

Evaluation Of the Top 100 Sustainability Leaders: ESG Metrics and Financial Insights

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Abstract

Even back in the 1970s, sustainability concerns began cropping up among corporate goals, and with the acceleration of climate change, these have become increasingly pressing issues. A key research question in the relationship between ESG (Environment, Social, Governance) factors and corporate performance is whether the adoption of eco-friendly technologies and cleaner production methods is merely a response to social pressure, or a smart investment that delivers measurable, positive impacts on financial performance.

In the empirical part of our research, we put the TOP 100 companies from a public sustainability list under the microscope, analysing around 35 financial and non-financial variables related to the three pillars of ESG using descriptive statistical methods. We also take a closer look at the European group of companies. Our findings show that alongside Western companies, Asian firms, particularly from China, have gained significant ground. The shift is favourable from an industry perspective as well: manufacturing companies accounted for nearly 20%. One of the driving factors behind these outstanding results was that the proportion of sustainable revenue for these companies exceeded 90%. Financial analyses reveal that the companies on the list are not only leading the charge in sustainability but are also performing well in terms of profitability and efficiency.

Our results contribute to the ongoing debate that centres on the financial impacts of transitioning to sustainable business practices.

Keywords: ESG, sustainability, Corporate Social Responsibility

JEL classification: Q01; Q56; G35

Introduction

A strong ESG profile (Environment, Social, Governance) is not just about whether a company is willing to use renewable resources (Szeberényi et al., 2024). It can also boost the company's resilience and ability to adapt to the modern business landscape, which is often marked by sudden and intense economic shifts (Benczö & Lőrinc, 2023). Research by Baranyi et al. (2023) also supports the growing recognition among companies of the benefits of sustainable operations, as 60% of the surveyed firms consider environmental issues to be a top priority—not just because of legal obligations. Sustainable companies tend to enjoy greater operational efficiency and lower risk exposure, which can enhance their long-term profitability.

If a favourable ESG rating is attractive enough to investors and financial markets, it could open doors to more capital for socially responsible companies, while banks might offer them better loan terms.

Research on corporate behaviour in the context of sustainability typically revolves around two common concepts: CSR (Corporate Social Responsibility) and ESG. While there

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are clear points of overlap between the two, this brief study does not attempt to fully distinguish between them. Some research even views the E, S, and G components as simply the three "legs" of CSR.

In this study, we focus on corporate objectives that go beyond the usual business goals in terms of their significance. Specifically, we explore how these non-traditional objectives impact companies' financial performance.

Literature Review: The Relationship Between ESG and Corporate Financial Performance

In this section of the article, we reference studies that examine the relationship between companies' ESG performance categories and their financial data and metrics. To paint a more objective picture, we have gathered research from the U.S., Europe, and Asia.

Friede et al. (2015) conducted a comprehensive review of earlier studies on the topic, analysing the findings of around 2,200 individual studies. The majority of these studies indicated a positive correlation between pursuing ESG goals and corporate financial performance, with this relationship showing stability over time. Hamdi et al. (2022) also found a positive connection between ESG and financial performance when analysing data from 504 U.S. companies between 2000 and 2020. Improved financial performance may encourage shareholders and management to invest more in sustainability efforts, which, in turn, could enhance the company's reputation.

Fain's (2020) findings are similar: a sample of 1,099 companies from the Morgan Stanley Capital International All Country World Index (MSCI ACWI) showed that a higher G-score significantly improved ROS (Return on Sales). Ahmad et al. (2021) explored the impact of ESG on the financial performance of UK-based companies, using a sample of 351 firms from the Financial Times Stock Exchange (FTSE) index between 2002 and 2018. Their results indicated that a better ESG rating positively affected financial performance, though larger company size moderated the relationship between ESG performance and financial outcomes.

However, Kim and Li (2021) while analysing data from China concluded that while ESG factors positively impact corporate profits, the effect is stronger for larger firms. Liu et al. (2022) reported that the E (environmental) factor had a significantly negative effect on the financial performance of 191 companies listed in the Yangtze River Delta between 2015 and 2020. On the other hand, the G (governance) factor had a positive effect, while the S (social) factor had no significant impact. They also found that ESG performance affected financial performance measured by accounting metrics but found no correlation between ESG performance and market-based financial metrics.

Cao and Wirjanto (2023) discussed various approaches to incorporating ESG factors into the portfolio optimization process for Dow Jones index companies. The authors concluded that thematic investing was the most effective approach, with ESG portfolios performing as well as or better than the overall market.

