Gordon Institute of Business Science
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The role of financial slack in enhancing ESG and organisations' financial performance in the financial services sector

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Abstract

This research examined the moderating role of financial slack in the complex relationship between Environmental, Social, and Governance (ESG) performance and financial performance within South Africa's financial services sector. As ESG considerations increasingly shape corporate strategy, companies must navigate the balance between ESG initiatives and profitability. Existing research presents contradictory findings on whether ESG investments enhance or hinder financial performance, particularly in emerging economies where regulatory frameworks and institutional trust remain inconsistent. Grounded in the Resource-Based View (RBV) theory, this research bridges a crucial gap by investigating the moderating role of financial slack in the relationship between ESG performance and financial performance.

This research leveraged a Generalized Linear Model (GLM), incorporating ESG ratings and financial data from 21 publicly listed financial services companies on the Johannesburg Stock Exchange (JSE) over the period 2017 to 2024. This research proved that ESG performance is detrimental to financial performance of financial services companies in South Africa. Additionally, financial slack moderates the relationship between ESG performance and Tobin’s Q but not Return-on-Assets.

The insights derived from this research holds profound implications for corporate leaders, policymakers, and stakeholders invested in financial sustainability. By unveiling the potential of financial slack as a catalyst for ESG success, companies can strategically align their sustainability efforts with profitability, driving informed financial resource allocation and policy development.

Keywords

Word/Abbreviation	Explanation
ESG	Environmental, Social and Governance
ESG performance	Refers to how a company performs on ESG considerations, measured by ESG score
ESG score	Refers to score assessed by rating agencies like Bloomberg based on EGS disclosure, which assign a score. Higher scores indicate stronger ESG practices.
JSE	Johannesburg Stock Exchange
Financial slack	Refers to surplus financial resources exceeding resources required to sustain core business operations.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Philosophy [Corporate Strategy] at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research

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1. Chapter 1: Introduction

The relationship between Environmental, Social and Governance (ESG) performance and financial performance is complex, particularly in emerging markets such as South Africa where economic and institutional challenges may hinder profitability (Garcia & Orsato, 2020). Financial slack, representing surplus financial resources exceeding resources required to sustain core business operations, can moderate this dynamic, influencing companies' ability to balance sustainability and financial success (Duque-Grisales & Aguilera-Caracue, 2021). This research explored these interactions through existing literature and empirical findings, filling an important theoretical gap and business need. The main headings in this chapter are listed below.

1.1. Theoretical need for the research

1.1.1. Background

In 2004, a consortium of twenty financial institutions established the term ESG, in response to a call from the United Nations urging firms to incorporate ESG in their business models (Gillan et al., 2021). ESG has since gained popularity amongst societies, governments, policymakers, regulators as well as investors across the world (Huarng & Yu, 2024). In today's business landscape, the pursuit of profits is increasingly balanced with the need to enhance governance, social impact, and environmental sustainability (Chen et al., 2023). As a results, ESG is receiving attention from scholars, especially research on the relationship between ESG performance and company financial performance (Duque-Grisales & Aguilera-Caracue, 2021). Moreover, scholars emphasise the need for further research on the role of financial slack in shaping the relationship between ESG performance and financial performance in emerging markets (Duque-Grisales & Aguilera-Caracue, 2021).

1.1.2. ESG performance and financial performance

ESG performance and financial performance ("ESG-financial performance") relationship has been studied extensively but continues to produce inconsistent results (Duque-Grisales & Aguilera-Caracue, 2021). Several prominent studies found that ESG performance improves financial performance (Chen et al., 2023; Garcia & Orsato, 2020; Lee & Rashcke, 2023). In contrast, other studies found a negative ESG-financial performance relationship (Duque-Grisales & Aguilera-Caracue, 2021; Zhou et al., 2021). Liu et al. (2022) posited from a study of 167 publicly listed companies in China that ESG performance does not affect firm profitability and growth capacity. This is another study with a contradicting result.

The relationship between ESG/CSR performance and financial performance changes over time (Zhou et al., 2021; Lahouel et al., 2022). Zhou et al. (2021) found that the relationship between CSR performance and financial performance is negative in the short term but positive in the long term because the benefits of CSR activities such as the improvement in shareholder trust, government support and employee morale materialise over a long period of time. Therefore, companies bear financial burden of CSR or ESG activities immediately, in anticipation of future benefits. In related research, Lahouel et al. (2022) found that the relationship between corporate social responsibility (CSR) performance and financial performance is not linear. They found that CSR can contribute positively to financial performance up to an optimal level of CSR investment,

beyond which it reverts to a negative relationship (Lahouel et al., 2022). Therefore, companies need to understand an optimal level of invest in ESG/CSR activities to maximise the return on investment.

In summary, research is inconclusive on whether ESG performance is positively related to or detrimental to a company's financial performance.

Several prominent studies have found that the ESG-financial performance relationship is affected by several factors, including geographical location and availability of financial slack (Duque-Grisales & Aguilera-Caracue, 2021; Heubeck & Ahrens, 2024; Lu et al., 2023). Duque-Grisales & Aguilera-Caracue (2021) found that companies operating in emerging markets do not realise the benefits of ESG activities because of the country's poor reputation, inadequate governance, and corruption issues. As a result, ESG is detrimental to financial performance of companies operating in emerging markets (Duque-Grisales & Aguilera-Caracue, 2021). However, financial slack moderates this relationship (Duque-Grisales & Aguilera-Caracue, 2021). The industry and geographical location of the company affect the relationship between ESG or CSR performance and financial performance (Gillan et al., 2021). DasGupta & Roy (2023) found that cultural differences (ESG-averse vs ESG-seeking), legal system, as well as social and economic environment factors shape the relationship between ESG performance and financial performance. In summary, factors such as a company's geographical location, which influences culture and economic conditions, and company specific attributes, including whether the company possesses financial slack of not, collectively shape the relationship between ESG performance and financial performance.

Previous studies found the ESG performance is detrimental to financial performance in emerging markets (Duque-Grisales & Aguilera-Caracue, 2021; Garcia & Orsato, 2020; Chen et al., 2025). Based on Institutional Theory, Garcia & Orsato (2020) studied the ESG-financial performance relationship in both developed and emerging economies over the period 2007 - 2014. They concluded that the pressing issues of poverty, low education levels, inadequate infrastructure and a shortage of housing in emerging markets often take precedence over ESG concerns (Garcia & Orsato, 2020). Due to a lack of infrastructure in emerging markets, initiatives such as transitioning to low carbon manufacturing processes require significantly more financial resources than would be required in developed economies (Duque-Grisales and Aguilera-Caracue, 2021). Companies operating in emerging markets are subject to the adverse effects of the reputational challenges associated with the emerging markets (Chen et al., 2025). That is because emerging markets are known to have weak regulatory frameworks, and

heightened information asymmetry, which may affect stakeholder confidence on the effectiveness of ESG practices (Chen et al., 2025). Duque-Grisales and Aguilera-Caracue (2021) found that ESG initiatives were detrimental to financial performance for Latin American companies because ESG initiatives were not visible to stakeholders and did not attain sufficient stakeholder approval.

Previous studies have found a negative relationship between ESG performance and financial performance of South African companies (Garcia & Orsato, 2020; DasGupta & Roy, 2023). Garcia & Orsato (2020) studied the ESG-financial performance relationship in both developed and emerging economies over the period 2007 – 2014, with Brazil and South Africa as the two emerging economies in the population. They concluded that the pressing issues of poverty, low education levels, inadequate infrastructure and a shortage of housing in emerging markets often take precedence over ESG concerns (Garcia & Orsato, 2020). As a result, there is a lack of awareness and appreciation for ESG performance improvements by societies, which in turn limits the potential to earn positive returns on the investment in ESG activities (Garcia & Orsato, 2020). DasGupta & Roy (2023) argues that South Africa's ESG-averse national culture has a negative impact on the relationship between ESG performance and financial performance (DasGupta & Roy, 2023). The classification of South Africa as an ESG-averse country was based on six dimensions that assess, individual autonomy, the level of collectivism, masculinity, level of tolerance to uncertainty, long-term as opposed to short-term orientation, and citizen's preference for indulgence over restrain (DasGupta & Roy, 2023). Because of the interplay between these dimensions, appreciation for ESG considerations in South Africa is low.

In conclusion, several factors account for the conflicting findings in ESG performance and financial performance studies, highlighting the need to investigate moderating influences to clarify their impact. Moreover, the relationship between ESG performance and financial performance changes over time which necessitates re-evaluation (Zhou et al., 2021).

1.1.3. Moderating role of financial slack

Previous research found that financial slack improves the relationship between ESG performance and financial performance, however, these studies are based on publicly listed and large companies in developed countries (Heubeck & Ahrens, 2024; Lu et al., 2023; Liu, 2020). The findings from these studies cannot be generalised because of the unique characteristics of these companies and the markets in which they operate , as a

result, scholars concluded these studies with an urge for future studies to focus on less developed economies (Heubeck & Ahrens, 2024; Lu et al., 2023; Liu, 2020). Duque-Grisales & Aguilera-Caracue (2021) studied the impact of financial slack on the relationship between ESG performance and financial performance of multinational companies in Latin America and found that financial slack moderates the ESG-financial performance relationship. In their conclusion, Duque-Grisales & Aguilera-Caracue (2021) also urged for future studies to examine this relationship in other emerging economies.

1.1.4. Conclusion on theoretical need for the research

Grounded on the Resources Based View (RBV) theory (Barney, 1991), this research responds to the call for further exploration of the role of financial slack on the ESG-financial performance relationship, as highlighted by Duque-Grisales and Aguilera-Caracue (2021) and extended by Heubeck & Ahrens (2024); Lu et al. (2023) and Liu (2020). By focusing on South Africa's financial services sector, this research acknowledges the contextual differences shaping ESG outcomes, aligning with findings that the ESG-financial performance relationship varies by economies and industries (Huarng & Yu, 2024). Through this lens, the research contributes to a deeper understanding of how financial slack moderates the relationship between ESG performance and financial performance in a South African context.

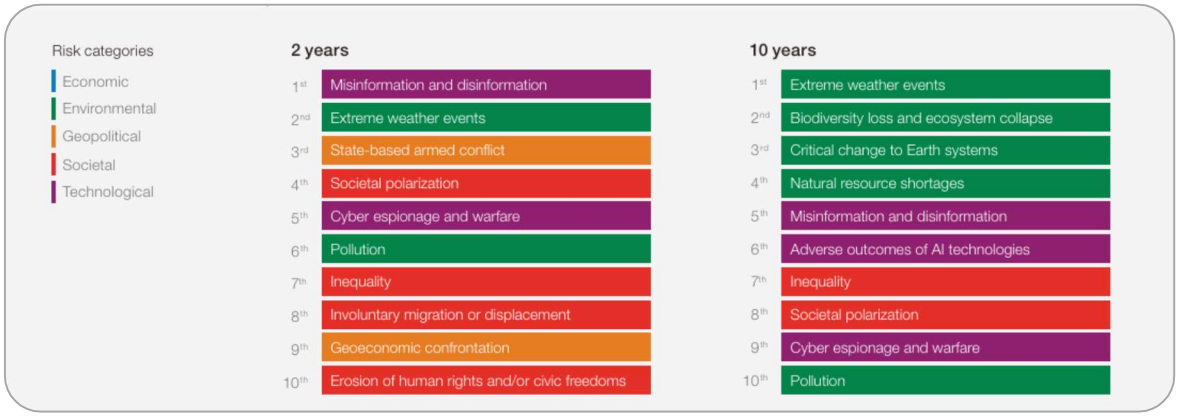
This research builds upon previous research on the relationship between ESG performance and financial performance by utilising the latest available data, ensuring greater accuracy and relevance in assessing ESG-financial performance dynamics. Given that ESG's impact on financial outcomes evolves over time, incorporating updated data strengthens the validity of findings (Lahouel et al., 2022; Gillan et al., 2021). The research specifically focuses on financial services companies in South Africa, providing sector-specific insights within the country's economic and regulatory context.

1.2. Business relevance

Environmental risks have firmly established themselves as critical issues of global concern (World Economic Forum, 2025, p.4). They are now ranked top four highest global risks in terms of impact and severity over the 10-year period leading up to 2035 (World Economic Forum, 2025, p.44). Consequently, there is an urgent need to implement effective solutions to address these risks and to capture new opportunities. Because of the growing agency to address environmental, social and governance risks, businesses are now evaluated on their sustainability performance in addition to their

economic performance (Henley, 2023). As a result, environmental risks, as well as social and governance risks have become a critical factor for business and managers.

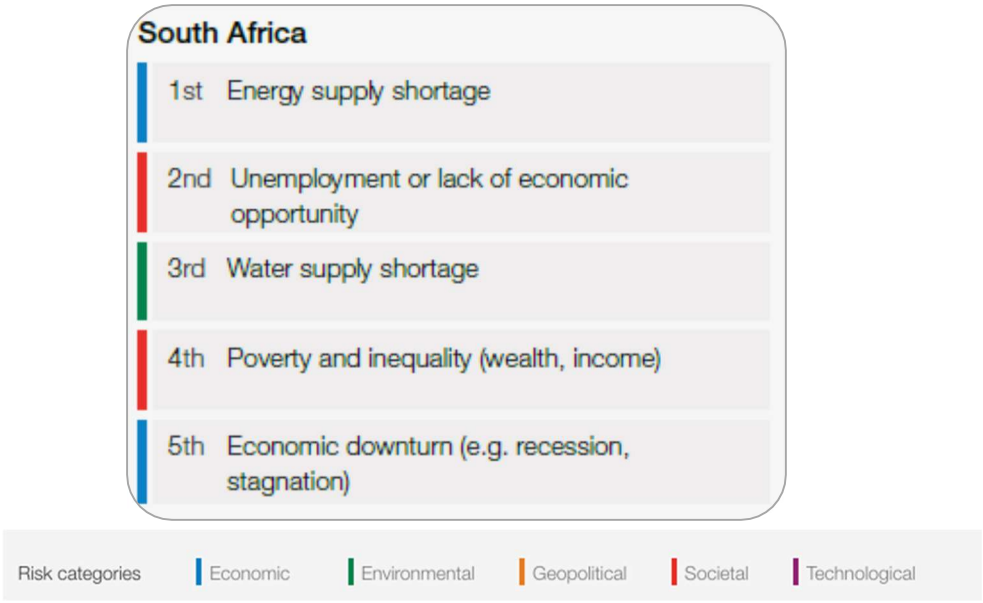
Figure 1 – Top 10 Risks



Source; (World Economic Forum, 2025, p.8)

While environmental issues are rated the most significant risks globally, South Africa faces unique challenges that place economic and societal issues above environmental issues (World Economic Forum, 2025). The prioritisation of social factors over environmental considerations within the South African context was substantiated by a participant in the Henley (2023, p.20) report who stated that “from the ESG, the social is probably the top thing”. Grounded on stakeholder theory, Lee & Raschke (2023) argues that stakeholder legitimacy, which refers to stakeholder’s level of satisfaction with the company’s ESG practices, improves ESG performance, which in turn improves financial performance. Thus, the outcomes that a company achieve from ESG practices is highly dependent on the societal expectations and priorities in the region in which the company operates (Lee & Raschke, 2023). Therefore, it is imperative for managers to deepen their understanding of the societal priorities within the South African context, as this awareness is essential for enhancing prospects of attaining legitimacy.

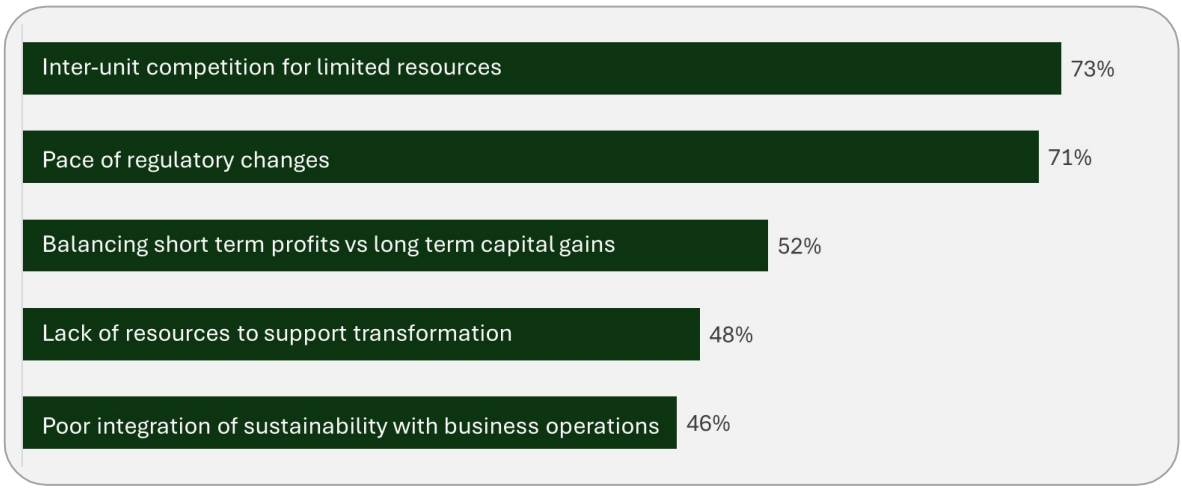
Figure 2 – Top Five Risks



Source; (World Economic Forum, 2025, p.88)

South African companies face significant challenges in implementing effective ESG strategies, primarily due to resource constraints (Henley, 2024). A survey of 63 publicly listed companies in South Africa by Henley Business School revealed that South African companies are slow in their adoption of ESG because of resource constraints (Henley, 2024). 73% of respondents stated that business units compete for limited resources, which hinders adoption of ESG practices (Henley, 2024). This makes resource constraints the most prominent issue hindering ESG adoption, followed by regulatory changes and the pressure to allocate resources towards short term profit maximisation instead of investing in ESG practices that enhance long term capital growth. Making the best use of financial resources is therefore key to improving ESG performance.

Figure 3 – Top challenges hindering ESG adoption



Source: Adapted from (Henley, 2024).

In their 2024 banking sector survey, KPMG (2024) emphasised the difficulty that banks in Southern Africa face in balancing short-term profitability with long-term investments in ESG initiatives. In summary, achieving financial sustainability while committing to ESG objectives presents a strategic challenge for financial institutions in the region. Accordingly, it is imperative that managers deepen their understanding of whether and how ESG practices can enhance company value and identify which internal resources can be deployed to maximise the return on ESG investments.

This research holds significant relevance for businesses in several ways. Firstly, understanding the relationship between ESG performance and financial performance in the context of financial services companies in South Africa will enable managers to develop effective ESG strategies, balancing investment in ESG practices with expected returns. Comprehending the moderating role of financial slack on the relationship between ESG performance and financial performance will enable managers to make informed decisions regarding financial resource allocation to ESG activities in a manner that maximises the benefits of ESG initiatives. By understanding the impact of ESG disclosures on financial performance and company value, managers in financial services companies will make informed decisions regarding disclosure of ESG data in Integrated and Sustainability reports, this may include placing more urgency in allocating resources towards ESG reporting activities. Lastly, by understanding factors that shape the relationship between ESG performance and financial performance, such as company size and stakeholder legitimacy, managers will be able to make informed decisions regarding allocation of resources towards various aspect of ESG practices.
Secondly, the study has relevance for regulators in South Africa. Attig (2024) proved that policy amendments that relax financial constraints, by increasing access and reducing cost of credit increase ESG/CSR performance. By understanding this impact of financial policies on EG performance, regulators can make more informed decisions regarding policy implementation. Additionally, regulators can provide targeted support to financially distressed companies, enabling them to allocate resources effectively towards ESG activities and thereby improve their ESG performance.

1.3. Focus on financial services sector

Examining ESG performance within the financial services sector is particularly meaningful due to the industry's unique ability to influence sustainability through capital allocation to projects that improve ESG performance, investing in companies that

demonstrate superior ESG performance, and their ability to structure financial products in a manner that is geared towards ESG performance (CFA Institute, 2024). Unlike other sectors, financial services companies are not merely responsible for their own ESG performance, they serve as critical intermediaries, determining which businesses receive funding and thereby shaping broader ESG adoption (CFA Institute, 2024). This dual role as both ESG participants and facilitators, makes financial services company's ESG performance uniquely impactful, warranting focused research to understand how financial slack moderates their ESG performance and financial performance.

1.4. Research purpose

The purpose of the research was to examine the role of financial slack as a moderating variable on the relationship between ESG performance and financial performance within South Africa's financial services sector. By providing empirical evidence, this research enhances the understanding of the role of financial slack in shaping the relationship between ESG performance and financial performance, offering insights for industry leaders, policymakers, and stakeholders to drive more effective ESG practices. Additionally, the research fills an existing gap in research relating to the moderating role of financial slack on the relationship between ESG performance and financial performance in South Africa's financial services sector.

1.5. Research question

What is the moderating role of financial slack on the relationship between ESG performance and financial performance in South Africa's financial services sector?

1.6. Outline of the report

The rest of this report is presented as follows.

- **Chapter 2** – Presents the literature review on key variables of ESG performance, financial performance, and financial slack.
- **Chapter 3** – Outlines the hypothesis, guided by the literature review.
- **Chapter 4** – Detailed discussion on the methodology adopted for the study.
- **Chapter 5** – Present empirical results, aligned with the study question and hypothesis
- **Chapter 6** – Detailed discussion on the results of the study, in comparison to the literature review and hypothesis.

- **Chapter 7** – provides the conclusion, recommendations and limitations of the study.

1.7. Conclusion

Chapter 1 introduced the key concepts in the research, including the research purpose, the business relevance, reasons for focusing the research on the financial services sector, research questions, as well as the general outline of the report. In summary, this research examined the moderating role of financial slack in the complex relationship between Environmental, Social, and Governance (ESG) performance and financial performance within South Africa's financial services sector. This research was motivated by contradictory findings in existing research on whether ESG investments enhance or hinder financial performance, particularly in emerging economies (Duque-Grisales & Aguilera-Caracue, 2021). By investigating the moderating role of financial slack in the relationship between ESG performance and financial performance of financial services companies in South Africa, the research bridges a crucial academic gap. The research has significant relevance to corporate leaders and regulatory bodies by unveiling the potential of financial slack as a catalyst for ESG success.

