Araştırma Makalesi / Research Article

Relationship between Environmental, Social and Corporate Governance Performance and Financial Performance

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Abstract

Environmental, social and governance (ESG) performance and their relationship with economic performance of the companies have been a subject of debate. ESG is useful for stakeholders in making decisions and evaluations about companies' economic performance. Building on the stakeholder theory, this paper seeks to find the relationship between ESG performance and economic performance of firms. In this study, ESG data from the UK companies are used which covers the years 2011-2015. Correlation and regression analysis have been conducted in order to test the relationship between ESG and economic performance. The results showed that social and corporate governance performance of the UK companies have a positive and significant relationship with the economic performance. However, environmental performance failed to show a significant relationship with the economic performance. In addition, companies need to improve their environmental performance and find ways to increase the significance of environmental performance on the economic performance for a sustainable growth. The findings are expected to provide a road-map for companies in order to recognize and achieve the benefits of the ESG. The proposed relationship between the ESG and economic performance can contribute to the stakeholders' decision making. This study also provides

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valuable information for developed countries by discussing the findings on the grounds of the UK.

Keywords*: Corporate social responsibility, Economic performance, Environmental performance, Governance performance, Social performance*

Çevresel, Sosyal ve Yönetimsel Performansın Ekonomik Performans Üzerindeki Etkileri

Öz

Çevresel, sosyal ve yönetimsel (ESG) performans›ın ekonomik performans üzerindeki etkileri her zaman tartışma konusu olmuştur. ESG performansı firma paydaşlarının firmaların ekonomik performanslarını değerlendirmek için kullandıkları bir araçtır. Paydaşlar teorisi göz önünde bulundurularak, bu alışma ESG performansı ve ekonomik performans ilişkisini incelemektedir. Çalışma İnigiltere›de faaliyet gösteren firmaları örneklem olarak almıştır. Çalışma, 2011-2015 yılları arasındaki performans değerlerini kapsamaktadır. Korelasyon ve regresyon analizleri ile ESG ve ekonomik performans ilişkisi analiz edilmiştir. Bulgulara göre sosyal ve yönetimsel performans pozitif ve anlamlı bir şekilde ekonomik performansı etkilemektedir. Ancak, çeveresel performans anlamlı bir şekilde ekonomik performansı etkilememektedir. Bu çalışma, yatırımcılara ve yöneticilere, ESG performans değerlerinin önemini kanıtlamaktadır.

Anahtar Kelimeler: *Çevresel performans, sosyal performans, yönetimsel performans, ekonomik performans*

1. Introduction

Recent changes and innovations within the business environment have changed the way all stakeholders perceive environmental, social and corporate governance (ESG) aspects. The corporate social responsibility is replacing the terms ethics and sustainability in the business industry (Richardson, 2009). There is an effort to find new ways of gaining competitive advantage and ESG data is one major way. The traditional financial data should be supplied with non-financial data in order to provide a more transparent and objective account of the company. There has been a change of the importance placed on the non-financial information; stakeholders are placing more importance on this information (Kapstein, 2001). There has been extensive research on the effects of financial aspects on the economic and financial performance of the firms. Financial aspects have been the center of attention for many years by scholars, however; the non-financial aspects such as ESG have been mostly ignored. Moreover, the financial crises have affected the whole industries, prompting a need for companies to be more attentive to have a better image and prestige and cover the costs of the financial crisis (Cetindamar and Husoy, 2007; Runhaar and Lafferty, 2009).

International Integrated Reporting Council (IIRC) has been focusing on increasing the disclosure of non-financial information alongside with the financial information within the financial reports of the companies (IIRC, 2013). This is expected to improve the transparency of the reports and provide the sufficient and crucial information to the investors for decision making (Eccles and Krzus, 2010). Traditional financial information which is disclosed by the companies may not always be sufficient for the stakeholders mainly investors, therefore, non-financial information such as ESG are required to make better decisions (Bassen and Kovacs, 2008; Jasch, 2006). Therefore, the ESG instruments have grown in importance. The ESG data have been collected by the ASSET4® ESG database by Thomson Reuters Inc. companies in the United Kingdom. Experts analyzed the publicly available information including annual reports, sustainability reports, and company websites (Reuters, 2015). There are studies conducted by using other ESG databases however, most of them used Kinder, Lynderberg and Domini (KLD) data stream or other data sets (Fowler et al., 2013; Gillan et al., 2010; Galbreath, 2013). Moreover, the ESG data set from the UK is mostly ignored.

