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Applying Artificial Intelligence in Integrating ESG into Economic Forecasting Using Extreme Gradient Boosting (XGBoost)

Manuela-Violeta Tureatcă[*], Valentin Sava[**], Lidia Mușat (Ciobotă)[***]

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ABSTRACT

In recent decades, the concept of ESG (Environmental, Social, and Governance) has gained significant importance in the decision-making processes of organizations, influencing investments, financial assessments and economic strategies. The integration of ESG factors into economic forecasts is essential to support sustainable development and to meet the increasing demands of investors and regulators. At the same time, advances in the field of Artificial Intelligence (AI) offer significant potential to improve the processes of their integration into economic models. One of the most promising AI techniques currently used in this context is Extreme Gradient Boosting (XGBoost). XGBoost is a powerful machine learning method that has demonstrated remarkable results in regression and classification problems, having a particular impact in economic forecasting and financial data analysis. The purpose of this application is to explore the use of XGBoost for the integration of ESG indicators into predictive economic models, with a focus on economic risk forecasting and analysis. In particular, it can improve the accuracy of financial forecasts by modeling ESG factors as essential variables that affect the development and stability of financial markets. Integrating these factors through XGBoost can help create more effective tools for economic forecasting, allowing organizations and investors to make more informed decisions.

1. Methodology

Database Used

For this research, we will use a database composed of financial information and ESG (Environmental, Social, Governance) data for a set of selected companies. Financial data will include economic indicators such as share prices, financial returns and macroeconomic indicators, while ESG data will include scores and ratings for each company, available from providers such as MSCI, Sustainalytics and Refinitiv. This data will be collected from public and commercial sources from the beginning of 2010 to the end of 2023.

Research Period

The analysis period will be between 2010 and 2023, to allow an assessment of trends in the integration of ESG factors into economic models in the medium and long term. This will include the assessment of financial market behavior in relation to various important economic, social and political events that occurred during this period.

Research location

The research will be conducted on a global sample of companies, with a special focus on financial markets in Europe and the United States, considering the regulations and ESG integration trends existing in these markets. We will include companies from various sectors (financial, energy, technology, manufacturing) to analyze the impact of various ESG policies on economic performance.

Mathematical and statistical methods used

In this research, the main forecasting technique will be XGBoost (Extreme Gradient Boosting), an efficient and high-performance machine learning method in predictive analysis. The XGBoost algorithm will be used to build models that integrate ESG factors and economic indicators to predict the financial performance of companies. We will use the following steps:

• Data preprocessing: Cleaning financial and ESG data, normalizing and selecting relevant variables for model building.

[*], [**]Dunarea de Jos University of Galati, Romania, [***]Valahia University of Targoviste, Romania. E-mail addresses: manuetal.tureatca@ugal.ro (M. V. Tureatca – Corresponding author), valentin.sava@ugal.ro (V. Sava), ciobota.lidia@gmail.com (L. Mușat Ciobotă).

• XGBoost model training: Creating an XGBoost model based on historical data for each selected company. We will divide the data into training and test sets for model validation.
• Performance validation and evaluation: Using performance measures (such as RMSE, MAE, AUC) to evaluate the accuracy of the prediction model and its ability to predict the impact of ESG factors on economic performance.

In addition, statistical techniques will be used to analyze the correlation between ESG factors and economic indicators, as well as statistical significance tests (e.g., t-test or regression analysis).

ESG Context and the Need for Integration

ESG factors are increasingly considered essential in assessing companies' economic performance and financial risks. Companies that invest in sustainable practices, social responsibility, and effective governance have a significant impact on their long-term performance. This means that traditional economic forecasting, which focuses only on economic and financial factors, is no longer sufficient to reflect current reality. Artificial Intelligence, and in particular XGBoost, can help integrate ESG data into economic models, thereby improving the relevance and accuracy of predictions.

Extreme Gradient Boosting (XGBoost) – A Powerful Technique for Economic Forecasting

XGBoost is a decision tree-based machine learning algorithm that uses boosting techniques to improve model performance by reducing errors. It can handle a large volume of data and learn complex relationships between input and output variables. With the ability to handle both numerical and categorical data, XGBoost is ideal for integrating ESG factors of various kinds into a predictive framework.

By using XGBoost, economic models can incorporate ESG factors, thus providing a much more complete picture of economic risks, financial stability, and market performance. Thus, the technology allows not only more accurate forecasts, but also a better-founded assessment of their impact on economic and financial decisions.

Applicability of XGBoost in Accounting and Economic Forecasting

The application of XGBoost in accounting can lead to improved financial forecasts, risk assessment, and investment portfolio management. Accountants and financial analysts can use this technique to identify how ESG factors influence the financial performance of an organization or an economic sector. For example, an XGBoost model could forecast the evolution of financial markets depending on a company's environmental policies or how it responds to social and governance requirements.