2. Chapter 2: Literature Review

This chapter details the academic literature and empirical findings on the relationship between ESG performance and financial performance, as well as the role of financial slack in the relationship between ESG performance and financial performance. Key concepts, namely, ESG performance, financial performance and financial slack are analysed and discussed. Key sections in this chapter are listed below:

2.1. Introduction

ESG performance has gained considerable attention in financial markets as companies navigate the balance between sustainability and profitability (Gillan et al., 2021). While ESG practices are widely recognised for their long term benefits, their impact on financial performance remains a topic of debate, especially in the context of emerging markets (Duque-Grisales & Aguilera-Caracue, 2021).

Due to the economic and institutional challenges characteristic of emerging markets, ESG efforts are detrimental to financial performance (Garcia & Orsato, 2020). While this is the case, financial slack, which refers to the availability of uncommitted financial resources, acts as a moderator in this relationship, influencing company's ability to undertake ESG initiatives while maintaining core operations (Duque-Grisales & Aguilera-Caracue, 2021).

While the concept of ESG has gained popularity in recent years, it is an extension of corporate social responsibility (CSR) (Chen & Xie, 2022). Accordingly, some studies still refer to CSR, while ESG scores are widely used as an approximate measure of CSR (Canitz et al., 2024; Castellano et al., 2024). Accordingly, an understanding of the interplay between CSR performance and financial performance adds valuable insights on how ESG performance could impact financial performance

2.2. ESG performance

ESG, first introduced in 2004 by a consortium of financial institutions in response to a United Nations call for companies to incorporate ESG considerations in their business models, has become a pivotal framework for corporate sustainability (Gillan et al., 2021). ESG has three fundamental pillars of environmental, social, and governance (Del Vitto et al., 2023). The environmental pillar encompasses the organisation's influence on the environment, including its carbon emissions, water consumption, and waste generation (Del Vitto et al., 2023). Social factors pertain to the company's societal footprint, which includes its relationships with employees, suppliers, and local communities (Del Vitto et al., 2023). Lastly, Governance relates to the internal management structure, including leadership composition, board diversity, and overall corporate decision-making processes (Del Vitto et al., 2023).

2.2.1. Measurement of ESG performance

A company's performance on ESG practices is influenced by several internal and external factors (Crace & Gehman, 2023). According to Crace & Gehman (2023), leadership of the company and unique characteristics of the company, have the most significant impact on the companies' ESG performance. However, they do not specify which company attributes or resources support ESG performance. Ren et al. (2025) argues that leaders with expertise and experience in ESG matters are more likely to advance ESG practices. External stakeholders, such as investment analysts, also play a critical role by setting and communicating expectations for future earnings (Ren et al., 2025). These expectations influence both investor and management decisions (Ren et al., 2025). When companies face pressure to meet these short-term earnings targets, they often reduce discretionary spending, such as ESG investments and prioritise core activities that deliver immediate profits (Ren et al., 2025). While this approach may alleviate short-term pressure on management, it can ultimately undermine the company's long-term growth and sustainability (Ren et al., 2025). In summary, management expertise, external stakeholder expectations and company performance shape the company's investment in ESG practices.

As ESG gains prominence, investors are increasingly integrating ESG considerations in their investment decisions (Pan & Tan, 2023). This growing importance of ESG underscores the need for consistent measurement of ESG performance across organisations, which is critical for advancing corporate sustainability (Crace & Gehman, 2023). In response, ESG rating agencies such as Moody's ESG and S&P Global to name a few have, implemented a wide variety of metrics designed to evaluate ESG practices (Del Vitto et al., 2023; Crace & Gehman, 2023). These ESG ratings indicate a company's commitment to addressing ESG issues and they rely on reliable comparative measures, including both quantitative and qualitative indicators, provided they can be assessed (Chen et al., 2023).

2.2.2. Limitations of ESG scores

Despite these advancements to measuring ESG performance, ESG ratings have numerous limitations. Firstly, pursuing comparability in measuring ESG activities neglects more contentious topics that are company or industry specific and cannot be measured across organisations (Crace & Gehman, 2023). That is because ESG indicators must be both important and relevant to stakeholders as well as assessable across multiple companies to serve as meaningful metrics for ESG performance

evaluation (Crace & Gehman, 2023). As a result, some ESG issues that are specific to geographical locations, industries or companies may not be reflected in the ESG ratings.

ESG performance evaluation is extensively reliant on a company's disclosure of ESG activities (Ge et al., 2024). Furthermore, the extent to which companies disclose ESG information is affected by rules and regulations applicable in the country (Cardio, 2024). Thus, achieving comparability across different countries can be a challenge. Developed economies have more stringent ESG disclosure requirements than emerging markets, which promotes a higher level of attention towards ESG performance (Chen et al., 2023). Despite the importance of ESG disclosures, less than a quarter of the world's stock exchanges require companies to disclose ESG information (Ge et al., 2024). This creates a limitation for adequate ESG performance evaluation (Ge et al., 2024). Additionally, ESG rating agencies measure the companies practices or initiatives and not the actual social impacts, because measuring broader societal effects would be challenging and requires significant resources (Crace & Gehman, 2023). As a result, ESG evaluations assume the positive impact of ESG initiatives (Crace & Gehman, 2023).

ESG rating divergence is another limitation of ESG ratings. This is because of the absence of uniform rating standards (Chen & Xie, 2022). Based on a study on six prominent ESG rating agencies: Kinder, Lydenberg, and Domini (KLD), Sustainalytics, Moody's ESG, S&P Global, Refinitiv, and MSCI, Berg et al., (2022) found that ESG ratings for the same company differ across different rating agencies. While there are several reasons for this divergence, differences in how ESG factors are measured by the ESG rating agency is the main driver (Berg et al., 2022). The impact of ESG rating divergence has been examined by several scholar (Berg et al., 2022; Ge et al., 2024; Pan & Tan, 2023). Berg et al., (2022) noted that studies that are based on ESG ratings should be pursued with caution because the results of the studies could be different where ESG ratings are sourced from different ESG rating agencies. Berg et al. (2022) recommends that one ESG rating is used to assess a company to mitigate the effects of the ESG rating divergence.

Ge et al. (2024) posited that ESG rating divergence reduced stock returns for Chinese listed companies, supporting earlier study by Pan & Tan (2023) that argued that ESG rating divergence eroded investors' confidence and adversely impacted both stock returns and volatility. That is because investors lacked confidence in ESG ratings, which affect investment decisions and may result in divestment from affected stocks (Ge et al.,

2024). Factors such as enhanced ESG disclosures (less information asymmetry), improved investor sentiment and improving ESG ratings moderate the negative relationship between ESG rating divergence and stock returns (Ge et al., 2024). Chen et al., (2023) argues that companies with superior ESG performance are associated with less information asymmetry. Additionally, where companies are transparent and disclose ESG information, investor's reaction to ESG rating divergence has an insignificant impact on the stock returns (Ge et al., 2024). In contrast, the adverse impact of ESG rating divergence on stock returns is more severe for companies that enjoy greater public attention (Pan & Tan, 2023). This is because information spreads more broadly to the public and analysts, resulting in reputational damage and hindering demand for the stock (Pan & Tan, 2023). In summary, the quality of ESG information disclosure is critical for shielding the company from the negative consequences of ESG rating divergence.

The way in which ESG ratings/scores are viewed and used is also a subject of controversy. ESG scores can be viewed from a perspective of the individual E, S and G pillar scores or an aggregated ESG score. Giese et al., (2021) examined the impact of ESG factors on financial performance basing ESG performance on individual E, S, and G pillar scores, and performing this examination based on the aggregate ESG score. The study produced inconsistent results because individual E, S and G factors affect financial performance at different and varying time horizons (Giese et al., 2021). Accordingly, using an aggregated ESG score is more meaningful when considering financial performance over a long period (Giese et al., 2021).

2.2.3. Conclusion on the use of ESG scores

In conclusion, ESG ratings may have several limitations as described above. However, the development of ESG scores is a great achievement towards more meaningful measurement of ESG performance. Hence this research relied on ESG scores to measure ESG performance. To mitigate the impact of ESG rating divergence, this research is based on ESG ratings from a single source, namely, Bloomberg. A detailed discussion on ESG scores used in this research and basis for selecting Bloomberg is presented in chapter 4 of this research paper.

2.3. Financial performance

Financial performance, defined by Hamman & Schiemann, (2021, p.1) and Combs et al., (2005, p. 261) as "the economic outcomes resulting from the interplay among an organisation's attributes, actions, and environment", is a commonly used term in business and academic research. Liu et al. (2022) argues that profitability is the core of

the company and the main indicator of financial performance (Liu et al., 2022). Other than profitability indicators, Liu et al. (2022) posited that there are three other indicators of financial performance, namely, operational indicators, growth indicators and solvency indicators. This view of the four dimensions to financial performance is consistent with the argument by Hamman & Schiemann (2021) that performance has four dimension and citing profitability, liquidity, growth, and stock market performance as the four dimensions of financial performance. Profitability measures how efficient the company is at deploying resources to generate earnings, while liquidity measures the ability of the company to generate cash flows that are sufficient to meet its financial obligations (Hamman & Schiemann, 2021). Growth refers to how the company size changes over time, which can be reflected in the value of assets or revenue, amongst other measures, while the stock performance reflects the capital market's perception of the value of the company (Hamman & Schiemann, 2021).

Hamman & Schiemann (2021) studied the usefulness of measuring performance as an aggregated construct instead of a set of four related but independent dimensions. Based on this study, Hamman & Schiemann (2021) concluded that performance should be modelled and viewed at a dimensional level (i.e. profitability, liquidity, growth, and stock market performance) instead of an aggregated level. This is because an aggregated organisational performance measure does not represent the varied facets of performance measured by each of the dimensions (Hamman & Schiemann, 2021). Additionally, the results of a study based on one dimension of performance, such as profitability, cannot be generalised to the other three dimensions of performance (Hamman & Schiemann, 2021). Accordingly, a study on financial performance should be specific on which dimension of financial performance is assessed and limit the conclusion to that specific dimension (Hamman & Schiemann, 2021).

Adopted from the view by Hamman & Schiemann (2021) that studies that assess financial performance should be based on specific dimensions, this research is based on two dimensions, namely, profitability and stock market performance. This is because profitability is the largest driver of the company's financial performance (Lee & Raschke, (2023). Other dimensions of growth and liquidity were incorporated in the control variables. Hamman & Schiemann (2021) does not specify whether assessing all of the four dimensions of financial performance enhance the results of a study, as a result, we adopted a popular approach of using two dimensions of financial performance (Chen et al., 2023; Garcia & Orsato, 2020; Lee & Rashcke, 2023). Adopted from previous studies, Return-on-Assets (RoA) is used as a measure of profitability (Chen et al., 2023; Garcia

& Orsato, 2020; Lee & Rashcke, 2023). Drawing from studies by Lahouel et al., (2022) the study uses a ratio of market value over book value (Tobin's Q) as a market-based measure of financial performance. Tobin's Q is a useful measure of the premium that the market is willing to pay for the company's stock over the value of the assets and reflects the company's initiatives that may have not yet been reflected in the company's profit or loss statements (Bentley & Kehoe, 2020).

2.4. Financial slack and Resources Based View (RBV) theory

All companies require resources to maintain their operating activities, however, some companies possess surplus resources beyond current operational requirements, this condition refers to a company that possess slack (Weng & Yang, 2024). Thus, slack refers to the resources that a company possess that are more than resources needed for business requirements (Du et al., 2022). The concept of slack dates to 1963, when scholars first proposed that slack emerges when a company's performance surpasses its predetermined targets (Cyert & March, 1963; Titus et al., 2022). This perspective suggests that managers tend to retain slack resources during periods of strong performance, whereas in instances where performance falls short of expectations, these resources are strategically deployed to address deficiencies and enhance performance (Titus et al., 2022). Therefore, slack presents an opportunity for the organisation to undertake activities and strategic initiatives that have the potential to enhance the organisations financial performance (Titus et al., 2022). Slack acts as a cushion allowing companies to withstand unexpected external factors (Li et al., 2022).

Various forms of slack exist within organisations. Firstly, the organisation could possess financial slack (also known as unabsorbed slack), which comprises of readily available resources such as cash and cash equivalents (Titus et al., 2022). Cash equivalents represent short term investments that can be converted to cash within a short period of time (Titus et al., 2022). The second type of slack is the absorbed slack, which encompasses company inventories and human capital which are deployed in the company but are in excess of the resources that are required (Titus et al., 2022). The third type of slack is the potential slack, which refers to a firm's borrowing capacity (Titus et al., 2022).

Each type of slack creates value for organisations under different circumstances (Bentley & Kehoe, 2020). Financial slack is most valuable in industries where organisations have limited access to external financial resources or capital, and in instances where the industry is highly competitive and requires greater adaptability and

innovation (Bentley & Kehoe, 2020; Deb et al., 2017). For examples, where new technologies emerge, new investment opportunities are identified, or customer preferences change in a manner that requires an organisation to operate differently, cash plays a critical role of funding the adaptation strategies for the organisation (Deb et al., 2017). From a competition perspective, cash allows the company to withstand aggressive competitor pricing strategies (Deb et al., 2017). While cash/financial slack has numerous advantages for companies, Deb et al., (2017) argues that cash will not add value to the firm if it can be appropriated by other stakeholders instead of being invested in initiatives that add incremental value to the organisation. This risk is exacerbated for organisations with weak governance structures that fail to hold management accountable (Deb et al., 2017). Additionally, it is more pronounced in highly diversified organisations, as diversification can lead to conflicts among managers regarding the allocation of capital within the company (Deb et al., 2017). Good governance and transparency in reporting the organisations activities is critical for organisations to reduce the risk of appropriation of cash and realise the benefits of possessing excess cash (Deb et al., 2017).

Grounded on the Resource Based View (RBV) (Barney, 1991) that argues that the organisation's resources can be a source of competitive advantage, Heubeck & Ahrens (2024) studied 100 firms listed in Nasdaq over a 12-year period and found that availability of slack resources such as excess cash enabled the organisation to undertake initiatives that enhance ESG performance. These results suggest that organisations that poses slack resources can take risks and innovate, and these companies have the willingness to invest in projects that have uncertain returns or require long time horizons (Heubeck & Ahrens, 2024).

Financial slack can also play a moderating role in the relationship between absorbed slack, such as human recourse slack, and the organisation's performance (Bentley & Kehoe, 2020). Bentley & Kehoe (2020) examined the complementary relationship between financial slack and human resource slack in the context of American commercial banks that are going through a strategic change (changes to products, services or markets served) and found that financial slack complemented the positive impact of human resource slack on the bank's financial performance. This is because financial slack enables investment in human resource capital through staff training and compensation that in turn improves excess employee's competence and motivation (Bentley & Kehoe, 2020). This means that human resource slack or excess employees play a critical role of absorbing new activities or serving new clients when an organisation

is going through a strategic change (Bentley & Kehoe, 2020). However, financial slack is required for the organisation to finance the necessary development of staff members (Bentley & Kehoe, 2020).

The concept of financial slack extends the Resource Based View (RBV) theory that posited that firms gain competitive advantage by possessing resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Based on RBV theory, this research holds an argument that a company that possess financial slack stands a better prospect of undertaking ESG activities that create value for the company, thereby moderating the impact of ESG initiatives on financial performance of financial services companies in South Africa.

Given the competitive nature of the financial services sector and the literature that suggest that cash enhances the financial performance of companies operating in competitive industries, it is reasonable to expect financial slack to moderate the relationship between ESG performance and financial performance (Deb et al., 2017). This research specifically focuses on financial slack, examining its moderating role on the relationship between ESG performance and financial performance of financial services companies in South Africa.

Previous studies differ in their interpretation and measurement of financial slack. Titus et al., (2022) used a ratio of current assets to current liabilities, referred to as the current ratio, as an estimate of financial slack. This approach is popular among other studies on slack resources (Duque-Grisales & Aguilera-Caracue, 2021; Heubeck & Ahrens, 2024). The other measure of financial slack is the ratio of cash and cash equivalents over total assets and has been applied in several studies (Lu et al., 2023; Deb et al., 2017; Li et al., 2022). Titus Jr et al. (2022) measured financial slack as the ratio of cash and marketable securities over current liabilities. In summary, an appropriate measure of financial slack should be a financial ratio that provides the best estimate of available and uncommitted financial resources for the company.

2.5. ESG performance and financial performance

The ESG-financial performance relationship has been studied extensively but continues to produce inconsistent findings (Duque-Grisales & Aguilera-Caracue, 2021; Gillan et al., 2021). Some empirical studies found a positive relationship between ESG performance and financial performance (Chen et al., 2023; Garcia & Orsato, 2020; Lee & Rashcke, 2023). In contrast, other studies found a negative ESG-financial performance relationship (Duque-Grisales & Aguilera-Caracue, 2021; Zhou et al., 2021).

Other findings argue that ESG performance does not affect financial performance (Liu et al., 2022). Several reasons could explain the inconsistent findings. Firstly, the measurement of ESG performance could be different across different studies which may produce varying results (Canitz et al., 2024). Measurement of ESG performance varies because of the ESG rating divergence, and methodologies adopted by various ESG rating agencies (Berg et al., 2022). Varying methodologies adopted by scholars in studying the relationship between ESG performance and financial performance could also be the reason for the varying results (Cao et al., 2023). The ESG-financial performance relationship changes over time, which could also explain the contradicting results (Lahouel et al., 2022). Canitz et al., (2024) argues that there is an optimal level of Corporate Social Responsibility investment that contributes positively to profitability. Where the company's investment in CSR is abnormally below or above this optimal level, CSR investment is detrimental to the company's financial performance (Canitz et al., 2024). The level of investment in sustainability initiatives could contribute to the contradicting findings from previous studies (Canitz et al., 2024).

In addition to differences in measurement approach for key variables, differences in time horizons covered by research, and varying levels of investment in ESG initiatives which all could be reasons for varied results, the ESG-financial performance relationship also varies across economies and industries (Huarng & Yu, 2024). Differences in legal requirements and stakeholder expectations in different locations have an impact on whether ESG performance will enhance financial performance or be detrimental to financial performance (Huarng & Yu, 2024). Gillan et al. (2021) found that the relationship between ESG performance and financial performance varies based on the industry and geographical location of the organisation that is undertaking the ESG initiatives.

Duque-Grisales & Aguilera-Caracue (2021) advances this view further by arguing that ESG performance enhances financial performance for companies operating in developed economies, however, it is detrimental to financial performance for emerging market companies. This study was however based on multinational companies in Latin America, which raises a question on whether these results could be generalised to all emerging markets (Duque-Grisales & Aguilera-Caracue, 2021). The next section explores the varied results in the relationship between ESG performance and financial performance, distinguishing findings relating to companies based in developed economies and emerging market companies.

2.5.1. Evidence from developed economies

Based on a study of 3 321 listed companies worldwide over a decade, Chen et al., (2023) found that ESG performance improved financial performance (measured by return on assets) particularly for large companies. Companies with superior ESG performance experienced higher employee morale and improved productivity (Chen et al., 2023). Companies that are superior on ESG performance outperform peers in their disclosure of ESG activities and stakeholder engagement, which creates a better acceptance of company products by society (Chen et al., 2023). Superior ESG performance enables a company to enter new markets and enhances the company's ability to attract capital (Chen et al., 2023). Based on a study of 500 largest publicly traded companies in the Unites States of America over a decade, Liu, Z. (2020) posited that strong environmental performance improved financial performance, however, the results varied between companies and industries. Castellano et al. (2024) studied 600 European companies over the period 2016 to 2021 and found that companies with higher ESG ratings have more stable return-on-investment and lower systemic risks, which makes the companies more resilient to challenging market conditions (Castellano et al., 2024).

Based on stakeholder theory, Lee & Raschke (2023) argues that stakeholder legitimacy, which refers to stakeholder's level of satisfaction with the company's ESG conduct, improves ESG performance, which in turn improves financial performance as measured by net profit margin. ESG conduct affects customers buying decisions, employment preferences, and investment decisions, which have an impact on financial performance (Lee & Raschke, 2023). This study underscores the need for companies to understand and meet the societies expectations with regards to ESG conduct (Lee & Raschke, 2023).

Awaysheh et al., (2020) noted that the top 10 highest performing American companies on Corporate Social Responsibility (CSR) ratings achieved superior financial performance relative to their peers. This superior financial performance, measured by profitability indicators and share performance indicators, is attributed to CSR performance (Awaysheh et al., 2020). This study supports the arguments by Chen et al., (2023) and Liu, Z. (2020) that sustainability investments, namely, ESG and CSR improve financial performance in the context of developed economies. Corporate Social Performance (CSP) is a source of temporary competitive advantage and will improve the company's financial performance, however, CSP will cease to contribute to financial performance once the CSP initiatives are institutionalised and adopted by competitors (Brower & Dacin, 2020).

In summary, empirical evidence from companies in developed economies suggests that ESG excellence enhances financial performance. Companies that invest in robust ESG practices tend to benefit from enhanced employee morale and productivity, as well as stronger stakeholder relationships, which translate into higher profitability (Lee & Raschke, 2023). Companies with superior ESG performance are better able to gain public trust and social acceptance, which supports customer loyalty, facilitates entry into new markets, and improves access to capital (Chen et al., 2023). Lastly, companies with higher ESG ratings have more stable return-on-investment and lower systemic risks, which makes the companies more resilient to challenging market conditions (Castellano et al., 2024).

