., 2021; Ma et al., 2024). The review also seeks to identify the principal mediators, moderators, antecedents, and contextual conditions that explain why ESG performance produces positive, neutral, or heterogeneous outcomes across different studies and institutional environments (Ma et al., 2024; Tsang et al., 2023; Shen et al., 2023).

Overall, the existing evidence supports a shift from a simple question of "Does ESG performance improve firm performance?" toward a more theoretically informative question of "Through which mechanisms, under what conditions, and for which outcomes does ESG performance create value or generate risk?" (Gillan et al., 2021; Lee & Suh, 2022). This mechanism oriented perspective provides the conceptual foundation for a qualitative systematic synthesis capable of integrating fragmented empirical evidence into a coherent framework of ESG impact pathways.

METHODS

This study employed a Qualitative Systematic Literature Review (QSLR) to identify, evaluate, and synthesize theoretical and empirical evidence on ESG performance and its impact mechanisms. The qualitative approach was selected to explain how, why, and under what conditions ESG performance influences organizational, financial, strategic, environmental, and social outcomes rather than estimating pooled effect sizes (Snyder, 2019; Thomas & Harden, 2008). The review followed the PRISMA 2020 and

ENTREQ guidelines to ensure transparency and methodological rigor (Page et al., 2021; Tong et al., 2012).

The review addressed six questions concerning theoretical perspectives, ESG antecedents, impact mechanisms, mediating mechanisms, contextual moderators, and research gaps. The literature search used combinations of keywords related to ESG performance, mechanisms, mediators, moderators, firm performance, innovation, risk, resilience, reputation, and sustainability. Peer reviewed studies examining ESG performance, disclosure, ratings, certification, mechanisms, and organizational outcomes were included, while editorials, duplicate publications, non-peer-reviewed materials, and studies with only superficial ESG relevance were excluded.

The study selection process followed the PRISMA 2020 structure of identification, screening, eligibility assessment, and final inclusion. The methodological quality of included studies was assessed based on research objectives, design appropriateness, methodological transparency, credibility of findings, and relevance to the review questions. Data were systematically extracted regarding research context, theoretical foundation, ESG constructs, antecedents, mechanisms, moderators, outcomes, methods, findings, and limitations.

The data were analyzed using thematic synthesis following Thomas and Harden (2008). The analysis involved three stages: line-by-line coding, development of descriptive themes, and development of analytical themes. The synthesis focused on recurring ESG mechanisms, including stakeholder trust, reputation, information transparency, cost of capital, green innovation, risk reduction, managerial characteristics, governance, and institutional pressures.

Finally, the findings were integrated into an ESG impact-pathway framework structured as: Antecedents → ESG Performance → Mediating Mechanisms → Outcomes with managerial, organizational, institutional, regulatory, market, and crisis conditions acting as moderating factors. The resulting synthesis aimed to identify dominant mechanisms, contradictory findings, boundary conditions, and research gaps while maintaining a clear connection between primary evidence and analytical conclusions.

The methodology was deliberately designed to match the central objective of the study, namely to explain ESG impact pathways rather than merely establish whether ESG performance is associated with corporate performance. A systematic review provides the structured evidence-identification process necessary to reduce arbitrary literature selection, while qualitative thematic synthesis provides the interpretive capacity required to integrate heterogeneous theoretical and empirical findings (Snyder, 2019; Thomas & Harden, 2008).

Accordingly, the methodological contribution of the review lies in integrating fragmented ESG evidence into a mechanism oriented framework that explains the relationships among ESG antecedents, ESG performance, mediating mechanisms, moderating conditions, and organizational outcomes. This approach is expected to identify not only dominant pathways but also contradictory findings, boundary conditions, theoretical inconsistencies, and areas where empirical evidence remains insufficient.

The methodological design therefore enables the study to answer the central question underlying the review: how, through which mechanisms, and under what conditions does ESG performance create value, reduce risk, stimulate innovation, strengthen resilience, or generate other organizational and sustainability outcomes?

RESULTS

The qualitative systematic synthesis indicates that the relationship between Environmental, Social, and Governance (ESG) performance and corporate outcomes is not adequately explained by a single direct effect relationship. Instead, the reviewed literature reveals a multidimensional network of antecedents, ESG performance, mediating mechanisms, moderating conditions, and organizational outcomes. This pattern is consistent with the broader ESG literature, which increasingly conceptualizes ESG as a strategic organizational capability rather than merely a non financial reporting instrument (Gillan et al., 2021; Tsang et al., 2023). The synthesis identifies seven dominant impact pathways: (1) the stakeholder and reputation pathway, (2) the information and disclosure pathway, (3) the financial and capital market pathway, (4) the innovation and organizational capability pathway, (5) the risk and resilience pathway, (6) the managerial and governance pathway, and (7) the institutional and regulatory pathway. These pathways are interconnected rather than mutually exclusive, meaning that one ESG initiative can activate several mechanisms simultaneously.

