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ESG AUDIT AND ITS IMPACT ON COMPANIES' FINANCIAL PERFORMANCE

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Abstract: *This study investigates how the implementation of ESG auditing practices affects corporate financial performance and stakeholder engagement. Through a qualitative analysis focused on the link between ESG standards and financial reporting, the research highlights the increasing role of ESG in shaping long-term value creation. The study reveals that companies integrating ESG auditing into their governance frameworks tend to benefit from improved investor confidence, reduced risk exposure, and more sustainable financial outcomes. The research approach combines conceptual analysis with a targeted review of ESG disclosures and financial statements from companies listed on the Bucharest Stock Exchange (BVB). Findings indicate that while ESG auditing is still developing as a discipline, its strategic relevance is growing, especially under the influence of regulatory shifts and stakeholder pressure for transparency and accountability.*

Keywords: *ESG audit, corporate governance, financial performance, sustainability reporting*

JEL classification: *M42, Q56*

Introduction

In recent years, the relationship between environmental, social, and governance (ESG) practices and corporate financial performance has received growing attention in academic and professional literature. Researchers have increasingly focused on how ESG integration and auditing affect firm value, risk exposure, and investor perception (Eccles & Klimenko, 2019).

One of the most comprehensive meta-analyses in this area was conducted by Friede, Busch, and Bassen (2015), who reviewed over 2,000 empirical studies and concluded that approximately 90% showed a non-negative relationship between ESG performance and financial returns, with a significant number demonstrating a clearly positive correlation (Friede et al., 2015). This suggests that ESG strategies can contribute to value creation and risk mitigation (Friede et al., 2015).

Eccles and Klimenko (2019) argue that ESG factors are becoming integral to investment decision-making and that investors are pushing for more robust sustainability disclosures (Eccles & Klimenko, 2019). They emphasize the strategic relevance of ESG audits in ensuring the credibility of reported data and improving stakeholder trust (Eccles & Klimenko, 2019).

From an accounting and auditing perspective, the role of ESG auditing is evolving. According to Simnett, Nugent, and Huggins (2009), assurance on sustainability reports enhances the reliability and usefulness of ESG information (Simnett et al., 2009). Their work shows that external ESG assurance is positively associated with higher quality reporting and improved market reactions (Simnett et al., 2009). Furthermore, recent literature has explored sector-specific and regional differences. Studies on emerging markets, including Eastern Europe, reveal that companies with higher ESG scores tend to have better access to financing and exhibit more stable financial performance, especially in volatile environments (Zumente & Bistrova, 2021). Overall, the literature underscores a growing consensus that ESG auditing not only improves transparency and compliance but also plays a strategic role in shaping sustainable financial performance. However, scholars also point out that the methodologies for ESG assessment and audit vary significantly, and standardization remains a key challenge. The concept of ESG (Environmental, Social, and Governance) has become crucial for businesses, investors, and stakeholders due to its significant influence on corporate sustainability and long-term financial performance

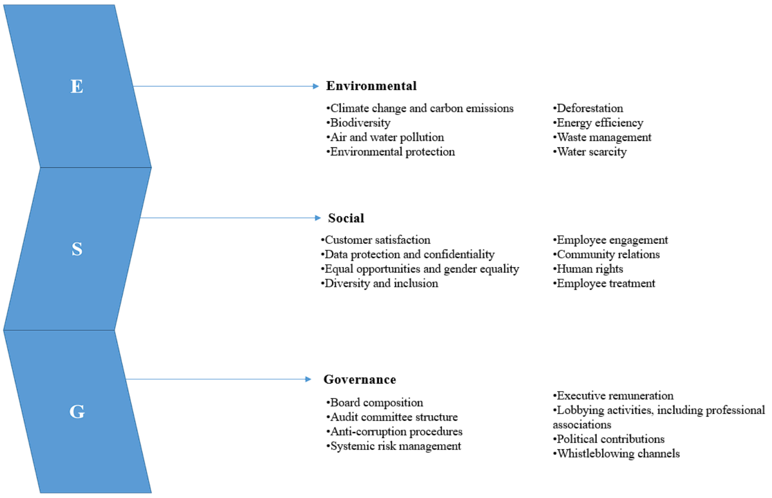

Figure 1. ESG
Source: author

Environmental Factors (E) include issues that relate to the company's impact on the natural environment. Key areas include climate change and carbon emissions, biodiversity preservation, air and water pollution control, environmental protection initiatives, deforestation management, energy efficiency practices, waste management policies, and water scarcity management. Companies addressing these factors demonstrate responsibility towards preserving natural resources and reducing their environmental footprint.