2.5.2. Evidence from emerging markets

Studies from emerging markets suggest that ESG performance is detrimental to financial performance (Duque-Grisales & Aguilera-Caracue, 2021; Garcia & Orsato, 2020; Zhou et al., 2021). The negative impact of costs incurred by companies on ESG activities is detrimental to profitability (Lahouel et al., 2022). Due to a lack of infrastructure in emerging countries, initiatives such as transitioning to low carbon manufacturing process requires significantly more financial resources than would be required in developed economies (Duque-Grisales and Aguilera-Caracue, 2021). Companies operating in emerging markets are subject to the adverse effects of the reputational challenges associated with the emerging markets (Chen et al., 2025). Emerging markets are known to have weak regulatory frameworks, and heightened information asymmetry, which may affect stakeholder confidence on the effectiveness of ESG practices (Chen et al., 2025).

Duque-Grisales and Aguilera-Caracue (2021) found that ESG initiatives were detrimental to financial performance for Latin American companies because ESG initiatives were not visible to stakeholders and did not attain sufficient approval from stakeholders. This can be attributed to less stringent ESG disclosure requirements in emerging markets (Chen et al., 2023). To further emphasise the importance of ESG disclosures, Chen & Xie, (2022) studied the impact of ESG disclosures on Chinese companies from 2000 to 2020 and found that companies that improved ESG disclosures were able to attract investors and enhanced financial performance (Chen & Xie, 2022). In this case, financial performance was measured by both profitability and market share price performance (Chen & Xie, 2022). CSR disclosure is an important channel through which CSR practices can improve financial performance (Cao et al., 2023). Could this

mean that adequate disclosure of ESG initiatives is a pre-requisite for ESG initiatives to enhance financial performance?

Based on Institutional Theory, Garcia & Orsato (2020) studied the ESG-financial performance relationship in both developed and emerging economies over the period 2007 - 2014. They concluded that the pressing issues of poverty, low education levels, inadequate infrastructure and a shortage of housing in emerging markets often take precedence over ESG concerns (Garcia & Orsato, 2020). As a result, there is a lack of awareness and appreciation for ESG performance improvements by societies, which in turn limits the potential to earn positive returns on the investment in ESG activities (Garcia & Orsato, 2020). Additionally, the weak regulatory environment in emerging markets and high levels of corruption often leads to less pressure on firms to enhance their ESG performance (Garcia & Orsato, 2020). This can result in slower progress towards sustainable practices compared to firms in more regulated markets. These challenges, together with the impact of small capital markets in emerging markets, create a complex environment where companies may not feel the same pressure or incentive to prioritise ESG initiatives as they would in more developed markets (Garcia & Orsato, 2020).

ESG initiatives can be detrimental to financial performance in the short term because companies with limited resources must allocate resources to sustainability efforts that may only yield financial benefits in the long run (Zhou et al., 2021). The internal conflict with regards to allocation of resources between ESG initiatives and maintaining current operations is a complex matter given that the benefits of ESG initiatives are not immediate (Gillian et al., 2021). Given the long-term nature of returns from ESG initiatives, it is anticipated that there will be an adverse ESG-financial performance relationship during the initial stages of the investment in ESG activities (Gillian et al., 2021). Based on a study of 167 listed companies in China over the period from 2014 to 2019, Liu et al. (2022) found that ESG performance enhanced the company market value, but this outcome was enabled by a strong company operating capacity. In the absence of a strong operating capacity, ESG performance did not enhance company value (Liu et al., 2022).

In summary, ESG practices increase the internal conflict over allocation of limited resources between ESG practices and core operations. This increases opportunity costs and negatively impacts financial performance, unless the company has a strong operating capacity.

A company's reputation, which refers to stakeholders' perception of the company's practices, its products or services in comparison to its peers, is crucial for the company to be competitive in the market (Chen et al., 2025). Thus, understanding factors that impact company reputation, such as ESG practices, is crucial for building and preserving company value (Wong & Zang, 2022). Chen et al. (2025) studied 266 listed Chinese companies over a seven-year period from 2015 to 2021 and found that companies that have higher ESG ratings enjoyed better reputation, which is driven by positive media reports on ESG performance. The impact of ESG rating on the company's reputation is amplified where the companies ESG reports are audited by a third party (Chen et al., 2025). A good company reputation on ESG matters preserves the companies stock market performance and improves a company's financial performance, while negative media disclosures on the company's ESG practices is detrimental to the company valuation (Wong & Zang, 2022). The negative impact of adverse media reports on the company value is more severe for companies such as banks and insurance companies because of higher stakeholder expectations (Wong & Zang, 2022). Thus, ESG excellence is a critical tool that can improve the company's stock price performance. However, emerging markets have reputational challenges that may diminish the effectiveness of ESG practices in enhancing company value (Chen et al., 2025).

2.5.3. Evidence from South Africa

Limited studies on the impact of ESG performance on financial performance for South African companies is inconclusive and requires further evaluation. Firstly, Garcia & Orsato (2020)'s study found a negative relationship between ESG performance and financial performance. This study incorporated companies from two emerging markets, namely, South Africa and Brazil (Garcia & Orsato, 2020). In other studies, Dhaliwal et al. (2012) posited that the link between ESG performance and financial performance is more pronounced for companies in stakeholder-oriented countries. In their view, South Africa is a shareholder-oriented country and thus the relationship between ESG performance and financial performance is likely to be weak (Dhaliwal et al., 2012). The South African economy has since experienced several changes which may alter Dhaliwal et al. (2012)'s view. Mainly, the embedment of the King report on corporate governance may have shifted the South African economy towards a more stakeholder-oriented economy (Bernardi & Stark, 2018). Thus, the assumption that a relationship exists between ESG performance and financial performance in a South African context is justified.

A subsequent study by DasGupta & Roy (2023) argues that South Africa's ESG-averse culture has a negative impact on the relationship between ESG performance and financial performance. With the aim of understanding the effects of culture, legal system, and corruptions levels on the relationship between ESG performance and financial performance, DasGupta & Roy, (2023) examined companies from 17 developed economies and 10 emerging economies over the period spanning from 2010 to 2019. They found that ESG performance impacts company financial performance negatively in countries like South Africa, which they classify as ESG-averse country (DasGupta & Roy, 2023). The classification of South Africa as an ESG-averse country was based on six dimensions that assess, individual autonomy, the level of collectivism, masculinity, level of tolerance to uncertainty, long-term as opposed to short-term orientation, and citizen's preference for indulgence over restrain (DasGupta & Roy, 2023). Because of the interplay between these dimensions, appreciation for ESG considerations in South Africa is low. In addition to the culture, DasGupta & Roy (2023) identified South Africa's strong rights regime as a factor that would have a negative impact on the relationship between ESG performance and financial performance.

Previous studies suggest that South African companies are struggling to disclose adequate ESG data (Candio & Rossi, 2023). Despite the introduction of mandatory Integrated Reporting for listed South African companies since 2011, which played a part in improving the value of ESG disclosure to stakeholders, South African companies are still falling short on disclosing adequate information regarding ESG practices (Candio & Rossi, 2023; Bernardi & Stark, 2018). Bernardi & Stark (2018) studied the impact of adopting mandatory Integrated Reporting in South Africa based on a study of 41 South African companies over a period spanning from 2008 to 2012. At the time of the Study, Bernardi & Stark (2018) found that only 68 companies listed on the JSE had ESG data for over 5 years. This research has explored whether South African companies have made any progress in improving ESG disclosure since the last observations by (Bernardi & Stark, 2018). However, this research provides a view on the availability of ESG data specifically for financial services companies, instead of all JSE listed companies. This view is relevant for this research because the level of ESG disclosures have an impact on the company's market value, thus relevant for the research question (Ge et al., 2024).

While there is only a handful of related studies in the South African context which could be used for this research, these limited studies provided a valuable foundation for this research.

2.5.4. Conclusion

In summary, ESG performance is detrimental to the financial performance of emerging market companies. This is because of several reasons such as the lack of adequate disclosure of ESG activities and poor stakeholder management (Duque-Grisales & Aguilera-Caracue, 2021). Societies and other stakeholders place more emphasis on the pressing issues such as poverty and lack of infrastructure over ESG performance, which decrease societies appreciation of ESG excellence (Garcia & Orsato, 2020). Companies are battling with the balance between allocating limited resources between ESG initiatives and maintaining core operations, thus ESG introduces an opportunity cost (Zhou et al., 2021; Gillian et al., 2021).

2.6. Role of financial slack on the ESG-financial performance relationship

Financial slack plays a critical role in reducing the opportunity cost of engaging in ESG practices, which might otherwise come at the expense of a company's core operations (Lu et al., 2023; Heubeck & Ahrens, 2024). The pursuit of profits is increasingly balanced with the need to enhance performance on ESG matters (Chen et al., 2023). Thus, managers are challenged with a task of allocating limited financial resources to activities that maximise returns for the organisation. This may entail undertaking some projects at an expense of others, therefore introducing an opportunity cost of the decision (Duque-Grisales & Aguilera-Caracue, 2021). When managers have access to sufficient financial resources, they can engage in more innovative ESG activities, that meet stakeholder expectations, while also maintaining the company's core operations (Duque-Grisales & Aguilera-Caracue, 2021; Heubeck & Ahrens, 2024). Lu et al. (2023) examined a sample of companies in United States of America to understand factors that improve the reliability of CSR at enhancing company value. They found that financial slack reduces the opportunity cost of undertaking CSR initiatives because managers can invest adequately in CSR initiatives while concurrently allocating resources that are required to maintain core operating activities, thereby improving the reliability of CSR at enhancing company value (Lu et al., 2023). Thus, the opportunity cost of investing in ESG initiatives is reduced. These empirical results underscore the importance of financial slack in reducing tension and the impact of conflicting priorities within organisations, awarding the necessary flexibility for managers to explore new ideas that can create value for the organisation.

Previous studies have found that financial slack enables organisations to invest in projects that have uncertain returns or require long investment periods (Heubeck & Ahrens, 2024). CSR activities are risky investments because financial returns from

these initiatives are not guaranteed (Lu et al., 2023). Moreover, these returns require a considerable amount of time to materialise (Gillian et al., 2021). Thus, companies may not have the capacity to invest in such practices, unless the company possess financial resources that are more than resources required to sustain core operations, slack (Heubeck & Ahrens, 2024). Thus, organisations that have slack resources can take more risks (Heubeck & Ahrens, 2024). Attig (2024) examined the impact of relaxing financial constraints, by implementing policies that improve credit access and reducing the cost of credit, on CSR in United States of America. The research proved that easing financial constraints increased availability of financial resources for companies that were previously financially constrained, and these companies improved their CSR performance (Attig, 2024). This study further illustrates that companies withdraw from engaging in CSR and ESG initiatives when financial resources are scarce. This practice alleviates short-term pressure on management, however, it undermines the company's long-term growth and sustainability (Ren et al., 2025). Thus, financial slack enhances the company's prospects of investing in projects that preserve long term growth.

Previous studies found that financial slack strengthens shareholders confidence in the company's ability to implement sustainability practices successfully, thereby contributing to enhancing company value (He at al., 2024; Duque-Grisales & Aguilera-Caracue, 2021). Duque-Grisales & Aguilera-Caracue (2021) posited that availability of financial slack allows companies to recruit specialised skills that improve the company's performance on ESG matters and enhance shareholders confidence in the company, and the company's ability to implement ESG initiatives effectively. In turn, shareholder confidence improves company value (He at al., 2024; Chen et al., 2023). He at al. (2024) studied 392 Chinese companies that adopted responsible production practices over the period spanning from 2016 to 2023 and found that companies with financial slack experienced an increase in market value following the adoption of responsible production practices. He at al. (2024) argues that financial slack enables companies to introduce innovative technologies and build the infrastructure that is required for responsible production practices. Responsible production practices are a part of CSR, with the primary aim of addressing the impact of production processes on resources, the environment and society (He at al., 2024). This study offers valuable lessons on how financial slack can impact the relationship between sustainability activities and financial performance.

Financial slack can enhance a company's communication strategy regarding ESG practices, thereby achieving greater stakeholder legitimacy (Chen et al., 2023 ; Duque-Grisales & Aguilera-Caracue, 2021).

Chen et al. (2023) examined ESG-financial performance relationship using data of 3,321 companies worldwide over a decade (period 2011 - 2020). Their findings indicate that large enterprises are more adept at conveying their ESG achievements to the public, resulting in higher acceptance of their products. Chen et al., (2023) attributes the success of these companies at conveying their ESG achievements to the greater level of resources available to the companies. Therefore, financial slack is an important resource through which companies can enhance their communication and reporting capabilities. In contrast, Duque-Grisales & Aguilera-Caracue (2021) found that multinational companies in Latin America were not able to communicate their ESG practices to stakeholders, as a result, ESG performance was detrimental to financial performance. In summary, higher ESG performance may be detrimental to financial performance of companies operating in emerging markets, however, companies that possess financial slack can deploy these resources to improve disclosure of ESG activities in company reports and achieve greater stakeholder engagement (Chen et al., 2023).

Several prominent studies have found that financial slack enhances a company's adaptive capabilities (Bentley & Kehoe, 2020; Lu et al., 2023; Lefebvre, 2024).

In their pursuit to understand whether CSR is reliable at impacting company value, Lu et al. (2023) found that CSR practices are positively related to company value when the company has financial slack, because companies that have slack are able to act promptly to finance opportunities that have higher returns. Lefebvre (2024) argues that the benefit of financial slack is amplified during crisis such as during the Covid-19 pandemic or the 2008 financial crisis. This is because crisis introduces risks, while also introducing opportunities for new innovative solutions (Lefebvre, 2024). During this time, the need for adaptation is elevated, companies that have slack can adapt quickly and improve company performance (Lefebvre, 2024). Bentley & Kehoe (2020) examined the complementary relationship between financial slack and human resource slack in the context of American commercial banks that are going through a strategic change (changes to products, services or markets served) and found that financial slack complemented the positive impact of human resource slack on the bank's financial performance. This is because financial slack enables investment in human resource capital through staff training and compensation that in turn improves excess employee's competence and motivation. Overall, human resource slack can play a critical role is

performing additional activities that are related to ESG initiatives (Bentley & Kehoe, 2020). Financial slack enables the organisation to finance the necessary development of staff members (Bentley & Kehoe, 2020). Like any strategic change program, ESG initiatives entail provision of new services or products, new processes, or servicing new markets. Financial slack can play a critical role in financing the organisations adaptation strategy, thereby improving the organisation's performance and financial returns from the ESG initiative (Bentley & Kehoe, 2020).

Liu (2020) examined 500 American companies over a period 2005 to 2014 and found that the relationship between environmental performance and financial performance varies by company and by industry due to the specific characteristics of the company. Liu (2020) further argued that firms need sufficient financial resources to implement environmental strategies that improve profitability, thereby raising an argument that slack resources moderate the relationship between environmental performance and financial performance. A company cannot improve ESG performance if the financial performance is poor, this is due to the reciprocal relationship between the two variables (Liu, 2020). This is consistent with the argument by Chen et al. (2023) that a firm that is not profitable is not able to set aside funds for ESG activities. Both studies underscore the importance of financial resources as a moderator in the ESG performance-financial performance relationship.

Contrary to most other studies, Heubeck and Ahrens (2024) argued that slack resources do enhance ESG performance but not indefinitely. They found that beyond an optimal level, financial slack can become detrimental (Heubeck and Ahrens, 2024). When a company has an abundance of financial resources, it may make suboptimal investments in ESG activities, which can negatively impact financial performance because the cost of the investment exceeds the incremental benefits of investing in the initiative (Heubeck and Ahrens, 2024).

In summary, financial slack provides managers with the flexibility to fund and explore new ESG initiatives that can create value for the organisation, while sustaining the current operational requirements (Duque-Grisales & Aguilera-Caracue, 2021; Heubeck & Ahrens, 2024; Lu et al., 2023). Thus, it reduces the opportunity costs of undertaking ESG investments. Additionally, financial slack enables organisations to undertake more risky projects, that require a long-term view (Heubeck & Ahrens, 2024). It provides the organisation with the flexibility to act swiftly to finance opportunities that have higher returns for the company (Lu et al., 2023).

2.7. Conclusion

This chapter analysed academic literature on the relationship between ESG performance and financial performance, as well as the role of financial slack in the relationship between ESG performance and financial performance. This forms the basis for the hypothesis presented in chapter 3.

3. Chapter 3: Hypothesis

3.1. Introduction

Chapter 3 Outlines the hypothesis, guided by the literature review discussed in Chapter 2.

3.2. ESG performance and financial performance

Past research suggest that ESG performance is detrimental to the financial performance of emerging market companies. This is because of several reasons such as the lack of adequate disclosure of ESG activities and poor stakeholder management (Duque-Grisales & Aguilera-Caracue, 2021). The negative impact of costs incurred by companies on ESG activities is detrimental to profitability (Lahouel et al., 2022). This raises a question on whether companies in emerging markets can recover these costs. Additionally, Societies and other stakeholders in emerging markets place more emphasis on the pressing issues such as poverty and lack of infrastructure over ESG performance, which decrease societies appreciation of ESG excellence (Garcia & Orsato, 2020). Companies are battling with the balance between allocating limited resources between ESG initiatives that yields returns in the long run and maintaining operational requirements (Zhou et al., 2021; Gillian et al., 2021). In the short run, ESG practices are detrimental to financial performance.

South Africa faces the challenges of poverty and unemployment, which are cited in previous studies as reasons for a negative relationship between ESG performance and financial performance (Garcia & Orsato, 2020). In 2022, 45,4% of South Africans were classified as poor, based on the assessment of the actual household net income against the minimum net income required to survive (Stats SA, 2024, p.4). By the end of quarter 3 (September) of 2025, 31,9% of South Africans were unemployed, marking a 4,2 percentage point increase from quarter 3 of 2017 (Stats SA, 2025). This underscores the unique challenges that companies operating in emerging markets such as South Africa face. As argued by (Garcia & Orsato, 2020), these challenges take precedence over ESG concerns, restricting potential economic benefits of investing in ESG practices. Given the prevalence of these factors in South Africa, we expect ESG initiatives to be detrimental to financial performance.

This lead us to the first hypothesis:

H1 – Superior ESG performance has a negative impact on the financial performance of financial services companies in South Africa.

3.3. Role of financial slack on ESG-financial performance relationship

Past research demonstrated that financial slack can enhance the return on ESG investments by providing managers with the flexibility to fund and explore new ESG initiatives that can create value for the organisation, while sustaining the current operational requirements (Duque-Grisales & Aguilera-Caracue, 2021; Heubeck & Ahrens, 2024; Lu et al., 2023). Thus, it reduces the opportunity costs of undertaking ESG investments. Additionally, financial slack enables organisations to undertake more risky projects, that require a long-term view (Heubeck & Ahrens, 2024). It provides the organisation with the flexibility to act swiftly to finance opportunities that have higher returns for the company (Lu et al., 2023). From a market perspective, financial slack enhances investor confidence in a company's ability to successfully implement sustainability initiatives, which enhances the company's valuation (He at al., 2024).

Based on the above theory, the proposed hypothesis is as follows:

H2 – Financial slack moderates the relationship between ESG performance and financial performance of financial services companies in South Africa.

3.4. Conclusion

Chapter 3 outlined the hypothesis based on the literature review in chapter chapter 2. The hypothesis discussed in chapter 3 served as the basis for the selected research methodology discussed in chapter 4.

4. Chapter 4: Research Methodology

4.1. Introduction

Chapter 3 described the study hypothesis that was guided by the research gap identified in chapter 2. Based on the hypothesis, an appropriate methodology was adopted for the study. Chapter 4 provides a detailed discussion on the methodology adopted for the study. Chapter 4 is structured as follows:

4.2. Research design

The study examines the moderating role of financial slack on the relationship between ESG performance and financial performance. In this section, we discuss procedures followed to design the study, including the philosophical assumptions, research approach, research design, as well as research methods applied (Creswell & Creswell, 2023).

4.2.1. Philosophical worldview

There are four broadly used philosophical worldviews that reflect the assumptions and beliefs that a researcher brings into the study, namely, Positivist, Pragmatism, Transformative, and Constructivism (Creswell & Creswell, 2023). This study is based on Positivist worldview. The basic idea of Positivist worldview is that knowledge is derived from research and data (Creswell & Creswell, 2023). To satisfy this worldview, rigorous research was performed using quantitate methods to uncover objective truths about the relationship between ESG performance and financial performance in South Africa's financial services companies, as well as assessing the role of financial slack in this complex relationship (Creswell & Creswell, 2023).

4.2.2. Quantitative research approach

Kandel (2020) distinguishes between quantitative and qualitative research approaches, arguing that a quantitative approach focuses on measurable variables and more suited for hypothesis testing while a qualitative approach employs a more interpretive approach and is more suited for exploratory insights (Kandel, 2020). (Creswell & Creswell, 2023) further assert that a quantitative approach is most effective when a study seeks to identify factors that influence an outcome. This study examined measurable relationships, specifically the interplay between financial slack, ESG performance, and financial performance. Accordingly, a quantitative methodology was applied. This research approach is consistent with prior studies by Duque-Grisales and Aguilera-Caracue (2021), who employed a quantitative approach to examine the moderating role of financial slack on the relationship between ESG performance and financial performance in Latin American companies, reinforcing the applicability of the quantitative approach.

4.2.3. Selected research design

The author followed a survey design for this study because a survey is the best suited design where the research question aims to predict relationship between variables

(Creswell & Creswell, 2023). Data was collected at a point in time, relating to the period 2017 to 2024.

4.3. Population

The relationship between ESG performance and financial performance varies across industries and geographical location of the company (Gillan et al., 2021). To mitigate the impact of geographic and industry differences, this study is based on South African companies listed under financial services sector of the Johannesburg Stock Exchange (JSE). Financial services companies are selected because they play a critical role of advancing the ESG agenda (CFA Institute, 2024). Firstly, financial services companies influence the flow of capital towards ESG initiatives by investing in companies that demonstrate superior ESG performance (CFA Institute, 2024). Additionally, financial services companies can structure financial products, such as loans and insurance products, in a manner that is geared towards ESG performance (CFA Institute, 2024). Therefore, the contribution of financial services companies towards the ESG agenda is significant as it is not limited only to their direct operations but also the indirect impact of their investments and lending activities.

