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Incorporating Environmental, Social and Governance (ESG) Standards into Corporate Strategies for Success: A Case Study of a Group of American Companies

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Abstract

Success and growth are important goals to ensure survival, leadership, and sustainability of companies in the market. These goals require thoughtful strategic decisions that consider the company's impact on its environment and society besides balancing its profitability with social responsibility. This research aims to study how companies adopt ESG standards and incorporate them into strategic plans, and how that affects their stock performance in the financial market as criteria for companies' success. A sample of (45) USA companies adopting ESG standards was selected for this study. Simple linear regression analysis was used to show the relationship between ESG scores and indicators such as(Composite Rating, Relative Strength, and Earnings per Share Rating), according to the Investor's Business Daily (IBD) classification. The Composite Rating (Comp Rtg) reflects the overall performance level of the company's stocks based on fundamental and technical analysis compared to other stocks in the same industry, the Relative Strength Rating (RS Rtg) compares the company's stock price performance against the overall market performance, while the Earnings Per Share Rating (EPS Rtg) reflects the profit that each share achieves, which significantly affects sustainable growth and success. The study results showed a significant impact of ESG on the Composite (Comp) Rating and a weak impact on the Relative Strength (RS) and Earnings Per Share (EPS) Ratings, which may be attributed to other market-related factors. These results can provide valuable insights for companies looking to improve their long-term value by investing in sustainable practices and attracting socially responsible investors, thus enhancing their performance and competitive advantage in the market.

Keywords :Corporate Strategies, Sustainable Practices, Governance Practices, Environmental, sustainable success.

JEL classification: G30, M14, Q01, D22, G32.

1. Introduction

With the evolution of the concept of corporate social and environmental responsibility, the return on investment alone is no longer the only factor in evaluating performance of a company. Performance evaluation also includes the nature of the relationship between the company and its environment, reflected in its responsibilities toward the environment and society (Masum et al., 2020). ESG standards refer to the three main criteria developed to be measures of sustainability of a business and the ethical impact of investing in such business. Such investment is described as socially responsible investments. Recently, there has been an increase in the number of investors considering environmental data as an important factor in investment, viewing it as an effective tool for risk detection. Companies with high environmental, social, and governance ratings are perceived as having a stronger ethical sense and are less prone to commit financial fraud based their role in protecting the environment and natural resources and directing their attention toward social justice, improving working conditions, and respecting human rights. Such ratings allow them to build better relationships with the community, thereby increasing their value . (Zhan, 2023).

ESG criteria provide quantitative and qualitative information about a company's sustainability practices and their potential impact on various stakeholders (Uyar et al, 2023). These practices include effective management of environmental resources, promoting positive social relations, and maintaining high standards of ethical behavior (Bellandi, 2023). (Evaluating the sustainability performance of companies requires assessing both qualitative and quantitative indicators and examining different dimensions such as environmental control, social responsibility, and corporate governance) (Sandberg et al., 2022). In this sense, the main objective of this research is to analyze the literature on the effects of integrating ESG criteria into corporate strategies and their future impacts on companies from different perspectives. It also aims to analyze the relationship between ESG criteria and corporate stock performance indicators represented by (the composite stock performance rating, the relative strength rating of stock prices, and the earnings per share rating), as these are among the most indicative indicators of effective financial performance in the long term. To achieve the proposed objective, the following question must be answered: Can a company achieve sustainable success by integrating ESG criteria into its strategies as one of its important objectives alongside financial objectives, despite the different views that explain the relationship between ESG criteria and corporate success?

In this study, we attempt to review the most important theories explaining corporate sustainability and ESG standards and the impact of adopting these criteria on company success. A sample of (45) companies adopting ESG standards were selected and their key performance indicators were observed. The sample was chosen from a group of global companies with high ESG scores working to promote sustainability and create value for shareholders, the society, and the environment. Companies following ESG are considered a vital part of the shift towards a more responsible and ethical business model. Table (1) shows the research sample companies, their industry and the symbol appointed o them in this study.

