

HOW ESG FACTORS INFLUENCE COMPANY VALUE

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Abstract. *In recent years, Environmental, Social, and Governance (ESG) factors have become an essential element in the evaluation of company value. Investors, regulators, and stakeholders increasingly consider not only financial indicators but also non-financial aspects related to sustainability, social responsibility, and corporate governance. This article examines how ESG factors influence company value, both directly and indirectly. The study is structured according to the IMRAD framework and analyzes existing problems in ESG integration, possible solutions, and future proposals for improving ESG-based valuation. The findings show that strong ESG performance can reduce risks, lower the cost of capital, enhance reputation, and improve long-term financial performance, ultimately increasing company value.*

Keywords: *ESG factors, company value, sustainability, corporate governance, investment, financial performance*

Introduction. Over the past decade, the concept of company value has evolved significantly. Traditionally, business valuation focused mainly on financial indicators such as revenue, profit, cash flows, and assets. However, global economic changes, climate challenges, social inequality, and corporate scandals have forced investors and analysts to look beyond traditional financial metrics.

Environmental, Social, and Governance (ESG) factors have emerged as a new framework for assessing a company's long-term sustainability and risk profile. ESG criteria help investors understand how a company manages environmental risks, treats

its employees and society, and ensures transparency and accountability in management.

Today, ESG considerations are no longer optional. Large institutional investors, international financial institutions, and stock exchanges increasingly require ESG disclosure. Companies with strong ESG performance often attract more investment, enjoy lower financing costs, and maintain higher market valuations.

The purpose of this article is to analyze how ESG factors influence company value, identify key problems in ESG implementation, and propose solutions and recommendations for improving ESG-based valuation practices.

Methodology. This article is based on a qualitative research methodology. The study relies on:

- Analysis of academic literature on ESG and business valuation
- Review of reports by international organizations (World Bank, OECD, UN, MSCI)
- Comparative analysis of companies with high and low ESG ratings
- Logical and systematic analysis of ESG impact channels

No primary data collection was conducted. Instead, secondary data sources were used to ensure a broad and objective understanding of the topic.

Results and Discussion

1. Understanding ESG Factors

ESG factors consist of three main dimensions:

Environmental (E):

This component focuses on how a company interacts with the natural environment. It includes issues such as climate change, carbon emissions, energy efficiency, waste management, water usage, and environmental compliance.

Social (S):

The social dimension examines how a company manages relationships with employees, customers, suppliers, and communities. It includes labor conditions, workplace safety, diversity and inclusion, human rights, and customer satisfaction.

Governance (G):

Governance refers to the system of rules and practices by which a company is directed and controlled. It includes board structure, executive compensation, shareholder rights, transparency, and anti-corruption measures.

2. Channels Through Which ESG Affects Company Value

ESG factors influence company value through several key mechanisms:

Risk Reduction

Companies with strong ESG practices are generally exposed to lower operational, regulatory, and reputational risks. For example, firms with poor environmental practices may face fines, lawsuits, or regulatory restrictions.

Cost of Capital

Research shows that companies with high ESG ratings often enjoy a lower cost of capital.

Investors perceive them as less risky, which leads to lower required returns on equity and debt.

Revenue Growth

Strong ESG performance can enhance brand reputation and customer loyalty. Consumers increasingly prefer environmentally friendly and socially responsible companies, which can lead to higher sales.

Operational Efficiency

Environmental initiatives such as energy efficiency and waste reduction often lead to cost savings, improving profitability and cash flows.

Long-Term Sustainability

ESG-oriented companies are better positioned to adapt to long-term trends such as climate transition, demographic changes, and regulatory reforms.

3. ESG and Business Valuation Models

ESG factors are increasingly integrated into traditional valuation models:

- Discounted Cash Flow (DCF): ESG risks can affect future cash flows and discount rates.
- Cost of Capital (WACC): Strong governance and sustainability reduce risk premiums.
- Multiples (P/E, EV/EBITDA): Companies with strong ESG profiles often trade at valuation premiums.
- Scenario Analysis: ESG factors are incorporated into best-case and worst-case scenarios.

Problems in ESG Integration

Despite its importance, ESG integration faces several challenges:

1. Lack of Standardization

There is no single global ESG standard. Different rating agencies use different methodologies, leading to inconsistent ESG scores.

2. Data Quality and Transparency

Many companies provide limited or selective ESG disclosures. This makes it difficult to compare firms objectively.

3. Greenwashing

Some companies exaggerate or misrepresent their ESG performance to appear more sustainable than they actually are.

4. Short-Term Focus

Many investors still prioritize short-term financial returns, undervaluing long-term ESG benefits.

5. ESG in Emerging Markets

In developing economies, ESG disclosure practices are often weak due to limited regulation and institutional capacity.

Solutions to ESG-Related Problems

To overcome these challenges, several solutions can be implemented:

1. Development of Unified Standards

International frameworks such as IFRS Sustainability Standards and GRI should be further harmonized.

2. Improved ESG Reporting

Mandatory ESG disclosure can improve transparency and data reliability.

3. Independent ESG Audits

Third-party verification can reduce greenwashing and increase trust in ESG reports.

4. Investor Education

Investors should be educated on the financial relevance of ESG factors and long-term value creation.

5. Integration into Corporate Strategy

ESG should be embedded into core business strategy rather than treated as a separate initiative.

Proposals and Recommendations

Based on the analysis, the following proposals are suggested:

1. Companies should integrate ESG metrics into financial planning and performance evaluation.

2. Regulators should introduce clear ESG disclosure requirements.

3. Investors should incorporate ESG analysis into valuation and portfolio construction.

4. Universities and professional institutions should include ESG valuation in finance curricula.

5. Emerging markets should adopt international ESG best practices while considering local conditions.

Conclusions

ESG factors play a crucial role in shaping company value in the modern economy. They influence risk, profitability, capital costs, and long-term sustainability. While challenges such as data inconsistency and greenwashing remain, the overall impact of ESG on company valuation is positive and increasingly significant.

Companies that proactively manage ESG risks and opportunities are better positioned to achieve sustainable growth and higher valuations. Therefore, ESG integration should be viewed not as a cost but as a strategic investment in long-term value creation.

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