The empirical evidence also demonstrates substantial heterogeneity. ESG performance is positively associated with financial performance in many studies, but the magnitude and direction of the relationship depend on whether ESG is measured through actual corporate actions, disclosure, certification, ratings, or aggregate ESG scores, as well as on firm characteristics and institutional context (Chen et al., 2023; Yoo & Managi, 2022; Drempetic et al., 2020).

Thematic Finding 1: Stakeholder, Reputation, and Legitimacy Pathway. The first major pathway identified is the stakeholder reputation legitimacy pathway. ESG performance strengthens a firm's relationships with employees, customers, investors, suppliers, communities, regulators, and other stakeholders, which can subsequently influence corporate reputation, trust, legitimacy, and organizational support (Gillan et al., 2021; Tsang et al., 2023).

The underlying mechanism is that stronger ESG performance communicates that a firm is responsive to stakeholder expectations and capable of managing environmental and social responsibilities. This can increase stakeholder confidence and strengthen intangible organizational assets, particularly reputation and legitimacy (Gillan et al., 2021).

The empirical literature supports the importance of reputation and stakeholder related mechanisms in explaining ESG outcomes. Chen et al. (2023), for example, report that ESG data sharing is associated with improvements in brand image, financing conditions, and firm valuation, providing evidence that ESG related information can generate economic consequences through intangible and stakeholder oriented channels. The synthesis therefore suggests the following pathway: ESG Performance → Stakeholder Trust/Reputation/Legitimacy → Customer and Investor Response → Firm Value and Performance. This pathway is particularly relevant because it explains why ESG can create value even when the immediate financial return from ESG investments is difficult to observe.

Thematic Finding 2: Information, Disclosure, and Credibility Pathway. The second major pathway concerns ESG disclosure and information asymmetry. The literature demonstrates that ESG information can influence corporate outcomes by improving the information environment between firms and external stakeholders, particularly investors (Tsang et al., 2023; Yoo & Managi, 2022).

However, the synthesis reveals an important distinction between ESG disclosure and substantive ESG action. Yoo and Managi (2022), using more than one million observations, found that ESG disclosure was more important for profitability, whereas actual ESG action was more strongly associated with Tobin's Q and intangible value added measures. This finding indicates that disclosure and action represent different impact mechanisms. Disclosure can operate through an information channel, whereas substantive ESG performance can operate through an organizational value channel. Consequently, firms may receive different economic benefits depending on whether stakeholders respond primarily to information or to observable ESG behavior.

The evidence also indicates that external ESG certification can strengthen the credibility of ESG information. Wong et al. (2021) found that ESG certification among Malaysian firms was associated with a lower cost of capital and a significant increase in Tobin's Q, suggesting that external verification can strengthen the economic value of ESG disclosure. The synthesized pathway is therefore: ESG Performance → Credible ESG Information/Disclosure → Reduced Information Asymmetry → Investor Confidence → Capital-Market Outcomes. The findings also indicate that this pathway is vulnerable to greenwashing because the economic value of disclosure depends partly on whether stakeholders perceive ESG information as credible and consistent with actual corporate behavior.

Thematic Finding 3: Financial and Capital Market Pathway. A third dominant pathway is the financial and capital-market pathway, through which ESG performance affects profitability, firm value, financing costs, and access to capital. Chen et al. (2023) provide strong empirical evidence for this pathway using many observations and report a positive relationship between ESG performance and corporate financial performance. Their findings indicate that ESG related information sharing can influence brand image, funding, financing costs, and firm valuation.

The qualitative synthesis suggests that ESG performance may affect financial performance through several intermediate mechanisms rather than through a simple direct relationship. These mechanisms include lower financing costs, enhanced investor confidence, improved reputation, stronger stakeholder relationships, better risk management, and greater firm valuation (Chen et al., 2023; Wong et al., 2021).

Evidence from ESG certification further reinforces this interpretation. Wong et al. (2021) demonstrate that ESG certification can lower the cost of capital while increasing Tobin's Q, suggesting that the financial consequences of ESG partly arise because capital providers interpret credible ESG performance as a signal of lower risk or better long term organizational quality.

