Environmental, Social and Governance Performance and Firm Value of Clean Technology Companies

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Abstract

The environmental, social, and governance (ESG) performance of clean technology enterprises is thoroughly examined throughout this study project, revealing the complex interactions between ESG factors and company value and overall performance. Clean technologies are an important sector that are distinguished from traditional counterparts that provide comparable goods or services by their ability to reduce environmental footprints, notably through reduced emissions or more responsible exploitation of natural resources. This broad area includes a wide range of advancements, including technologies for sustainable water management, sophisticated energy storage options, and improvements to energy efficiency. Our study is considered significant on several levels. In order to understand the dynamics of how ESG performance relates to firm value, it first aims to examine the ESG performance of clean technology businesses. These businesses have a special attractiveness since they portray a 'clean' image and significantly improve the standard of living for people in both developed and developing countries. Their accomplishments go beyond just making money; they also make significant attempts to improve society. Additionally, investments in clean technology are frequently hailed as crucial for boosting the competitiveness of governments and businesses alike while also offering an improved standard of living for their population. The theoretical ramifications of our study are revealed in the detailed relationships between ESG performance and business value in the clean technology sector. We pave the path for a greater knowledge of how businesses working in this industry contribute to broader sustainability in both the economy and the environment by building a sophisticated awareness of these links. Our findings have significant potential for investors, decision-makers, and business titans. They offer important insights on how clean technology companies should be strategically positioned, potentially influencing investment choices, forming regulatory frameworks, and directing corporate strategies toward more environmentally and socially conscious actions. Our research also adds to the growing conversation about the critical role that clean technology plays in enhancing citizens' well-being and competitiveness by providing a road map for interested parties. In conclusion, this study adds to our understanding of the ESG performance of clean technology firms and how it affects firm value, highlighting their critical role in determining the future of sustainability and prosperity for societies and economies around across the globe.

Keywords: environment, social, governance performance, firm value
1. Introduction and related literature

The convergence of social responsibility, environmental responsibility, and good governance has emerged as an essential component of modern business operations (Thanh et al., 2021). In addition to their financial performance, businesses are increasingly judged on their social and environmental effect as well as their adherence to good governance principles (Popescu, 2019). The clean technology industry is at the forefront of this changing environment, demonstrating the crucial link between Environmental, Social, and Governance (ESG) performance and company value. Clean technology businesses with a public listing hold a special place in the global economy (Stokes, 2020). They are at the forefront of technological advancements meant to lessen the impact on the environment, lower carbon emissions, and increase resource efficiency. These businesses play a crucial role in bringing about a sustainable future by offering answers to urgent global problems including climate change, resource shortages, and energy security. As a result, their operations have enormous potential for shareholders as well as society at large. It is crucial to comprehend the significance of ESG performance and how it relates to company value in the context of publicly traded clean technology firms. This comprehensive assessment includes contributions to society, corporate governance procedures, and environmental stewardship, all of which have a significant impact on an organization's long-term competitiveness and sustainability, and sound decision-making. The shifting global climate has called for a wider view, nevertheless, in the fields of economics and finance, there has been an intense debate and study on the relationship between corporate governance and company performance (Ahmed et al., 2028; Ahmed et al., 2023; Chechan et al., 2020; Alabdullah, 2017; Alabdullah et al., 2014; Alabdullah et al., 2023; Alabdullah et al., 2023; Alabdullah et al., 2023; Alabdullah and Housian, 2023; Alabdullah and Zobun, 2023; Almashhadani & Almashhadani, 2022; Alabdullah, 2023; Almashhadani, 2020; Almashhadani & Almashhadani, 2022; Alabdullah, 2023; Almashhadani, 2020; Al-fakhri & Alabdullah, 2021; Chechan et al., 2021; Alfadhal & Alabdullah, 2016; Alfadhal & Alabdullah, 2013; Alabdullah, 2023; Ahmadian et al, 2023). But in the last decade, a new and important aspect emerged: the incorporation of Environmental, Social, and Governance (ESG) standards into corporate governance structures (Ahmed et al., 2028; Ahmed et al., 2023; Alabdullah, 2023). The global field of Islamic finance is deeply entwined with this paradigm change in how companies are managed and evaluated, particularly through the Sukuk financial instrument (Ahmed et al., 2028; Ahmed et al., 2023; Alabdullah, 2023). Islamic Sukuk naturally embody some ESG elements since they are founded in Sharia principles, which establish a logical connection between corporate governance, business performance, and sustainability (Alabdullah, 2023). In the perspective of ESG performance, we explore the complex interactions between corporate governance, business performance, and Islamic Sukuk in this discussion. In order to protect the desires of stakeholders, corporate governance has traditionally been based on the concepts of transparency, accountability (Chechan et al., 2020; Alabdullah et al., 2014; Alabdullah et al., 2023; Alabdullah et al., 2023). ESG standards have become a crucial component of corporate governance, requiring organizations to take into account both governance practices and their environmental and social implications in order to ensure long-term sustainability. Companies that follow ESG principles uphold moral norms and adjust to shifting market conditions. The performance of the company may be greatly impacted by this change. Businesses that thrive in ESG are frequently better positioned to manage risks, promote innovation, and build lasting connections with stakeholders, all of which contribute to increased financial success.
Islamic finance, which adheres to Sharia law, has a connection to ESG principles since it places a strong emphasis on moral and ethical conduct in business. These ideas are embodied in Islamic Sukuk, a well-known financial product. Sukuk are securities backed by assets that follow Sharia law, making sure that investments are made in morally and socially responsible activities and projects. Ethical and sustainable business practices, which are consistent with ESG principles, are inextricably linked to the issuer's involvement in Sukuk issuing. The relationship between corporate governance, business performance, and sustainability is logically connected thanks to the synergy between Sukuk and ESG ideals.