Weston and Nadi (2023) tested the relationship between CSR and CFP (Corporate Financial Performance) from 2009 to 2019, using the iShares MSCI KLD 400 Social Index (developed by KLD Research & Analytics), the iShares Core S&P 500, and stocks of companies that follow the Principles for Responsible Investment (PRI). In their regression, they used returns as the dependent variable, while P/E (Price-Earnings) ratio, ROE (Return on Equity), market value, and beta served as independent variables. They found that companies adhering to PRI guidelines performed better than those that did not.

Tóth et al. (2021), using panel regression methods, explored the relationship between financial stability and ESG performance. Their analysis of 243 stock-listed credit institutions in the EU and EFTA (European Free Trade Association) countries found that ESG performance

significantly reduced the proportion of non-performing loans, and their model also confirmed the positive effect of regulatory capital.

The Database

The database used for our research is *Corporate Knights TOP 100 Sustainable Companies*, published annually by the Toronto-based Corporate Knights. Corporate Knights also publishes *Corporate Knights Magazine*, which is read by hundreds of thousands of business leaders and policymakers. The list has been released for nearly two decades.

The researchers primarily used annual financial reports and sustainability/CSR reports. More and more countries are producing non-financial, so-called sustainability reports. Among neighbouring non-EU countries, it is noteworthy that, starting in 2021, the Republic of Serbia has required large companies to produce sustainability reports (Čavlin et al., 2024). Of course, even within individual economies, the quality of these reports can vary. Kulcsár (2023) supports this with his research on the ESG reports of 20 companies listed on the Bucharest Stock Exchange. He found a lack of consistency in ESG metrics and noted the absence of a comparable ESG reporting system, which makes evaluation and comparison difficult.

The balance sheet and income statement data, as well as metrics used in our financial analysis, were collected from the ORBIS Europe website.

Results

In our research, we analysed the companies included in the 2023 TOP 100 list using both financial and non-financial data. Our aim is to provide a comprehensive overview of the most sustainable companies. In terms of geographical distribution, European companies dominated the list, with Western European and Scandinavian firms leading the way. The second-largest group was North America, comprising the U.S. and Canada. The third-largest group was China, including one company each from Hong Kong and Taiwan. The list was largely made up of financial, services, and trading companies, as these sectors are generally easier to sustain. However, it's encouraging to see that industry and chemicals accounted for nearly 20%. On the downside, the overall picture is marred by the absence of any companies engaged in agricultural activities.

The complexity of the methodology used to compile the list is reflected in the nearly 90 parameters taken into account. Due to scope constraints, we focused on the two indicators with the highest weighting (25% each). One was the so-called "sustainable turnover," and the other was "sustainable investment." Most of the companies with 90% sustainable turnover were not based in Europe but in North America and China. This suggests that having a high sustainable turnover is not a prerequisite for making the list (~40% of the companies on the list had a sustainable turnover of less than 30%). However, the other 80 indicators also had to perform well.

From a sectoral perspective, the industry sector showed positive signs, as achieving sustainability in this field requires much larger investments compared to, for example, a communications company. The positive trends in European heavy industry, paper, and chemicals (i.e., energy-intensive) sectors are confirmed by Horváth et al.'s (2023) research.

We also examined the proportion of sustainable investments. Out of the TOP 100, 26 companies had a 100% sustainable investment score. A closer look at these companies revealed similar geographic and sectoral distributions to those with sustainable turnover ratios above 90%, as discussed earlier. All but four firms with 100% sustainable investment also had 100% sustainable revenue, and all but one ranked in the top half of the list.

Additionally, we focused our research on new entrants to the list. Among the sectoral distribution of new entrants, we noted the high representation of the industrial, real estate, and

utilities sectors. These sectors are "inherently disadvantaged" in terms of sustainability, but their strong presence is a positive sign, demonstrating that even traditionally challenging sectors can successfully transition to "green" operations. While the number of new companies is impressive – with 11 companies in the top 30 in 2024 – it is important to look at the quality criteria these companies met.

The institute that compiled the list developed a nine-grade "Overall Score" for ~80 indicators, ranging from A+ to C-. Only a handful of new companies ranked in the "A" categories, with a minimum of 50% falling into the "B", "B+", "C+" and "C-" categories. This suggests that while most new entrants made it onto the list, they will need to make further improvements in sustainability to stay on it next year.

In the final part of our study, we focused on European companies, the largest group on the list. Our aim was to analyse changes from 2020 to 2023 and compare the results. For ease of analysis, the European companies were divided into two subgroups: those ranked in both 2023 and 2024, and those appearing for the first time in 2024. The results demonstrate that, in addition to favourable sustainability outcomes, traditional financial indicators also reflect the financial health of these companies.