Nevertheless, the synthesis does not support the conclusion that ESG always improves short term financial performance. Instead, the relationship is heterogeneous and may depend on the time horizon, industry, institutional context, ESG measurement, and whether firms incur substantial short-term costs to achieve longer term sustainability benefits (Gillan et al., 2021; Yoo & Managi, 2022). Thus, the synthesized pathway can be expressed as: ESG Performance → Reputation/Information/Risk Reduction → Cost of Capital & Access to Finance → Firm Value/Financial Performance.

Thematic Finding 4: Innovation and Organizational Capability Pathway. The fourth major pathway is the innovation pathway, particularly green innovation. The reviewed evidence consistently indicates that ESG performance can stimulate corporate innovation by improving access to resources, increasing managerial environmental awareness, strengthening governance, and reducing constraints that prevent firms from investing in environmentally oriented innovation.

Tan and Zhu (2022) found that ESG rating events significantly affect corporate green innovation and identified financial resources and managerial environmental attitudes as important mechanisms linking ESG ratings to innovation. Lian et al. (2023) similarly found that ESG performance has a significant positive effect on green innovation among Chinese listed firms. Their mechanism analysis indicates that ESG performance contributes to green innovation through the financing constraint effect, human capital effect, and management-myopia effect.

More recent evidence from Zhang et al. (2024) strengthens this finding. Their analysis indicates that ESG performance increases both the quantity and quality of corporate green innovation, with the effects operating through resource, governance, and innovation mechanisms. The estimated effects were approximately 2.72% for innovation quantity and 3.20% for innovation quality. The findings therefore identify green innovation as one of the clearest mediating mechanisms through which ESG performance can generate longer-term organizational value. The resulting pathway is: ESG

Performance → Resources/Governance/Managerial Awareness → Green Innovation → Operational and Competitive Outcomes → Firm Performance.

Importantly, the literature indicates that innovation does not necessarily translate immediately into accounting based financial performance. Casciello et al. (2024), for example, found that green innovation was negatively associated with accounting-based financial performance but positively associated with market-based financial performance, while R&D investment and ESG disclosure operated as relevant channels. This finding explains why studies using different performance measures can produce apparently contradictory conclusions.

Thematic Finding 5: Risk Reduction and Corporate Resilience Pathway. The fifth pathway identified is the risk reduction and resilience pathway. ESG performance can reduce exposure to environmental, regulatory, social, reputational, and governance risks, thereby increasing the firm's ability to withstand adverse economic conditions (Gillan et al., 2021).

The strongest evidence for this mechanism comes from Broadstock et al. (2021), who examined ESG performance during the COVID-19 financial crisis in China. Their findings show that high ESG portfolios generally outperformed low ESG portfolios, ESG performance mitigated financial risk during the crisis, and the importance of ESG was attenuated during normal periods.

This evidence suggests that ESG may have contingent value: its economic importance becomes particularly visible during periods of uncertainty or crisis. ESG therefore appears to function not only as a source of value creation but also as a form of organizational insurance or resilience capability. The synthesized pathway is: ESG Performance → Risk Management/Stakeholder Protection → Lower Exposure to ESG-Related Risks → Greater Resilience → Preservation of Firm Value. This pathway also helps explain why ESG performance may not always generate large immediate financial returns but can nevertheless contribute to long term corporate sustainability.

Thematic Finding 6: Managerial and Governance Pathway. The sixth pathway concerns the role of managerial characteristics, executive incentives, corporate governance, and managerial cognition in shaping ESG performance.

The reviewed studies indicate that ESG performance is partly determined by decisions made by senior executives and boards. CEO characteristics such as tenure, career concerns, political orientation, gender, compensation, age, and managerial time horizon have been examined as potential determinants of ESG engagement and corporate social responsibility (Chen et al., 2019; Aabo & Giorici, 2022; Ma et al., 2024).

Liu and Zhang (2023) demonstrate that managerial myopia can reduce ESG engagement, showing that managers with stronger short term orientations may be less willing to invest in ESG activities whose benefits materialize over longer time horizons. Ma et al. (2024) provide further evidence by examining CEO career concerns among Chinese A share companies from 2011 to 2020. Their findings indicate that stronger CEO career concerns suppress corporate ESG performance, while CEO shareholding and political affiliation intensify the negative relationship. These findings indicate that ESG performance is not simply an external response to stakeholder or regulatory pressure. It is also shaped by internal governance and managerial decision-making. The synthesized pathway is: Managerial Characteristics/Governance → Strategic ESG Orientation → ESG Performance → Organizational Outcomes. The evidence suggests that governance mechanisms capable of encouraging long term decision making may strengthen ESG performance, whereas short-term managerial incentives and career concerns may weaken it.

