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How Does Corporate Environmental Responsibility (CER) Contribute to Corporate Financial Performance (CFP)?

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Abstract:

Despite growing interest in mitigating the negative impact on corporate environmental responsibility initiatives, their impact on corporate financial performance remains unclear. The study reviews existing research to examine the impact of environmental responsibility practices on corporate financial performance. The study systematically reviews 32 articles covering a period of 10 years (2015-2025) to examine the relationship between environmental responsibility practices and firm financial performance. The study identified the conflicting relationship between environmentally responsibility practices and firm financial performance. The study observed positive relationships in firms operating in highly regulated sectors, and negative relationships in high polluters and emitters. Furthermore, the review indicates corporate environmental responsibility practices negatively impact on short-term corporate financial performance. The study underscores the mitigation policies that target high polluters and emitters as they are negatively affected by environmental responsibility initiatives. Additionally, the review highlights the urgent need for tax policies to mitigate high upfront expenditure associated with corporate environmental initiatives.

Keywords:

Corporate Environmental Responsibility (CER), Corporate Financial Performance (CFP), Tax Policies, Sustainable Development, Emerging Economies

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Introduction

The escalating impact of climate change on human well-being has placed environmental sustainability at the forefront of global policy agendas. In response, police makers in many countries have stepped up efforts to attain United Nations sustainable development goals (SDGs) (Abban & Hasan, 2021; Jinapor, Suleman & Cromwell, 2023). Aligned with these global commitments, businesses are increasingly expected to integrate environmental, social, and governance (ESG) principles into their core strategies to mitigate ecological degradation and support sustainable development. The global commitment to environmental preservation is seen in the initiatives such as the Agenda 2030 and The Future We Want and The Africa We Want. These initiatives call on firms to take care of the planet and keep it in good conditions, while improving firm financial stability. This bring fore the importance of corporate environmental responsibility (CER) for firm sustainability and profitability. CER promotes environmental preservation through reducing environmental, pollution, carbon emission, energy intensity and protecting human life (Agradi, Adom & Vezzulli, 2022). It emphasises the importance of considering environmental, people life and firm profitability.

A key aspect of corporate sustainability is corporate environmental responsibility (CER), which reflects the extent to which firms embed environmental considerations into their operations (Boakye, Ahinful, Damoah & Tauringana, 2020; Naseer & Hunjra, Mattoussi & Amini, 2023). CER involves initiatives such as reducing greenhouse gas (GHG) emissions, improving waste management, enhancing resource efficiency, and promoting responsible land use. Research suggests that effective CER contributes to greater financial performance and long-term value creation (Gerged, Beddewela & Cowton, 2022).

This relationship is especially important in South Africa, where carbon-intensive industries like mining, manufacturing, construction, transportation, and energy are key to the economy but also major sources of environmental harm (Kanoyo, Maponya & Semenya, 2025). These sectors rely on fossil fuels and resource extraction, leading to high GHG emissions and pollution (Azni, Khalid & Hasran, 2023). While vital for jobs and growth, they risk public health, agriculture, and food security if environmental impacts are not managed. Increasing pressure to adopt sustainable practices demands significant investment in cleaner technologies and compliance. Ignoring this can lead to fines, reputational loss, and weaker financial results. Assessing the financial impact of environmental efforts is therefore crucial in South Africa, where sustainability and economic development are closely linked.

Despite the importance of this issue, empirical research on the link between CER and corporate financial performance (CFR) in South Africa remains limited. Existing studies have primarily focused on general ESG disclosures or broader corporate social responsibility, without adequately addressing how specific environmental practices affect financial outcomes in high-impact industries. Moreover, findings in the global literature are mixed; while some studies report positive associations between environmental

performance and profitability (Schaltegger, Horisch & Freeman, 2017), others suggest the effects are context-dependent or inconclusive (Matemane, Msomi & Ngundu, 2024; Alareeni & Hamdamm 2020).

This study addresses this gap by conducting a systematic literature review (SLR) of research published between 2015 and 2025, focusing specifically on the intersection of CER and CFP in resource-intensive sectors within South Africa. The theoretical foundation of this study is stakeholder theory, which emphasizes the importance of engaging a wide range of stakeholders including employees, customers, investors, and communities in corporate decision-making (Freeman, 1984). Effective stakeholder engagement can enhance reputation, access to resources, and financial outcomes (Le, 2024; Jansen & Meckling, 1976). As such, stakeholder responsiveness is considered a key mechanism through which environmental initiatives can translate into financial benefits.