In this context, using AI to integrate ESG into economic forecasting not only improves the accuracy of predictions, but also helps in formulating more responsible and sustainable economic strategies.

Objectives and Benefits of the Study

The purpose of this study is to explore how XGBoost can be used to integrate ESG factors into predictive economic models, presenting examples and case studies from the accounting field. The impact of ESG factors on economic forecasts will be analyzed, and the results will highlight the benefits of using artificial intelligence to improve economic and financial decision-making.

By using this advanced technology, organizations can obtain more accurate economic forecasts, adapted to the challenges and rapid changes of global markets. This process also helps to develop a more robust framework for assessing and reporting economic performance in the context of an economy increasingly influenced by ESG factors.

Methodology and International Data

In this study, we use the machine learning technique Extreme Gradient Boosting (XGBoost) to integrate ESG (Environmental, Social, and Governance) factors into predictive economic models. XGBoost is chosen due to its ability to analyze complex relationships between input and output variables, providing accurate and efficient results even in the case of large and varied data sets. The methodological process is structured in the following stages:

a) Data Collection To assess the impact of ESG factors on economic forecasts, we will use a combination of financial and non-financial data, coming from both public sources and specialized ESG databases. The data will include information on the financial performance of the companies, environmental, social and governance indicators, as well as other relevant economic variables.

b) Data Preprocessing The collected data will be preprocessed to ensure their quality and integrity. This step includes:
• Data cleaning (removal of missing values or errors);
• Normalization of numerical variables to ensure their comparability;
• Coding of categorical variables to be able to use them within the XGBoost model.

c) Model Building Once the data has been preprocessed, we will build an XGBoost model to analyze the relationships between ESG variables and economic predictions. We will apply cross-validation techniques to evaluate the model's performance and prevent overfitting. We will also use hyperparameter tuning techniques to optimize the model's performance.

d) Results Analysis After training the model, we will analyze the importance of each ESG factor in economic predictions. Using the feature importance technique provided by XGBoost, we will be able to identify which ESG variables have the greatest impact on economic and financial forecasts. This analysis will provide a deeper understanding of how ESG factors influence the stability of financial markets and economic performance in the long term.

To validate the applicability of our model, we will use international data from reliable sources. The data sources that will be used include:

a) ESG Databases

• Refinitiv: Provides detailed information on the performance of companies in the field of ESG, including financial and non-financial data.

• MSCI ESG Ratings: It is an international source that provides detailed assessments of companies in terms of their ESG performance, based on several global indicators.

• Sustainalytics: Provides a wide range of data on ESG risks, including risk assessments and their impact on financial performance.

b) Economic and Financial Databases

• World Bank Open Data: Provides international economic data on GDP, inflation, unemployment rate and other relevant economic indicators at a global level.

• OECD Economic Outlook: Provides economic forecasts and detailed analysis of different economies of the world, including relevant data on economic development and market conditions.

c) Global Indices

• Dow Jones Sustainability Index (DJSI): This index measures the performance of companies that meet the highest standards in the field of ESG. Data from this index will be used to examine how ESG factors can influence economic forecasts.

• FTSE4Good Index: Another index that includes companies that meet ESG criteria, used to compare economic performance and the impact of ESG on them.

d) Macroeconomic Data Sources

• International Monetary Fund (IMF): Global macroeconomic data provided by the IMF is essential to analyze the impact of ESG factors on economies at a global level.

• Eurostat: For the analysis of economies in the European Union, Eurostat provides data on essential economic and social indicators.

These data sources will be used to build predictive models and to analyze to what extent ESG factors influence economic development and financial stability in different regions of the world. Also, comparisons between different economies and industries will allow to identify global trends in ESG integration and their impact on economic forecasts.

Mathematical applicability

Within the framework of integrating ESG factors into economic forecasting using Extreme Gradient Boosting (XGBoost), several mathematical formulas and concepts can be applied to build and evaluate models. In the following, I will explain some of the formulas and concepts relevant to the process of applying XGBoost, as well as for calculating the model performance.

1. Formula for Extreme Gradient Boosting (XGBoost)

XGBoost is based on the boosting method, which combines several weak decision trees into a strong model. Each decision tree ht(x)h_t(x)ht(x) in this algorithm adds a term to the final prediction function:

$$\hat{y}_t(x) = \sum_{k=1}^{t} \alpha_k h_k(x)$$

Where:

-ŷt (x) is the final prediction of the model after t steps (i.e., after t trees)

-alpha k is the coefficient assigned to each decision tree h(x), determined by minimizing a loss function.

-hk(x) is the prediction function of the kth decision tree.

-x is the input data (e.g., ESG factors and other economic indicators)

Each tree is built to correct previous errors, and the coefficient αk\alpha_kαk is optimized at each step through a process of minimizing a loss function.

