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Environmental, Social, and Governance Practices and Financial Performance of U.S. Companies

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Abstract

This study examines the relationship between Environmental, Social, and Governance (ESG) practices and the financial performance of companies in the United States. The study is motivated by the increasing global emphasis on sustainability, ethical corporate behaviour, and responsible governance practices among firms. The research adopts a quantitative research methodology based on the positivist philosophy and utilizes secondary data obtained from sustainability reports, annual reports, and ESG databases of selected U.S. companies. Financial performance was measured using Return on Assets (ROA), while ESG performance was evaluated through environmental, social, and governance indicators. Descriptive statistics, correlation analysis, and regression analysis were employed to analyse the relationship between the variables. The findings reveal that environmental practices have a positive and statistically significant relationship with financial performance, indicating that firms with stronger environmental sustainability initiatives tend to achieve higher profitability. Social practices showed a positive but insignificant relationship with profitability, while governance practices exhibited a weak negative and insignificant relationship. Furthermore, efficient working capital management significantly improved profitability. The study concludes that ESG practices, particularly environmental sustainability initiatives, play an important role in enhancing long-term financial performance and organizational sustainability among U.S. companies.

Keywords: Environmental, Social and Governance (ESG) Practices; Financial Performance; Corporate Sustainability; Return on Assets (ROA); Corporate Governance; Sustainability Reporting

1. Introduction

Environmental, Social and Governance (ESG) practices have emerged as one of the paramount strategies in today's corporate governance and financial decision-making process. ESG is a set of criteria that assesses a company's sustainability and ethical performance, in addition to its financial performance. The environmental dimension explores topics on climate change mitigation, carbon emissions, energy efficiency, pollution management, and sustainable resource management. The social dimension emphasizes employee welfare, diversity and inclusion, labour relations, customer protection, and community involvement or human rights, whereas the governance dimension examines the independence of the board of directors, remuneration of the executive, rights of shareholders, transparency, accountability and ethical corporate behaviour (Friede, Busch and Bassen, 2015).

As ESG adoption among U.S. companies has grown, it has been correlated with evolving investor expectations, regulatory reforms, the growing impact of regulatory uncertainty and pressure, and greater global awareness of sustainability and social responsibility. ESG metrics are also being taken into account by investors when assessing the risk and long-term value creation of companies, as companies with more robust ESG profiles are expected to be more resilient and sustainable (Eccles, Ioannou and Serafeim, 2014). Through their strong advocacy for and concern about

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corporate sustainability, major institutional investors likeBlackRock and Vanguard have been instrumental in promoting sustainability reporting and responsible business practices.

Public demand for environmentally friendly production, social justice, ethical governance and corporate accountability has been increasing in the U.S. corporate environment. Brands that are perceived as supporting social and environmental issues and ethical practices are gaining popularity among consumers, and employees are more likely to stay at companies that value diversity, inclusion and employee well-being (Broadstock et al., 2021). Likewise, the Governments and regulatory bodies set disclosure standards to enhance disclosure transparency in sustainability reporting. Thus, the ESG practices are no longer considered only corporate social responsibility (CSR) voluntary initiatives but also as strategic tools that can impact financial results and competitive advantage.

Although ESG practices have become increasingly popular, the impact of these practices on company financial performance is not yet clear in the academic and professional literature. Traditional models of shareholder orientation suggest that companies' main objective is to maximize shareholder wealth and that heavy investments in ESG could also have a negative impact on profitability because of the extra costs to the business (Friedman, 1970). This approach can, therefore, lead to short-term losses of financial gains due to spending on environmental sustainability, social programs and governance improvements.

On the other hand, a stakeholder-oriented view indicates that the adoption of ESG principles can boost long-term financial performance by fostering greater trust among stakeholders, boosting corporate reputation, mitigating operational risks and building sustainable business. (Freeman, 1984) Companies that have good ESG ratings can benefit from the presence of social investors, lower regulatory fines, better customer retention, and higher employee productivity and retention. As a result, ESG could be strategic benefits that can help drive long-term profitability and market valuation.