The longitudinal data have been investigated during the years 2011-2015. The dataset consists of 5 years of data which equals to 505 business years; therefore, it is expected to provide a broader picture of the UK business world. This study aims to contribute the literature by analyzing longitudinal data collected from the UK companies. The aim of this research is to analyze the relationship between ESG practices and economic performance of the UK firms by considering the stakeholder theory as a framework.

2. Literature Review

2.1. Environmental, Social and Governance

The traditional financial information should be supplied with non-financial information to increase their materiality and effectiveness (Bassen and Kovacs, 2008; Boerner, 2011). There is not a universally accepted definition of CSR and ESG (Dahlsrud, 2008). According to Bassen and Kovacs, (2008) the ESG are provided information about companies environmental, social and governance matters which allows investors to make better decisions. Galbreath (2013) emphasized that the ESG performance scores of companies indicate their management and risk management performances. The concept of ESG implies an evaluation of the environmental, social and governance practices of companies. The concept of ESG is interrelated with the concept of corporate social responsibility (CSR), ethical investment, socially responsible investment, and sustainability (Richardson, 2009). One of the most widely accepted definitions of CSR has been made by World Business Council for Sustainable Development (2004); the CSR is defined as the organizations' obligations to engage in sustainable and socially responsible activities with all the stakeholders while doing what is good for the organizations. The CSR implies investing socially responsibly by considering economic, ethical, social and legal dimensions (Carroll, 1979). ESG is also a vital element of measuring company performance such as management performance, sustainability performance (Boerner, 2011; Richardson, 2009). The term sustainability entails the view that companies need to consider societal, environmental issues while achieving economic objectives. In the 21st century, the corporate governance has been included within the CSR dimensions as the stakeholder are placing more attention on the governance criteria (Galbreath, 2013Richardson (2009) stated that materiality and importance of the ESG issues are increasing and the investors consider ESG scores while making decisions. In addition, the relationship between ESG concepts and the economic concepts is necessary to be analyzed when CSR and sustainability are considered (Schaltegger and Burritt, 2005).

The importance of CSR and ESG can be interpreted by the stakeholder theory (Tarmuji et al., 2016; Roberts, 1992; Clarkson, 1995; Davenport, 2000). The stakeholder theory supports that organizations should consider the needs of all of the stakeholders including employees, customers, society, environment, and community (Freeman, 1984). According to Wood (1991) and Carroll (1991), the stakeholder theory should be the framework for social responsibility studies and a stakeholder perspective for CSR and its effects is necessary. Therefore, stakeholders of an organization can develop positive perceptions towards the organization which can bring benefits. According to Clarkson (1995), corporations which fail to fulfill stakeholders' societal expectations will end up in an unfavorable competitive position. ESG can be used as a strategic tool for maintaining positive relationships with both the internal and external stakeholders.

2.2. Economic Performance

Economic performance implies non-financial measures such as customer loyalty, company performance, and shareholder loyalty (Reuters, 2015). There is a continuous and controversial debate on the relationship of social practices with the economic performance of firms. In addition, Adams and Larrinaga-Gonzalez and Adams (2007), financial benefits are not the sole reason that non-financial benefits are also motivating companies in participating socially responsible initiatives. The impacts of ESG components on the economic performance have been researched; however, the results are not obvious and sufficient (Horváthová, 2010; López-Gamero et al., 2009; Barnett, Salomon, 2006). According to Gray and Shadbegian (1993), there is a negative relationship between the environmental practices and the economic performance. Previous literature suggested that firms' CSR initiatives create customer loyalty (He and Li, 2011; Marin et al. 2009). Moreover, when considering financial performance, the ESG operations are positively correlated with the financial performance of the firms (Christmann, 2000; Hart, 1995; Marcus and Geffen, 1998; Russo and Fouts, 1997). Economic benefits of the ESG includes a positive corporate image, employee commitment, and motivation (Heal, 2005; Schaltegger and Burritt,2005; Gray and Balmer, 1998). The concerns of companies' reputation and the image are getting higher as the companies are relying more on intangible aspects than tangible aspects. This has created a need for ESG practices to help companies reduce the risks of poor corporate image and reputation (Richardson, 2009). According to Hansen and Schrader (2005), economic outcomes are potential benefits of the ESG practices, however; it is not guaranteed that positive economic outcomes will flow to the companies.