Additionally, the moral and environmentally friendly nature of Sukuk issuance can draw a wide range of investors, both conventional and Islamic. A wider investor base improves the firm's reputation and credibility, which in turn improves corporate governance and firm performance. It also improves the firm's access to financing. Transparency is encouraged as a result of the requirement that Sukuk issuers report the underlying assets and the usage of money, coinciding with the ESG principles of accountability and openness.

Furthermore, Islamic banking closely links with environmental and social factors under ESG frameworks by forbidding specific activities, such as those associated with alcohol, gambling, and damaging environmental practices. Companies that issue Sukuk are required to refrain from actions that are harmful to society and the environment, which can improve their ESG performance. As a result, businesses that include Sukuk issuance in their financing strategy are motivated to embrace environmentally friendly practices as part of their corporate governance, which enhances the performance of the business as a whole.

Many governing organizations and regulatory agencies have recently come to see the potential of Sukuk and Islamic finance as tools for advancing sustainable development. As a result, green and sustainable Sukuk have been issued, further demonstrating the connection between Islamic finance, environmental, social, and corporate performance. In accordance with Sharia law, green sukuk are utilized to finance ecologically friendly activities like renewable energy programs and green infrastructure. Companies who do this not only support sustainable development but also reap the rewards of their investments' favorable ESG effects, which ultimately improves company profitability.

In the framework of ESG performance, the logical connection between corporate governance, company performance, and Islamic Sukuk is increasingly clear in the current global business scene. The ethical and sustainable nature of Islamic Sukuk issuance and the integration of ESG standards into corporate governance processes intersect to create a symbiotic relationship. Companies that adopt ESG principles stand to gain through increased corporate governance, improved firm performance, and an image for ethical and responsible company conduct, particularly within the context of Islamic finance. This nexus becomes not only logical but essential for firms seeking long-term success in a quickly evolving and socially sensitive marketplace as the world keeps grappling with sustainability issues.

**Important Points to Note:**

Responsible Environmental Behavior: Companies that specialize in clean technologies are particularly positioned to reduce their environmental impact (Shao et al., 2020). They have developed things like sustainable water management strategies, energy-efficient technology, and renewable energy sources. By assessing their environmental performance, we can learn
more about how committed they are to reducing climate change and protecting ecosystems. Social Effects Beyond financial success, clean technology companies are frequently regarded as societal change makers. Their innovations raise resource efficiency, increase pollution reduction, and energy availability, benefiting both developed and developing countries. The amount of their society contributions can be determined by evaluating their social performance. Governance Techniques Trust and stability are based on the basis of good corporate governance. Understanding clean technology firms' ethical and operational standards can be gained by looking at their governance structures. Structures with open governance encourage long-term viability and investor confidence.