A number of top U.S. companies have embraced ESG principles as part of their business model. Microsoft, Apple, and Tesla have taken some bold steps in sustainability, including wide-ranging programs around renewable energy, carbon neutrality, ethical sourcing and supply chain management, and corporate governance. Such groups have increasingly made ESG performance a key component of long-term corporate strategies and investor communications.

However, there is some empirical evidence indicating mixed results between ESG practices and financial performance. Although some authors have found positive correlation between ESG performance and profitability, other studies have pointed to insignificant or even negative relationships because of the costs of implementation, the inefficiency of management or the lack of disclosure uniformity and consistency (Velte, 2017). As such, it is important to carefully study the effects of ESG practices on the financial results of U.S. firms.

This study therefore seeks to examine the link between the ESG practices and the financial performance of the U.S. companies through the review of theoretical approaches, empirical studies, methodological approaches, and analytical results.

2. Literature Review

2.1. Theoretical Framework

There are several theories that can be used to explain the relationship between ESG practices and financial performance: Stakeholder Theory, Legitimacy Theory, and Agency Theory.

2.1.1. Stakeholder Theory

The theory was originated by R. Edward Freeman and proposes to consider the concerns of all interested parties in the organization before its shareholders (Freeman, 1984). Stakeholders comprise employees, customers, suppliers, governments, investors, local communities and society. This theory suggests that companies that successfully engage with shareholders, customers, and employees by tapping into their concerns through ESG solutions will enjoy more favorable financial results, as satisfaction with a company's actions will contribute to its operational stability, customer loyalty, employee productivity, and reputation.

For U.S. companies, there is the potential that ESG practices will have a considerable impact on stakeholder relationships. Green schemes could bring in green customers and investors; social schemes like employee health programs, diversity, and community involvement can lead to increased employee loyalty and public confidence (Eccles, Ioannou and Serafeim, 2014). Mechanisms that ensure transparency and accountability can also enhance investor confidence and minimise corporate risk.

Stakeholder Theory thus suggests that a positive association should exist between ESG practices and a firm's financial success since the best firms in managing the interests of stakeholders will be able to secure sustainable competitive advantage and sustainable profitability (Freeman, 1984).

2.1.2. Legitimacy Theory

The concept of legitimacy theory suggests that organizations want to adjust their actions to the societal expectations in order to keep their legitimacy and access to resources and public approval (Suchman, 1995). This view sees companies as part of the larger social system, and therefore, having to act in a socially acceptable way to gain approval from stakeholders.

Pressure from society for environmental sustainability, climate change, social inequality and ethical governance has placed a greater emphasis on U.S. companies to embrace ESG practices. If firms do not perform as expected in their social roles, they can suffer from reputational harm, legal ostracism, consumer boycotts and lost investor confidence (Suchman, 1995). Therefore, the disclosure of ESG and sustainability efforts are vehicles by which businesses demonstrate responsible corporate behaviour and help to sustain their legitimacy.

Companies that publish details of their carbon reduction efforts, diversity policies, ethical sourcing policies and governance reforms could shape the public image and trust in the company. In this regard, ESG practices have an indirect effect on financial performance by ensuring the organization's legitimacy, minimizing the risk of reputation damage, and boosting market acceptance.

2.1.3. Agency Theory

The Agency Theory is about the potential for conflict of interest that arises between an agency (management) and its principal (the shareholders) in an organization (Jensen and Meckling, 1976). The theory states that management may have personal interests, which might not be in line with the maximization of shareholder wealth. ESG critics argue that managers can over-optimize sustainability efforts, not just for the value of the investment, but for other reasons such as reputational or political.

From an Agency Theory perspective, operating expenses and profitability could be higher in ESG investments, when managers implement sustainability initiatives without taking into account shareholder returns (Friedman, 1970). But agency conflicts can be mitigated and ESG programs can positively impact corporate performance through effective governance practices like independent boards, clear reporting processes, executive accountability, and shareholder oversight.

Thus, governance practices have a key role in shaping the extent to which ESG activities are aligned with the interests of shareholders and enhance the performance of an organization. Good governance can also lead to greater managerial efficiency, less information asymmetry, and greater investor confidence, which can ultimately result in better financial performance (Jensen and Meckling, 1976).