Thematic Finding 7: Institutional and Regulatory Pathway. The seventh pathway concerns institutional, regulatory, and policy mechanisms. ESG performance is strongly influenced by the institutional environment in which firms operate, including environmental regulation, carbon control policies, government pressure, investor expectations, disclosure requirements, and national ESG institutions.

The reviewed literature includes substantial evidence from China, where regulatory authorities, financial institutions, investors, and industry associations have increasingly incorporated ESG considerations into corporate and financial decision making (Shen et al., 2023). The source literature supplied for this review also identifies environmental regulation, carbon control policy risk, local government debt pressure, and government environmental expenditure as factors associated with ESG-related corporate behavior. This institutional pathway indicates that firms do not make ESG decisions in isolation. Instead, regulatory requirements and institutional expectations alter the costs and benefits of ESG investment. The synthesized mechanism can therefore be represented as: Institutional/Regulatory Pressure → Corporate ESG Incentives → ESG Performance →

Innovation/Risk/Financial Outcomes. This pathway also explains why ESG effects may differ between developed and emerging markets. Differences in regulation, capital market development, investor sophistication, political institutions, and disclosure standards can influence the strength of ESG mechanisms.

Cross Study Finding: ESG Performance Is a Multidimensional Construct. The synthesis further reveals that ESG should not be treated as a homogeneous variable. The environmental, social, and governance dimensions can generate different mechanisms and outcomes.

Environmental performance is particularly associated with pollution reduction, environmental innovation, resource efficiency, climate risk, and green finance. Social performance is more closely connected to employees, customers, communities, human capital, and stakeholder relationships. Governance performance is strongly connected to managerial incentives, monitoring, transparency, accountability, and strategic decision making (Gillan et al., 2021).

The empirical literature consequently indicates that aggregate ESG scores may conceal important differences among individual ESG dimensions. Zhang et al. (2024), for example, report positive effects of ESG performance on green innovation across ESG sub ratings, while Chen et al. (2023) emphasize broader financial outcomes associated with ESG performance. The synthesis therefore suggests that future research should avoid assuming that all ESG dimensions operate through identical mechanisms.

Cross Study Finding: ESG Measurement Influences the Observed Results. A further finding concerns measurement heterogeneity. ESG performance can be measured through ESG ratings, disclosure scores, certification, individual E/S/G dimensions, or actual corporate actions. Consequently, differences in measurement may contribute to apparently inconsistent empirical findings.

Drempetic et al. (2020) demonstrate that firm size, available organizational resources, and ESG data availability influence ESG ratings, suggesting that ESG scores may partly reflect differences in reporting capacity and organizational resources rather than only substantive sustainability performance.

Yoo and Managi (2022) similarly demonstrate that disclosure and actual ESG action produce different relationships with financial outcomes. The qualitative synthesis consequently identifies measurement validity and comparability as an important cross cutting issue. Studies reporting a positive relationship between ESG and financial performance cannot necessarily be assumed to measure the same underlying construct.

Cross Study Finding: The ESG–Performance Relationship Is Time and Context Dependent. Another consistent finding is that ESG effects are time dependent and context dependent. ESG investments may generate immediate costs while producing benefits over longer periods through innovation, reputation, risk reduction, human capital, and stakeholder relationships. The evidence concerning green innovation illustrates this temporal dimension. Casciello et al. (2024) found different relationships between green innovation and accounting based versus market based financial performance, indicating that investors may recognize longer term value before such benefits appear in conventional accounting measures.