2.3 Environmental Dimension

The environmental dimension of the ESG is concerning both the internal and external stakeholders of a company. Stakeholders such as investors, consumers, employees and others require environmental operations and environmental disclosures from the companies (Jasch, 2006). Accordingly, companies' awareness on the potential benefits of fulfilling environmental responsibilities is increasing. The environmental dimension of ESG database by Thomson Reuters (2015) consists of reducing the resources used, reducing carbon emissions, and increasing product innovation. Dolique (2007) suggested that the issue of climate change has created a responsibility for companies to reduce their CO2 emissions and resources. Companies need to perform their business activities by considering environmental sustainability requirements such as reducing consumption and waste of resources as well as using sustainable materials (Melquiot, 2003). Bassen (2007) mentioned that companies need to learn the importance of ESG performance because in the foreseeable future businesses will face pressures from stakeholders to increase their environmental responsibilities. Additionally, reducing any type of waste would benefit a company simply by reducing resource usage (Porter, 1991). Melnyk et al. (2003) asserted that companies which consider environmental responsibilities found themselves in better competitive positions and achieve better economic outcomes. According to the stakeholder theory, environmental responsibility entails the view that organizations participate in environmentally friendly activities in order to maintain positive relationships with their stakeholders (Branco and Rodrigues, 2007). Moreover, protecting the environment can be perceived as morally expected to be fulfilled by the companies (Branco and Rodrigues, 2007). Therefore, it could be expected that environmentally friendly operations have a positive relationship with the economic performance of firms.

2.4 Social Dimension

The social dimension of the ESG involves the aspects; quality of employment, health and safety, training and development, diversity, human rights, community and product responsibility (Reuters, 2015). The social dimension of the ESG is directly synonymous with the concept of corporate social responsibility (CSR). The CSR is classified by Carroll (1991) into four categories namely economic, legal, ethical and philanthropic responsibilities. It should be noted that companies are expected to be economically profitable, do not act unlawful, be ethical and contribute to the society (Caroll, 1991). Furthermore, participating in these operations would lead to better financial performance due to increased positive perceptions by the stakeholders (Branco and Rodrigues, 2007). Additionally, these positive perceptions can be regarded as intangible assets which can create a competitive advantage for the companies (Branco and Rodrigues, 2007). It should be noted that companies which have a reputation of being socially irresponsible would face detriments. Epstein and Schnietz (2002) implied that companies listed in the Fortune 500 which are operating in large industries such as oil, dressing, and mining observed decreasing trends in their share prices. It is claimed that this declining trend in the share prices is happened due to the perceptions of people who expect unethical operations from these larger industry companies (Epstein and Schnietz, 2002). According to Salomon and Barnett (2012), firms with most successful and highest impact socially responsible activities achieved the most favorable financial outcomes. Therefore, it could be expected that socially responsible operations have a positive relationship with the economic performance of firms.