Theoretical Framework and Empirical Literature Review

This section presents theoretical frameworks underpinning the study. The section also review the existing literature on the impact of CEP on CFP.

Agency Theory and Stakeholder Theory

The relationship between CEP and CFP is often examined through agency and stakeholder theories. Agency theory (Abedin, Subha, Anwar, Kabir, Tahat & Hossain, 2023) highlights conflicts between owners and managers caused by information gaps and misaligned incentives. CER can help reduce these agency costs by promoting transparency, accountability, and long-term value, signalling managerial commitment to risk management and boosting investor confidence (Khuong, Truong & Hang, 2021) Stakeholder theory broadens responsibility beyond shareholders to include employees, customers, suppliers, communities, and investors [Jansen & Meckling, 1976]. These groups influence access to resources like capital and labour [Le, 2024]. Addressing their interests fairly can improve reputation, relationships, and financial results [Karbo, Terrence & Palmer, 2025; Saini, Aggarwal, Dhingra, Kumar & Yadav, 2023). Thus, engaging stakeholders effectively is crucial for sustainable business success

Empirical studies have shown that sustainable business practices are often linked to better financial performance, particularly when firms actively engage with key stakeholders. Sain et al. (2023) found that companies implementing environmental initiatives tend to benefit from lower capital costs and improved risk management, especially when they prioritize stakeholder involvement. This supports the idea that addressing stakeholder expectations can reduce operational risks and enhance efficiency, contributing to stronger financial outcomes. However, Saini et al. (2023) also emphasize that these benefits are not uniform across industries, suggesting that the financial impact of environmental efforts depends largely on a firm's specific context and sector dynamics

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Stakeholder pressure is a significant factor shaping corporate financial performance, particularly in resource-intensive sectors. In industries where local communities and environmental advocates demand stricter pollution controls, firms are more likely to adopt sustainable practices to safeguard their reputation and retain their license to operate (Rangan, Corsten, Higgin & Schlesinger, 2021). Failing to address these expectations can lead to reputational damage and potential revenue loss. According to (Hossain, Mia & Dalla Pellegrina, 2024), companies facing intense scrutiny from customers, investors, or regulatory bodies are more inclined to embed environmental sustainability into their core business strategies.

The relationship between environmental and financial performance is influenced by firm-specific factors. Companies operating under strict regulations and high public scrutiny such as those in the mining sector are more likely to benefit financially from sustainable practices (Ellili, 2022). In contrast, firms in low-risk industries may gain less, as environmental issues are less central to their operations (Khan, Ahmad & Chowdhury, 2024). These contextual differences help explain the inconsistent findings in existing research. For some firms, environmental practices also serve as a strategic differentiator, supporting value creation and performance improvement.

Legitimacy Theory and Institutional theory

The integration of environmental practices into corporate strategy can be understood through legitimacy and institutional theories (Munir, 2019). Legitimacy theory holds that firms must align with societal values to maintain credibility, which is essential for securing resources, maintaining market position, and ensuring financial stability (Viviers & Theron, 2019). Companies often pursue sustainability not just for profit, but to strengthen their legitimacy, particularly when under public or regulatory pressure (Chen, Xie & He, 2024). However, financial outcomes remain inconsistent due to varying regulatory environments, stakeholder influence, and firm visibility.

Legitimacy theory explains why firms pursue environmental practices, but financial outcomes remain mixed. In less regulated or low-visibility sectors, benefits are often minimal (Verna & Muhtaruddi, 2023). Some companies adopt sustainability mainly to meet external expectations, leading to symbolic actions. Such superficial efforts, like greenwashing, can damage trust and hurt long-term financial performance (Zervoudi, Moschos, Christopoulos, 2025).

Institutional theory shows that laws, norms, and public pressure drive firms to adopt environmental practices (Barbar, 2025). Financial benefits depend on the regulatory and cultural context. Stronger pressures in regulated or high-impact sectors often lead to sustainability actions that may boost competitiveness and financial performance (Khan et al., 2024; Zhang, Zhu & Lee, 2024). Institutional pressures vary across industries and regions, with firms in less regulated sectors facing weaker

demands and adopting fewer sustainability measures. This leads to mixed findings on financial benefits. Some studies find environmental innovation boosts financial outcomes (Quittanah & Ayadi, 2024), while others stress that benefits depend on industry and regulatory context, favoring highly regulated sectors (Verma & Muhtariddi, 2023). Institutional theory shows that firms respond to external pressures like regulations and social norms, and aligning with these helps gain legitimacy and improve financial performance.