Broadstock et al. (2021) provide a complementary crisis context finding by demonstrating that ESG performance had greater importance during the COVID-19 financial crisis than during normal market conditions. Thus, the synthesis indicates that the ESG performance relationship should be interpreted according to time horizon, institutional context, industry conditions, and economic circumstances rather than as a universal constant. The major pathways identified are summarized below:

Pathway	Principal Mechanism	Main Outcomes	Representative Evidence
Stakeholder pathway	Trust, reputation, legitimacy	Brand value, stakeholder support, firm value	Gillan et al. (2021); Chen et al. (2023)
Information pathway	Disclosure, transparency, reduced information asymmetry	Investor confidence, profitability, valuation	Yoo & Managi (2022); Tsang et al. (2023)
Capital-market pathway	Cost of capital, financing access	Firm value, financial performance	Wong et al. (2021); Chen et al. (2023)
Innovation pathway	Resources, governance, environmental awareness	Green innovation, competitive advantage	Tan & Zhu (2022); Lian et al. (2023); Zhang et al. (2024)
Risk/resilience pathway	Risk reduction, crisis protection	Financial resilience, value preservation	Broadstock et al. (2021)
Managerial pathway	Executive characteristics, incentives, cognition	ESG engagement/performance	Liu & Zhang (2023); Ma et al. (2024)

Pathway	Principal Mechanism	Main Outcomes	Representative Evidence
Institutional pathway	Regulation, policy, investor pressure	ESG adoption and sustainability outcomes	Shen et al. (2023); Ma et al. (2024)

The integrated findings demonstrate that the pathways are interdependent. For example, ESG performance can stimulate green innovation through improved access to financial resources; green innovation can subsequently improve long term competitiveness; ESG disclosure can strengthen investor recognition of these activities; and improved investor confidence can reduce financing constraints. Therefore, ESG impact should be conceptualized as a dynamic system of reinforcing mechanisms rather than a single linear causal relationship.

Contradictory and Heterogeneous Findings. Although the overall synthesis indicates that ESG performance frequently produces positive organizational and financial consequences, the evidence is not uniformly positive. Several studies identify weak, insignificant, or even negative short term relationships between ESG related activities and financial performance.

The distinction between accounting based and market based outcomes is particularly important. Casciello et al. (2024) found that green innovation was negatively related to accounting-based financial performance while being positively related to market based performance, illustrating that sustainability investments may involve short term financial costs while generating longer-term market valuation benefits.

The evidence from Yoo and Managi (2022) also demonstrates that disclosure and action affect different financial outcomes, indicating that the ESG performance relationship depends on how ESG behavior is conceptualized and measured. These findings suggest that apparently contradictory empirical results should not automatically be interpreted as evidence that ESG is ineffective. Instead, they may indicate differences in mechanism, measurement, time horizon, industry context, institutional environment, and outcome variable.

Overall Synthesis of the Results. The qualitative synthesis leads to five principal conclusions. First, ESG performance is a multidimensional strategic construct rather than merely a disclosure variable. Evidence distinguishes substantive ESG actions from ESG reporting and demonstrates that these can produce different organizational and financial consequences (Yoo & Managi, 2022; Tsang et al., 2023).

Second, ESG performance influences outcomes primarily through multiple mediating mechanisms rather than through a single direct pathway. The most prominent mechanisms include stakeholder trust, reputation, information quality, cost of capital, financial resources, innovation, risk reduction, and managerial capability (Chen et al., 2023; Tan & Zhu, 2022; Wong et al., 2021).

Third, green innovation emerges as one of the strongest empirically supported mechanisms. Multiple studies demonstrate that ESG performance can stimulate green innovation through financial resources, managerial environmental awareness, human capital, governance, and organizational capabilities (Tan & Zhu, 2022; Lian et al., 2023; Zhang et al., 2024).

Fourth, ESG functions as both a value-creation and risk management mechanism. Evidence suggests that ESG can improve firm valuation and financing conditions while also reducing financial risk and strengthening resilience during periods of crisis (Wong et al., 2021; Broadstock et al., 2021).

Fifth, the effects of ESG are conditional rather than universal. Managerial characteristics, governance, firm size, industry, institutional environment, ESG measurement, disclosure credibility, and economic conditions can influence the strength and direction of ESG impact pathways (Drempetic et al., 2020; Liu & Zhang, 2023; Ma et al., 2024).

DISCUSSION

The findings of this qualitative systematic literature review demonstrate that ESG performance should not be interpreted as a simple independent variable that directly improves corporate performance, but rather as a multidimensional organizational construct whose effects are transmitted through interconnected stakeholder, information, financial, innovation, risk, managerial, and institutional mechanisms (Gillan et al., 2021; Tsang et al., 2023). The central contribution of the synthesis is therefore the identification of an integrated pathway in which organizational and institutional antecedents shape ESG performance, ESG performance activates specific mediating mechanisms, and those mechanisms subsequently influence financial, strategic, innovation, risk, and sustainability outcomes (Gillan et al., 2021; Ma et al., 2024).