Table (1) Research Sample Companies - Sources: IBD, Dow Jones,2023

	Company	Symbol	Industry
1	Microsoft	(MSFT)	Computer Software Desktop
2	Applied Materials	(AMAT)	Electronics Semiconductor Equipment
3	Woodward	(WWD)	Aerospace/Defense
4	Verisk Analytics	(VRSK)	Commercial Services Market Research
5	Mastercard	(MA)	Finance - Credit Card/Payment Processing
6	Caterpillar	(CAT)	Machinery Construction/Mining
7	Marathon Petroleum	(MPC)	Oil & Gas Refining/Marketing
8	Nvidia	(NVDA)	Electronics Semiconductor Mfg
9	Dover	(DOV)	Machinery General Industrial
10	Motorola Solutions	(MSI)	Telecom Consumer Products
11	Bunge	(BG)	Agricultural Operations
12	Sherwin-Williams	(SHW)	Chemicals - Paints
13	Adobe	(ADBE)	Computer Software - Desktop
14	Mondelez	(MDLZ)	Food - Confectionary
15	Church & Dwight	(CHD)	Soap & Cleaning Preparations
16	Air Products & Chemicals	(APD)	Chemicals - Specialty
17	Gartner	(IT)	Commercial Services - Market Research
18	Lam Research	(LRCX)	Electronics - Semiconductor Equipment
19	Jabil	(JBL)	Electronics - Contract Mfg
20	Onsemi	(ON)	Electronics - Semiconductor Equipment
21	Tetra Tech	(TTEK)	Pollution Control
22	Commercial Metals	(CMC)	Metals - Processing & Fabrication
23	Federal Signal	(FSS)	Security/Safety
24	Clean Harbors	(CLH)	Pollution Control
25	Microchip Tech	(MCHP)	Electronics - Semiconductor Mfg
26	CoStar	(CSGP)	Commercial Services - Market Research
27	Prologis	(PLD)	Finance Property REITs
28	American Homes 4 Rent	(AMH)	Finance Property REITs
29	Rockwell Automation	(ROK)	Electrical Power Equipment
30	Paychex	(PAYX)	Commercial Services Outsourcing
31	Idexx Laboratories	(IDXX)	Medical - Systems/Equipment

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32	Trex	(TREX)	Building - Construction Products/MSC
33	Tempur Sealy International	(TPX)	Household Office Furniture
34	Stryker	(SYK)	Medical - Products
35	Graco	(GGG)	Machinery - General Industrial
36	Morningstar	(MORN)	Commercial Services - Market Research
37	Illinois Tool Works	(ITW)	Machinery - General Industrial
38	S&P Global	(SPGI)	Commercial Services - Market Research
39	Aecom Technology	(ACM)	Building - Heavy Construction
40	Paycom Software	(PAYC)	Computer Software - Enterprise
41	Casey's Retail	(CASY)	Retail - SPR/Mini markets
42	Walmart	(WMT)	Retail - Major Discount Chains
43	Houlihan Lokey	(HLI)	Financial - Investment Bank/Brokers
44	Inter Parfums	(IPAR)	Cosmetics/Personal Care
45	Gulfport Energy	(GPOR)	Oil & Gas - US Exploration & Discovery

2. Literature review

2.1 Corporate Sustainability

The United States Environmental Protection Agency (EPA) provided a comprehensive description of sustainability in 1969 defining it as creating suitable conditions for people to live in a productive world that meets the economic, social, and environmental needs of current and future generations. The concept of sustainability refers to a state of balance and interconnectedness that enables society to meet current generations' needs without compromising the need of future generations, as it represents a responsible interaction with the environment to prevent the degradation of natural resources(Laniyan and Morakinyo, 2021). The World Business Council for Sustainable Development (2002) defined sustainability as "the commitment of companies to contribute to sustainable economic development, and working with employees, their families, the local community, and society as a whole to improve their quality of life " (Aggarwal, 2013). Corporate sustainability is a relatively new concept describing the management processes and strategies adopted to achieve a balance between environmental, social, and economic goals (Signitzer and Prexl,2008). Corporate sustainability requires companies to disclose, alongside financial reports , sustainability reports, which are essential objectives for achieving sustainable development (Berrone et al., 2023). Many global companies have shifted towards preparing environmental sustainability reports to express their efforts to preserve the environment and achieve sustainable development, which includes a wide range of information about how company activities affect the surrounding environment and the efforts the make to reduce these negative impacts. The disclosure of this data includes a variety of information, such as expenditures related to environmental and social protection, donations to charities, and employee welfare, all which are not reported in consolidated financial statements although they may provide better value to the company. (Dhaliwal et al. 2014)