2.5 Governance Dimension

Environmental and social responsibilities and practices are not the sole concern of the ESG research. Scandals such as Enron, WorldCom, OneTel have arisen awareness and attention on the importance of corporate governance. Corporate governance perspective involves the relationship between shareholders of a firm and the insider members of the firm (John and Senbet, 1998). According to Mayer (1997), corporate governance practices can be seen as a control mechanism to ensure shareholders' benefits are considered. The key aspects of corporate governance as highlighted in Thomson Reuters (2015) investigation are broad structure and functions, compensation policy, rights given to shareholders, vision, and strategy of the companies. It is claimed that achieving effective and efficient corporate governance benefits the companies in creating goodwill, positive perceptions and decreasing the risk of bankruptcy (Daily and Dalton, 1994). Shareholders are not the only parties interested in corporate governance practices of the companies. All the stakeholders are concerned with the governance practices of firms (Klettner et al., 2014). Companies are expected to adopt their corporate governance practices in a way that companies include environmental, social and ethical practices within their corporate governance objectives (Kolk, 2008). Stakeholders' interests are to be considered while achieving a more successful corporate sustainability (de Graaf and Stoelhorst, 2013). A successful corporate governance strategy is expected to involve necessary actions to establish sustainability within the organization (Klettner et al., 2014). There is an increasing attention on the sustainability of companies by their stakeholders. This has made it inevitable that companies need to implement sustainability strategies into their corporate governance structures (Klettner et al., 2014). According to the stakeholder theory, corporate governance should be used as a framework to ensure the benefits of all the stakeholders of a company (Gill, 2008). Transparency and the quality of governance disclosures are expected to be higher in developed countries (Bushman et al. 2004).

2.6 Hypothesis Development

Firstly, environmental practices are expected to have an impact on the economic performance of the firms. Therefore, businesses develop new strategies and focus more on environmental practices in order to ensure the benefits (Sarkar, 2008). According to Sarkar (2008), there is a significant relationship between the environmental and economic interests of a business. Moreover, competitive nature of businesses is also affected by the environmental performance of firms (Walley and Whitehead, 1994). Businesses which are successful in environmental aspects including developing environmentally friendly technologies would find themselves in better competitive positions (Porter and van der Linde, 1995). Sustainability concerns are increasing; therefore, new concepts such as CSR and ESG are necessary to overcome environmental problems (Devall and Sessions, 2001). Stakeholders are placing more importance on the environmental practices of businesses due to the fact that they are associated with economic performance (Richardon, 2009).

Therefore,

H1 There is a positive association between environmental performance and economic performance.

H2 Companies show an increasing environmental performance over time.

Secondly, the social performance of businesses is expected to have a relationship with the economic performance. The social performance of companies is defined by Wood (1991) as the rules and policies of companies in order to ensure social responsiveness. Accordingly, the relationship between social performance and economic performance can be explained by the stakeholder theory (Wood and Jones, 1995). Stakeholders develop perceptions about the companies' CSR reputations (Bowen et al., 1995; Bull, 1987; Cornell and Shapiro, 1987; and Jones, 1995). There are different studies conducted for analyzing the relationship between social performance and economic performance. The studies analyzing short term and long-term impact of social practices found differing results: a negative relationship has been found by Wright and Ferris (1997); a positive relationship has been found by Posnikoff (1997) and Waddock and Graves (1997).

Therefore,

H3 There is a positive association between social performance and economic performance.

H4 Companies show an increasing social performance over time

Thirdly, the importance of corporate governance has been increased. The effects of corporate governance are widened and it also affects all the stakeholders (Klettner et al., 2014). Therefore, there is an expanded group of stakeholders require financial and non-financial aspects. Accordingly, the concept of corporate governance is acting as a mediating framework which the board communicates its structure, citizenship, and commitments with other stakeholders (Gill, 2008). Moreover, UK is one of the countries with most successful companies in adopting corporate governance strategies. Hence, governance performance of UK companies is expected to have an effect on the economic performance (Bushman et al. 2004).

Therefore,

H5 There is a positive association between corporate governance performance and economic performance.

H6 Companies show an increasing governance performance over time.