Resource-Based Review (RBV)

The RBV theory argues that a firm's competitive edge comes from its unique resources and capabilities (Barney, 1991). Environmental sustainability initiatives are seen as strategic assets that can yield long-term financial benefits (O'Oria, Crook & Wright, 2021). Firms adopting these practices often enhance their reputation, drive innovation, and improve efficiency, helping them differentiate in the market. According to Sain et al. (2023), such actions can also lower capital costs, strengthening financial performance. However, the impact varies by industry high-impact sectors like mining, energy, and manufacturing benefit more due to regulatory and stakeholder pressures (Khan et al., 2024), while firms in less regulated industries may see fewer gains. This underscores the importance of context in understanding the environmental-financial performance link.

The RBV suggests that environmental practices can boost financial performance by acting as valuable intangible assets that enhance reputation and efficiency. However, findings vary by region; firms in developed countries tend to benefit more financially than those in developing nations, highlighting the importance of institutional support. Industries with significant environmental impact often see greater gains, while those in less sensitive sectors experience limited benefits. Alongside RBV, agency, stakeholder, legitimacy, and institutional theories provide additional insights into how environmental initiatives affect financial outcomes. Despite extensive research, inconsistencies and gaps persist, underscoring the need for focused studies that synthesize recent evidence on the link between strategic environmental integration and corporate financial performance.

Empirical Literature Review

Corporate environmental responsibility (CER) refers to a company's efforts to reduce its environmental impact through actions like lowering greenhouse gas emissions, improving waste management, and boosting energy and water efficiency (Geerged et al., 2022). Corporate Financial Performance (CFR) is typically measured by metrics such as Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS), and Tobin's Q (Alareeni & Hamdan, 2020). The relationship between CER and CFR is a key focus in ESG research, generating extensive but often mixed academic findings.

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Empirical research on the link between CER and CFR shows mixed results, influenced by context, methods, and institutional factors (Al Amosh, Khatib & Ananzeh, 2023; Le, 2024). Some studies report positive financial impacts from environmental practices (Xie, Fang & Zhang, 2022; Delport, Oberholzwe & van Rooyen, 2024), while others find little or negative effects (Mans-Kemp & van Der Lugt, 2020; Ghosh, Dutta & Dutta, 2022) . Critics argue that sustainability efforts can increase costs and reduce profits, potentially limiting shareholder value (Jahan & Sassi, 2021; Zumente & Bistrova, 2021).

Research on the CER-CFP relationship centers on two main views. The traditional perspective sees environmental efforts as costly, potentially reducing competitiveness and financial performance (Acheampong & Opuku, 2023; Kaakeh & Gokmenoglu, 2023), suggesting a trade-off between sustainability and profits. Conversely, the win-win view argues that sustainable practices boost financial results by enhancing efficiency and innovation (Liodong, Taticchi, Rajwani & Pisani, 2022). This aligns with stakeholder and resource-based theories, which highlight environmental commitment as a source of strategic advantage.

These mixed results highlight the need for a more thorough theoretical investigation to identify the factors driving this variation. A comprehensive conceptual analysis is crucial to explain why the effects of sustainable environmental initiatives on financial performance vary across different industries, regions, and institutional environments. Gaining insight into these dynamics will clarify the circumstances in which SEI has a positive or negative impact on corporate financial outcomes.

Methods and Data

The present study employed a Systematic Literature Review (SLR) approach to investigate the impact of SEI on corporate financial resilience. SLR is a structured and replicable research method that involves the application of predefined criteria for selecting and analyzing published studies, providing a reliable, evidence based summary of existing literature (Tavares, Azevedo, Marques & Bastos, 2023; Madwe, Chonco & Zungu, 2025). This approach allows for a transparent and rigorous synthesis of previous research, helping to identify prevailing patterns and research gaps (Taveres et al., 2023)

A comprehensive search was conducted in the Scopus database, known for its wide interdisciplinary coverage and quality peer-reviewed journals. The study followed PRISMA 2020 guidelines to ensure a clear, systematic, and rigorous process for selecting and reviewing literature (Page et al., 2021). The review focused on peer-reviewed English-language articles published from 2015 to 2025, aligning with the 2015 Paris Agreement to include the most recent and relevant research.