2.2 The Importance of Adopting ESG Standards in Corporate Strategies

Companies are judged to be more responsible and better positioned for long-term success when they prioritize ESG standards (environment, society, and governance criteria), which are criteria for evaluating companies' performance in achieving sustainable development goals. These criteria are of great importance to investors and stakeholders looking to assess a company's sustainability and ethical practices and their impact on the environment and society. (Arora, 2018) The integration of ESG factors into investment decisions more accurately forecasts future business operations and overall performance (Amel-Zadeh & Serafeim, 2018). With the emergence of ESG standards as new criteria for measuring sustainability and the societal impact of corporate development, global interest on ESG issues continues to rise due to their profound effect on corporate performance and long-term sustainability (Liu et al., 2023). The environmental, social, and governance criteria adopted by companies play a vital role in attracting investments, enhancing customer loyalty, and boosting employee satisfaction (Zumente and Bistrova, 2021).Each of these criteria can be explained as follows:

- **The Environmental Criteria**

The world today faces many environmental issues such as climate change, global warming, carbon dioxide emissions, deforestation, flooding, water crises, food scarcity, and the misuse of natural resources, all of which impact our environment and cause irreparable losses (Ziaul & Shuwei, 2023). Companies must play an important role in mitigating these negative effects on the environment and providing a suitable foundation for current and future generations. Environmental criteria consider how a company performs as a steward of nature, focusing on long-term environmental health by reducing its carbon footprint, using natural resources responsibly, implementing recycling policies, and managing waste.(Rajesh & Rajendran, 2020).

- **The Social Criteria:**

The social criteria of the ESG standards encompass the behaviors and practices the company adopts to balance social responsibility with financial performance. These criteria include attention to employee rights, safety, and development, as well as positive interactions with the local community by providing high-quality products and positive impacts on consumers (Fernandes et al., 2024), safeguarding data privacy and security, considering gender and diversity, employee engagement, community relations, human rights, and labor standards, promoting diversity and non-discrimination in wages between genders and ensuring equal opportunities (Li & Wu, 2020).the Social criteria are also vital components of successful corporate management that seeks sustainable development and positive relationships with all stakeholders.

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- **The Governance Criteria**

Governance criteria encompass the internal system of the company, including practices, controls, and procedures, such as board structure, executive compensation, leadership, audit processes, shareholder rights, anti-corruption policies, transparency practices, and accountability (Cek & Eyupoglu, 2020). Numerous studies have shown that companies under government control, media oversight, strong national legal frameworks, green credit policies, and intensive religious belief positively influence corporate performance significantly (Chen et al., 2024).

The main criteria of corporate governance include:

- Equality: Fairness in dealing with all stakeholders in all company operations and decisions, which improves trust in the company and increases its competitiveness(koren & gal 2019).
- Transparency: A good management principle involving informing stakeholders about the company's activities, plans, and risks in alignment with its business strategies. This information is crucial for investors in decision-making (OECD ,2004).
- Accountability: Accountability in corporate governance includes adhering to laws and regulations, making appropriate decisions with integrity and transparency, and providing periodic and transparent reports on company performance and fund usage. Accountability also involves evaluating the performance of the board of directors and company management and taking necessary actions goals are not achieved or violations occur (Karabulut et al., 2020).
- Responsibility: Management bears significant responsibility toward shareholders and other stakeholders by committing to ethics and laws, making

decisions with transparency and integrity, achieving the company's objectives, and protecting shareholders' interests. The figure (1) below (ESG-Wheel) shows the company's ESG criteria..

Figure (1): ESG-Wheel (GTCF,2024)

The impact of ESG standards on companies can be seen in several aspects, the most important of which are:

– Risk Management: Companies with strong environmental and social practices are often better positioned to manage risks, especially those related to environmental and social issues. This can help reduce volatility and potential

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losses, contributing to improved financial performance (Eccles, Ioannou, & Serafeim, 2014).

