



The Impact of ESG Rating on Company Performance in the Energy Industry: A Panel Data Analysis during the Past Decade

Larissa M. Batrancea¹, Alin Fetita²

¹Department of Business, Babes-Bolyai University Cluj-Napoca, Romania

²Department of Economics and Business Administration, Babes-Bolyai University Cluj-Napoca, Romania

Abstract

The effectiveness of environmental, social, and corporate governance (ESG) rating has been widely discussed and it is often linked to financial performance by academics and practitioners. However, a significant research gap remains unexplored, specifically one measuring the underlying mechanisms of the connection between ESG rating and corporate performance in electricity, oil and gas industry. This study uses the 2010–2020 ESG ratings of 240 companies in order to investigate how these ratings impact the corporate performance within the energy industry. Estimations are done via the Generalized Methods of Moments (GMM) approach, which is generally known to control for endogeneity. Our empirical results show that ESG ratings significantly influence corporate financial performance. In this context, the higher the ESG rating score, the more performant a company is from a financial standpoint. Furthermore, stricter environmental regulations, increased market competition, and company growth strengthen the association between ESG ratings and financial performance. This study provides scientific outcomes for the role of ESG ratings in boosting performance in the energy industry.

Keywords: financial performance, ESG, rating, energy industry