As of February 2025, 95 companies are listed on the financial services sector of the JSE (LISTCORP, n.d.). This includes 6 registered banks, 8 insurance companies, 43 real estate companies and 38 other financial services firms (LISTCORP, n.d.). This population of companies is selected because publicly listed companies publish integrated reports and annual financial statements, that are sources of information for purposes of this study. This is in line with an approach followed in prior studies such as Grisales and Aguilera-Caracue (2021), who selected companies listed on Latin America's stock market because of the availability of financial information. A list of companies listed under the financial services sector of the JSE and listing dates populated by the author is presented in **Annexture A** of this report.

4.4. Level of analysis and unit of analysis

This study examined the moderating role of financial slack on the relationship between ESG performance and financial performance at an individual company level, being both the level of analysis and unit of analysis.

4.5. Sampling method, sampling frame or criteria, and sample size

A list of all financial services companies listed on the JSE is available on the JSE website. There are no subgroups from the list, therefore a single-stage sampling procedure was

performed (Creswell & Creswell, 2023, p162.). In determining the sample size, intended level of analysis and expected outcomes were considered (Creswell & Creswell, 2023). Adopted from Chen et al. (2023) and Garcia & Orsato (2020) the study was initially designed to span a ten-year observation period. However, data limitations constrained this scope. Specifically, the availability of ESG data on Bloomberg for the 95 financial services companies listed on the JSE was insufficient for the full period. Only 21 of these companies had consistent and reliable ESG data available on Bloomberg from 2017 onwards. As a result, the analysis was based on this subset of companies, limiting the observation period to eight years. An eight-year observation period enhances the validity of the findings by accounting for the long-term nature of ESG investment returns (Zhou et al., 2021). Given that the financial benefits of ESG initiatives often materialise over extended periods, this approach allows for a more precise assessment of ESG-related financial performance trends while mitigating the effects of short-term market fluctuations.

4.6. Research instrument

Two reliable instruments were used for this research, namely, IBM SPSS software for data analysis and Bloomberg to source ESG data. SPSS is a popular statistical package, that is easy to use for the research, thus enhancing the accuracy and validity of research findings (Creswell & Creswell, 2023).

ESG ratings were obtained from Bloomberg, a well-established and reliable source for ESG performance metrics. Bloomberg's comprehensive ESG database has been leveraged in previous empirical studies, reinforcing its credibility as a data source (Christensen et al., 2022). Additionally, Microsoft excel was used to collect financial data because this a quantitative study. By employing these tools, the study aligns with best practices in financial and sustainability research, ensuring methodological rigor and data reliability.

4.7. Data gathering process

To collect data, several factors were considered such as, availability of data, reliability of the source of data, and the most practical and cost-efficient way of obtaining data (Creswell & Creswell, 2023). Financial information which includes total assets, total liabilities, cash and cash equivalents, total revenue, headline earnings, and company share price for the eight-year period were obtained from company integrated reports and audited annual financial statements. Company integrated reports and audited financial statements are accessible on company websites as well as the JSE website. Sources for financial data are provided in **Annexure B** of this report. Four out of the 21 sampled

companies, namely, Investec plc, Reinet Investments S.C.A., Hammerson plc, and Capital & Counties Properties plc do not present financial statements in South African Rands. As a result, financial statements were translated to South African Rands based on exchange rates disclosed in the company financial statements. Income and expense items, namely, headline earnings, total revenue, and net profit were translated using the average exchange rate applicable for the 12 months period. Assets and liabilities were translated at the closing exchange rate applicable at the financial year end date.

ESG scores were obtained from Bloomberg database for the eight-year period from 2017 to 2024. Amongst the rating agencies, Bloomberg applies a more balanced weighting across the three ESG pillars of environmental, social and governance to determine ESG ratings (Chen et al., 2025). The Bloomberg database is commonly used in previous studies for ESG scores (Li et al., 2024; Chen et al., 2025). Additionally, Bloomberg was selected as the source of ESG data because of convenience and leveraging existing access to Bloomberg platform. ESG data and financial information were consolidated in a single Microsoft Excel workbook and traced back to the main sources to ensure the accuracy and completeness of the data before data processing. A summary of variables is presented in Table 1 and discussed below.

4.7.1. Dependent variables

Financial performance is a dependent variable. Two measures of financial performance are used, namely the Return-on-assets (RoA) and Tobin'Q (Chen et al., 2023). RoA reflects how well the company can use assets invested in the business to generate earnings, and it is a commonly used ratio in previous studies (Chen et al., 2023; Garcia & Orsato, 2020; Lee & Rashcke, 2023; Duque-Grisales & Aguilera-Caracue, 2021; Zhou et al., 2021). RoA was calculated as a ratio of headline earnings over average total assets, a popular approach for measuring RoA by financial services companies in South Africa (Standard Bank Group, 2024, p.86). A higher RoA ratio reflects better financial performance (Chen et al., 2023).

Drawing from studies by Lahouel et al. (2022) the study used a ratio of market value per share over book value per share (Tobin's Q) as a market-based measure of financial performance. This is because ESG initiates do not create value immediately, however, the market value of the company may reflect expected befits from ESG initiatives (Bentley & Kehoe, 2020). Tobin's Q is a useful measure of the premium that the market is willing to pay for the company's stock over the value of the assets and reflects the company's initiatives that may have not yet been reflected in the company's profit or loss statements (Bentley & Kehoe, 2020). To calculate Tobin's Q, a closing market share price

at financial year end date as disclosed in the integrated report and audited annual financial statements is used to align with the book value per share as at financial year end date.

Using both RoA and Tobin's Q provides a better view of the company's financial performance by focusing on historical accounting and a forward-looking metric.

4.7.2. Independent variable

ESG scores retrieved from Bloomberg database were used as an independent variable. Bloomberg measures a company's performance on ESG issues based on specified metrics (over 120 indicators), spanning across the three ESG pillars of environmental, social and governance (Bikmetova & Pirinsky, 2025). A score is then assigned to a company based on their ESG disclosures. A higher number represents better ESG performance (Christensen at al., 2022). Thus, as stated by Bikmetova & Pirinsky (2025, p.3) Bloomberg "penalises companies for missing ESG data". While Bloomberg provides ratings for each of the three pillars of environmental, social and governance, an overall ESG score was adopted for purpose of this study, aligned with previous studies (Chen et al., 2025).

4.7.3. Moderating variable

The hypothesis suggests that financial slack influences the connection between ESG performance and financial performance. As a result, financial slack is utilised as a moderating variable. Financial slack represents assets such as cash that are available for use to pursue the company's goals, and these resources are not committed to other activities (Duque-Grisales & Aguilera-Caracue, 2021). Prior studies used a ratio of current assets over current liabilities as a measure of financial slack (Duque-Grisales & Aguilera-Caracue, 2021). However, financial services companies such as banks and insurance companies do not classify assets and liabilities into current and non-current for purposes of financial statements disclosures (Standard Bank Group, 2024). Thus, adopting a ratio of current assets over current liabilities to measure financial slack would have introduced inconsistencies in how financial slack is measures for purposes of this research. Instead, this research adopted a ratio of cash and cash equivalents over total assets to measure financial slack (Deb et al., 2017). To strengthen the reliability of the measurement, an additional indicator, the ratio of cash and cash equivalents over total equity, was applied to verify whether the results consistently identify companies with financial slack.

4.7.4. Control variables

Two control variables are used in the study, that are common in previous studies. These control variables are company size and financial leverage (Chen et al., 2023; Garcia & Orsato, 2020; Duque-Grisales & Aguilera-Caracue, 2021; Lahouel et al., 2022). These control variables are introduced because the relationship between ESG performance and financial performance is affected by company specific characteristics such as size (Duque-Grisales & Aguilera-Caracue, 2021). Company size is measured in terms of the company's revenue for the 12 months period (Chen et al., 2023; Duque-Grisales & Aguilera-Caracue, 2021). Adapted from Attig, (2024), financial leverage is measured as a ratio of the company's liabilities over the total assets. Companies in the sample are from the same country and industry. Accordingly, the study does not control for other factors such as economic growth.

Table 1: Summary of variables

Variable	Measure	Calculation	Source
ESG performance	ESG Score	Total ESG score	Bloomberg
Financial performance	RoA	Headline earnings/ average total assets	Integrated Reports/Audited Annual Financial Statements
	Tobin''Q	Stock market price per share/ Book value per share	
Financial slack	Cash to assets ratio	Cash and cash equivalents/ total assets	Audited Annual Financial Statements
	Cash to equity ratio	Cash and cash equivalents/ total equity	
Control variables	Leverage ratio	Total liabilities/ total assets	Audited Annual Financial Statements
	Total revenue	Total revenue	

4.8. Data analysis approach

Generalized Linear Model (GLM) was adopted as the best approach to analyse the data. GLM is the best technique to analyse variables that are not normally distributed with no linear relationships (Steel, 2020). The selected data analysis approach is aligned with the objective of the study and the best available methods to meet the objective of the study (Creswell & Creswell, 2023). Given that the study seeks to examine the complex

relationship between variables that are measurable, namely financial slack, ESG performance and financial performance, a regression analysis is the most suitable approach for analysing the data (Gomila, 2021). Based on literature on regression techniques, these techniques provide a robust framework for assessing causal effects and will enable the author to quantify the extent to which variations in one variable, such as ESG performance, influence another (Abadie et al., 2020; Gomila, 2021).
Prior to selecting GLM, as an appropriate approach, several steps were performed to understand the data, including descriptive and correlation analysis.

4.8.1. Descriptive analysis

The dataset was consolidated into a single Microsoft Excel worksheet, encompassing all entries for each of the 21 companies over the periods from 2017 to 2024. This resulted in a total of 168 distinct entries, ensuring comprehensive coverage of the relevant timeframes for subsequent analysis.
Descriptive analysis was performed to gain insights on the 6 studied variables and whether they show significant variances. Specifically, the mean, median, and standard deviation were calculated for each variable to identify potential centricity and disparities within the dataset. These measures provided insights into the distribution and spread of the data, facilitating a robust statistical foundation for further analysis.

4.8.2. Test for normality

Kolmogorov-Smirnov test, which Otsu & Taniguchi (2020) posited is the popular approach for distribution homogeneity for observable variables, was adopted to test for normality in the distribution of key variables. The Kolmogorov-Smirnov test's null hypothesis that the data comes from a normal distribution, while the alternative hypothesis is that they do not. The hypothesis is rejected when the p-value is less than 0.05 (Acedo et al., 2023). In addition, linearity was examined using scatter plots, histograms, and line graphs, allowing for the visual inspection of relationships between variables and the detection of any underlying patterns or trends.

4.8.3. Correlation analysis

The correlation matric is used to measure the strength and direction of the linear relationship between pairs of variables. The Kolmogorov-Smirnov test revealed that the variables used in this study are not normally distributes, for this reason, the non-parametric Kendall's Tau_b was used to calculate the correlation coefficients since is it

not sensitive to ordinal variables (ESG performance) and all non-normal distributed variables (Jadhav & Ma, 2021). In summary, the Kendall's Tau_b was conducted to ensure that variables that are modelled do not contain multiple correlation concerns.

4.8.4. Conclusion

Because the variables in this study are not normally distributed, the Generalized linear model is the best approach for data analysis (Steel, 2020). Generalized linear models enable modelling and analysis of non-normal data, being instances where data does not conform to assumptions of normality required for linear regression models (Mselmi, 2022).

The moderating effect of financial slack was assessed using Hayes Process Procedure for SPSS Version 5.0

4.9. Research quality and rigour

4.9.1. Measure of financial slack

Tests were performed to ensure that companies are classified accurately under categories of companies that possess financial slack and companies that do not possess financial slack. Companies were grouped based on two measures of financial slack, namely the ratio of cash and cash equivalents over total equity (FS 1), and the ratio of cash and cash equivalents over total assets (FS 2). This assessment indicated that companies identified as having financial slack are the same under the two measures of financial slack. Thus, there is no difference between using the two ratios to assess whether a company has financial slack or not.

- A median for financial slack was calculated for all companies FS 1 = 0,0434 and FS 2 = 0,2498
- First Financial Slack categorical variable was calculated as If FS 1 < 0,0434 then FS 1 Cat = 0 else if FS1 >= 0,0434 then FS 1 Cat = 1
- Second Financial Slack categorical variable was calculated as If FS 2 <0,2498 then FS 2 Cat = 0 else if FS 2>= 0,2498 then FS 2 Cat = 1

Financial Slack using total assets (FS 2)	**Financial Slack using equity (FS 1)**		**Grand Total**
	0	**1**	
0	64	20	84
1	20	64	84
Grand Total	**84**	**84**	**168**

4.9.2. Data analysis

Robust tests were performed to ensure that the best available models are adopted for data analysis, including maintaining the accuracy and completeness of data. Firstly, Kolmogorov-Smirnov test was adopted which indicated that the data distribution deviated significantly from a normal curve. In addition, linearity was examined using scatter plots, histograms, and line graphs, allowing for the visual inspection of relationships between variables and the detection of any underlying patterns or trends. Kendall Tau non-parametric correlation matrix was conducted, which verified that the variables selected for modelling did not exhibit multiple correlation concerns.

4.10. Limitations of the research design and methods

The research design has several limitations outlined as follows.

4.10.1. Data analysis approach

- Generalized linear model deployed uses the Deviance /Pearson Chi-Square indicator to assess the goodness of fit (quantify the difference between the observed data and the expect outcome – predicted model) of the fit model. For this analysis, the deviance values were high (above 1) indicating poor fit and that the models are not good representation of the data. This can be a result of large discrepancies in the model driven by unexplained clusters (different types of financial services companies). While the outcome of the model is reliable for purposes of the study, it is advisable that future studies explore more descriptor variables as control variables.

4.10.2. Control variables

- Margaret et al. (2025) examined the relationship between financial slack and ESG performance in Asia and found that that firms with superior innovation capacity tend to achieve enhanced ESG outcomes. Consequently, innovation capacity, quantified as the ratio of research and development expenditure to total assets, was incorporated as a control variable (Margaret et al., 2025). Given the significant role of Information Technology (IT) innovation in financial services, advanced IT capabilities could potentially influence financial performance and introduce distortions in the study's results. However, due to time constraints and the inconsistent disclosure of IT expenditure among financial services firms listed on the JSE, this study did not account for IT expenditure as a control variable. Future

research should integrate a measure of IT innovation as a control variable to improve the robustness and validity of findings.

- Previous studies adopted several measures for company size such as revenues, as well as value of total assets. For this research, total revenue is adopted as a single measure of company size (Chen et al., 2023; Garcia & Orsato, 2020). Future studies could explore more measures of company size such as the value of total assets or number of employees

4.11. Ethical considerations

The author complied with the requirements of the ethical clearance process as outlined in the Integrated Research Report Regulations. The research is based on secondary data, which was collected after approval of the ethical clearance application by the Master's Research Ethics Committee.

4.12. Conclusion

Chapter 4 discussed in detail the methodology adopted for the research. This includes the research design, description of the population, sampling approach, data collection process, data analysis approach, limitations of the adopted methodology as well as some ethical considerations. In the next chapter (chapter 5), the results of the study are presented.

5. Chapter 5: Results

5.1. Introduction

Based on the literature in chapter 2, the following hypothesis was presented.
H1 – Superior ESG performance has a negative impact on the financial performance (FP) of financial services companies in South Africa.
H2 – Financial slack moderates the relationship between ESG performance and FP of financial services companies in South Africa.

Chapter 4 discussed the methodology adopted for the research and hypothesis testing. Chapter 5 presents the results of the statistical analysis and hypothesis testing. Key sections in this chapter are presented below.

5.2. Descriptive statistics

Table 2 below presents description statistics (mean, median and stand deviations) and Man-Whitney U test results for the study variables. The data is further segmented into two groups based on whether a company has financial slack, meaning financial slack is below or above the studied companies' combined median with the overall row showing undivided sample statistics. The p-values test the hypothesis that the distribution of the variables, financial performance, ESG performance and control variables, namely financial leverage and revenue, is the same across the categories of financial slack and is rejected if the p-values is less than 0,05. On table 2, positive slack (FS) refers to the category of companies that possess slack, while negative FS refers to companies that do not possess slack.

Table 2 : Descriptive Statistics

Descriptive statistics of variables and their Financial Slack (FS) Independent-Samples Mann-Whitney U Test : The distribution of ROA is similar across categories of Financial Slack (FS)					
Variable	**Group**	**Mean**	**Median**	**Std. Deviation**	P-Value
Return on Assets	Overall	2%	2%	5%	<.001
	Negative FS	3%	3%	6%	
	Positive FS	2%	1%	1%	
Tobin 'Q	Overall	1,65	1,00	1,78	<.001
	Negative FS	0,88	0,71	0,69	
	Positive FS	2,43	1,57	2,17	
ESG Performance	Overall	3,17	3,09	1,13	.455
	Negative FS	3,27	3,11	1,36	
	Positive FS	3,07	3,08	0,84	
Total Revenue	Overall	39 993,66	17 799,72	49 157,59	<.001
	Negative FS	12 819,96	4 431,58	20 825,21	
	Positive FS	67 167,35	57 943,50	54 432,21	
Financial Leverage	Overall	61%	78%	72%	<.001
	Negative FS	33%	35%	21%	
	Positive FS	89%	91%	7%	
Financial Slack	Overall	6,2%	4%	6,7%	<.001

Source: Author SPSS

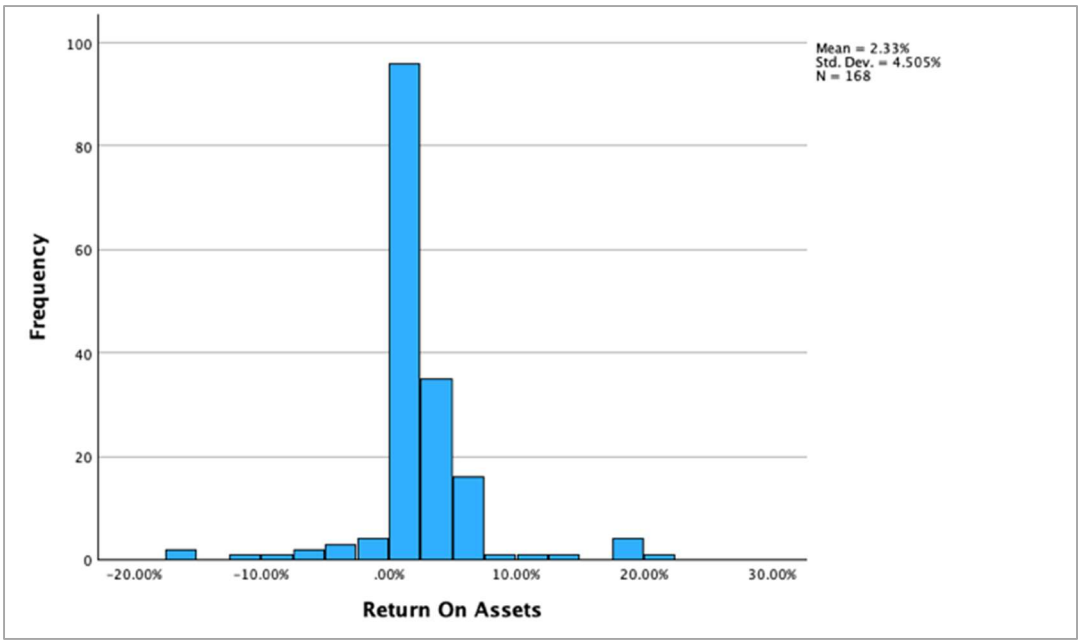
5 of the 6 studied variables shows significant differences in medians with p-values of less than .001 except the ESG performance with a p-value of 0,455 and above the significance level of 0,05. The results of descriptive statistics suggest that companies that do not possess financial slack (negative or zero financial slack year on year) demonstrate a high median (3%) for ROA than those with positive financial slack (1%). Companies that have financial slack have a high median for Tonin's Q (1.57) compared

to the group of companies that do not have financial slack. Financial leverage differs significantly for companies that have financial slack at 91% compared to companies that do not have financial slack (35%).

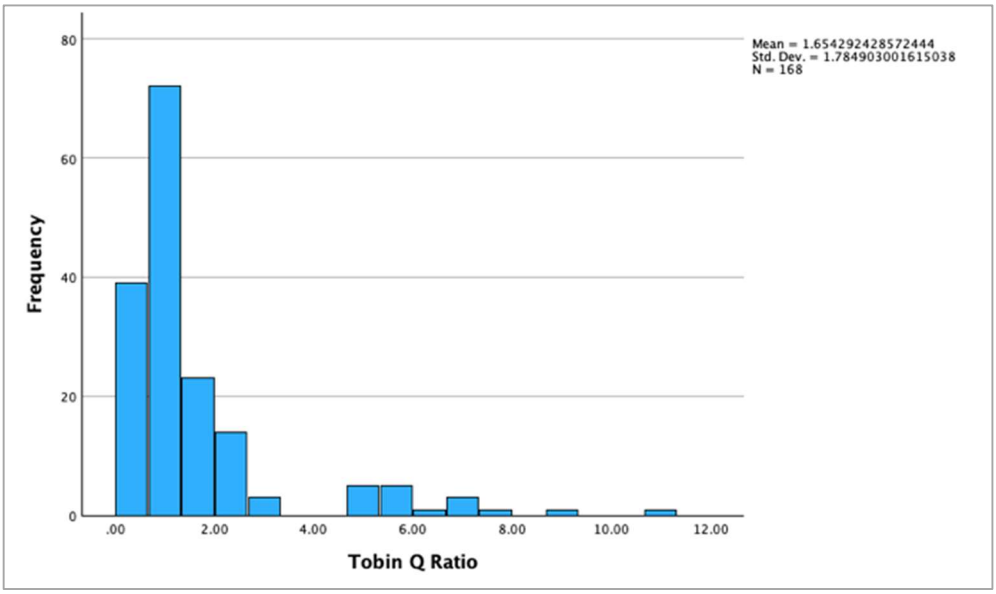
5.3. Kolmogorov-Smirnov test

Kolmogorov-Smirnov test was adopted to test for normality in the distribution of key variables. The Kolmogorov-Smirnov test's null hypothesis that the data comes from a normal distribution, while the alternative hypothesis is that they do not. The hypothesis is rejected when the p-value is less than 0.05. For example, Return on Assets variable demonstrates a high peak between zero and 10% from just under 100 observations out of the 168 observations (year on year), demonstrating that the majority of companies have a positive ROA while minority are below 0% and above 10%. The Kolmogorov-Smirnov test p-value is less than 0,001 which is below the significance level of 0,05. Thus, all variables except ESG performance are not normally distributed with the histograms indicting high skewness to the left (Tobin's Q, financial slack, and total revenue) and others (financial leverage and ROA) skewed to the right and contradicts the liner regression test for relationships and predictions. The histograms of the variables studied are presented below under Figure 4, interpreted and summarised in Table 3. In the Histograms, frequency refers to the 168 observations (21 companies over an 8-year period).