- Operational Efficiency: ESG practices can support operational efficiency; good governance practices can enhance decision-making processes and reduce the risks of costly scandals or litigation (Clark et al., 2015).
- Access to Capital: Research indicates that companies with strong ESG performance often enjoy lower capital costs (Goss & Roberts, 2011) as trust is established between the company, investors, and creditors, making it easier to secure loans. This trust tends to generate greater support from investors and stakeholders (Guiso et al., 2008). Companies that do not meet ESG criteria face financial constraints and rising funding costs, as investors may demand higher interest rates or impose penalties for excessive risks (Watanabe, 2022).Companies that do not meet ESG standards face financial constraints and increasing financing costs, driven by the fact that investors may demand higher interest rates or other restrictions to compensate for the risks of investing in a company with weak performance and a negative market reputation regarding ESG criteria .
- 4-Long-term value creation: ESG factors can be key drivers of long-term value. For example, a company's social practices and governance structure can significantly impact its strategic success and long-term profitability (Eccles, Ioannou, & Serafeim, 2014).
- 5-Investor returns: Many studies have found a positive relationship between ESG performance and return on investment. While these results can vary depending on specific methodologies and time horizons used, the general consensus is that ESG factors can have a significant impact on return on investment (Friede et al., 2015).

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There are varying interpretations of the relationship between ESG standards and a company’s success and growth. Some research argues that ESG activities may not always improve financial results (Barnea & Rubin, 2006). For instance, some have claimed that, while socially responsible investment may affect managers' reputation or generate higher profits, it can also increase agency costs, ultimately reducing the company's value (Duque & Aguilera ,2021).

3. Methodology

3.1 Research Framework

This paper will first analyze the ESG scores of the research sample companies and also show the performance of the shares of these companies, which will be shown by the indicators (Comp Rtg, RS Rtg, EPS Rtg), then show the role of the ESG score in the performance indicators of the research sample companies’ shares. Figure (2) below shows the general framework of the research.

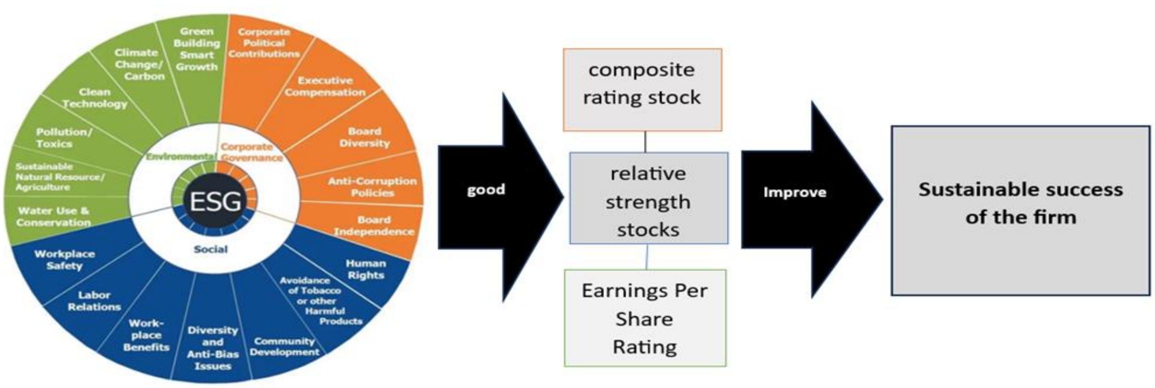

Figure (2) Research Structure Diagram

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3 .2 Description and measurement of research variables for sample companies:

- **ESG**

The ESG score is a measure used to evaluate a company's commitment to sustainability and social and environmental responsibility in its operations, including how it addresses environmental issues and protects natural resources, as well as how it interacts with the community, customers, employees, and other stakeholders. It also covers how the company manages and ensures transparency and integrity in internal operations. A description of the scoring method used for ESG scores is shown in table (2).

Table (2): Refinitiv ESG Score Range - Source: (Refinitiv, 2022)

Score range	Description	
0 to 25	First Quartile	Scores within this range indicate poor relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly.
> 25 to 50	Second Quartile	Scores within this range indicate satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly.
> 50 to 75	Third Quartile	Scores within this range indicate good relative ESG performance and above average degree of transparency in reporting material ESG data publicly.
> 75 to 100	Fourth Quartile	Score within this range indicates excellent relative ESG performance and high degree of transparency in reporting material ESG data publicly.