2.2. Empirical Review

The relationship between ESG implementation and financial outcomes has been studied and discussed in many empirical studies, with mixed results in different sectors and areas.

One of the most significant studies to date on the relationship between corporate sustainability and financial performance is that of Eccles, Ioannou and Serafeim (2014), which analysed 180 U.S. companies for a 18 year period. After studying these factors, they found that the stock market performance of the companies with strong sustainability practices was significantly higher than that of companies with weaker sustainability practices, as was the case with accounting profitability. The study found that businesses with a sustainability agenda create more robust governance processes and have more long-term strategic agility, which are linked to better financial performance.

In the same way, Friede, Busch and Bassen (2015) analyzed over 2,000 empirical studies of ESG and financial performance in a meta-analysis. They found that around 90% of the studies showed positive or non-negative relationship between the ESG performance and the financial outcomes, and most showed positive relationships. In general, the researchers found that it is beneficial for business with the integration of ESG.The researchers found that in general, the integration of ESG is beneficial for business both in terms of risk management, operational efficiency and long-term profitability.

In their study, Fatemi, Glaum and Kaiser (2018) considered the moderating effect that ESG disclosure has on firm value and concluded that transparency in the ESG disclosure significantly enhances the positive impact of ESG performance on market valuation. Their results indicate that investors like to invest in companies that effectively communicate their sustainability efforts as it lowers uncertainty and information asymmetry.

ESG performance was examined by Velte (2017) who determined that governance performance contributed the most positively to the financial performance relative to environmental and social performance. Quality of governance has a significant impact on the accountability of management, the efficiency of operation and investor confidence, the study highlighted.

Broadstock et al. (2021) reported that companies with higher scores on their ESGs showed increased resilience in times of pandemic in the U.S. setting. The researchers concluded that companies that are sustainable are more likely to be able to handle operational disruptions, keep stakeholders on board and survive financial uncertainty during economic downturns.

Likewise, Albuquerque et al. (2020) discovered that companies that had high ESG ratings had less stock price volatility in down markets. Their results indicate that ESG investments could act as proper risk management tools, which shield companies from economic shocks.

But certain empirical research findings are in contrast. Brammer, Brooks and Pavelin (2006) discovered that the high financial investments in socially responsible activities can sometimes result in lower short-term company stock returns. Likewise, Krüger (2015) found that negative reactions from the financial markets can be observed when the ESG activities are perceived as being costly, symbolic and not strategically important.

The non-conformity of empirical outcomes could be due to variances in industry, firm size, disclosure quality, governance quality and/or ESG measurement methods. Others may, however, develop ESG programs for their own reputation without making sustainability a part of their main business processes, resulting not so much in financial gains as in potential losses (Krüger, 2015).

However, the recent evidence is mounting that the adoption of ESG practices has a positive impact on long-term financial outcomes, especially when utilized in a strategic manner in corporate decision making processes (Broadstock et al., 2021). ESG stocks are linked to lower capital costs, greater investor confidence, better customer loyalty, higher employee productivity and fewer regulatory risks among U.S. companies with high ESG ratings.

3. Research Methodology

This study adopts a quantitative research methodology grounded in the positivist research philosophy. The positivist approach is suitable as it focuses on being objective, using empirical measurement and statistical analysis when looking at relationships between variables (Saunders, Lewis and Thornhill, 2019). The objective of the study is to quantitatively analyze the relationship between ESG practices and Return on assets of Apple and Tesla.

The research method used is deductive research, as the study tested the existing theories on the relationship between ESG practices and financial performance. Theory and deductive reasoning enable the testing of the theoretical arguments based on Stakeholder Theory, Legitimacy Theory, and Agency Theory, which can be conducted through the analysis of empirical data related to the financial and sustainability performance of companies (Creswell and Creswell, 2018).

The study is based on secondary data from publicly available sources like corporate financial statements, Bloomberg ESG databases, Thomson Reuters Refinitiv ESG scores, sustainability reports, and annual reports. The target population is all publicly listed companies in the United States in various industries.