3. Methodology

In this study, secondary data by Thomson Reuters have been used. Asset4® database includes companies listed in the UK and experts value their ESG performances. The UK is chosen to be analyzed because there are differences among countries due to different backgrounds (Ortas et al. 2015; Tarmuji et al. 2016). A credible third party such as Thomson Reuters is a favorable company for analyzing the ESG performance accurately without bias (Graafland et al. 2004; Novethic, 2011; Galbreath, 2013). 101 companies were chosen randomly from the list of companies. The data set include environmental, social, governance, and economic scores recorded during the years 2011-2015. The ESG data set involves indexes about companies' performances weighted from 0 (lowest) to 100 (highest). Average of the scores for each measure has been calculated in order to allow statistical analysis by correlation and regression method. Researchers suggested that correlation and regression methods should be used in order to allow analysis of the relationship between variables (Aras et al., 2010; Nelling and Webb, 2008). The independent variables are the ESG dimensions: environment, social and governance. The dependent variable is the economic performance. In addition, in order to measure the companies' performance of ESG practices over the years, t-tests were conducted (Galbreath, 2013). This allowed comparison of mean values between the years.

Table 1. Thomson Reuters (2015) Asset4® ESG and economic performance indicators

Environmental Performance	Social Performance	Governance Performance	Economic Performance
Emission Reduction	Product Responsibility	Board Functions	Client Loyalty
Product Innovation	Community	Board Structure	Performance
Resource Consumption Reduction	Human Rights	Compensation Policy	Shareholders Loyalty
	Diversity and Opportunity	Vision and Strategy	
	Employment Quality	Shareholder Rights	
	Health and Safety		
	Training and Development		

Cronbach's Alpha method was used to analyze the reliability of the data (Zikmund, 2003). The Cronbach's Alpha of the dependent and independent variables are 0.861 which is higher than the acceptable level of 0.7 and above (Pallant, 2007). Then, the data was analyzed using correlation and regression analysis.

In this study the following hypotheses are tested:

H1 There is a positive association between environmental performance and economic performance.

H2 Companies showed an increasing environmental performance over time.

H3 There is a positive association between social performance and economic performance.

H4 Companies showed an increasing social performance over time.

H5 There is a positive association between corporate governance performance and economic performance.

H6 Companies showed an increasing governance performance over time.

4. Results

The descriptive statistics for the overall values for the five-year period are shown in the table 2 below. The highest mean score of 77.64 is observed for corporate governance performance with a standard deviation of 15.56. Environmental and social performances have shown similar mean values of 60.19 and 61.53 with standard deviations of 25.86 and 24.30 respectively. The economic performance score showed the lowest mean value of 57.27 with a standard deviation of 24.65

Table 2. Descriptive statistics of variables

	N	Minimum	Maximum	Mean	Std. Deviation
Economic	101	6.96	94.98	57.27	24.65
Environmental	101	10.52	93.41	60.19	25.86
Governance	101	5.27	95.20	77.64	15.56
Social	101	7.01	95.02	61.53	24.30

Table 3 below shows the correlation analysis for the ESG performance and economic performance. It can be observed that the correlation between variables is significant with each other ($p<0.01$). Social performance showed the highest correlation coefficient (.664) with economic performance. Governance and environmental performances showed correlation coefficients of .588 and .564 respectively.

Table 3. Correlation analysis of ESG and economic performance

	Economic Performance	Governance Performance	Environmental Performance	Social Performance
Economic Performance	1	.58***	.56***	.66***
Governance Performance	.58***	1	.57***	.52***
Environmental Performance	.56***	.57***	1	.80***
Social Performance	.66***	.52***	.80***	1

Table 4 below shows the regression analysis results for the relationship between individual ESG performances and the economic performance for the average of the years between 2011 and 2015. The regression results showed that R-value is .721 which indicates a positive and strong correlation between ESG variables and the economic performance. R square value indicates that 52% of the variance in economic performance of the companies in the UK list can be explained by the ESG operations. The F value of the regression is 17.33 ($p<0.01$) which indicates that the regression model is significant. The results also showed that social and governance performances have a significant relationship with the economic performance of UK firms. Therefore, H3 and H5 are accepted. However, environmental performance failed to show a significant relationship with the economic performance. Therefore, H1 is not accepted.

Table 4. Regression analysis for the relationship between ESG performances and economic performance.