ESG Performance and Financial Performance. The first major finding is that ESG performance is generally associated with improved corporate financial outcomes, but the relationship is primarily explained through intermediate mechanisms rather than a universal direct effect (Chen et al., 2023; Gillan et al., 2021). Chen et al. (2023), using 24,076 observations covering listed firms internationally over 2011–2020, found a significant positive relationship between ESG performance and corporate financial performance and identified ESG information sharing, brand image, funding, financing costs, and valuation as relevant explanatory channels (Chen et al., 2023). This finding strongly supports the present review because the systematic synthesis identifies reputation, information quality, financing conditions, and firm valuation as interconnected pathways through which ESG can generate economic value (Chen et al., 2023).

However, the findings also support the broader conclusion of Gillan et al. (2021), who reviewed ESG and CSR research in corporate finance and concluded that ESG profiles are associated with firm risk, performance, and value while emphasizing that conflicting hypotheses and empirical results remain unresolved (Gillan et al., 2021). Thus, the present review extends Gillan et al. (2021) by suggesting that apparently contradictory ESG performance findings may arise because different studies capture different mechanisms, time horizons, institutional settings, and measures of ESG and financial performance (Gillan et al., 2021).

ESG Disclosure Versus Substantive ESG Action. A particularly important finding concerns the distinction between ESG disclosure and substantive ESG action (Yoo & Managi, 2022; Tsang et al., 2023). Yoo and Managi (2022) analyzed more than one million observations and found that ESG disclosure was more important for profits, whereas actual ESG action was more important for Tobin's Q and intangible value-added measures (Yoo & Managi, 2022). This finding is highly consistent with the present synthesis because it demonstrates that the ESG construct contains at least two distinct pathways: an information pathway, through which disclosure influences stakeholders and investors, and an substantive-action pathway, through which actual ESG practices influence organizational capabilities and market value (Yoo & Managi, 2022).

Tsang et al. (2023) similarly demonstrate that ESG disclosure research encompasses motivations, consequences, disclosure characteristics, users, and information intermediaries, indicating that ESG disclosure is a complex information phenomenon rather than a simple proxy for ESG performance (Tsang et al., 2023). Therefore, the present review contributes to the literature by emphasizing that future ESG research should clearly distinguish ESG performance, ESG disclosure, ESG ratings, and ESG certification, because these constructs may activate different causal pathways (Tsang et al., 2023; Yoo & Managi, 2022).

ESG Certification, Information Credibility, and Firm Value. The findings concerning ESG certification further strengthen the information and capital-market pathway (Wong et al., 2021). Wong et al. (2021), examining Malaysian firms, found that ESG certification reduced firms' cost of capital and significantly increased Tobin's Q, suggesting that externally validated ESG information can enhance investor confidence and firm value (Wong et al., 2021). This result complements Yoo and Managi (2022), because it suggests that the economic value of ESG information depends not only on disclosure itself but also on the credibility of the information being communicated to capital-market participants (Yoo & Managi, 2022; Wong et al., 2021).

The comparison also reinforces the importance of distinguishing symbolic ESG communication from credible ESG performance, because certification may reduce information asymmetry precisely by providing external assurance regarding ESG claims (Wong et al., 2021). Consequently, the present review suggests that the pathway from ESG to financial performance is strengthened when ESG information is credible, externally validated, and consistent with substantive corporate action (Wong et al., 2021; Tsang et al., 2023).

ESG Performance, Green Innovation, and Organizational Capability. The fourth major finding is that green innovation represents one of the strongest mediating mechanisms through which ESG performance can generate long-term organizational value (Tan & Zhu, 2022). Tan and Zhu (2022), using a quasi natural experiment based on ESG rating events among Chinese A-share listed companies from 2010–2018, found that ESG ratings significantly increased both the quantity and quality of corporate green innovation (Tan & Zhu, 2022). Importantly, the study identified alleviation of financial constraints and increased managerial environmental awareness as mediating mechanisms, while environmental regulation, market competition, and firm growth strengthened the ESG innovation relationship (Tan & Zhu, 2022).

These findings directly support the present review's innovation pathway, in which ESG performance affects innovation through resource availability and managerial cognition rather than simply producing innovation automatically (Tan & Zhu, 2022). The comparison also demonstrates why the ESG–financial performance relationship can be heterogeneous, because ESG investments may initially consume financial resources while subsequently producing innovation and competitive benefits that materialize over a longer time horizon (Tan & Zhu, 2022; Gillan et al., 2021).