A comprehensive literature search was conducted in the Scopus database, covering publications from January 2015 to July 2025 to reflect recent research aligned with global sustainability goals like the UN

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SDGs. Boolean operators were used to combine key terms, and the search string was adjusted to fit the database syntax for optimal results.

Reference lists of key articles were manually checked to find additional relevant studies missed in the database search. Papers were selected and assessed based on the inclusion and exclusion criteria in Tables 1 and 2. Titles and abstracts were independently screened, with eligible articles reviewed in full. The initial keyword search found 930 articles. Using the PRISMA 2020 framework and criteria from Table 2, this was narrowed to 50 articles for further review, as shown in Figure 1. The SPIDER framework guided the systematic development of inclusion criteria and the search process.

Element	**Description**
PI- Phenomenon of Interest	The implementation, measurement of environmental performance
D- Design	Studies employing case studies, longitudinal analyses, panel data methods, surveys or content analyses.
E-Evaluation	Investigation of the impact of environmental performance on various financial performance indicators
R- Research Type	Systematic review, quantitative, qualitative and mixed method research

Table 1: The spider framework
(Source: Methley, Campbell, Chew-Graham, McMally & Cheraghi-Sohi, (2024))

Table 2 indicates the inclusion and exclusion criteria that guided the selection of journal articles included in this study.

Inclusion criteria	**Inclusion criteria number**	**Exclusion criteria**
Published between 2015 and 2025	IC1	Published before 2015 or after 2025
English Language	IC2	Not in English
Empirical research or relevant systematic reviews	IC3	Opinion pieces, editorial or unrelated reviews
Peer-reviewed journal articles	IC4	Not published in peer-reviewed journal

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Focus on the impact of CEP on CFP	IC5	No mention of SEI and CFR

Table 2: Inclusion and exclusion criteria

Selection Process

The keywords, titles and abstracts of articles were screened for the compliance applying inclusion criteria in Table 2. The keywords were used to search for articles in database. The articles were selected based on inclusion criteria (IC1-IC5). The search on Scopus database returned 930 articles. After applying the inclusion criteria, 60 were excluded due to duplicates. The full texts of 71 articles were then screened, 39 were further excluded resulting for not meeting inclusion criteria. The selection process is shown in Figure 1.

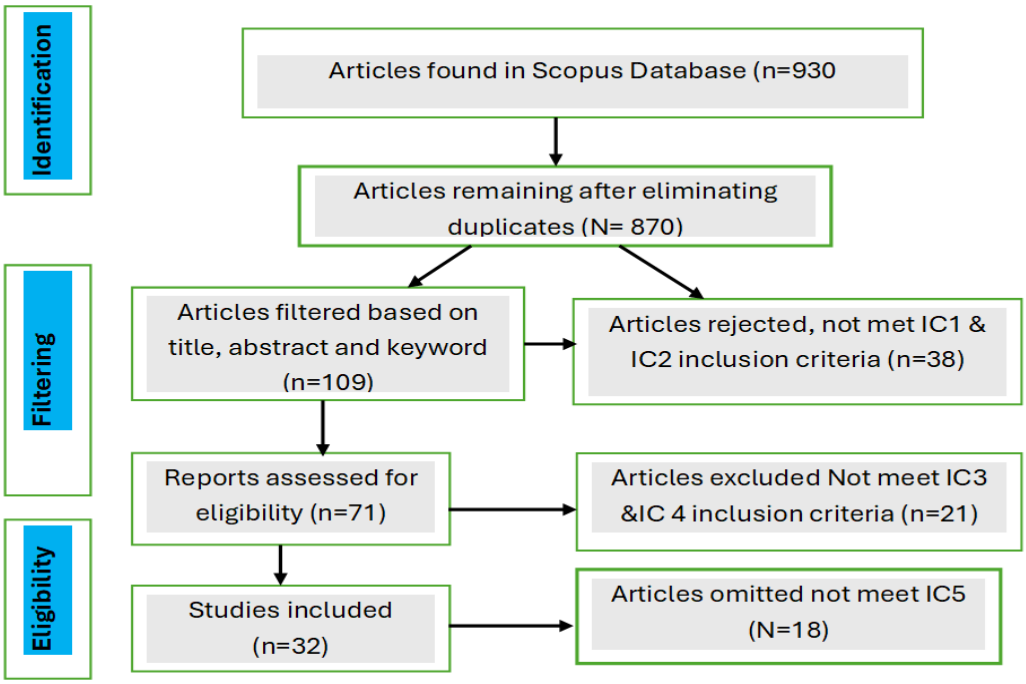

Figure 1: PRISMA Statement 2020 Diagram
(Source: Authors' own elaboration adapted from Page et al. 2021)