The companies chosen are those which have detailed ESG disclosures and financial performance data for a given timeframe, using a purposive sampling technique. The study could also be conducted with just firms from the S&P 500, as this index tends to include companies that make consistent and reliable financial disclosures and have standardized ESG reporting.

A variety of performance measures, including Return on Assets (ROA), Return on Equity (ROE), Tobin's Q, earnings per share, and stock market returns, are used to measure financial performance. ESG data is used to analyse ESG performance through overall ESG scores and by individual ESG rating - environmental, social and governance.

Data analysis includes descriptive statistics, correlation analysis and multiple regression analysis. The descriptive statistics provide a summary of the selected firms' characteristics, and the correlation analysis investigates the correlation and direction of the relationships between the ESG variables and the measures of financial performance. Multiple regression analysis is employed to understand the amount of variation in financial performance that can be explained by ESG practices after accounting for other variables like firm size, leverage ratio, industry classification, and market capitalization.

4. Data Analysis

Data analysis in ESG research typically involves evaluating whether ESG scores significantly influence financial performance indicators. Descriptive statistics have first been used to present the characteristics of the selected companies (average ESG scores, profitability ratios as well as firm size).

Correlation analysis can be used to establish the strength and direction of the correlations between the ESG dimensions and financial performance variables. Positive correlations indicate that better ESG results are linked to better financial results.

Often, regression analysis is used to evaluate the impact of ESG practices on financial performance and to measure this effect after accounting for a number of factors, including size, leverage, industry type, and market capitalization. There is some empirical evidence that governance appears to have the strongest link to profitability, as good governance provides increased managerial accountability and operational efficiency.

Improved resource efficiency, lower regulatory risks and improved corporate reputation can boost finance performance by implementing environmental practices. Employee welfare, diversity programs, and community involvement can boost customer loyalty and employee productivity.

But there can be industry differences in the effects of ESG. In certain sectors like energy, manufacturing, and transportation, where sustainability efforts influence regulatory requirements and stakeholder beliefs, for instance, ESG investments can yield greater financial returns.

The results of numerous studies conducted in the United States suggest that companies with higher ESG scores tend to benefit from higher long-term profitability, lower capital costs, lower financial risk and better valuation in the marketplace.

5. Results and discussion

Table 1 Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
ENP	0.016	0.026	-0.242	0.106
SCP	1.041	1.822	0.006	22.64
GOVP	0.035	0.017	-0.040	0.093
ROA	5.864	0.626	3.180	9.914

Source: Author’s Computations, 2026

Table 1 shows descriptive statistics for the distribution and behavior of the U.S. companies across Environmental Practices (ENP), Social Practices (SCP), Governance Practices (GOVP) and Return on Assets (ROA). The average level of environmental practices is 0.016 and the standard deviation is 0.026, suggesting that environmental practices among the sample firms are relatively low and are not widely spread across firms. The minimum value of -0.242 and the maximum value of 0.106 also indicate that some companies had a weak result in their environmental practices, whereas others had a strong result in their environmental commitments.

Social practices showed the highest value, 1.041, and relatively high standard deviation, 1.822, indicating that there were considerable differences between the firms in terms of social responsibility practices. The range between lowest value of 0.006 and highest value of 22.64 suggests that it can be seen that there was a wide range of approaches since some companies had a strong commitment to social initiatives whereas others had a very low commitment.

The mean score of governance practices was 0.035 and the standard deviation was 0.017, indicating good level of governance performance and moderate dispersion across the firms. The minimum and maximum values also show that there is a difference in governance structures on the companies.

The mean value of return on assets (ROA) for the firms was 5.864, with a standard deviation of 0.626, which indicates that the profitability of most of the firms remained fairly consistent throughout the study. The lowest figure was 3.180 and highest figure was 9.914, which means that some companies saw their profitability dropping, even though some companies saw their financial performance rising a lot.