ESG Performance and Risk Reduction. The fifth finding concerns ESG as a risk management and resilience mechanism, particularly during periods of financial uncertainty (Broadstock et al., 2021). Broadstock et al. (2021), using China's CSI300 constituents during the COVID-19 financial crisis, found that high ESG portfolios generally outperformed low-ESG portfolios and that ESG performance mitigated financial risk during the crisis (Broadstock et al., 2021). Importantly, the role of ESG was attenuated during normal periods, suggesting that ESG provides incremental value when firms and investors face heightened uncertainty (Broadstock et al., 2021).

This result extends the financial performance perspective of Chen et al. (2023) by indicating that ESG value should not be evaluated exclusively through profitability or accounting returns, because risk mitigation and resilience may represent equally important channels through which ESG protects long term firm value (Chen et al., 2023; Broadstock et al., 2021). The present review therefore interprets ESG as both a value creation mechanism and a risk reduction mechanism, with the relative importance of these mechanisms depending on the economic environment (Broadstock et al., 2021).

Managerial Characteristics as an ESG Antecedent. The sixth major finding is that ESG performance is strongly conditioned by managerial cognition, incentives, and strategic time orientation (Liu & Zhang, 2023; Ma et al., 2024). Liu and Zhang (2023) found that managerial myopia significantly reduces ESG engagement among Chinese firms and that a one standard deviation increase in managerial myopia reduces the probability of ESG engagement by approximately 7% (Liu & Zhang, 2023). Their evidence further identifies public exposure and innovation as mechanisms associated with the negative effect of managerial myopia and shows that ESG strategies can attract investors with longer investment horizons (Liu & Zhang, 2023).

Ma et al. (2024) provide complementary evidence by showing that stronger CEO career concerns suppress corporate ESG performance, while CEO shareholding and political affiliation intensify this negative relationship (Ma et al., 2024). The comparison between Liu and Zhang (2023) and Ma et al. (2024) is important because both studies demonstrate that ESG performance is shaped by managerial incentives and time orientation, but they identify different manifestations of managerial short termism, namely managerial myopia and CEO career concerns (Liu & Zhang, 2023; Ma et al., 2024).

Taken together, the eight comparison studies provide converging evidence for the mechanism-oriented framework developed by this review (Gillan et al., 2021; Wong et al., 2021; Broadstock et al., 2021; Yoo & Managi, 2022; Tan & Zhu, 2022; Chen et al., 2023; Liu & Zhang, 2023; Ma et al., 2024). Gillan et al. (2021) provide the broad corporate-finance foundation by demonstrating that ESG is associated with risk, performance, value, and firm characteristics, while also highlighting unresolved empirical contradictions (Gillan et al., 2021). Chen et al. (2023) provide strong international evidence for a positive ESG–financial-performance relationship, particularly through information, reputation, financing, and valuation channels (Chen et al., 2023).

Yoo and Managi (2022) refine this relationship by demonstrating that disclosure and actual ESG action produce different financial consequences, while Wong et al. (2021) show that external ESG certification can reduce the cost of capital and increase firm value (Yoo & Managi, 2022; Wong et al., 2021). Tan and Zhu (2022) extend the pathway toward innovation by demonstrating mediation through financial constraints and managerial environmental awareness, while Broadstock et al. (2021) demonstrate the risk-resilience pathway during financial crisis (Tan & Zhu, 2022; Broadstock et al., 2021). Finally, Liu and Zhang (2023) and Ma et al. (2024) demonstrate that managerial characteristics can operate as important antecedents that determine whether ESG strategies are adopted and sustained (Liu & Zhang, 2023; Ma et al., 2024).

The synthesis contributes theoretically by moving the ESG literature away from a predominantly direct-effect perspective toward a mechanism-based perspective (Gillan et al., 2021; Tan & Zhu, 2022). The findings suggest that stakeholder theory explains how

ESG strengthens stakeholder relationships and legitimacy, signaling theory explains how credible ESG information reduces information asymmetry, resource-based logic explains how ESG can support organizational capabilities and innovation, and upper-echelons perspectives explain how managerial characteristics shape ESG decisions (Gillan et al., 2021; Liu & Zhang, 2023).

The integration of these perspectives suggests that no single theoretical framework is sufficient to explain the entire ESG impact pathway, because ESG simultaneously represents a stakeholder-management mechanism, an information signal, an organizational capability, a risk-management instrument, and a strategic response to institutional pressures (Gillan et al., 2021; Tsang et al., 2023).