Table 3 shows the ESG scores, Comp Rtg, RS Rtg, EPS Rtg achieved by the research sample companies in (2023). The top three positions were occupied by companies most committed to ESG standards, with Microsoft achieving the highest ESG score for 2023 with an average of (72.76). It is one of the first companies to reduce carbon emissions and combat climate change. Microsoft also uses its digital technology to help thousands of its corporate clients achieve their sustainability goals. Additionally, it supports the AI Rights Act. Following Microsoft, Applied Materials scored (71.71), having established an ESG leadership council responsible for environmental, social, governance, and sustainability issues that the organization seeks to achieve. Some council members focus on climate strategy, measuring carbon footprints, and ensuring the organization's ESG data. They also prioritize renewable energy, aiming to reach 100% renewable energy globally by (2030). Woodward came in third place scoring (71.69). Woodward collaborates with local energy suppliers to reduce electricity consumption, implements recycling, conversion, and reuses programs, and reduces wastewater and hazardous waste produced by its operations.

- **Comp Rtg**

stands for (Composite Rating) in stock performance analysis, which is a comprehensive evaluation of companies' performances based on various financial metrics such as sales growth, profit margins, and return on equity. It also includes market conditions and analysts' recommendations. A higher composite rating typically indicates stronger company performance, ranging from (1 =worst) to (99 =best).

- **RS Rtg**

refers to the (Relative Strength Rating), which measures the stock's price performance compared to the overall market. A higher relative strength rating indicates that the stock shows stronger price performance compared to others in the market, ranging from

(1 =worst) to (99 =best).

- **EPS Rtg**

refers to the (Earnings per Share Rating) a metric used in stock analysis to assess a company's earnings performance. A higher EPS rating indicates strong earnings growth and can be a positive factor for investing in a company's stock) (IBID, 2023)

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Table (3): ESG Score, Comp, RS, and EPS Rtg indicators for sample companies - Sources: IBD, Dow Jones, 2023

crank	Company	ESG score	Comp Rtg	RS Rtg	EPS Rtg	rank	Company	ESG score	Comp Rtg	RS Rtg	EPS Rtg
1	(MSFT)	72.76	98	89	96	24	(CLH)	60.47	85	90	94
2	(AMAT)	71.71	94	91	85	25	(MCHP)	60.22	83	58	96
3	(WWD)	71.69	97	93	85	26	(CSGP)	60.11	84	72	83
4	(VRSK)	71.58	93	91	89	27	(PLD)	59.65	87	51	96
5	(MA)	71.57	95	87	86	28	(AMH)	58.86	84	77	83
6	(CAT)	70.66	99	92	92	29	(ROK)	58.31	85	62	90
7	(MPC)	69.42	84	95	35	30	(PAYX)	57.65	86	58	92
8	(NVDA)	69.4	99	99	93	31	(IDXX)	57.37	88	77	97
9	(DOV)	68.65	86	50	79	32	(TREX)	57.21	86	94	64
10	(MSI)	68.54	83	69	95	33	(TPX)	56.95	89	94	81
11	(BG)	68.21	90	90	93	34	(SYK)	56.94	88	86	87
12	(SHW)	68.17	91	85	95	35	(GGG)	56.17	85	62	92
13	(ADBE)	66.75	98	96	96	36	(MORN)	55.82	88	89	63
14	(MDLZ)	66.74	83	70	88	37	(ITW)	55.77	83	66	78
15	(CHD)	66.4	86	80	87	38	(SPGI)	55.64	84	74	86
16	(APD)	66.15	84	72	92	39	(ACM)	55.23	90	62	87
17	(IT)	65.82	85	66	93	40	(PAYC)	54.55	84	28	98
18	(LRCX)	65.06	90	93	71	41	(CASY)	54.3	83	74	92
19	(JBL)	64.48	91	95	95	42	(WMT)	54.26	86	83	83
20	(ON)	63.13	84	90	77	43	(HLI)	54	85	89	69
21	(TTEK)	62.95	86	70	96	44	(IPAR)	53.39	88	87	96
22	(CMC)	62.54	83	84	83	45	(GPOR)	53.21	83	95	11
23	(FSS)	62.36	87	84	93						

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IJFAES
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المجلة الدولية للعلوم المالية والإدارية والاقتصادية
الإصدار (3)، العدد (12)