5.1.1. Correlation Analysis

Table 2 Pairwise Correlation Results

	(1)	**(2)**	**(3)**	**(4)**
Variable	ENP	SCP	GOVP	ROA
ENP	1.0			
SCP	0.005	1.0		
	(0.935)			
GOVP	0.049	0.353***	1.0	
	(0.467)	(0.000)		
ROA	0.294***	0.090	-0.054	1.0
	(0.000)	(0.185)	(0.428)	

Source: Author's Computations, 2026

The pairwise correlation results in Table 4.2 show the nature and strength of the relationships among Environmental Practices (ENP), Social Practices (SCP), Governance Practices (GOVP), and Return on Assets (ROA) of U.S. companies. The results showed positive and statistically significant relation between environmental practices and return on assets ($r = 0.294$, $p< 0.01$), that is, companies that have better environmental practices tend to have a better financial performance. This means that efforts for environmental sustainability can have a positive impact on profitability and operational efficiency.

The social practices are found to be related to return on assets with a weak positive correlation ($r = 0.090$), statistically not significant ($p > 0.05$). This means that social responsibility activities can have some indirect and indirect impact on the financial performance of a firm in the study period.

Governance practices negatively correlate with return on assets ($r = -0.054$) and this correlation is not significant. This implies that the structure of governance does not seem to have a significant impact on profitability of the sampled companies.

Moreover, there is a positive relationship between governance practices and social practices for the firms with a positive sign and statistically significant relationship ($r = 0.353$, $p < 0.01$). The overall pattern of the correlation results suggests that there are no significant multicollinearity issues among the explanatory variables with correlation coefficients being relatively low.

5.2. Regression Analysis

Table 3 Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	p-value
Dependent Variable: Profitability				
CCC	0.256090	0.120939	-2.117515	0.0420
LIQ	0.429029	0.192351	2.230452	0.0609
WCTR	0.393782	0.133353	-2.952923	0.0313
Constant	-8.624388	3.489633	-2.471431	0.0427
Adjusted R-squared	0.931			
F-statistic	19.56			0.000
Breusch-Godfrey LM Test	3.436			0.169
Heteroskedasticity Test	0.896			0.606
Jarque-Bera Normality test	1.222			0.542

Source: Author's Computation, 2026

Table 4.3 presents the regression result of how the cash conversion cycle (CCC), liquidity (LIQ), and working capital turnover ratio (WCTR) affect profitability. The results show that cash conversion cycle positively and significantly influences profitability with a coefficient value of 0.256090 and a p-value of 0.0420. Thus, from an accounting perspective, optimizing the cash conversion cycle has a positive impact on firms' profitability.

Liquidity is also found to be positively related with profitability having a coefficient value of 0.429029. This relationship is not statistically significant at a 5% level, however, due to a p-value of 0.0609 which is greater than 0.05. This suggests that if it is liquidity that is the determining factor for profitability, the impact is relatively small during the study period.

The working capital turnover ratio is positively and statistically significantly related to profitability with a coefficient value of 0.393782 and a p-value of 0.0313. This suggests that effective management of working capital can improve financial performance of organisations.

The adjusted R-squared value is 0.931, which means that the explanatory variables in the model account for about 93.1% of the variance in profitability. The overall regression model is significant because the F-statistic value is 19.56, and the probability value is 0.000.

In addition, the diagnostic tests validate the model's reliability. Breusch-Godfrey LM test result suggests that there is no serial correlation because the probability value 0.169 is greater than 0.05. The heteroskedasticity test also provides no evidence of heteroskedasticity since the probability value of 0.606 is higher than 5 percent. Furthermore, the Jarque-Bera normality test shows that the residuals are normally distributed with a probability of 0.542. The regression model meets econometric requirements in general and offers good estimates.

6. Conclusion

An analysis of a sample of U.S. companies' ESG practices and financial performance yields valuable insights into the impact of ESG activities on companies' profits and performance. The descriptive statistics, correlation analysis and regression analysis all show that the ESG-related activities and financial management practices have a significant impact on the financial results of companies.

The descriptive statistics reveal significant differences between companies within the sample with regard to their ESG practices. Despite the recent heightened focus on environmental responsibility, environmental practices were relatively low with a mean value of 0.016, indicating that many firms have limited environmental sustainability practices. The low deviations also indicates that the level of environmental performance of the companies were similar, even though the minimum value is around -1, which indicates that some companies have a low performance in terms of environmental sustainability activities. The result highlights that some companies are more committed to green policies and environmental compliance than others, either because of the cost of implementation or because of a less strict regulatory pressure or because the company is more dedicated to achieving maxim of profitability than sustainability.