Social Factors (S) address the relationships companies maintain with employees, customers, and broader society. Important social dimensions include customer satisfaction, data protection and confidentiality, equal opportunities and gender equality, diversity and inclusion, employee engagement, community relations, adherence to human rights standards, and appropriate treatment of employees. Addressing these aspects contributes to improved company reputation, employee morale, and stakeholder trust.

Governance Factors (G) encompass issues related to the internal structure, ethics, and compliance mechanisms within an organization. This category highlights the importance of board composition, audit committee structure, anti-corruption measures, and systemic risk management practices. Furthermore, it includes executive remuneration transparency, lobbying activities, including those involving professional associations, management of political contributions, and robust whistleblowing channels. Effective governance ensures accountability, integrity, and long-term sustainability. Integrating ESG considerations into corporate strategies not only mitigates risks but also enhances stakeholder value, thus contributing significantly to the sustainable development and financial resilience of organizations.

Research Aim. The primary aim of this research is to investigate the impact of ESG (Environmental, Social, and Governance) auditing on the financial performance of companies, with a specific focus on identifying the relationship between the application of ESG criteria and measurable financial outcomes. This study seeks to clarify the extent to which ESG auditing practices contribute to corporate value creation, risk reduction, and overall business sustainability.

Specific Objectives To accomplish the main aim, this research will pursue the following specific objectives:

1. Analyze the conceptual framework of ESG auditing, emphasizing its importance and strategic role within contemporary corporate governance models.
2. Examine various ESG evaluation methodologies and their direct influence on financial reporting, investor confidence, and stakeholder relations.

3. Evaluate the correlation between ESG performance and financial performance, utilizing quantitative analysis of key financial indicators such as profitability (ROE, ROA), market valuation, and stock performance.
4. Assess the current state of ESG disclosure and audit practices among selected companies listed on the Bucharest Stock Exchange (BVB), identifying areas of strength and opportunities for improvement.
5. Formulate practical recommendations aimed at enhancing the effectiveness and transparency of ESG audit practices, thereby contributing to improved corporate governance and financial resilience.

Conclusions and proposals. Following the analysis of 10 representative companies listed on the Bucharest Stock Exchange (BVB), a clear trend emerges indicating a positive correlation between ESG integration and sustainable financial performance, although the relationship is not always linear or immediate. Companies with low ESG risk scores – such as Banca Transilvania, BRD, and Nuclearelectrica – consistently recorded strong financial indicators over the 2019–2023 period. Their ability to manage ESG-related risks, ensure governance transparency, and respond proactively to stakeholder expectations contributed to improved profitability and investor trust. On the other hand, companies with weaker ESG performance or higher exposure to environmental/social risks – such as Electrica and Alro – experienced financial volatility, particularly during external shocks like the energy crisis. However, even in these cases, the firms have begun to implement ESG strategies to stabilize their operations and enhance resilience.

Furthermore, entities with proactive ESG disclosure and audit practices (e.g., OMV Petrom, BT, Romgaz) not only improved their ESG ratings but also maintained competitive financial performance. This suggests that ESG practices are becoming strategic differentiators in both investor perception and market positioning.

Based on the research findings, the following proposals are formulated:

Encourage independent ESG audits: Companies should prioritize external assurance of sustainability information to increase transparency and compliance with future regulations (such as the EU CSRD directive). Integrate ESG into core business strategy: ESG should not be treated as a reporting requirement only, but as a long-term investment that strengthens governance, reduces risk, and builds reputational value. Monitor and benchmark ESG performance: Firms should regularly monitor ESG indicators, benchmark against peers, and communicate progress through clear, standardized reports.

Support SMEs and late adopters: Regulatory bodies and industry leaders should provide guidance and resources to help smaller or slower-moving companies align with ESG standards and benefit from long-term value creation.

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