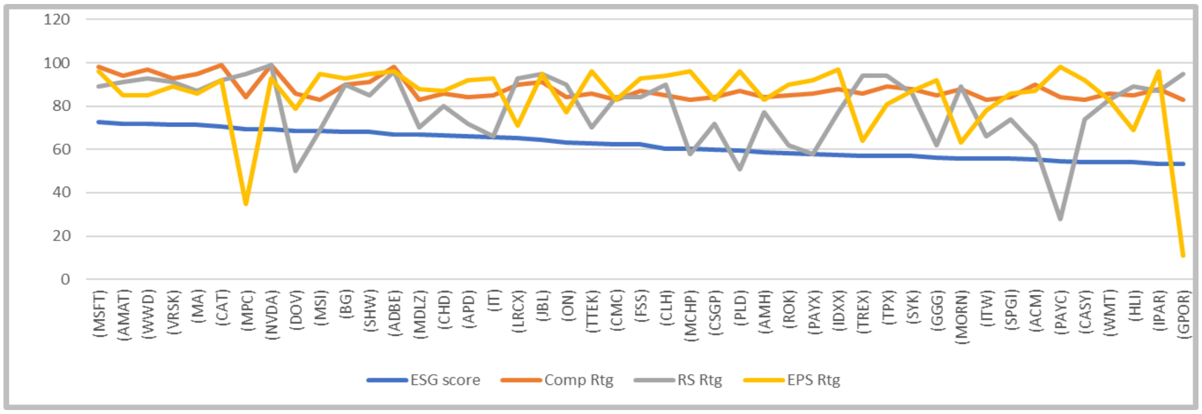

Figure (3): Performance ESG score,Comp Rtg,RS Rtg,EPS Rtg

4. Discussion of Results

The effect of the research sample companies' adoption of ESG norms on stock performance was examined using a basic linear regression model. The results, as listed in Table 4, show that the (R^2) value reached (0.345) meaning that ESG explains (34.5%) of the variation in the selected performance indicators for the sample companies. The measurement results show a statistically significant positive effect of the ESG index on the (Comp Rtg) indicator, with a correlation coefficient of (0.682). This means that any one-unit change in ESG will increase the Comp Rtg for companies by (0.682). The significance level was (0.002). As for the effect of ESG on (RS Rtg) and (EPS Rtg), the measurement results indicate that it has a relatively weak effect on these two indicators, with correlation coefficients of (0.288) and (0.286), respectively, suggesting that other factors may have a greater influence on the performance indicators of these companies' stocks.

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Vol. (3), No. (12)
IJFAES
December 2024
المجلة الدولية للعلوم المالية والإدارية والاقتصادية
الإصدار (3)، العدد (12)

Table (4) Results of measuring the impact of (ESG) on (Comp Rtg, RS Rtg, EPS Rtg)

Coefficients	Std . Error	T. Stat	P-value	dependent variable	independent variable
0.682408	0.214074	3.187718	0.002744	ESG	comp Rtg
0.288239	0.068778	0.419083	0.677343		RS Rtg
0.286784	0.058966	0.486353	0.629307		EPS Rtg
ESG=2.368+O.682 Comp Rtg + 0.288 RS Rtg+0.286 EPS Rtg				2.368	Intercept
				0.3451	R^2
				0	Significance F
				7.204	F

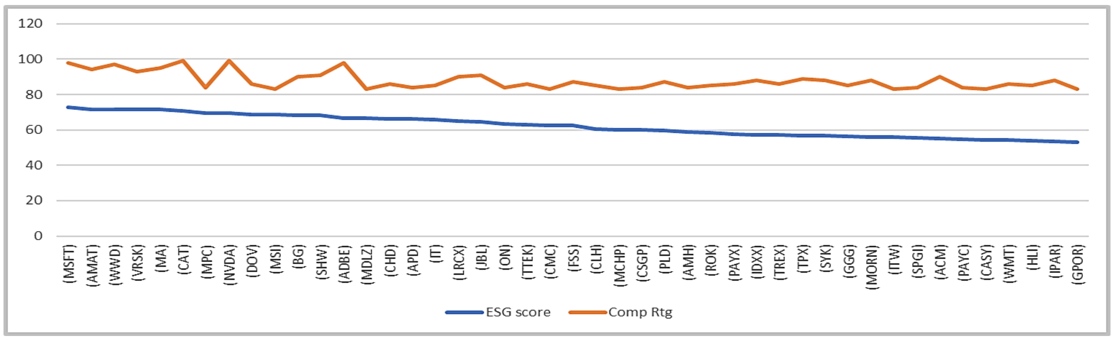

Figure (4): Performance ESG score VS Comp Rtg

As for the impact of (ESG) on (RS Rtg) and (EPS Rtg), the measurement results showed that it has a relatively weak impact on the two indicators, with the correlation coefficient reaching (0.288) (0.286) respectively. This may indicate the presence of other variables that have a greater impact on the performance indicators of companies' stocks.