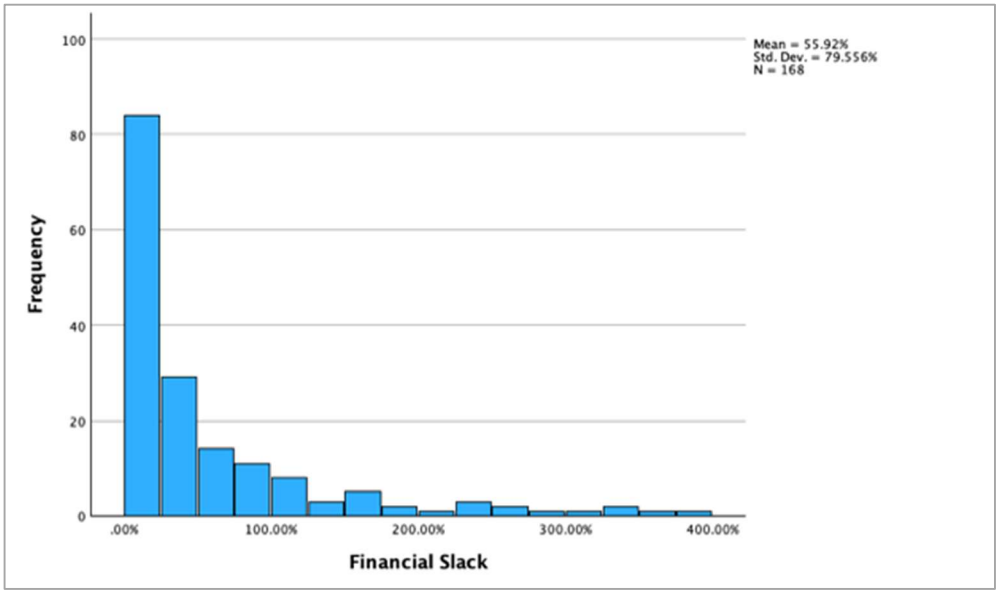
Figure 4 – Histograms



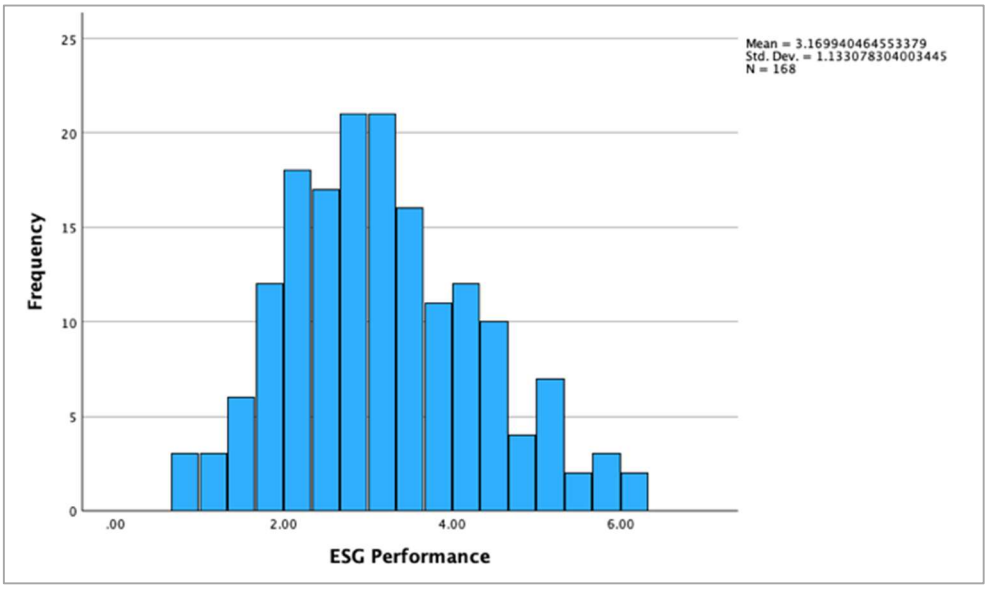
Source: Author, SPSS

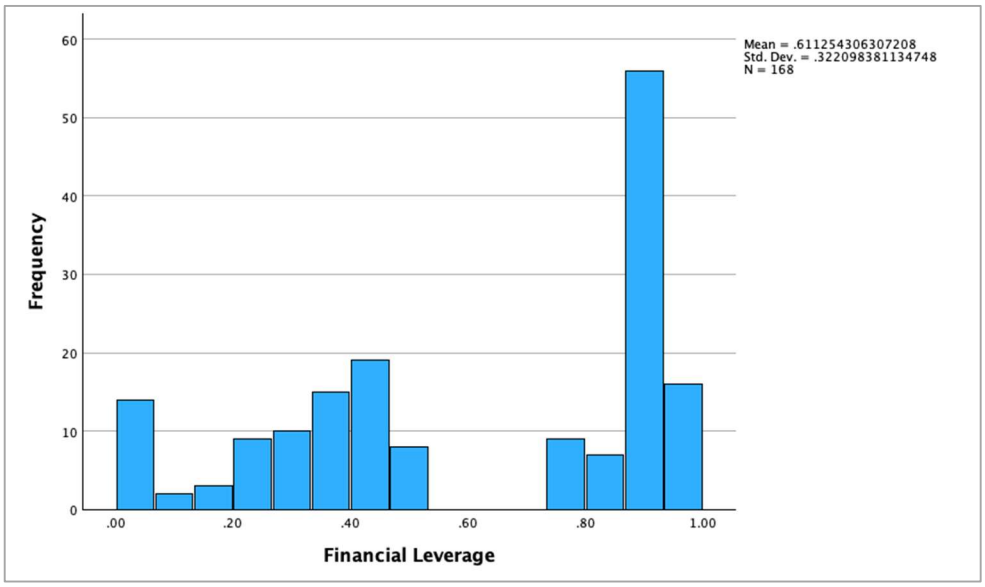


Source: Author, SPSS



Source: Author, SPSS


Mean = 3.169940464553379
Std. Dev. = 1.133078304003445
N = 168
Frequency
ESG Performance
0
5
10
15
20
25
.00
2.00
4.00
6.00


Mean = .611254306307208
Std. Dev. = .322098381134748
N = 168
Frequency
Financial Leverage
0
10
20
30
40
50
60
.00
.20
.40
.60
.80
1.00

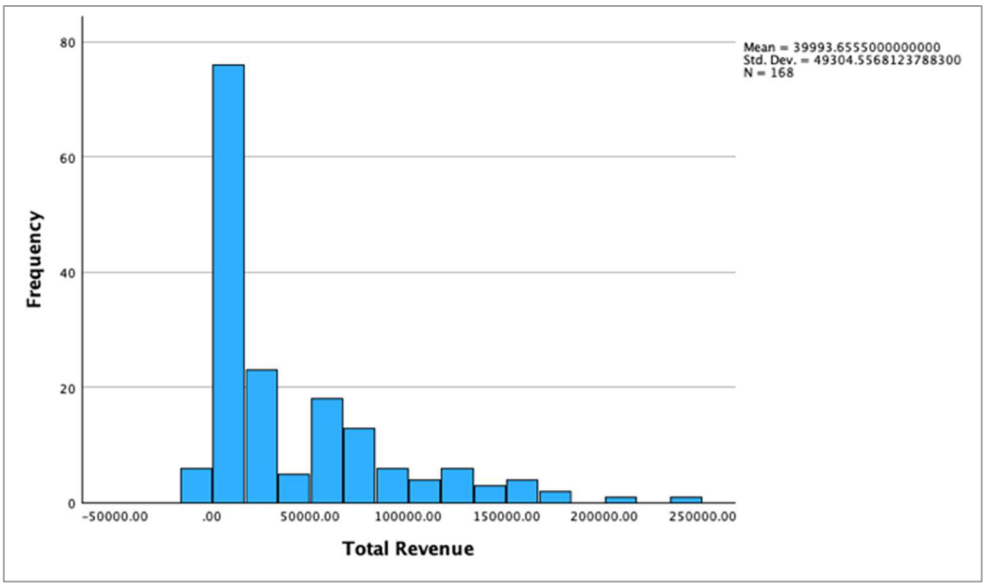

Mean = 39993.6555000000000
Std. Dev. = 49304.5568123788300
N = 168
Frequency
Total Revenue
0
20
40
60
80
-50000.00
.00
50000.00
100000.00
150000.00
200000.00
250000.00

Table 3 - Kolmogorov-Smirnov test

	Test for normality using Kolmogorov-Smirnov		
	Statistic	Df.	P-Valye
Return on Assets	0,237	168	<,001
Tobin 'Q	0,248	168	<,001
ESG Performance	0,063	168	0,097
Total Revenue	0,212	168	<,001
Financial Leverage	0,23	168	<,001
Financial Slack	0,241	168	<,001

Source: Author

In summary, all variables except ESG performance are not normally distributed which contradicts the liner regression test for relationships and predictions. As a result, Generalized Linear Model (GLM) with a link function is a technique used to test hypothesis.

5.4. Correlation metrics

The correlation matric was used to measure the strength and direction of the linear relationship between pairs of variables. The Kolmogorov-Smirnov test revealed that the variables used in this study are not normally distributes, for this reason, the non-parametric Kendall's Tau_b was used to calculate the correlation coefficients since is it not sensitive to ordinal variables (ESG performance) and all non-normal distributed variables (Jadhav & Ma, 2021). The correlation is considered weak if the coefficient ranges between 0% and 30%, moderate between 30% and 50% and strong if it is above 50. Table 4 also include the p-values used to test the significance of the relationship between variables. A weak relationship with a significant p value is interpreted as a significant but weak relationship.

Table 4 - correlation metrics

Variables	Statistic	ROA	Tobin 'Q	ESG Performance	Financial Slack	Total Revenue	Financial Leverage
ROA	Coefficient	1					
	p-value						
Tobin 'Q	Coefficient	10%	1				
	p-value	0,029					
ESG Performance	Coefficient	-10%	-22%	1			
	p-value	0,032	0,000				

Financial Slack	Coefficient	-18%	39%	2%	1		
	p-value	0,000	0,000	0,356			
Total Revenue	Coefficient	-7%	30%	-3%	33%	1	
	p-value	0,075	0,000	0,315	0,000		
Financial Leverage	Coefficient	-26%	34%	6%	60%	49%	1
	p-value	0,000	0,000	0,118	0,000	0,000	

Source: Author

Return on assets:

The relationship between ROA and ESG performance is significant and negatively associated. This suggest that when ESG performance increased, ROA decreases. The weak relationship imply that both variables can be included in the model for purposes of hypothesis testing. This is applicable for all variables Financial Slack (-18%; 0,000), Total Revenue (-7%; 0,075) insignificant and weak with a negative relationship, and financial leverage (-26%, 0,000).

Tobin's Q

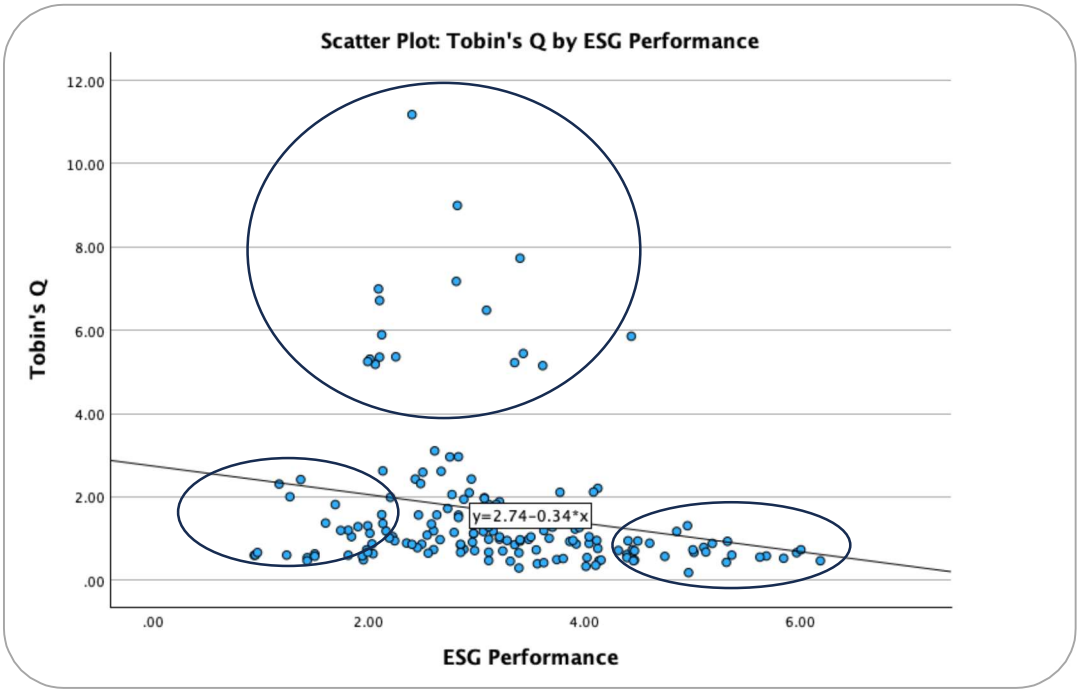
The relationship between Tobin's Q and financial slack (39%), revenue (30%) and leverage (34%) are positive and moderately related with significant p-values of 0,000. It is however noted that the relationship with ESG is negative and has weak relationship with significant p-values. The analysis support further analysis of the independent variables, control variables and mediator with Tobin's Q.

In conclusion, the Kendall's Tau_b analysis verified that the variables selected for modelling did not exhibit multiple correlation concerns, thereby supporting the reliability of subsequent hypothesis testing.

5.5. Linear test between dependent variables and independent variables

Scatter plots are used to test if there is a linear relationship between the dependent variable and the independent variables as well as to identify clusters. The scatter plot for ESG performance and Tobin's Q (Figure 5) indicates that there is no liner relationship between the two variables, also highlights three unique clusters of companies with moderate ESG performance and high Tobin's Q, high ESG performance but very low Tobin's Q and a cluster of low ESG performance and low Tobin's' Q.

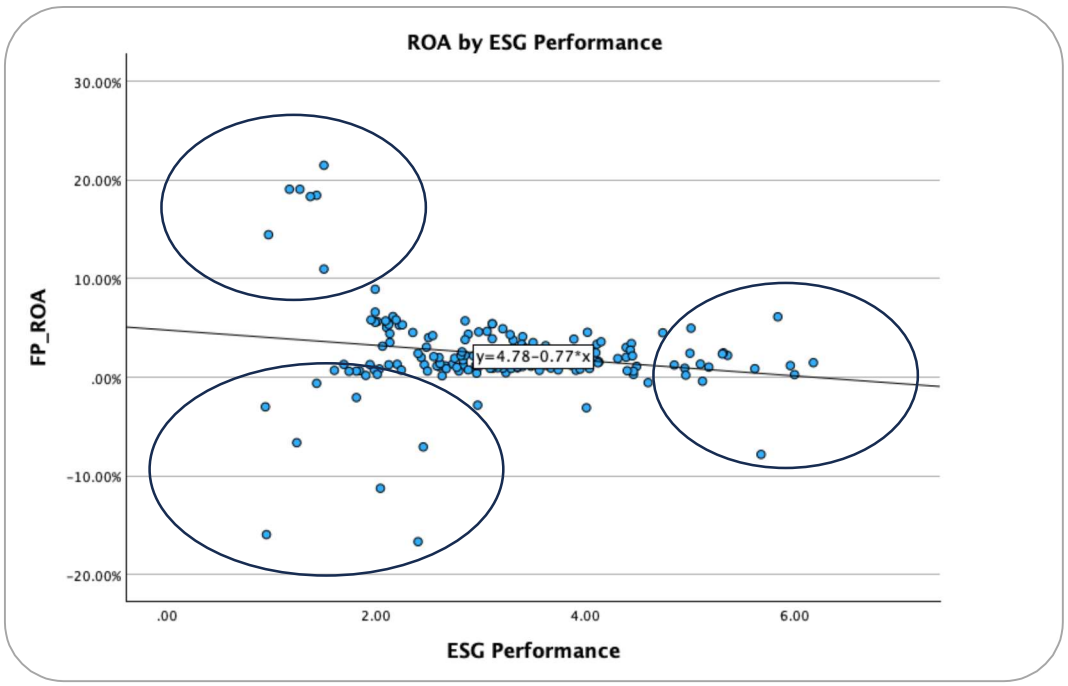
Figure 5 – Scatter Plot : Tobin's Q and ESG performance



Source: Author, SPSS

Same is observed from a scatter plot of ROA and ESG performance (Figure 6) where there are three distinct clusters. Low ESG performance but high ROA, high ESG performance but low ROA, and very low ESG performance and ROA.

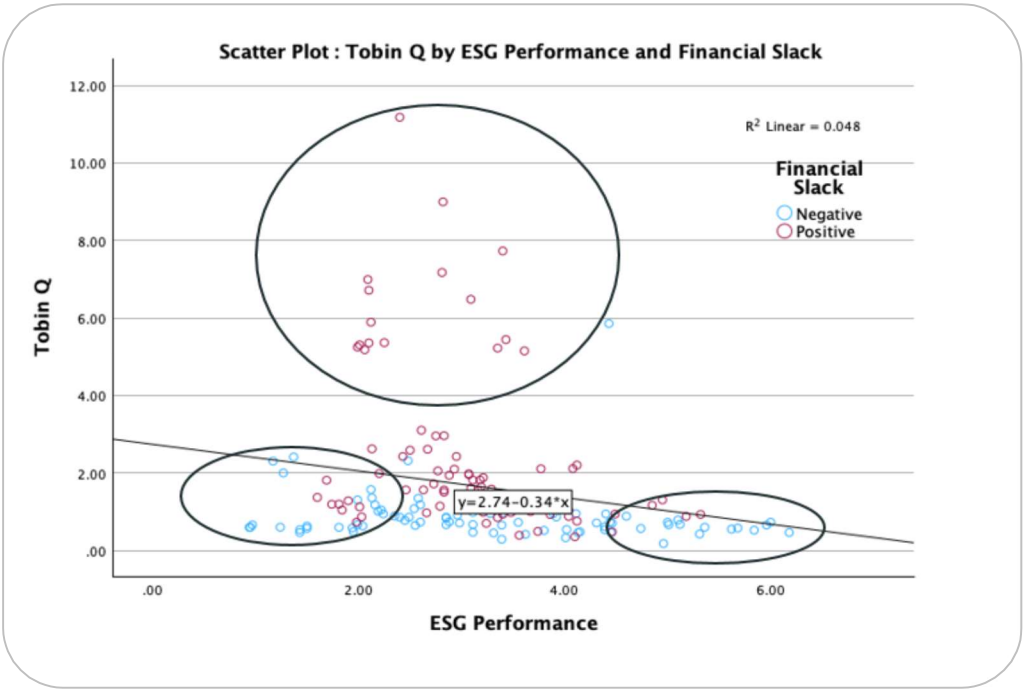
Figure 6 – Scatter Plot : RoA and ESG performance



Source: Author, SPSS

Given that Hypothesis 2 in chapter 3 suggest that financial slack plays a role in the relationship between ESG performance and financial performance, the scatter plots are presented based on the two categories of companies, being companies that possess financial slack (positive slack) and companies that do not possess financial slack (negative slack).

Figure 7 – Scatter Plot : Tobin's Q and ESG performance by financial slack

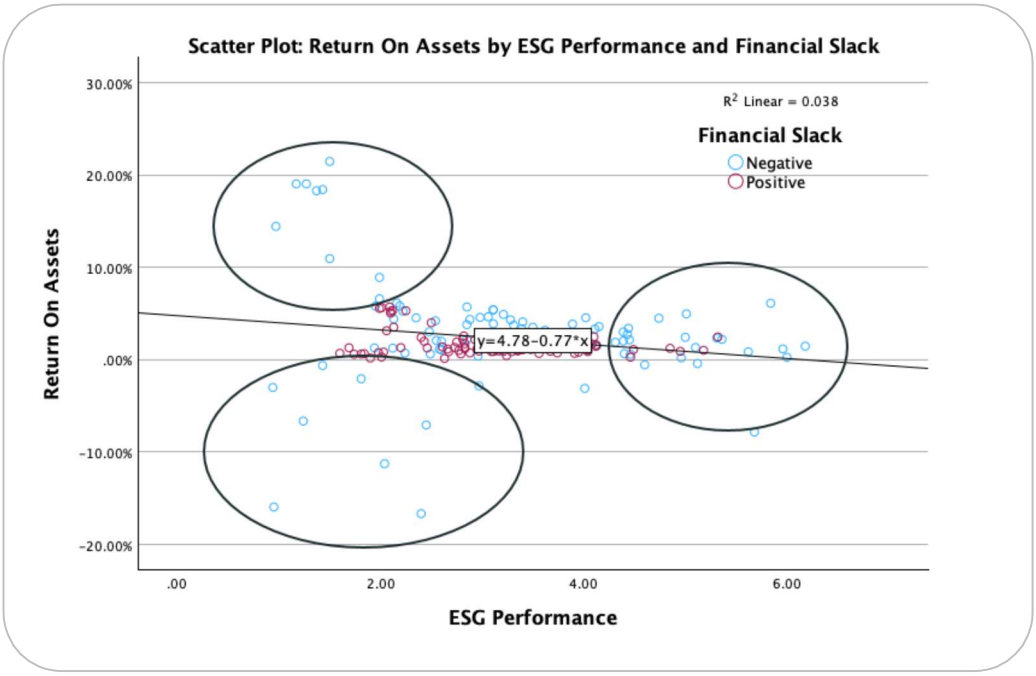


Source: Author, SPSS

The data reveals mixed results as presented in figure 7. For companies with financial slack, Tobin's Q is generally low with alongside moderate ESG performance. There are fewer cases showing very high Tobin's Q combined with moderate ESG performance. Moderate ESG performance is closer to the mean of 3. In contrast, companies that do not possess financial slack tend to exhibit low Tobin's Q across all ESG performance levels.