The findings imply that managers should avoid treating ESG primarily as a reporting exercise and instead integrate ESG into strategy, innovation, risk management, governance, and resource allocation (Yoo & Managi, 2022; Tan & Zhu, 2022). Investors should similarly distinguish between ESG disclosure, substantive ESG action, and externally certified ESG performance because these forms of ESG information may have different implications for valuation and risk (Wong et al., 2021; Yoo & Managi, 2022). Regulators can strengthen ESG outcomes by improving disclosure quality, verification mechanisms, environmental regulation, and institutional incentives that encourage firms to translate ESG commitments into substantive organizational change (Tan & Zhu, 2022; Tsang et al., 2023).

Overall, the findings demonstrate that ESG performance creates organizational value through a configuration of mutually reinforcing pathways rather than through a single universal causal mechanism (Gillan et al., 2021; Chen et al., 2023). The strongest evidence indicates that ESG can improve financial outcomes through information credibility, reputation, financing conditions, and firm valuation; strengthen innovation through financial resources and managerial environmental awareness; reduce financial risk during periods of crisis; and depend substantially on managerial incentives and strategic time orientation (Wong et al., 2021; Tan & Zhu, 2022; Broadstock et al., 2021; Liu & Zhang, 2023; Ma et al., 2024).

The principal theoretical contribution of this systematic review is therefore the proposition that ESG performance should be conceptualized as an intermediate strategic mechanism connecting organizational and institutional antecedents with multiple dimensions of corporate outcomes (Gillan et al., 2021; Ma et al., 2024). The resulting conceptual logic can be summarized as Antecedents → ESG Performance → Stakeholder/Information/Financial/Innovation/Risk Mechanisms → Organizational and Financial Outcomes, with managerial, firm-level, institutional, market, and crisis conditions moderating the strength of these relationships (Liu & Zhang, 2023; Tan & Zhu, 2022; Broadstock et al., 2021).

CONCLUSION

This qualitative systematic literature review concludes that ESG performance is a multidimensional strategic construct whose effects arise through interconnected stakeholder, information, financial, innovation, risk, managerial, governance, and institutional pathways (Gillan et al., 2021; Tsang et al., 2023). ESG creates value by strengthening stakeholder trust, reputation, legitimacy, information quality, access to capital, and firm valuation (Chen et al., 2023; Wong et al., 2021).

The review also shows that ESG disclosure and substantive ESG actions represent different pathways, while green innovation acts as an important mechanism linking ESG to long-term organizational performance (Yoo & Managi, 2022; Tan & Zhu, 2022). ESG can additionally reduce corporate risks and strengthen resilience, particularly during periods of crisis (Broadstock et al., 2021). Managerial characteristics, governance structures, and institutional conditions further influence ESG outcomes (Liu & Zhang, 2023; Ma et al., 2024). Overall, the findings support the framework ESG Antecedents → ESG Performance → Mediating Mechanisms → Organizational and Financial Outcomes, moderated by organizational, managerial, institutional, and market conditions. Thus, ESG research should move beyond "whether ESG matters" toward understanding "how, why, and under what conditions ESG creates value."

LIMITATION

Despite its contributions, this review has several limitations. First, database coverage, English-language restrictions, and search terms may have excluded relevant interdisciplinary ESG studies (Gillan et al., 2021; Tsang et al., 2023). Second, differences in ESG ratings, disclosure, certification, and measurement methods may explain inconsistencies across studies (Drempetic et al., 2020; Yoo & Managi, 2022).

Third, qualitative synthesis involves researcher interpretation, which may influence thematic categorization (Thomas & Harden, 2008). Fourth, the predominance of quantitative studies limits deeper understanding of stakeholder and organizational experiences (Gillan et al., 2021; Shen et al., 2023). Fifth, the concentration of evidence from China limits generalizability to other institutional contexts (Tan & Zhu, 2022; Liu & Zhang, 2023; Ma et al., 2024).

Finally, differences in research designs and potential publication bias mean that identified ESG pathways cannot always be interpreted as causal relationships. Moreover, rapidly evolving ESG standards and regulations may change future findings. Future research should therefore employ longitudinal, cross-country, qualitative, and stronger causal designs, while distinguishing substantive ESG actions from disclosure and comparing different ESG measurement approaches.

Overall, these limitations define the boundaries of the findings while highlighting the need for continued research on the contextual and dynamic mechanisms underlying ESG performance and its outcomes.

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