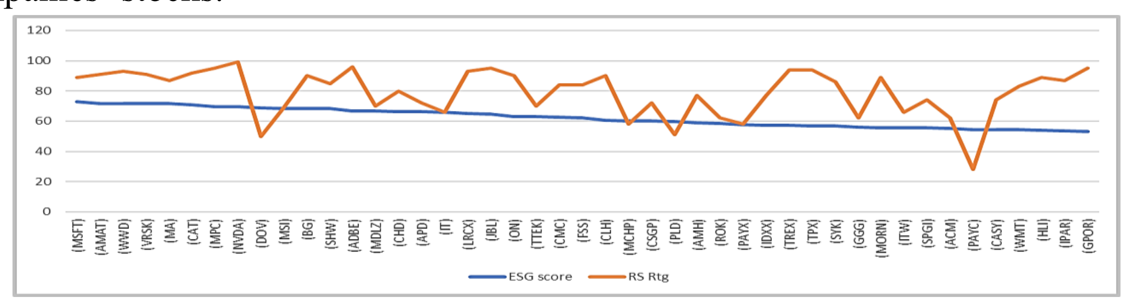

Figure (5): Performance ESG score VS RS Rtg

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Vol. (3), No. (12)
IJFAES
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المجلة الدولية للعلوم المالية والإدارية والاقتصادية
الإصدار (3)، العدد (12)

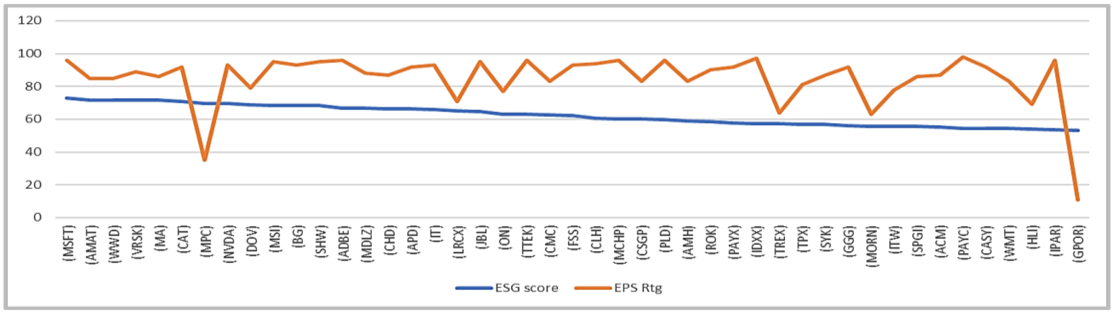

Figure (6): Performance ESG score VS EPS Rtg

Conclusions

Incorporating environmental, social, and governance sustainability principles into corporate strategies has gained significant momentum among companies seeking to enhance their stock performance. This research explored the relationship between ESG practices and stock performance by examining a case study of a group of U.S. companies across various industries. The results suggest that companies that proactively adopt ESG frameworks tend to outperform their peers in the stock market, driven by increasing investor interest and a growing consumer base prioritizing sustainability. By aligning corporate goals with ESG principles, these companies not only mitigate risks related to environmental and social challenges but also unlock new opportunities for innovation and growth.

The case study reveals that U.S. companies successfully integrating ESG principles into their operations often experience a shift in investor sentiment, leading to lower capital costs and enhanced market valuations. This trend underscores the importance of transparent reporting and effective communication of ESG initiatives, as stakeholders are increasingly evaluating companies based on their sustainability credentials. Furthermore, the research highlights those organizations prioritizing social responsibility and ethical governance practices foster brand loyalty and

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employee engagement, which significantly contribute to long-term financial stability and growth.

Additionally, the study suggests that while ESG standards have a positive impact on the overall stock performance, they do not show a strong effect on relative strength or earnings per share, which may be due to the influence of various market-related factors .

Therefore, companies must incorporate ESG into their daily decision-making processes, ensuring that environmental, social, and governance factors become an integral part of their overall approach to strategy, operations, and investments. It is also crucial to regularly measure and evaluates a company's performance in ESG areas, allowing the company to understand its progress toward sustainability goals and identify areas for improvement.

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