ROA presents a different pattern as presented in figure 8. It seems companies that possess financial slack exhibit low ROA across all levels of ESG performance. In contrasts, companies that do not possess financial slack exhibit varying patterns such as low ESG performance alongside very high ROA , high ESG performance alongside low ROA, and very low ESG performance alongside negative ROA.

Figure 8 – Scatter Plot : ROA and ESG performance by financial slack



Source: Author, SPSS

Conclusion

The scatter plots above indicate that there is no liner relationship between ESG performance and financials performance, supported for both Tobin's Q and ROA.

5.6. Hypothesis Testing

5.6.1. The relationship between ESG performance and financial performance

The study adopted Generalized Linear Model (GLM) with a link function as a technique to test hypothesis of variables that are not normally distributed with no linear relationships, namely the relationship between ESG performance and financial performance (ROA and Tobin's Q). The null hypothesis "no effect" will be rejected as the p-value is less than 0,05. GLM also produce the deviance used to assess how best the model fits the data as compared to a hypothetical perfect model. A value of between 0,5 and 1 is interpreted as a perfect fit while a value significantly higher than 1 indicates that there is more variation in the data than the variables used in the model.

Variables in the model:

- Dependant variable = Tobin's Q/ROA
- Independent variable = ESG performance
- Control variables: Financial Leverage and Total Revenue

Table 5 - Generalised Linear Model: Hypothesis 1: **Tobin's Q**						
					95% Wald Confidence Interval for Exp(B)	
Model	Variables	Coefficient (B)	P-Value	Odds	CI(L)	CI (U)
Model 1	(Intercept)	3,745	0,000	42,295	19,940	89,712
	ESG Performance	-0,493	0,000	0,611	0,499	0,748
	Total Revenue	(0,00)	0,000	1,000	1,000	1,000
	Financial Leverage	1,121	0,000	3,067	2,319	4,057
	(Scale)	2.206				
	Deviance Pearson Chi-Square	2,260				
	Model Formula	Tobin's Q = 3,745 - 0,493 x ESG +1,121 x leverage				
The model indicates that there is negative and weak relationships but significant at 0,05 level of significance with a p-value of 0,000 between ESG performance and Tobin's Q. The odd of 0,61 indicates that for one point increase in ESG performance, the odds of a company having a higher Tobin's' Q decreases by 38.9%. A deviance value of 2,26 also suggests a poor fit. Poor fit models suggest that there are other variables not considered in the model that explain the Tobin's Q. Total revenue has no effect as a control variable but Financial leverage has a very strong and statistically significant role to play as a control variable, the odds of 3,06 indicated that for every one unit increase in leverage, there is 207% increased odds of a higher Tobin's Q.						

Table 6 - Generalised Linear Model: Hypothesis 1 : **ROA**						
					95% Wald Confidence Interval for Exp(B)	
Model	Variables	Coefficient (B)	P-Value	Odds	CI(L)	CI (U)
Model 2	(Intercept)	4,450	0,000	85,634	9,668	758,498
	ESG Performance	-0,682	0,023	0,506	0,281	0,911
	Total Revenue	0,00	0,903	1,000	1,000	1,000
	Financial Leverage	-0,957	0,021	0,384	0,171	0,865
	(Scale)	18.564				
	Deviance /Pearson Chi-Square	19,016				
		ROA = 4,450 - 0,682 x ESG – 0,957 x leverage				
	The model indicates that there is negative and weak relationships but significant at 0,05 level of significance with a p-value of 0,023 between ESG performance and ROA. The odd of 0,506 indicates that for one point					

	increase in ESG performance, the odds of a company having a higher ROA decreases by 49.4%.

To conclude, the hypothesis that ESG performance is detrimental to financial performance of South African financial services companies is true and is supported for both Tobin's Q and ROA as dependent variables.

5.6.2. Role of financial slack in the ESG-Financial performance relationship

Financial slack was used as continuous variable (original data) as opposed to the grouped variable. This recommended approach will ensure that the model can be explained by movements and shifts in financial slack as compared to ESG performance and ROA.

Moderating role of financial slack is assessed using Hayes PROCESS Procedure for SPSS Version 5.0 with the aim to determine if the relationship between an independent variable (X) and a depended variable (Y) is influenced and moderated by the third variable (W), following input variables:

- Dependent variable: ROA
- Independent variable = ESG Performance
- Moderating Variable = Financial Slack

Table 7 - Testing if Financial Slack moderates (W) the relationship between ESG Performance (X) and ROA (Y)

					Confidence interval	
	Coefficient (b)	Standard error	t-Statistic	p-Value	Lower	Upper
Constant	5.4236	1.2113	4.4774	.0000	3.0318	7.8155
ESG Performance	-.8984	.3526	-2.5479	.0118	-1.5946	-.2022
Financial Slack	-.0144	.0156	-.9172	.3604	-.0452	.0165
ESG Performance x Financial Slack	.0031	.0045	.6912	.4904	-.0058	.0121

The model revealed that financial slack does not significantly moderate the relationship between ESG performance and ROA. The interaction tear (ESG Performance x Financial Slack) has a p-value of 0,4904 which is above the 0,05 level of significance. The null hypothesis that financial slack moderates the relationship is reject at 0,05 level of significance.

When financial slack is not part of the model, the relationship between ESG performance and ROA remains negative and continues to be significance with a b of -0,89. This means, one unit increase in ESG performance is associated with a 0,9 percentage point decrease in ROA.

Financial performance variables, namely, ROA was replaced with Tobin's Q to test if financial slack moderates the relationship between ESG performance and Tobin's Q:

- Dependent variable: Tobin's Q
- Independent variable = ESG Performance
- Moderating Variable = Financial Slack

Table 8 - Testing if Financial Slack moderates (W) the relationship between ESG Performance (X) and Tobin's Q (Y)

					Confidence Interval	
	Coefficient (b)	Standard error	t-Statistic	p-Value	Lower	Upper
Constant	.8338	.3069	2.7166	.0073	.2277	1.4398
ESG Performance	-.0255	.0893	-.2855	.7756	-.2019	.1509
Financial Slack	.0414	.0040	10.4546	.0000	.0336	.0493
ESG Performance x Financial Slack	-.0080	.0012	-6.9382	.0000	-.0103	-.0057

Based on the analysis, there is a statistical significant evidence that financial slack moderates the relationship between ESG performance and Tobin's Q with a p-value of less than 0,0000 at 0,05 level of significance. The interaction term (ESG Performance x Financial Slack) also has a negative term which suggest an increasing moderating effect. Thus, financial slack moderates the relationship between ESG performance and Tobin's Q.

To conclude, the hypothesis that Financial slack moderates the relationship between ESG performance and financial performance of South African financial services

companies is partially true as it is only supported for Tobin's Q as a dependent variable but not for ROA.

5.7. Conclusion

Chapter 5 presented the results of the statistical analysis and hypothesis testing. These results will be discussed in chapter 6, in comparison to the literature review discussed in chapter 2.

6. Chapter 6: Discussion

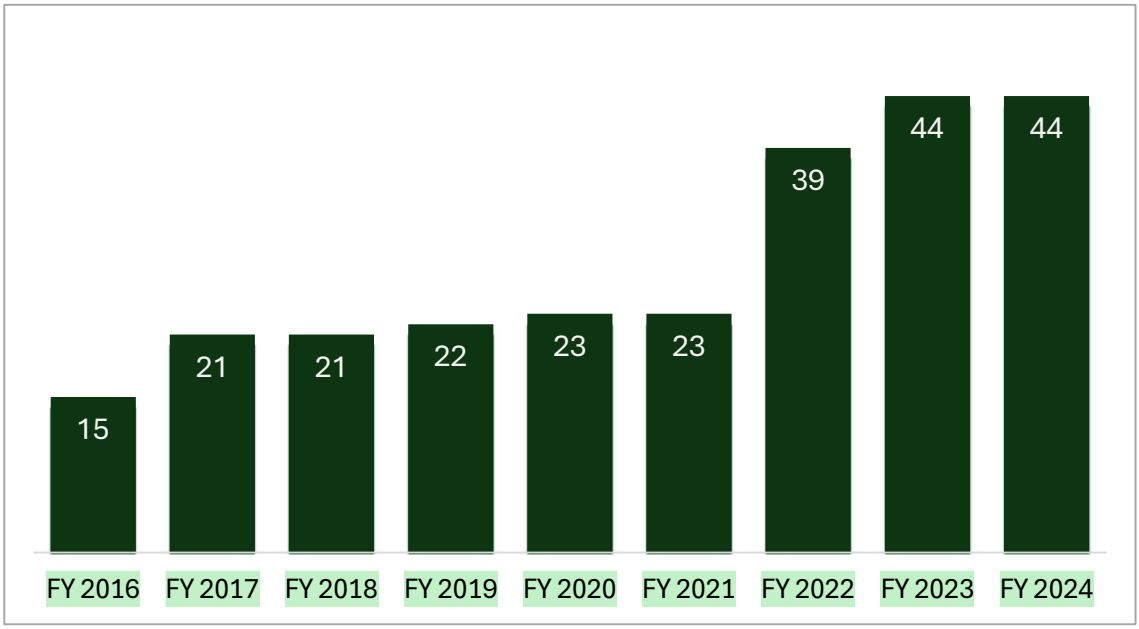
6.1. Introduction

This chapter provides a detailed analyses of the results of the research as presented in chapter 5, in comparison to results from empirical studies presented in chapter 2. The analysis reveals several differences and similarities noted by the author, and draws reasonable conclusion based on facts provided. This chapter is presented in the following format.

6.2. ESG disclosure adoption in South Africa

South African companies continue to grapple with ESG disclosures. Despite the introduction of mandatory Integrated Reporting for listed South African companies since 2011, which played a part in improving the value of ESG disclosure to stakeholders, South African companies are still falling short on disclosing adequate information regarding ESG practices (Candio & Rossi, 2023; Bernardi & Stark, 2018). Bernardi & Stark (2018) studied the impact of adopting mandatory Integrated Reporting in South Africa over the period spanning from 2008 to 2012 and found that only 68 companies listed on the JSE had ESG data for over 5 years. In 2025, this continues to be a challenge. In this research, it was noted that only 44 out of 95 financial services companies listed on the JSE by February 2025 had aggregate ESG scores in Bloomberg. Only 21 of these companies had aggregate/overall ESG scores for 8 years, from 2017.

Figure 9 – Financial services companies rated by Bloomberg on overall ESG scores



Source; Author, with data from Bloomberg

This research corroborates the findings by Chen et al. (2023) that companies in emerging markets lag their counterparts from developed economies regarding ESG disclosures. Chen et al. (2023) argues that this difference is due to less-stringent ESG disclosure requirements in emerging markets, which fail to promote the necessary level of attention towards ESG performance. Cardio (2024) also emphasised the importance of rules and regulations for fostering ESG disclosures by arguing that the extent to which companies disclose ESG information is affected by rules and regulations applicable in

the country. South Africa is one of the first, and still one of the few countries to adopt mandatory Integrated Reporting that aimed to improve disclosure of non-financial information, however, the extent of ESG disclosures remains a challenge (Candio & Rossi, 2023; Bernardi & Stark, 2018). While South Africa mandated Integrated Reporting requirements for JSE listed companies, it does not mandate the level of ESG disclosures (Bernardi & Stark, 2018). As a result, the adequacy of ESG disclosures remain a challenge for South African companies.

In addition to inadequate ESG disclosures, this research proved that there is a negative relationship between ESG disclosure scores and financial performance. This finding corroborates findings from two of the previous studies based in emerging markets, that proved the negative impact of inadequate ESG disclosures (Duque-Grisales & Aguilera-Caracue, 2021; Chen & Xie, 2022). Duque-Grisales & Aguilera-Caracue (2021) found that ESG initiatives were detrimental to financial performance of multinational companies in Latin American because ESG initiatives were not visible to stakeholders and did not attain sufficient approval from stakeholders. In contrast, Chen & Xie, (2022) studied the impact of ESG disclosures on Chinese companies from 2000 to 2020 and found that companies that improved ESG disclosures were able to attract investors and enhanced financial performance, with financial performance measured by profitability indicators and market share information (Chen & Xie, 2022).

Both studies underscore the importance of ESG disclosures as a tool to attain stakeholder acceptance and enhancing financial performance. 51 out of 95 financial services companies in South Africa did not have of ESG disclosure score in Bloomberg. This is because companies did not disclose adequate ESG data for Bloomberg to provide an overall ESG disclosure score (Bikmetova & Pirinsky, 2025). Afterall, Bloomberg “penalises companies for missing ESG data” (Bikmetova & Pirinsky, 2025, p.3). The missing ESG data also exposes the company to the negative impact of ESG rating divergence. Ge et al. (2024) posited that ESG rating divergence reduces stock returns, thus is detrimental to company value. In their study of Chinese companies, Pan & Tan (2023) also found that ESG rating divergence eroded investors’ confidence and adversely impacted returns from a company’s stock as well as volatility. In contrast, Ge at al., (2024) found that enhanced ESG disclosures moderate the negative relationship between ESG rating divergence and stock returns. In summary, the quality of ESG information disclosure is critical for shielding the company from the negative consequences of ESG rating divergence

Based on the arguments from the previous studies that highlight the importance of ESG disclosures for attaining stakeholder legitimacy (Duque-Grisales & Aguilera-Caracue, 2021; Chen et al., 2023), the argument by Ge et al. (2024) that ESG disclosures shield the company from the negative consequences of ESG rating divergence, and the results of this research that found that financial services companies in South Africa do not adequately disclose ESG practices, the author deduce that one explanation for the negative relationship between ESG performance and financial performance of financial services companies in South Africa is the insufficient disclosure of ESG practices, which fails to raise stakeholder awareness and appreciation of ESG excellence.

This research indicate that financial services companies need to enhance their capabilities with regards to ESG disclosures.

6.3. Hypothesis

6.3.1. The relationship between ESG performance and financial performance

In chapter 2, the research hypothesis suggests that superior ESG performance has a negative impact on the financial performance of financial services companies in South Africa. As noted in chapter 5, there is a negative and weak relationships but significant at 0,05 level of significance with a p-value of 0,000 relationship between ESG performance and Tobin's Q. Additionally, there is a negative and weak relationships but significant at 0,05 level of significance with a p-value of 0,023 relationship between ESG performance and ROA. Thus, this research confirmed that ESG performance is detrimental to financial performance of financial services companies in South Africa, supported for both Tobin's Q and ROA as dependent variables. The weak relationship implies that other factors could explain the changes in financial performance, while the low p-value supports the existence of the relationship between the variables. The findings from this research corroborates findings from some of the previous related studies (Garcia & Orsato, 2020; Duque-Grisales & Aguilera-Caracue, 2021)

Through a review of literature in chapter 2, it is noted that this research is closely related to three other studies that found that ESG performance is detrimental to the financial performance of companies operating in emerging markets (Garcia & Orsato, 2020; Duque-Grisales & Aguilera-Caracue, 2021; DasGupta & Roy, 2023). Similarities and differences between our study and the related previous studies is presented below.

Garcia & Orsato (2020)

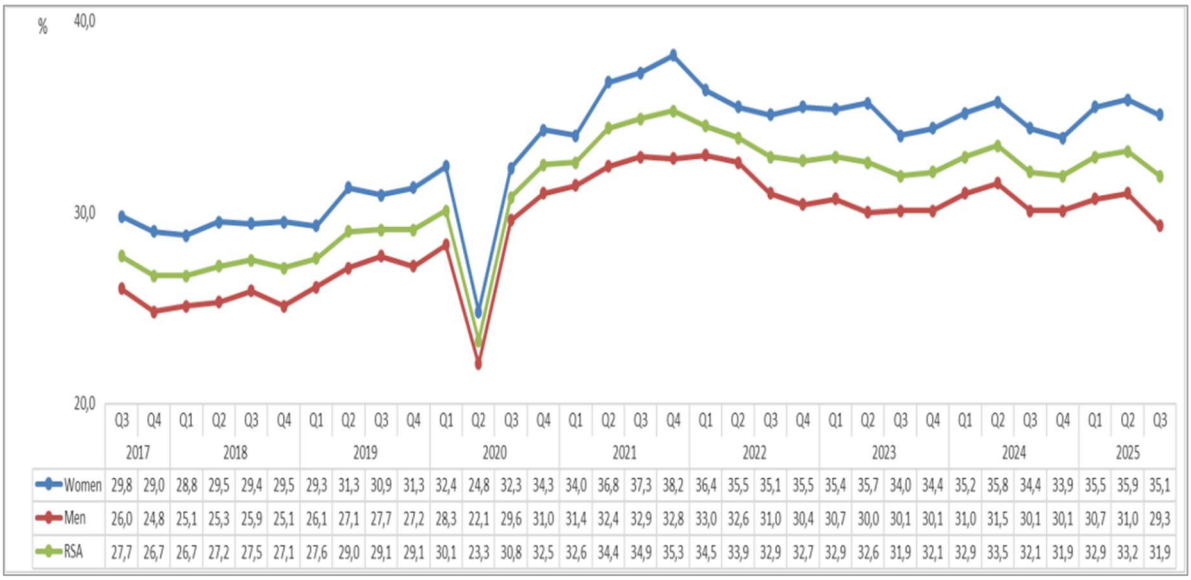
Garcia & Orsato (2020) found a significant and negative relationship between ESG performance and financial performance of emerging market companies, based on both ROA and market-based measures. In their sample, Garcia & Orsato (2020) included 13 companies from developed economies, as well as two emerging markets being South Africa and Brazil, thus demonstrate some similarities with our study (Garcia & Orsato, 2020). From an industry representation perspective, companies from financial services sector made a majority (21%) of the companies studied by Garcia & Orsato (2020), thus aligning with the focus of the author's research on the financial services sector.

Unlike this research, Garcia & Orsato (2020) studied the relationship between ESG performance and financial performance in the earlier years, covering the period from 2007 to 2014 (Garcia & Orsato, 2020). This research proved that the relationship between ESG performance and financial performance in the South African context remains negative, although this research examined only a sample of listed financial services companies. Furthermore, this research revealed that the negative relationship between ESG performance and financial performance is weak, thus other factors could explain this relationship. In addition to the difference regarding the period covered by research, two other differences are evident between this research and (Garcia & Orsato, 2020). Firstly, (Garcia & Orsato, 2020) used a ratio of cash flow over the weighted average cost of capital as a market-based measure of financial performance, while this research adopted Tobin's Q. Additionally, Garcia & Orsato (2020) sourced ESG data from Thompson Reuters Asset 4, whilst this research is based on Bloomberg ESG scores. These methodological differences could influence the results (Cao et al., 2023), especially the ESG rating due to the impact of the ESG rating divergence (Ge at al., 2024). Despite these methodological differences, this research corroborates the findings by Garcia & Orsato (2020), and makes an important contribution towards enhancing our understanding of the relationship between ESG performance and financial performance in emerging markets, with a special focus on the financial services sector in South Africa.

Garcia & Orsato (2020) attributes the negative impact of ESG performance on financial performance of emerging market companies to the prevalent issues of poverty, low education levels, inadequate infrastructure and a shortage of housing, arguing that these issues take precedence over ESG concerns (Garcia & Orsato, 2020). Thus, companies in emerging markets are not rewarded for ESG excellence. Issues of unemployment and poverty are still prevalent in South Africa.

By the end of quarter 3 (September) of 2025, 31,9% of South Africans were unemployed, marking a 4,2 percentage point increase in the unemployment rate from quarter 3 of 2017 (Stats SA, 2025). Figure 10 presents South Africa's unemployment rate from 2017 till 2025.