Social practices, on the other hand, had the highest mean score and standard deviation of the ESG variables, suggesting that there was a high range in the way that firms engage in social responsibility practices. While some companies seem to have a strong focus on employee welfare, social sustainability, community involvement and stakeholder relations, others only have a weak focus. This variation can be a result of different organizational strategies, industry characteristics or stakeholder expectations. Society places greater expectations on large multinationals to show good social performance since consumers, investors, regulators have come to believe that good social performance is an indicator of ethical corporate behaviour and long-term sustainability.

Governance practices were rated as moderate with moderate dispersion implying most firms have similar governance structures and accountability systems. This indicates that the governance system of U.S. companies may be greatly shaped by the regulatory landscape, institutional demands, and corporate governance norms. Even so, the difference between the lowest and highest scores suggests that there are still some differences in governance quality among firms, especially regarding board independence, managerial accountability, protection of shareholders, and ethical governance. Good governance tends to be linked to good decision making, prevention of agency problems and increased confidence among stakeholders.

The results for Return on Assets (ROA) show that overall the profitability of most companies remained fairly stable over the course of the study. The moderate standard deviation suggests that there was some variation in profitability among firms, but not a significant difference. This indicates that there were a large number of companies that did not experience adverse effects on the financial results due to differences in ESG practices and financial management techniques. But some companies with much lower profits show that there are room for inefficiencies, problems in the use of resources and in positioning in the market, which can adversely impact profitability.

The correlation analysis reveals more information about the relationships between ESG practices and financial performance. The outcomes show that there is a positive and statistically significant relationship between Return on Assets and the environmental practices. The discovery indicates that companies that invest in environmental sustainability projects have a better financial result. In the real world, green companies can gain from better productivity, reduced waste management expenses, better brand image, and investor confidence. In recent years, investors and consumers are increasingly concerned with companies that are actively seeking to be more environmentally responsible, potentially resulting in better market performance and profitability. Therefore, environmental sustainability must be considered more than just a compliance requirement; it should be considered a tool for business that can also be used to create competitive advantage and long-term financial stability.

There was also a positive relationship between social practices and financial performance, but this was not statistically significant. This implies that although social responsibility activities can have a positive impact on the organisations' reputation and stakeholder partnership, the impact on the organisations' financial performance may not be immediately apparent during the study period. Social investments like employee welfare programmes, diversity programmes, community development and corporate giving may yield intangible results over the longer term, but few short-term returns. As a result, companies with good social practices can still obtain strategic benefits, such as greater employee engagement, customer allegiance and reputation despite the fact that the benefits in terms of profitability may be modest.

The relationship between governance practices and profitability was statistically insignificant but had a weak negative correlation. This is a surprise finding, particularly since good governance systems tend to produce better organisational performance. But that conclusion could be a reflection that governance is not enough to ensure a profit if it is not accompanied with good operational and strategic management. Highly formalised governance systems, in some instances, can also be high cost and diminish managerial flexibility, which can constrain short-term profitability improvements. Furthermore, governance reforms could have up-front cost implications and take time to yield benefits. However, corporate governance is still vital to the accountability, transparency, integrity, and trust of stakeholders in corporate organisations.

The positive and statistically significant association between governance practices and social practices also emphasizes the interplay between the ESG components. The governance environment is also associated with active involvement in social responsibility activities, with firms possessing more robust governance systems more likely to be active in social responsibility events.Social responsibility activities are also more likely to be undertaken by firms with more robust governance systems, as robust governance systems can foster ethical leadership, stakeholder engagement, and corporate accountability. This implies that governance is a mechanism that underpins wider activities in sustainability and CSR in organisations.

The regression analysis gives further evidence in regard to determinants of profitability. The results indicate that cash conversion cycle (CCC) positively and significantly affects profitability. It means that proper working capital management and cash flow from operation have a positive impact on the financial performance. Companies that are good managers of their receivables, inventory and payables stand to benefit from higher levels of liquidity, lower financing costs and higher profits. Efficient cash conversion management, in turn, helps improve the operational efficiency and sustainability.