	Beta coefficients	t	Sig
(Constant)	-14.57	-1.63	.10
Environmental	-0.05	-.48	.63
Social	0.53	4.45	.00
Governance	0.54	3.94	.00
F-value	17.3		.00
R	0.72		
R^2	0.52		
Adjusted R^2	0.50		

The table 5 below shows the descriptive statistics for each ESG variable for the years 2011-2015. Descriptive statistics include minimum, maximum, means and standard deviations of environmental, social and governance performances. In accordance with the descriptive statistics, paired sample t-tests were conducted to compare the mean values and examine the ESG performance of firms. Firstly, the environmental dimension showed an increasing trend with a t-value of 3.09 ($p<0.01$). Secondly, the social dimension showed an increasing performance with a t-value of 3.55 ($p<0.01$). Thirdly, the governance dimension showed an increasing performance with a t-value of 2.57 ($p<0.01$). Therefore, H2, H4 and H6 are accepted.

Table 5. Descriptive statistics for years 2011-2015

Statistics	ENV 2011	ENV 2012	ENV 2013	ENV 2014	ENV 2015
Minimum	10.66	9.69	9.64	9.89	11.9
Maximum	94.07	93.84	93.67	94.19	94.17
Mean	58.34	60.16	61.11	64.00	62.61
SD	26.96	26.77	26.76	26.27	25.65
Statistics	**SOC 2011**	**SOC 2012**	**SOC 2013**	**SOC 2014**	**SOC 2015**
Minimum	6.52	7.47	6.31	8.24	5.56
Maximum	96.30	96.13	96.50	96.60	95.65
Mean	60.07	61.39	61.58	64.86	65.15
SD	25.75	26.19	26.38	23.39	23.40
Statistics	**GOV 2011**	**GOV 2012**	**GOV 2013**	**GOV 2014**	**GOV 2015**
Minimum	5.09	3.87	3.67	7.72	5.98
Maximum	95.81	95.70	96.94	95.73	95.68
Mean	75.67	77.18	76.99	81.35	79.00
SD	18.98	17.73	16.19	14.24	16.12

5. Discussion

The relationship of ESG operations with the economic performance of UK firms have been analyzed by statistical tests. The impact of ESG operations on the economic performance of firms has been the center of debates in the 21st century. Schaltegger and Synnestvedt (2002) conducted a study on the environmental management performance of firms and economic performance of firms. It is claimed that the environmental practices can have both positive and negative impacts on the economic performance of firms (Schaltegger and Synnestvedt, 2002). The correlation results have implied that environmental dimension of the ESG showed a positive and significant relationship on the economic performance. However, the regression analysis implied that despite having a relationship with economic performance, the environmental operations did not have a significant relationship with the economic performance of UK firms. Therefore, the findings of this research opposed the previous findings which support the influence of environmental practices on economic performance (Porter and van der Linde, 1995; Windsor, 2001). The findings may imply the fact that the firms in the UK do not pay sufficient attention to the environmental operations; therefore, fail to experience the positive effects of environmental practices on economic performance (Buchholz, 1991; Porter and van der Linde, 1995; Welford, 1994). Tarmuji et al. (2016) found similar results and did not accept the impact of environmental operations on the economic performance. Client loyalty, company performance, and shareholder loyalty are not affected by companies' environmental practices. Therefore, the results have implied that hypothesis H1 cannot be accepted. In addition, the t-test showed a significant, however, a low value; therefore, H2 is accepted. It can be said that companies increased their environmental performances; however, they need to improve their performance.

The social operations are expected to have a positive relationship with the economic performance of the firms. According to McGuire et al. (1988), a firm with successful social responsibility practices is expected to have a good corporate image which maintains positive relationships with companies' stakeholders. Therefore, this implies that economic benefits may be expected due to enhanced positive relationships with the stakeholders of the firms (McGuire et al. 1988). The stakeholder theory is used as a framework in this study in order to explain the relationships between the variables. Donaldson and Preston (1995) claimed that stakeholder theory is effective in explaining organizational behaviors. Accordingly, the stakeholder theory implies that the economic performance of firms depends on their actions towards both their internal and external stakeholders (Cornell and Shapiro, 1987; Freeman, 1984; Jones, 1995; McGuire et al., 1988). The results of this study are in line with Balabanis et al. (1998) and Tarmuji et al. (2016) who found that social operations have a positive impact on economic performance. Moreover, the findings of this study have implied that the social dimension of the ESG has a positive and significant correlation with the economic performance. In addition, social dimension has a significant relationship with the economic performance of UK firms. Social operations of UK firms indicate that social factors are the most influential variable affecting the economic performance. Therefore, the hypothesis H3 can be accepted. In addition, there is a slightly increasing trend of social performance. Therefore, H4 is accepted.