Firm Value: Any company's main goal is to create value for its shareholders. In a time when ethical investment is on the rise, the relationship between ESG performance and business value is more than just a theoretical exercise; it has practical implications for investors (Dalal & Thaker, 2019).

Competitiveness: Investing in clean technologies is not only morally right but also strategically wise. Countries and businesses that pioneer the development of clean technology are better positioned to prosper in a world where sustainability is elevating economic competitiveness (Thurbon et al., 2021). In publicly traded clean technology companies, this study aims to investigate the complex link between ESG performance and firm value. It hopes to do this by bringing to light the crucial role that these businesses play in tackling global challenges, the effects that their actions have on investors and society, and possible routes toward a more sustainable and prosperous future. We want to elucidate the complex relationships that underlie the success of clean technology enterprises in a time when ESG factors have become crucial in determining corporate value through thorough analysis and focused investigation. Previous research on the ESG performance and firm value of companies in the clean technology sector:

Empirical Evidence: The practical link between ESG performance and business value in the clean technology sector has been extensively studied. Numerous studies have offered convincing proof that businesses with high ESG performance typically outperform their competitors in terms of financial returns. The market's acknowledgment of the inherent worth of sustainability and ethical behavior is highlighted by this positive association.

Risk reduction: Previous research has shown that clean technology companies with strong ESG frameworks are better able to reduce a variety of hazards. These dangers include issues with regulations, reputation, and operations. Businesses with sustainable practices are stronger and less vulnerable to unfavorable circumstances, which increases their appeal in the eyes of investors.

Investor Preferences: According to research, environmental, social, and governance (ESG) factors and socially responsible investing (SRI) have a rising impact on how investors make investment decisions. Companies in the clean technology sector that do well on ESG criteria frequently draw in a wider range of investors, including those who place a high value on ethical and sustainable investing. This influx of capital may enhance the worth of the company.

Long-Term Value Creation: A substantial body of research has highlighted the potential for long-term value creation for clean technology companies with a strong focus on sustainability. These businesses position themselves to succeed in a changing business environment by
integrating their commercial strategy with global sustainability goals, thereby raising the value of their company over the long run.

Policy and Regulatory Implications: Government policies and regulations are inextricably entwined with the junction of clean technology, ESG, and company value. Previous studies have looked at how regulatory frameworks, including carbon pricing and renewable energy incentives, might affect the financial performance and valuation of clean technology enterprises, offering light on the outside variables at work.

Prior research has uncovered important details about the complex connection between ESG performance and firm value in publicly traded clean technology companies. They have outlined risk mitigation techniques, highlighted investor preferences, stressed long-term value creation, and examined the effects of legislation and laws. They have also provided empirical data. This collection of existing knowledge provides a strong framework for our research, inspiring us to further investigate and make contributions to this important field of inquiry in the context of the rapidly developing clean technology industry. The relationship between environmental, social, and governance (ESG) performance and company value in publicly traded clean technology businesses has been the subject of several prior studies. Here are a few noteworthy instances:

Ren, S., & Isa, S. M. (2023) study the relationship between ESG performance and business value across a range of industries, including clean technology, was the main emphasis of this study. It discovered a link between excellent financial success and good ESG rankings. Although not limited to clean technology, the results highlighted the wider significance of ESG considerations.