Figure 10 – South African unemployment rate



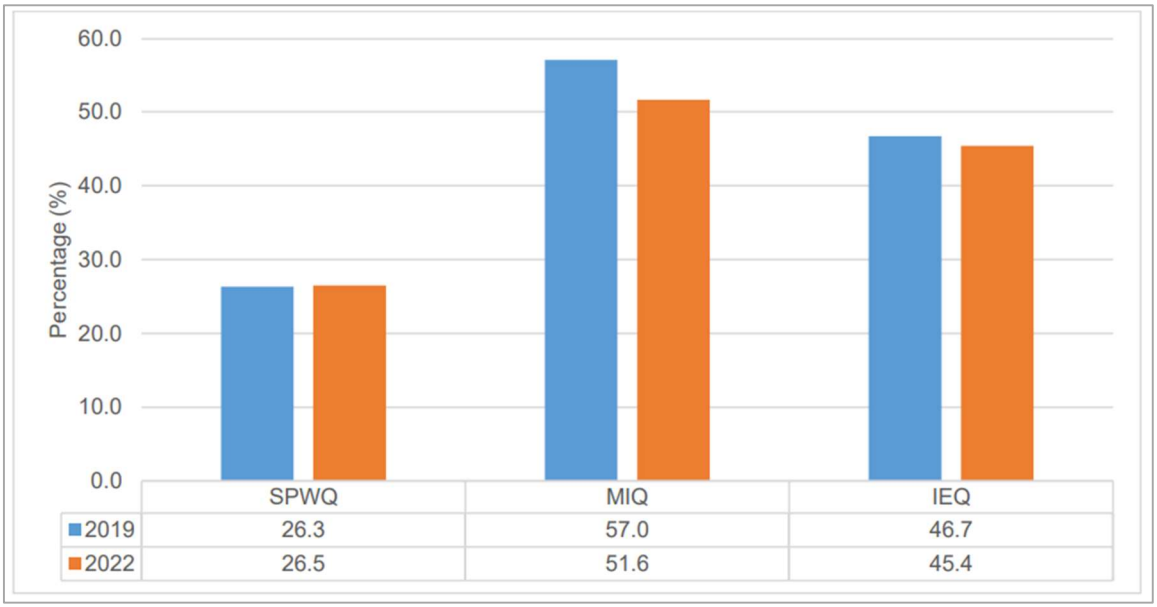
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	2017		2018				2019				2020				2021				2022				2023				2024				2025		
Women	29,8	29,0	28,8	29,5	29,4	29,5	29,3	31,3	30,9	31,3	32,4	24,8	32,3	34,3	34,0	36,8	37,3	38,2	36,4	35,5	35,1	35,5	35,4	35,7	34,0	34,4	35,2	35,8	34,4	33,9	35,5	35,9	35,1
Men	26,0	24,8	25,1	25,3	25,9	25,1	26,1	27,1	27,7	27,2	28,3	22,1	29,6	31,0	31,4	32,4	32,9	32,8	33,0	32,6	31,0	30,4	30,7	30,0	30,1	30,1	31,0	31,5	30,1	30,1	30,7	31,0	29,3
RSA	27,7	26,7	26,7	27,2	27,5	27,1	27,6	29,0	29,1	29,1	30,1	23,3	30,8	32,5	32,6	34,4	34,9	35,3	34,5	33,9	32,9	32,7	32,9	32,6	31,9	32,1	32,9	33,5	32,1	31,9	32,9	33,2	31,9

Source: (Stats SA, 2025, p.10)

In 2022, 45,4% of South Africans were classified as poor, based on the assessment of the actual household net income against the minimum net income required to survive (Stats SA, 2024, p.4). This underscores the unique challenges that companies operating in emerging markets such as South Africa face. As argued by (Garcia & Orsato, 2020), these challenges take precedence over ESG concerns, restricting potential economic benefits of investing in ESG practices.

Figure 11 presents a view of South Africa's poverty indicator. Abbreviations used in the chart are explained below (Stats SA, 2024, p.4).
SPWQ = Households perception of whether they are poor or not
MIQ = Minimum household income required to survive
IEQ = Percentage of households that are below the minimum required income

Figure 11 – Poverty measured by subjective poverty indicator



Source: (Stats SA, 2024, p.4)

In summary, this research corroborates findings by Garcia & Orsato (2020) by suggesting that ESG performance is detrimental to the financial performance of financial services companies in South Africa because of the pressing issues of poverty and unemployment. This research suggest that financial services companies must consider the effect of unemployment and poverty when developing their ESG strategies in order to maximise the return on ESG practices. This could be through introducing price sensitive or relatively less expensive ESG friendly products such as sustainability linked loans and insurance products. This will ensure that the vast majority of South Africans that are living in poverty and high unemployment can afford the financial products. In turn the company can growth its market share and improve profitability over the long term.

This research is based on overall ESG scores, however, findings and results of previous studies suggest that companies need to deepen their understanding of which pillar of ESG, between the Environmental, Social and Governance is perceived as the most significant by the stakeholders (Garcia & Orsato, 2020). Henley (2023) suggest that South Africans pay more attention to societal issues than environmental factors. Thus, South African companies may need to allocate more resources towards addressing societal issues than environmental issues. This is crucial because the outcomes that a company achieve from ESG practices is highly dependent on the societal expectations and priorities in the region in which the company operates (Lee & Raschke, 2023). Therefore, aligning ESG practices with stakeholders' expectations will enable the

company to attain stakeholder legitimacy and enhance prospects of maximising returns on ESG investments (Lee & Raschke, 2023).

DasGupta & Roy (2023)

National culture impacts the direction of a relationship between ESG performance and financial performance (DasGupta & Roy, 2023). This research also corroborates findings by DasGupta & Roy (2023), who found that ESG performance impacts company financial performance negatively in ESG-averse countries like South Africa. Like this research, DasGupta & Roy (2023) used both accounting-based measures and markets-based measures of financial performance, namely Retrun-on-Equity (ROE), ROA and Tobin's. Notably, DasGupta & Roy (2023) did not split the results of the study based on the varying industries represented in the population. Presumably, national culture would have the same effect on the relationship between ESG performance and financial performance across all industries. This assumption has not been tested in this research, nor does DasGupta & Roy (2023) refer to this assumption in their study.

Duque-Grisales and Aguilera-Caracue (2021)

The result of this research confirms the findings by Duque-Grisales and Aguilera-Caracue (2021), though in a different context and specifically in relation to the impact of ESG practices on Return-on-Assets. Duque-Grisales and Aguilera-Caracue (2021) examined 104 multinationals in Latin America over a period spanning from 2011 to 2015 and found that ESG initiatives were detrimental to the financial performance of Latin American companies. This was because ESG practices were not visible to stakeholders and did not receive sufficient stakeholder approval (Duque-Grisales and Aguilera-Caracue, 2021). To explain why ESG practices failed to gain stakeholder approval, Duque-Grisales and Aguilera-Caracue (2021) argue that the company's ESG practices did not meet stakeholders' expectations, and that stakeholders perceived these practices as less important. As a result, companies were unable to enhance their profitability by investing in ESG practices.

It seems, South African companies are contending with the challenge of adopting ESG practices that are aligned with stakeholder expectations (Henley, 2023). In their 2023 report on ESG adoption in South Africa, Henley (2023) indicated that South African companies are struggling to prioritise aspects of ESG practices that are most relevant for the South African economy. Specifically, the challenge of addressing environmental issues in the presence of more pressing societal issues (Henley, 2023). The challenges

faced by South African companies regarding ESG adoption are like those described by Duque-Grisales and Aguilera-Caracue (2021), who argued that these challenges explain the negative relationship between ESG performance and financial performance in emerging markets.

Grounded on this argument, this research suggests that ESG practices adopted by financial services companies in South African have not been successful in meeting stakeholder expectations. As a result, stakeholders are not rewarding companies for ESG excellence. Apart from the inability to meet stakeholder expectations, ESG practices are expensive especially in emerging markets where infrastructure is poor (Duque-Grisales and Aguilera-Caracue, 2021). Thus, managers need to deepen their understanding of the unique stakeholder expectations and the costs of ESG practices as critical inputs that inform the ESG strategy.

The study by Duque-Grisales and Aguilera-Caracue (2021) provides valuable insights on the relationship between ESG performance and financial performance in emerging markets. However, the study has notable limitations. The first limitation of this study is the approach towards measurement of financial performance. Unlike our study , Duque-Grisales and Aguilera-Caracue (2021) used Return-on-Assets as a single measure of financial performance. This approach neglects the premium that the market is willing to pay for the company's stock over the value of the company's assets, as a result of the company's initiatives that may have not yet been reflected in the company's profit or loss statements (Bentley & Kehoe, 2020). ESG initiates do not create value immediately, therefore, incorporating an additional measure of financial performance such as the Tobin's Q would reflect expected befits from ESG initiatives (Bentley & Kehoe, 2020). Like our work, Duque-Grisales and Aguilera-Caracue (2021) did not assess the impact of the individual pillars of Environmental, Social and Governance factors on financial performance. Each of the three pillars are driven by varying factors and could have a different impact on financial performance (Duque-Grisales and Aguilera-Caracue, 2021).

The findings from this research contradicts two related studies that were based in China (Liu et al., 2022; Zhou et al., 2021). An analysis of the similarities and differences between these studies presents valuable insights on the possible reasons for varied results, and factors impacting the relationship between ESG performance and financial performance. Additionally, these differences present an opportunity to identify necessary enhancements to our approach towards examining the relationship between ESG performance and financial performance in future.

Liu et al. (2022)

Based on a study of 167 listed companies in China over the period from 2014 to 2019, Liu et al. (2022) found that ESG practices enhanced the company market value, but this outcome was enabled by strong operating capacity. In the absence of operating capacity, ESG performance did not enhance company value (Liu et al., 2022). Liu et al. (2022) measured company value by reference to Tobin's Q, which is consistent with the approach adopted in this research. However, Liu et al. (2022) incorporated company operating capacity in the model, which they measure by the total asset turnover ratio. It seems the findings from this research are consistent with the work of Liu et al. (2022), except for inclusion of a moderating factor, being operating capacity. It is deduced that operating capacity played a key role in reducing the opportunity cost of undertaking ESG activities. In contrast, financial services companies examined in this research may have not possessed the strong operating capacity that is necessary to reduce the opportunity cost of undertaking ESG activities.

Canitz et al., (2024)

The work of Canitz et al., (2024) supports the argument that there is an optimal level of CSR investment that contributes positively to profitability. As presented in Chapter 5 (Figure 5 and Figure 6), several instances were noted where companies achieved higher than median ROA and Tobin's Q, with low to moderate ESG performance level. This suggest that these companies could have achieved a good balance between the ESG investment and company size.

In summary, ESG performance increase the opportunity cost that arises from allocating limited resources towards ESG practices at an expense or core operations (Liu et al., 2022; Canitz et al., 2024).

Zhou et al. (2021)

Zhou et al. (2021) studied listed banks in China covering the period spanning from 2008 to 2018 and found that ESG initiatives can be detrimental to financial performance in the short term because they increase the internal conflict over allocation of limited resources between ESG practices and sustaining core operations (Zhou et al., 2021). They did however find that ESG practices enhance financial performance over the long term by enhancing transparency and reducing environmental risks (Zhou et al., 2021). Unlike

Zhou et al. (2021) this research proved that ESG is detrimental to financial performance both in the short term and long term. There are however methodological differences in the two studies that could possibly explain the varying results. Firstly, Zhou et al. (2021) measured financial performance based on a comprehensive set of 10 indicators presented on the table below.

Table 9

Financial performance indicators (Zhou et al., 2021).	
Category	**Measure**
Profitability	Return on Assets
	Return on Equity
Earnings quality	Earnings per share ratio
Risk management indicators	Liquidity ratio
	Non-performing loans ratio
	Capital adequacy ratio
Growth indicators	Growth rate in total assets
	Growth rate in net assets
	Growth rate in operating revenue
	Growth rate in operating profit

In comparison, this research measured financial performance based on RoA and Tobins'Q. Additionally, this research measured ESG performance based on Bloomberg scores, while Zhou et al. (2021) used a measure of CSR based on social responsibility differences spanning from dividend payment rates to the ratio of public donations over revenue. Additionally, Zhou et al. (2021) views long term profitability as profit generated one year after the CSR activity.

In summary, this research differs in several aspects with the work of Zhou et al. (2021) which could explain the varying results. As an enhancement to literature on ESG performance and financial performance, future studies could build on this research and adopt a more comprehensive measure of financial performance. Using a more comprehensive measure of financial performance will enhance the validity of the results Zhou et al. (2021).

6.3.2. The moderating role of financial slack in the relationship between ESG performance and financial performance

In chapter 2, the research hypothesis suggests that financial slack moderates the relationship between ESG performance and financial performance. The results proved that financial slack moderates the relationship between ESG performance and Tobin's Q as a dependent variable but not for ROA.

This result suggests that there is a timing difference with regards to how financial slack shapes the relationship between ESG performance and financial performance. ROA reflects how well the company used its assets in the previous 12 months to generate earnings, in contrast, Tobin's Q reflects the premium that the market is willing to pay in anticipation of future profits (Bentley & Kehoe, 2020; Chen et al., 2023). By interpretation, the results in chapter 5 suggest that companies examined in this research were unable to utilise financial slack to enhance the impact of ESG practices on short term profitability (ROA), however, the market is optimistic that ESG practices will enhance the long-term value of the company (Bentley & Kehoe, 2020).

6.3.2.1. Role of financial slack - ESG performance and ROA

This research can be related to the study by Duque-Grisales and Aguilera-Caracue (2021), however, the results are inconsistent regarding how financial slack shapes the relationship between ESG performance and ROA. Unlike this research, Duque-Grisales and Aguilera-Caracue (2021) found that financial slack moderates the relationship between ESG performance and ROA for multinational companies in Latin American, to the extent that the direction of the relationship shifted from negative to positive. Duque-Grisales and Aguilera-Caracue (2021, p.11) attributes this change to the adoption of "advanced ESG practices" that is enabled by financial slack. Interestingly, the mean value of financial slack for the population of multinational companies examined by Duque-Grisales and Aguilera-Caracue (2021), which is 1,750 units, is significantly lower than the mean value for the financial services companies examined in this research, which is 6,2 units as presented in chapter 5. This may imply that South African company's examined in this research possess higher levels of financial slack, unless the difference is purely due to the different approach adopted to measure financial slack. Duque-Grisales and Aguilera-Caracue (2021) adopted the ratio of current assets over current liabilities to measure financial slack, in contrast, this research adopted a ratio of cash and cash equivalents over total assets to measure financial slack. Due to data limitations, it is not possible to reconstruct financial slack for both studies using a

consistent measure. If companies examined in this study indeed possessed higher levels of slack, it would be worthwhile to understand why financial slack did not moderate the relationship between ESG performance and ROA. To explore this further, a comparison of the companies examined in this study is presented below.

Figure 8 in chapter 5 presents a view of how companies with financial slack compare with those companies without financial slack based on ROA and ESG performance. It seems companies that possess financial slack exhibit low ROA across all levels of ESG performance. Thus, companies that have allocated more financial resources to ESG activities have not achieved superior returns, based on ROA. Previous studies have found that financial slack only contributes towards enhancing company value when it is deployed towards projects that add value (Deb et al., 2017). Thus, the varied results in how financial slacks shapes the relationship between ESG performance and financial performance could be explained by how financial slack is deployed in these companies. For purposes of this research, it was not possible to evaluate how slack is deployed across different organisations. However, Deb et al., (2017) found that poor governance structures and information asymmetry hinder the value of slack in organisations. Therefore, companies that possess slack can reduce the risk of misappropriation of financial resources by strengthening governance structures and improving the quality of internal and external reporting (reduce information asymmetry).

6.3.2.2. Role of financial slack - ESG performance and Tobin'Q

This research corroborates findings by several other studies, that proved that financial slack played a critical role of moderating the impact of sustainability practices on company value (Lu et al., 2023; He at al., 2024). In their pursuit to understand whether CSR is reliable at impacting company value, Lu et al. (2023) found that CSR practices are positively related to company value when the company has financial slack. Like this research, Lu et al., (2023) defined company value in terms of the company's Tobin's Q, noting an improvement in Tobin's Q for companies with slack.

In the Chinese context, He at al. (2024) studied 392 companies that adopted responsible production practices from 2016 to 2023 and found that companies with financial slack experienced an increase in market value following the adoption of responsible production practices. In explaining this phenomenon, He at al. (2024) argues that financial slack enhances investor confidence in a company's ability to successfully implement sustainability initiatives, which in turn enhances company value. Based on a study of 167 listed companies in China over the period from 2014 to 2019, Liu et al.

(2022) found that ESG performance enhanced the company market value, but this outcome was enabled by strong operating capacity. While operating capacity is not necessarily equivalent to financial slack, previous studies found that financial slack enhances the value of absorbed slack, particularly when a company is undergoing a strategic change (Bentley & Kehoe, 2020). Financial slack enables the organisation to finance the necessary development of staff members, who in turn play a critical role in absorbing new activities (Bentley & Kehoe, 2020).

6.4. Conclusion

This chapter provided a detailed analyses of the results of the study as presented in chapter 5, in comparison to the literature review presented in chapter 2. In conclusion, this research corroborates several prominent studies, with some differences relating to the methodology adopted in the studies. This chapter identified the following themes, based on similarities and differences across several related studies and findings from this research.

South African companies are still falling short on disclosing adequate information regarding ESG practices (Candio & Rossi, 2023; Bernardi & Stark, 2018). In this research, it was noted that only 44 out of 95 financial services companies listed on the JSE by February 2025 had aggregate ESG scores in Bloomberg. While South Africa mandated Integrated Reporting requirements for JSE listed companies, it does not mandate the level of ESG disclosures (Bernardi & Stark, 2018). As a result, the adequacy of ESG disclosures remain a challenge for South African companies. This affects South African companies in two ways, which may partly explain the negative relationship between ESG performance and financial performance. Firstly, companies are struggling to convey their ESG practices to stakeholders, therefore stakeholders' awareness and appreciation for ESG excellence (Duque-Grisales & Aguilera-Caracue, 2021). Lastly, South African companies are exposed to the negative impact of ESG rating divergence on company value (Ge et al., 2024). In conclusion, the research corroborates findings from previous studies.

The research proved that ESG performance is detrimental to financial performance of financial services companies in South African. The findings from this research corroborates findings from some of the previous related studies (Garcia & Orsato, 2020; Duque-Grisales & Aguilera-Caracue, 2021). Key similarities are evident. Firstly, this research corroborates findings by Garcia & Orsato (2020) by suggesting that ESG

performance is detrimental to the financial performance of financial services companies in South Africa because of the pressing issues of poverty and unemployment. This research also corroborates findings by DasGupta & Roy (2023), who found that ESG performance impacts company financial performance negatively in ESG-averse countries like South Africa. The result of this research confirms the findings by Duque-Grisales and Aguilera-Caracue (2021), though in a different context and specifically in relation to the impact of ESG practices on Return-on-Assets. This research contradicts two related studies that were based in China (Liu et al., 2022; Zhou et al., 2021). However, differences in methodology adopted in the studies could be the reason for the difference.

The research proved that financial slack moderates the relationship between ESG performance and Tobin's Q as a dependent variable but not for ROA. This research can be related to the study by Duque-Grisales and Aguilera-Caracue (2021), however, the results are inconsistent regarding how financial slack shapes the relationship between ESG performance and ROA. Unlike this research, Duque-Grisales and Aguilera-Caracue (2021) found that financial slack moderates the relationship between ESG performance and ROA. The difference possibly lies in how financial slack is used by the different companies (Deb et al., 2017). This research corroborates findings by several other studies, that proved that financial slack played a critical role of moderating the impact of sustainability practices on company value (Lu et al., 2023; He at al., 2024). This because financial slack enhances investor confidence in a company's ability to successfully implement sustainability initiatives, which in turn enhances company value (He at al., 2024).

Conclusions drawn from this chapter are presented in chapter 7.

7. Chapter 7: Conclusion

7.1. Introduction

Chapter 7 provides the overall conclusion based on evidence obtained. Additionally, this chapter explains the contribution of the study and provides practical recommendations to managers and executives in the financial services sector, as well as regulatory bodies based on the findings from the study. Lastly, this chapter outlines the limitations of the study and recommendations for future research. Chapter 7 includes the following key headings.

7.2. Background

In today's business landscape, the pursuit of profits is increasingly balanced with the need to enhance governance, social impact, and environmental sustainability (Chen et al., 2023). The relationship between ESG performance and financial has been studied extensively but continues to produce inconsistent results (Duque-Grisales & Aguilera-Caracue, 2021). Studies based on emerging market companies suggest that ESG performance is detrimental to financial performance (Duque-Grisales & Aguilera-Caracue, 2021; Garcia & Orsato, 2020). However, evidence also suggest that other factors such as the industry and geographical location of the company share the relationship between ESG performance and financial performance (Gillan et al., 2021). Lastly, previous studies suggest that financial slack moderates the relationship between ESG performance and financial performance (Duque-Grisales and Aguilera-Caracue, 2021).

This research intended to address two things. Firstly, to explore the relationship between ESG performance and financial performance of financial services companies in South Africa. Secondly, the research intended to explore the moderating role of financial slack on the relationship between ESG performance and financial performance.

7.3. Principal theoretical conclusions

7.3.1. Relationship between ESG performance and financial performance

This research proved that ESG performance is detrimental to the financial performance of financial services companies in South Africa, supported for both Tobin’s Q and ROA as dependent variables. These findings confirm the results of some of the previous related studies (Garcia & Orsato, 2020; Duque-Grisales & Aguilera-Caracue, 2021). Thus, this research supports the generalisability of these previous studies.

This research corroborates a previous study by Garcia & Orsato (2020) by suggesting that ESG performance is detrimental to the financial performance of financial services companies in South African because of the pressing issues of poverty and unemployment. These challenges take precedence over ESG concerns, restricting potential economic benefits of investing in ESG practices (Garcia & Orsato, 2020). This research also suggests that ESG practices adopted by financial services companies in South Africa have not been successful at meeting stakeholder expectations. Thus,

financial services companies cannot enhance their profitability by investing in ESG practices (Duque-Grisales and Aguilera-Caracue, 2021).

Previous studies have examined the impact of national culture on the relationship between ESG performance and financial performance (DasGupta & Roy, 2023). This research corroborates previous findings by DasGupta & Roy (2023), who found that ESG performance impacts company financial performance negatively in ESG-averse countries like South Africa. The author deduce that culture plays a role in shaping aspects of ESG that receive more attention than others in the region. Furthermore, the outcomes of the company's ESG practices are dependent on the company's ability to meet these expectations (Lee & Raschke, 2023). This research suggest that companies have not been successful at meeting stakeholder expectations, explaining the negative impact of ESG practices on financial performance.

This research contradicts two related studies that were based in China (Liu et al., 2022; Zhou et al., 2021). However, the varying findings could be a result of methodological differences between the studies. Firstly, Liu et al. (2022) who found that sustainability practices enhanced financial performance, had incorporated company operating capacity in the model, which they measure by the total asset turnover ratio. Findings from this research corroborate the findings by Liu et al. (2022) if operating capacity is excluded as a moderating variable in the model. Zhou et al., (2021) used different measures for ESG performance and financial performance, which could explain the disparity in results.

7.3.2. The moderating role of financial slack

This research revealed that financial slack moderates the relationship between ESG performance and Tobin's Q as a dependent variable but not for ROA.
The findings corroborate findings from previous studies that financial slack improves the market's confidence in the ability of the company to enhance long-term company value through ESG practices (Bentley & Kehoe, 2020).