To assess profitability, we used ratios such as ROE (Return on Equity), ROA (Return on Assets), EBIT (Earnings before Interest and Taxes) margin, and profit margin, while other ratios measured indebtedness and liquidity (Table 1). In terms of sales, both groups showed potential for growth, but the average and median relative changes in the 2023-2024 group were more pronounced, with the exception of 2023. The average and median EBIT margins grew consistently between 2020 and 2022, but companies that were re-ranked experienced a slight 2-3 percentage point decline in EBIT margin, resulting in smaller values compared to the new entrants. This indicates that newly ranked firms showed superior operational efficiency.

Conversely, the profit margin for both groups improved year by year, with a significant reduction in the differences between the two groups compared to the EBIT results. The better profitability observed in the "re-ranked" category can be attributed to higher levels of indebtedness in 2022 and 2023, as a result of the COVID crisis. Liquidity levels showed no significant changes over the period, nor was there a notable difference between the two groups.

In conclusion, the ROE and ROA provide a comprehensive overview of the operational and profitability performance of these companies. Both ROE and ROA increased over the past few years for newly ranked firms, but their average and median values remained considerably lower than those of the re-ranked group. Based on these results, we conclude that companies that have been 're-ranked' are profitable and have the potential to grow after the pandemic, however, they relied more heavily on loans and debt, which could hinder future growth.

Table 1.: Financial results of investigated European companies
Source: Own research

Ratios		2020	2021	2022	2023
Sales; average; change (%)	'New in 2024' group	-	18,98	7,45	13,62
Sales; median; change (%)		-	1,82	2,84	-0,01
Sales; average; change (%)	'Ranked both year' group	-	5,45	13,65	0,10
Sales; median; change (%)		-	18,98	10,58	-10,41
EBIT margin; average (%)	'New in 2024' group	13,32	24,26	27,27	17,23
EBIT margin; median (%)		8,65	17,04	15,62	14,28
EBIT margin; average (%)	'Ranked both year' group	12,28	12,45	10,20	11,64
EBIT margin; median (%)		11,33	11,49	8,62	13,40
Profit margin; average (%)	'New in 2024' group	18,91	15,04	20,48	6,58
Profit margin; median (%)		6,48	10,34	13,58	11,79
Profit margin; average (%)	'Ranked both year' group	13,82	16,50	15,80	17,70
Profit margin; median (%)		10,56	12,55	13,41	15,23
Gearing; average (%)	'New in 2024' group	127,95	118,41	123,78	81,36
Gearing; median (%)		127,06	82,57	102,50	87,90
Gearing; average (%)	'Ranked both year' group	84,01	119,84	126,24	99,23
Gearing; median (%)		67,34	72,09	109,82	92,04
Liquidity; average (%)	'New in 2024' group	0,99	0,99	0,96	1,00
Liquidity; median (%)		1,00	0,88	0,89	0,78
Liquidity; average (%)	'Ranked both year' group	1,03	1,04	0,86	0,95
Liquidity; median (%)		0,85	0,83	0,76	0,88
ROA; average (%)	'New in 2024' group	0,92	1,45	2,03	2,80
ROA; median (%)		1,77	-0,08	1,83	1,22
ROA; average (%)	'Ranked both year' group	5,49	5,45	4,11	4,11
ROA; median (%)		4,26	3,49	3,41	4,81
ROE; average (%)	'New in 2024' group	0,77	1,76	2,77	6,26
ROE; median (%)		4,55	0,74	7,91	7,93
ROE; average (%)	'Ranked both year' group	13,87	14,25	11,62	11,69
ROE; median (%)		10,55	11,21	11,25	14,47

Conclusions

Most empirical studies show a direct correlation between ESG and accounting-based corporate financial performance indicators. However, the relationship between ESG and market price-based indicators and investor decisions is less clear in several studies. While the scope of this paper does not allow us to reference additional research, the findings we have cited are similar

to those of Whelan et al. (2021), who analysed over 1,000 studies conducted since 2015. There is a consensus among researchers that strong corporate ESG management generally improves financial performance. This is encouraging, as it suggests that a shift to clean technologies does not result in poorer financial outcomes.

However, the slow pace of the transition to green technologies remains a cause for concern, as the results so far have not been sufficient to halt environmental degradation. In the empirical part of our work, we examined the TOP 100 list from an international sustainability research institute. The results offer several reasons for optimism: the list includes traditionally polluting industries such as chemicals in proportions similar to service sectors, and there is growing geographical diversity with the rise of Chinese firms. The large number of new entrants also indicates that more companies are committing to sustainability, expanding the pool of key players in the sustainable economy.

While financial indicators suggest that sustainability is not incompatible with profitability and efficiency, it may negatively impact indebtedness—an area that requires further research.

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