There is an ongoing debate on the impact of corporate governance on economic performance. In a developed country such as the UK, it is expected that corporate governance operations are positively associated with economic performance. The literature on the nexus contains a variety of conclusions. For instance, Tarmuji et al. (2016) found that the only ESG construct that demonstrated a relationship with economic performance in Malaysian companies was governance performance. Sila and Cek (2017) discovered a substantial correlation between social and environmental performance, two ESG components, and economic success in an Australian setting. Governance Performance of Australian-listed corporations did not significantly correlate with financial performance (Sila & Cek, 2017). Velte (2017) discovered a favorable correlation between German companies' ESG performance and return on assets. For instance, a negligible correlation between sustainability measures was discovered by Galema, Platinga, and Scholtens in 2008 for financial risk and return across 289 U.S. corporations. A meta-analysis of empirical studies on the performance of the economy and the environment has produced contradictory findings (Wagner et al., 2002). Furthermore, there are studies which support that corporate governance operations of firms positively influence economic and financial performance (Gompers et al. 2003; Brown and Caylor, 2004). In this study, the results showed that there are a positive correlation and a significant relationship between corporate governance operations of firms operating in the UK and their economic performances. The findings are in line with previous studies (Gompers et al. 2003; Brown and Caylor, 2004; Tarmuji et al. 2016). Stakeholders are placing importance on corporate governance issues due to the fact that agency problems and scandals have occurred within this concept (Coffee, 2005). According to McKinsey and Company (2000), investors have positive perceptions for companies with successful corporate governance structures and negative perceptions for companies with weaker corporate governance structures. The findings of this research are also in-line with Drobetz et al. (2004) findings that there is a positive relationship between corporate governance and economic performance of firms in Germany. Therefore, the hypothesis H5 can be accepted. Moreover, the t-test showed that companies slightly increased their governance performances. Therefore, H6 is accepted.

6. Conclusion

The dynamic development of the business world created a need for practices such as ESG to contribute to the economic success of the companies. ESG practices provided companies the extra capability to achieve better economic outcomes. Stakeholders are now aware of the importance of the ESG practices. Results showed that social and governance dimension of the ESG have an influence on the economic performance of companies in the UK. It can also be concluded that the social and governance practices have a positive impact on the economic performance. Noteworthy, environmental dimension of the ESG practices failed to show a significant influence. This implied that companies in the UK might need to improve their environmental practices and increase awareness of the importance of environmental practices to see the benefits. This paper showed that stakeholders can use social and governance performances as economic performance indicators. According to Boerner (2010), it is an expectation and requirement by the stakeholders for companies to participate in ESG practices. This also makes the need for this study inevitable. In addition, this study contributes the literature by providing evidence on the relationship and impact of ESG practices on economic performance in a developed country such as the UK. These findings may provide insights for studies focusing on other developed countries. Moreover, despite focusing on a single ESG practice, this study focused on all three dimensions of the ESG. Thomson Reuters provided a unique, credible and up-to-date data about companies operating in the UK.

ESG is non-financial information, therefore, shows the drawbacks of these type of information. The sample of this study only involves the UK data. Therefore, the findings may only apply to UK or similar developed countries. Moreover, the sample size of the research is relatively low. In other words, the findings cannot be generalized for all countries. In addition, secondary data have been employed; therefore, any errors made by the experts of the data collection would yield inaccurate results. As a future research suggestion, other aspects could be considered while scoring the companies ESG performances. Secondly, a larger sample size from various countries could yield generalizable results. Another future research suggestion is evaluating why environmental practices did not have a significant impact on the economic performance of firms.

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