Data Analysis

The included articles (n=32) were read and re-read to familiarise the researchers with the data. This enable the researchers to identify seminaries and differences across all 32 articles.

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Results and Discussion

This section presents analysis of 32 articles reviewed to identify the relationship between corporate environmental performance and corporate financial performance. The review reveal that majority of studies were conducted in developed countries (N=21). Notably, limited studies were conducted in high-pollution and emission firms in South Africa (N=2). This review highlights mixed evidence on the CER-CFP relationship, reflecting its complexity across industries and regions. Nonetheless, many studies report a positive link, showing that sustainable practices can enhance financial performance. For instance, Razak, Ibrahim and Ng (20230 found a positive association in Brunei, aligning with earlier research by (Endrikat, Guenter & Hoppe, 2014; Gomez-Bezarea, Przychodzen & Przychodzen, 2017). Similarly, (Gangi, Daniele & Varrone, 2020; Sudha, 2020; Aigbedo, 2023; Kaakeh & Gokmenoglu , 2023) highlight cost reductions, improved reputation, and stronger investor confidence as key factors driving financial gains.

Recent studies show a positive link between SEI and CFR, especially in Australian firms. Azeem, Nassem, Ali and Ali (2024), Abban et al. (2021) and other sectors (Ludeke-Freund & Dembek, 2017; Garcial-Blandon, Argiles-Bosch & Ravenda, 2020, Hoang, Abeysekera & Ma, 2020; Gull, Atif, Ahsan & Derouiche, 2022; Saha, Kabir, Hossain & Rabby, 2024). These findings support agency and stakeholder theories, which suggest sustainability builds trust, cuts capital costs, and improves efficiency under strong stakeholder pressure (Saini et al., 2023). However, some studies found no or negative effects (Ji, Ji, Yang & Dong, 2023; Dijkstra, van Beers, de Hoogh & van Montfort, 2020; Daque-Crisales & Aguilera, 2021) aligning with the traditional view that environmental efforts may reduce profits in capital-heavy or weakly supported contexts.

In South Africa, findings on CER and financial performance are mixed. Chinings, Alhassan and Zeka (2023) found no link in 40 JSE-listed firms, while Dzomonda and Fotoki (2020) reported positive effects in 32 firms on the JSE Responsible Investment Index. Differences in industry focus, accountability, and methodology may explain these results. Most studies also fail to isolate specific CER factors like GHG emissions or account for sectoral environmental impact, limiting local insights**,** especially in high-impact sectors like mining and manufacturing.

Conclusion

This study offers a comprehensive review of research on the link between CER and CFP. While many international studies show a positive relationship, results vary, especially in emerging markets where factors like market maturity, stakeholder pressure, regulation, and firm characteristics play a role. In South Africa, findings are also mixed, highlighting the need for more rigorous research to clarify these dynamics.

This study highlights the value of using multiple theories, especially agency and stakeholder theories to explain the link between environmental and financial performance. Agency theory suggests that strong environmental practices align managers' actions with shareholder interests, while stakeholder theory emphasizes improved legitimacy and resource access leading to better financial results. The varied findings across industries point to the need for institutional theory to address sector differences. The review advises managers to view environmental efforts as strategic, not just regulatory, and encourages investors to focus on specific metrics like GHG reductions and waste management for a clearer assessment of sustainability.

This review has some limitations. It only included peer-reviewed articles in English, excluding studies in other languages and grey literature. In South Africa, the limited number of studies and lack of sector-specific analysis restrict the findings' generalizability and obscure industry nuances. Future research should focus on longitudinal studies to explore causal links over time and conduct sector-specific analyses, especially in key industries like mining, construction, manufacturing, retail, transportation, and oil and gas. Breaking down environmental performance into specific areas will help identify which initiatives most improve financial outcomes.

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