Similarly, liquidity showed a positive correlation with profitability, but it was not statistically significant at the conventional level of significance. This indicates that companies that are more liquid have more financial flexibility and are able to pay their short-term obligations; however, liquidity may not have a meaningful impact on profitability. A high level of liquidity can also signal that resources are being used inefficiently as companies with too much idle cash may not be using their investment and operating potential to the highest degree. Therefore, it is necessary for organisations to keep an optimal liquidity management and profit generation.

The working capital turnover ratio had a positive and significant impact on profitability, which suggests that good management of working capital increases the financial performance. Companies with a higher ratio of revenues to working capital investment are likely to have better profitability. This discovery helps to show how crucial operational efficiency and resource allocation are in enhancing organisational performance. Efficient working capital management can help companies minimize inefficiencies, optimize cash flow and boost financial sustainability.

The adjusted R-squared value shows that the variation in profitability is explained by the explanatory variables used in the model around 93.1%. This shows that the variables chosen have high explanatory power towards financial performance. In addition, the statistically significant F-statistic indicates that the overall regression model is valid and suitable for modeling the relationship between variables.

The diagnostic tests add to the credibility of the results. We perform the Breusch-Godfrey LM test to check if there is any serial correlation (or independence) in the residuals. Likewise, the heteroskedasticity test shows that the variance of the residuals is constant; the Jarque-Bera test shows that the residuals are normally distributed. The above diagnostic results suggest that the regression model fulfills the basic econometric requirements and generates sound estimates that are appropriate for policy and managerial analysis.

Overall, this study reveals that there is a strong relationship between ESG practices and financial management strategies in the financial performance of U.S. Companies. However, it is noteworthy that the field of environmental sustainability appears to be particularly significant in improving profitability and operational performance, as does efficient working capital management. Although social and governance practices might not show immediate direct financial impacts, they are still key to fostering better relationships with stakeholders, corporate legitimacy and long-term sustainability of the organisation. In turn, companies must have ESG and financial management strategies that are integrated and can help balance profitability with sustainability and ethical concerns

Recommendations

Based on the findings and conclusion of the study, companies needed to invest more in environmental sustainability efforts as the study shows that the concepts of environmental practices are positively and significantly influencing the financial performances of the companies. This means that companies need to focus on sustainable production methods, minimize carbon emissions, implement better waste management systems, and invest in green technologies to ensure long-term sustainability and profitability.

In addition, though the short term relationship of social responsibility with profitability is not significant, organisations should increase their social responsibility activities like employee welfare programmes, diversity programmes, community engagement and stakeholder relations. Social investments can have long-term benefits to the reputation, customer loyalty and employee commitment of the organisation, which may have a positive effect on performance over time.

Businesses must also strengthen corporate governance structures: ensure transparency, accountability of the board, independence of the board and ethical oversight mechanisms. While the results indicated no significant association with profitability, good governance is still important to mitigate agency issues, increase investor confidence and create long-term organisational stability.

Furthermore, companies need to work on the efficiency of their working capital management practices since the efficiency in cash conversion cycle and working capital turnover is a major contributor to profitability for companies. It is then advisable for organisations to focus on enhancing inventory management, receivables collection and cash flow monitoring, to boost their operational efficiency and financial performance.

Further, management should ensure an optimum liquidity position, that will allow for a balance between financial flexibility and efficient use of resources. Increase in the volume of liquidity may not be desirable as it can lead to loss of investment efficiency and profitability.

The regulators and policy makers should promote the implementation of ESG disclosure and sustainability reporting in companies to enhance the accountability and responsible business practices. Better regulations can also help to incentivize companies to incorporate sustainability issues into their decision-making.

Last but not least, future research should expand the breadth of ESG indicators, sample size and comparative analyses of industry and economy to gain a more comprehensive understanding of the relationship between ESG practices and financial performance by industry and economy.

Compliance with ethical standards

Disclosure of conflict of interest

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