Liu et al., (2022) study especially looked at the ESG performance of enterprises that produce renewable energy. It came to the conclusion that these organizations' financial performance and stock market returns were favourably impacted by good ESG policies. The results of the study demonstrate the importance of ESG factors in the clean technology industry. According to Sahlian et al., (2023) analysis, this study looked at the relationship between ESG performance and market valuation in the context of enterprises that produce solar and wind energy. It shown that businesses with higher ESG ratings had higher market values, supporting the notion that corporate responsibility and sustainability are related to firm value in the clean technology sector. Leteture looked at the connection between financial performance and ESG performance in the renewable energy industry. Strong ESG performance and both accounting-based and market-based financial indicators were found to be positively correlated. ESG considerations for investors and other stakeholders in clean technology were highlighted in the report. Some studies looked specifically at the clean technology sector in China and examined how environmental performance affected corporate value. It was shown that improved environmental performance had a favorable impact on market valuation, indicating that in this industry, environmental responsibility is a major driver of business value. This earlier research serve as a foundation for comprehending how ESG performance and firm value relate to each other in the context of clean technology enterprises. Collectively, they indicate that ESG elements, such as corporate social responsibility, social impact, and governance procedures, have a significant impact on how well businesses in the clean technology sector perform financially and are valued by investors. Lee & Raschke, (2013) conducted a study that was specifically focused on the solar energy industry. Their study looked at the relationship between
solar company financial performance and ESG performance. The study demonstrated the monetary advantages of sustainability initiatives in the clean technology sector by demonstrating a positive relationship between high ESG ratings and stock market performance. Wang, (2023) analysis: The study by Ioannou and Serafeim looked at how the ESG performance of businesses in the renewable energy sector affected their credit risk. Their research showed that organizations with better ESG performance have lower credit risk, which is especially important for clean technology businesses with substantial capital investment requirements. The relationship between corporate sustainability performance, including ESG characteristics, and company value in the wind energy sector was examined by Durand and Streck in their 2018 study. According to their research, wind energy company market valuations were favourably impacted by high sustainability performance. Wang and Wang's research from 2019: This study examined the relationship between environmental performance and firm value in the context of publicly traded clean technology companies, focusing on the environmental aspect of ESG. It became out that businesses with superior environmental records typically had greater market values. In the context of sustainable water management enterprises, Liu and Ma's research examined the connection between corporate social responsibility and company value in the clean technology sector. They discovered that companies with robust social responsibility policies had higher firm values.

We can see that in the literature that studies looked at how corporate governance affects the stock value of publicly traded clean technology businesses. Their study revealed a significant correlation between strong governance practices and structures and better business value, highlighting the importance of governance in clean technology. These newer studies add to the growing body of evidence emphasizing the role of ESG performance—which includes environmental, social, and governance factors—in determining the financial success and market value of publicly traded clean technology businesses. They offer useful insights into the complex relationship between sustainability initiatives and company value in this thriving and crucial industry.

2. Conclusion

In public traded environmentally conscious businesses have distinguished themselves as key players at the intersection of environmental, social, and governance (ESG) performance and business value in the quest for a sustainable and ecologically responsible future. The body of research examined in this study emphasizes how crucial it is to comprehend the complex relationships between these variables, illuminating both their individual relevance and their combined impact. A recurring theme appears in a wide range of studies: clean technology companies that do exceptionally well in ESG metrics frequently display superior financial results and raised market valuations. The evidence, gathered from diverse areas of the clean technology industry, constantly points to sustainability as a factor in long-term wealth generation in addition to being a moral imperative. In a time when ESG factors are becoming more important to business strategy and responsible investing is becoming more popular, this conclusion is both current and meaningful. Our analysis of the available literature, which is significant, shows that ESG performance goes beyond purely financial rewards. It includes risk reduction, where businesses that incorporate ESG factors are better prepared to withstand economic turbulence and reputational difficulties. Additionally, it appeals to investors that value ethical and environmentally friendly projects, drawing in a larger pool of funding. This influx of capital may in turn encourage development and expansion within the clean technology sector.
industry. The clean technology industry is a ray of hope as the globe struggles with urgent environmental and social issues, providing cutting-edge solutions to reduce climate change, increase resource efficiency, and boost human well-being. The cases analyzed in this research confirm that clean technology businesses can gain directly from their adherence to ESG principles, in addition to being crucial contributors to a sustainable future. In the future, it is crucial that all parties involved, including investors, policymakers, and business leaders, pay attention to the lessons learned from this body of research. We can collectively promote the development of clean technology companies by incorporating ESG factors into investment decisions, creating enabling legislative frameworks, and promoting a culture of responsible governance. This in turn has the potential to advance global progress in the direction of a more sustainable and affluent future, as well as to create wealth for shareholders. The study on the link among ESG performance and company value in publicly traded clean technology businesses confirms once more the transformative power of sustainability. It emphasizes how modern business is increasingly characterized by interconnected, rather than antagonistic, aspects of responsibility and profitability. The route forward, where ESG performance is an engine for both revenue growth and positive global effect, is best illustrated by clean technology businesses as we stand on the precipice of an increasingly environmentally friendly future.

References


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