7.4. Research contribution

This research builds from previous studies on the relationship between ESG performance and financial performance, as well as the role of financial slack and improves our understanding in several ways. Firstly, this research adopted Generalized

Linear Model (GLM) for data analysis, which accounts for non-linearity in the relationship between ESG performance and financial performance (Mselmi, 2022). Duque-Grisales and Aguilera-Caracue (2021) adopted linear regression model to examine the moderating role of financial slack in ESG-financial performance relationships within Latin American companies. Linear regression analysis assumes that the relationship between the variables is linear (Abadie et al., 2020; Gomila, 2021). This may not be the case for the relationship between ESG performance and financial performance (Zhou et al., 2021). Thus, by utilising GLM, this study ensures methodological rigor while contributing to a deeper understanding of ESG dynamics within South Africa's financial services sector. This methodological choice enhances existing research on the relationship between ESG performance and financial performance. Through this rigorous process, the research proved that ESG performance is detrimental to financial performance of financial services companies in South Africa. This finding contributes to exiting literature by confirming the findings from previous studies by Garcia & Orsato (2020), and Duque-Grisales & Aguilera-Caracue (2021) and extending the generalisability of these studies to South Africa and financial services sector.

To the best of the authors understanding, this research is the first to examine the relationship between ESG performance and financial performance as well as the moderating role of financial slack, focusing solely on the financial services sector in South African. By focusing on South Africa's financial services sector, this research acknowledges the contextual differences shaping ESG outcomes, aligning with findings that the ESG-financial performance relationship varies by economies and industries (Huarng & Yu, 2024). This research resembles very closely the work of Garcia & Orsato (2020), however, this research is unique in two different ways. Firstly, Garcia & Orsato (2020) covered the period spanning from 2007 to 2014. In their conclusion, Garcia & Orsato (2020) proposed that future studies replicate their study based on more recent data. Thus, by covering a more recent period of between 2017 to 2024, this research extends and enhances the findings from the work of Garcia & Orsato (2020). Given that ESG's impact on financial outcomes evolves over time, incorporating updated data strengthens the validity of findings (Lahouel et al., 2022; Gillan et al., 2021). Lastly, Garcia & Orsato (2020) did not assess the role of financial slack. Thus, by examining the role of financial slack in the complex relationship between ESG performance and financial performance, this research provides new insights on the internal company resources that can be deployed to enhance the value of ESG practices for financial services companies in South African.

Duque-Grisales & Aguilera-Caracue (2021) found that financial slack moderates the relationship between ESG performance and financial performance of companies operating in Latin America. Notably, Duque-Grisales & Aguilera-Caracue (2021) measured financial performance with reference to ROA, thus neglecting the market based measures for financial performance. This research proved that Financial slack moderates the relationship between ESG performance and financial performance of South African financial services companies only supported for Tobin's Q as a dependent variable but not for ROA. The outcome of this research is unique in this regard and provides new insights on the role of financial slack in the complex relationship between ESG performance and financial performance in the context of emerging markets. Specifically, this research proves that the moderating role of financial slack in the relationship between ESG performance and financial performance is more evident in the long-term value of the company than short-term profitability. This research corroborates findings from previous studies that financial slack improves the market's confidence in the ability of the company to enhance long-term company value through ESG practices (Bentley & Kehoe, 2020). Thus, this work supports the generalisability of findings from these studies in a different geographical context.

7.5. Recommendations

The pursuit of profits is increasingly balanced with the need to enhance governance, social impact, and environmental sustainability (Chen et al., 2023). South African companies are struggling to set clear priorities regarding their ESG strategy (Henley, 2023). This is exacerbated by the fact that companies have limited resources, which need to be deployed in a manner that maximises profitability (Henley, 2024). Thus, the value of ESG practices for the company is a matter of great concern. This research suggests that ESG performance is detrimental to the financial performance of financial services companies in South Africa. However, this work also sheds light on some channels through which ESG could enhance company value. These channels are discussed below with recommendations for interested stakeholders.

7.5.1. Enhance ESG disclosures

Despite the introduction of mandatory Integrated Reporting for listed South African companies since 2011, South African companies are still falling short on disclosing adequate information regarding ESG practices (Candio & Rossi, 2023; Bernardi & Stark, 2018). As result, companies fail to raise stakeholder's awareness and appreciation of

ESG excellence. Recommendations and anticipated outcomes/benefits are discussed below.

7.5.1.1. Recommendation to managers and executives

Financial services companies need to enhance their capabilities with regards to disclosure of ESG practices. This may entail enhancing data processes to improve recording and reporting of ESG activities. Companies may need to review the collective experience and expertise of senior management on ESG matters. Previous research suggests that leaders with expertise and experience in ESG matters are more likely to advance ESG practices (Ren et al., 2025).

By enhancing ESG disclosure, it is expected that the company will benefit in two ways. Firstly, enhancing ESG disclosures is expected to improve company reputation, reduce information asymmetry and build stakeholder trust (Chen & Xie, 2022; Duque-Grisales & Aguilera-Caracue, 2021). Research has proved that these factors are critical channels through which a company can attract capital, gain a competitive advantage and improve company value (Chen & Xie, 2022). Secondly, enhancing ESG disclosures will shield the company from the negative impact of ESG rating divergence. Research has proved that ESG rating divergence has a negative impact on company value, however, robust ESG disclosures can moderate the negative relationship between ESG rating divergence and company value (Ge at al., 2024).

7.5.1.2. Recommendation to the JSE

The JSE should enforce mandatory minimum ESG disclosure requirements, including requirements for independent assurance on ESG disclosures. To the best of the author's understanding, the JSE's Sustainability and Climate Disclosure Guidance, which is aligned with the International Sustainability Standards Board's (ISSB) IFRS S1 & S2 and Task Force on Climate-related Financial Disclosures (TCFD) frameworks is not mandatory (JSE, 2025). Other guiding documents such as Prudential Authority's Guidance Note on climate-related disclosures for banks and insurance companies are also not mandatory (JSE, 2025). Thus, companies have an option not to comply.

Mandatory ESG disclosure will ensure consistency in the disclosure of ESG practices across all companies. This in turn boosts invertor confidence and attracts institutional investors (Chen & Xie, 2022).

7.5.2. Align the type of ESG practices with stakeholder expectations

Consistent with the findings by Garcia & Orsato (2020), this research suggests that ESG performance is detrimental to the financial performance of financial services companies in South Africa because of the pressing issues of poverty and unemployment which take precedence over ESG concerns. This research also suggests that ESG practices adopted by financial services companies in South African have not been successful at meeting the expectations of the stakeholders (Duque-Grisales & Aguilera-Caracue, 2021). Lastly, previous studies also found that the South African culture is ESG-averse, as a result, ESG performance has a negative impact on financial performance (DasGupta & Roy, 2023).

To this end, we have the following recommendation for managers and executives, as well as the regulators.

7.5.2.1. Recommendations to managers and executives

Companies must incorporate the effect of unemployment and poverty in the ESG strategies. This could require introduction of low priced ESG friendly products such as sustainability linked loans and insurance products. This will ensure that the vast majority of South Africans that are living in poverty can afford the financial products. In turn the company can grow market share and improve profitability over the long term.

A detailed analysis should be performed to understand the unique stakeholder expectations, particularly the society, with regards to ESG practices. This may entail running surveys to understand the true impact of current ESG practices in comparison to the expectations of the relevant stakeholders

Companies must evaluate ESG practices to understand their level of alignment with stakeholders' expectations. This may entail allocating more resources towards addressing social issues over environmental issues. Additionally, companies may need to review adequacy of financial budgets and leverage financial slack to fund the initial research and development needed to implement effective ESG strategies. Research suggest that South Africans pay more attention to societal issues than environmental factors (Henley, 2023). Thus, it may be necessary to adjust current ESG practices to enhance prospects of maximising returns on ESG investments (Lee & Raschke, 2023).

By aligning the type of ESG practices with stakeholder expectations, companies will enhance the prospects of attaining stakeholder legitimacy, thereby improving society's acceptance of the company's ESG practises and the financial services it offers. Duque-Grisales and Aguilera-Caracue (2021) proved that companies can shift the direction of

the relationship between ESG performance and financial performance from negative to positive by adopting best ESG practices for the stakeholders.

7.5.3. Align the level of ESG practices with the company's operating capacity

Because ESG practices increase internal conflict over allocation of limited resources, companies are struggling to maintain core operations while partaking in ESG activities (Liu et al., 2022). A company's operating capacity is an important moderator in this regard (Liu et al., 2022). To this end, recommendations are discussed below.

7.5.3.1. Recommendations to managers and executives

Assess the optimal level of ESG investment based on company characteristic such as size and availability of resources. Appropriate thresholds with targets and limits should be set and approved by the company executives, to serve as early-warning indicators where the level of ESG investment is below or above optimal levels. Companies should restrict ESG activities to a level that is optimal for the company (Canitz et al., 2024). This may entail delaying some of the ESG practices to reduce the internal company conflict.

By adopting these recommendations, it is expected that companies will pursue ESG practices at a level that maximise the value of ESG practices without compromising the limited company resources and value. Appropriate thresholds should be set with targets and limits for ESG investments to enable management to take remedial action when ESG practices are likely to be detrimental to company value. As shown in Figure 7 of Chapter 5, a few companies that possess financial slack achieved very high Tobin's Q combined with moderate ESG performance.

7.5.4. Leverage financial slack to enhance long-term company value

This research proved that financial slack improves the market's confidence in the ability of the company to enhance long-term company value through ESG practices (Bentley & Kehoe, 2020).

7.5.4.1. Recommendation to managers and executives

Companies should incorporate liquidity and cash flow related ratios into the company's ESG strategy. ESG excellence accompanied by financial slack can enhance company value (He at al., 2024).

This research has proved that financial slack moderates the relationship between ESG performance and Tobin's Q (measure of company value). Thus, the research corroborates several other prominent studies that proved that markets gain confidence in the company's ability to implement sustainability practices successfully when the

company has financial slack (Lu et al., 2023; He at al., 2024). This market confidence enhances company value (Lu et al., 2023; He at al., 2024).

7.5.4.2. Recommendation to the regulatory bodies

Regulatory bodies such as the South African Reserve Bank and the Prudential Authority should review current policies and capital requirements to ensure that they do not limit the availability of financial flexibility within the industry.

By doing so, regulatory bodies can play a role in enabling companies to improve ESG performance. Attig (2024) proved that policy amendments that relax financial constraints, by increasing access and reducing cost of credit increase ESG performance.

7.5.5. Conclusion

In conclusion, ESG practices may be detrimental to financial performance of financial services companies in South African. However, this research found persuasive evidence that companies can improve the prospects of enhancing financial performance through ESG practices by enhancing ESG disclosures, aligning ESG practices with stakeholder expectations, investing optimally in ESG activities, and leveraging financial slack to implement ESG practices more effectively.

7.6. Limitations of the study

This research has several limitations that are classified under the different themes below.

7.6.1. Measure of financial performance

Adopted from previous studies, a limited number of measures of financial performance were adopted for this research, namely, RoA and Tobins'Q. As an enhancement to literature on ESG performance and financial performance, future studies could build on this research and adopt a more comprehensive measure of financial performance. Using more comprehensive measures of financial performance will enhance the validity of the results Zhou et al. (2021). Future studies should consider measures for all four categories of financial performance, namely, profitability indicators, liquidity indicators, growth indicators, and stock market performance indicators (Hamman & Schiemann, 2021).

7.6.2. Reliance on overall ESG disclosure score to measure ESG performance

Like Duque-Grisales & Aguilera-Caracue (2021), this research did not assess the impact of the individual pillars of Environmental, Social and Governance factors on financial performance. Each of the three pillars are driven by varying factors and could have a

different impact on financial performance (Duque-Grisales and Aguilera-Caracue, 2021). Individual E, S and G factors affect financial performance at different and varying time horizons (Giese et al., 2021). Thus, future studies on the relationship between ESG performance and financial performance of financial services companies in South Africa could enhance this research by assessing the impact of each of the individual pillars of ESG on financial performance and assess the moderating role of financial slack on the relationship between ESG performance and financial performance at the individual E,S and G pillar levels.

ESG rating agencies aim to achieve some comparability in measuring ESG activities, thus the ESG indicators reflect aspects of ESG that are considered both important and relevant to stakeholders as well as assessable across multiple companies to serve as meaningful metrics for ESG performance evaluation (Crace & Gehman, 2023). As a result, some ESG issues that are specific to geographical locations, industries or companies may not be reflected in the ESG ratings (Crace & Gehman, 2023). Future studies could enhance the approach to ESG measurement by conducting surveys or interviews to measure ESG performance based on factors that are most relevant and specific to the South African economy and the financial services sector

Lastly, Bloomberg measure the companies practices or initiatives based on the quality of the disclosures and not the level of ESG practices or its actual social impacts (Crace & Gehman, 2023). As a result, ESG disclosure scores assume that the ESG disclosure reflect the company ESG practices. Additionally, ESG evaluations assume the positive impact of ESG initiatives (Crace & Gehman, 2023). To the best of our understanding, these assumptions are yet to be tested, particularly in the South African context. While measuring broader societal effects would be challenging and require significant resources, it would enhance our understanding of the true value of ESG practices and the impact of that value on company financial performance (Crace & Gehman, 2023).

7.7. Recommendations for future research

Due to ESG data limitations, this research is based on a limited sample of 21 financial services companies over an 8-year period spanning from 2017 to 2024. Future studies could build on this research, extending the period of the study, sample size, as well as measures of key variables such as ESG performance to enhance the validity of the findings. Additionally, the research revealed that the relationship between ESG performance and financial performance is negative, but weak. Future studies could

explore whether other variables such as technology adoption play a more significant role in the outcomes.

Since this research focused on the financial services sector in South Africa, future research could examine other industries, such as manufacturing, retail, or mining, to determine if financial slack moderates the relationship between ESG performance and financial performance in these industries.

This research focused on publicly listed companies, future studies could explore how ESG practices impact financial performance in privately held companies and Small and Medium Enterprises (SMEs). SMEs often have fewer financial resources, making financial slack an even more critical factor in sustainability decisions.

7.8. Conclusion

This research examined the moderating role of financial slack in the complex relationship between Environmental, Social, and Governance (ESG) performance and financial performance within South Africa's financial services sector, thereby bridging a crucial academic gap. Grounded in the Resource-Based View (RBV) theory, this research leveraged a Generalized Linear Model (GLM), incorporating ESG ratings and financial data from 21 publicly listed financial services companies on the Johannesburg Stock Exchange (JSE) over the period 2017 to 2024. This research proved that ESG performance is detrimental to financial performance of financial services companies in South Africa. Additionally, financial slack moderates the relationship between ESG performance and Tobin’s Q but not Return-on-Assets. The insights derived from this research holds profound implications for corporate leaders, policymakers, and stakeholders invested in financial sustainability. By unveiling the potential of financial slack as a catalyst for ESG success, companies can strategically align their sustainability efforts with profitability, driving informed financial resource allocation and policy development.

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Annexure A

Below is a list of companies listed under the financial services sector of the JSE.

Source: (LISTCORP, n.d.). Listing dates are sourced from company websites

	Company code	Company	Listing date
1.	JSE:FSR	Firstrand Limited	1998/05/28
2.	JSE:CPI	Capitec Bank Holdings Limited	2002/02/18
3.	JSE:SBK	Standard Bank Group	1970/01/01
4.	JSE:SLM	Sanlam Limited	1998/11/30
5.	JSE:ABG	Absa Group Limited	1986/11/01
6.	JSE:DSY	Discovery Limited	1999/10/01
7.	JSE:NED	Nedbank Group Limited	1969/01/01
8.	JSE:OUT	OUTsurance Holdings Limited	2022/12/07
9.	JSE:NRP	Nepi Rockcastle plc	2017/07/12
10.	JSE:RNI	Reinet Investments S.C.A.	2017/11/29
11.	JSE:REM	Remgro Limited	2000/09/26
12.	JSE:INP	Investec plc	2018/06/26
13.	JSE:OMU	Old Mutual Limited	2018/06/26
14.	JSE:QLT	Quilter plc	2018/06/26
15.	JSE:SNT	Santam Limited	1964/01/01
16.	JSE:RMI	Rand Merchant Investment Holdings	2010/03/01
17.	JSE:MTM	Momentum Metropolitan Holdings	2010/03/01
18.	JSE:GRT	Growthpoint Properties Limited	1987/01/01
19.	JSE:INL	Investec Limited	1986/07/01
20.	JSE:SRE	Sirius Real Estate	2014/12/01
21.	JSE:RDF	Redefine Properties Limited	2000/02/01
22.	JSE:HMN	Hammerson plc	2016/09/01
23.	JSE:KST	PSG Konsult Limited	2014/06/01
24.	JSE:SRI	Supermarket Income REIT	2017/07/01
25.	JSE:VKE	Vukile Property Fund Limited	2004/06/01
26.	JSE:N91	Ninety One plc	2020/03/01
27.	JSE:FFB	Fortress REIT Limited - B	2015/10/01
28.	JSE:CCO	Capital & Counties Properties plc	2010/06/01
29.	JSE:RES	Resilient REIT Limited	2002/12/01
30.	JSE:LTE	Lighthouse Capital Limited	2014/12/01
31.	JSE:GTC	Globe Trade Centre S.A.	2004/05/01
32.	JSE:HYP	Hyprop Investments Limited	1988/12/01
33.	JSE:CML	Coronation Fund Managers	2003/06/01
34.	JSE:AIL	African Rainbow Capital Investments	2017/09/01
35.	JSE:MSP	MAS Real Estate Inc	2014/12/01

36.	JSE:EQU	Equites Property Fund Limited	2014/06/01
37.	JSE:AFH	Alexander Forbes Group Holdings Limited	2014/07/01
38.	JSE:HCI	Hosken Consolidated Investments Limited	1973/01/01
39.	JSE:JSE	JSE Limited	2006/06/01
40.	JSE:ATT	Attacq Limited	2013/10/01
41.	JSE:NY1	Ninety One Limited	2020/03/01
42.	JSE:BAT	Brait PLC	1992/07/01
43.	JSE:CVW	Castleview Property Fund Limited	2017/12/01
44.	JSE:IPF	Investec Property Fund Limited	2011/04/01
45.	JSE:SAC	SA Corporate Real Estate Fund Limited	1995/11/01
46.	JSE:SSS	Stor-Age Property REIT	2015/11/01
47.	JSE:DKR	Deutsche Konsum REIT-AG	2017/12/01
48.	JSE:EMI	Emira Property Fund Limited	2003/11/01
49.	JSE:CLI	Clientele Limited	1997/12/01
50.	JSE:HET	Heriot REIT Limited	2017/06/01
51.	JSE:DIB	Dipula Income Fund Limited B	2011/08/01
52.	JSE:EXP	Exemplar Reitail Limited	2018/06/01
53.	JSE:SBP	Sabvest Capital Limited	1988/06/01
54.	JSE:SYG	Sygnia Limited	2015/10/01
55.	JSE:SEA	Spear Reit Limited	2016/11/01
56.	JSE:OCT	Octodec Investments Limited	1990/06/01
57.	JSE:ACS	Acsion Limited	2014/12/01
58.	JSE:AHB	Arrowhead Properties Limited B	2011/12/01
59.	JSE:SCD	Schroder European Real Estate Investment Trust	2015/12/01
60.	JSE:ZED	Zeder Investments Limited	2006/06/01
61.	JSE:TDH	Tradehold Limited	1987/01/01
62.	JSE:PPE	Purple Group Limited	2004/06/01
63.	JSE:SAR	Safari Investments RSA Limited	2009/11/01
64.	JSE:UPL	Universal Partners Limited	2016/08/01
65.	JSE:EPE	EPE Capital Partners Limited	2016/08/01
66.	JSE:OAS	Oasis Crescent Property Fund	2005/12/01
67.	JSE:YYLBEE	YeboYethu (RF) Limited	2008/08/01
68.	JSE:GPL	Grand Parade Investments Limited	1997/06/01
69.	JSE:TEX	Texton Property Fund Limited	2014/08/01
70.	JSE:BWN	Balwin Properties Limited	2015/10/01
71.	JSE:BRN	Brimstone Investment Corporation - N Shares	1998/07/01
72.	JSE:MTNZF	MTN Zakhele Futhi	2016/11/01
73.	JSE:APF	Accelerate Property Fund Ltd	2013/12/01
74.	JSE:DNB	Deneb Investments Limited	2014/12/01

75.	JSE:AHA	Arrowhead Properties Limited A	2011/12/01
76.	JSE:RMH	RMB Holdings Limited	1993/07/01
77.	JSE:NRL	Newpark REIT Limited	2016/06/01
78.	JSE:LNF	London Finance & Investment Group Plc	2016/06/01
79.	JSE:4SI	4Sight Holdings Limited	2017/10/01
80.	JSE:FGL	Finbond Group Limited	2007/06/01
81.	JSE:TMT	Trematon Capital Investments Limited	1997/06/01
82.	JSE:TTO	Trustco Group Holdings Limited	2009/02/01
83.	JSE:ARA	Astoria Investments Limited	2015/11/01
84.	JSE:VUN	Vunani Limited	2007/06/01
85.	JSE:BRT	Brimstone Investment Corporation	1998/07/01
86.	JSE:DLT	Delta Property Fund Limited	2012/11/01
87.	JSE:PPR	Putprop Limited	1988/06/01
88.	JSE:RHB	RH Bophelo Limited	2017/07/01
89.	JSE:REB	Rebosis Property Fund	2011/05/01
90.	JSE:REA	Rebosis Property Fund - A Shares	2011/05/01
91.	JSE:CND	Conduit Capital Limited	1997/06/01
92.	JSE:VIS	Visual International Holdings Limited	2014/06/01
93.	JSE:ADW	African Dawn Capital	2004/06/01
94.	JSE:GAI	Gaia Infrastructure Capital Limited	2015/11/01
95.	JSE:TCP	Transaction Capital Ltd	2012/06/07

Annexure B – Sources of financial data (additional references)

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