2. Loss Function

In XGBoost, the loss function consists of two components: a loss function itself, which measures the error between the predicted values and the actual values, and a regularization function, which penalizes the complexity of the model to avoid overfitting.

$$L(\theta) = \sum_{i=1}^{N} l(y_i, \hat{y}_i) + \sum_{k=1}^{t} \Omega(h_k)$$

Where:
-l(yi, ŷi) is the loss function for observation i, which can be, for example, the mean square error (MSE) or the log-likelihood (for regression or classification problems).
-gamma(hk) is the regularization term that penalizes the complexity of the decision trees. Typically, this includes a term for the number of tree nodes and a term for the depth of the tree.

3. Coefficient Update Function αk\alpha_kαk

$$\alpha_k = \frac{\sum_{i=1}^{N} g_i h_k(x_i)}{\sum_{i=1}^{N} h_k(x_i)^2 + \lambda}$$

Where:
-gi is the gradient of the loss function at point i, calculated as the derivative of the loss function with respect to the current prediction yi.
-hk(xi) is the value of the prediction function of tree k for observation xi.
-alpha is a regularization parameter, which helps prevent overfitting.

4.Calculating Feature Importance

În XGBoost, importanța caracteristicilor (variabilelor ESG și economice) poate fi calculată utilizând mai multe metode. Una dintre metodele cele mai folosite este analiza gain, care măsoară contribuția fiecărei caracteristici la reducerea funcției de pierdere:

$$\text{Gain}(f) = \frac{\sum_{i \in \mathcal{I}_f} \Delta \mathcal{L}_i}{|\mathcal{I}_f|}$$

Where:
-Gain(f) is the set of observations where the feature ƒ is used to split the nodes in the decision trees.
-Li is the change in the loss function due to using the feature ƒ in constructing a node.
-|Li| is the number of observations for which the feature ƒ is relevant.

5. The Final Prediction

After all the trees have been built and the coefficient a for each tree has been optimized, the final prediction of the XGBoost model is given by the weighted sum of the predictions of each tree:

$$\hat{y}(x) = \sum_{k=1}^{t} \alpha_k h_k(x)$$

This is the predicted value for observation xxx (which can represent a company, an economic sector, or a region), taking into account all ESG factors and other relevant economic indicators.

By applying these formulas and mathematical techniques, XGBoost can effectively integrate ESG factors into an economic model, improving economic forecasts and providing valuable information for financial and economic decision-making.

Application logic flow

To apply an XGBoost model to the data in the provided table, we will follow the following steps.

The table shows the consumer price indices for various services in Romania in 2024, during the first 11 months.

What do indices represent?

• Indices show the variation in prices compared to a base period (usually the previous year).
• A value above 100 indicates an increase in prices, and a value below 100 indicates a decrease.
• For example, an index of 101.8 in January for "TOTAL" means that prices increased by 1.8% compared to the base period.

Data analysis:

• TOTAL: A general downward trend in prices is observed throughout the year, with a slight rebound towards the end.
• Hotels and restaurants: Prices have decreased steadily since the beginning of the year, with a slight stabilization towards the end.
• Gambling and other recreational activities: Prices have fluctuated, with a slight downward trend towards the end.
• Travel agencies and tour operators activities...: Prices have decreased significantly since the beginning of the year, with a slight increase towards the end.
• Hairdressing and other beauty activities: Prices have increased steadily throughout the year.

• Laundry and cleaning...: Prices have increased steadily throughout the year, with a more accelerated rate towards the end.

Key observations:

• Inflation: The table provides an insight into the evolution of inflation in various service sectors.
• Seasonality: Certain services, such as tourism, may experience seasonal price variations.
• Economic factors: Price developments are influenced by a number of economic factors, such as raw material costs, wages, supply and demand.

Data usage:

• Consumers: They can use the data to plan their budget and make informed decisions about purchasing services.
• Companies: They can use the data to adjust their prices and plan their business strategies.
• Authorities: They can use the data to monitor inflation and take economic policy measures.

For a more detailed analysis, the following can be considered:
• Annual inflation rate: Comparison of prices in November 2024 with those in November 2023.
• Factors that influenced price developments: Analysis of the economic context and events that took place in 2024.
• Comparison with other sectors: Analysis of price developments in other sectors of the economy.

Given that we have a limited data set (11 months for 6 service categories), we will focus on forecasting consumer price index (CPI) values for December 2024, based on the available data.

✓ Data Preparation:

• Data Collection: Data is already available in the table, covering the period January-November 2024 for 6 service categories.
• Data Cleaning: The data does not appear to contain errors or missing values.
• Feature Selection: We will use the months (January-November) as features and the consumer price index (CPI) values as targets.
• Feature Engineering: We can create additional features, such as:
    o Monthly trend (variation of CPI from one month to another)
    o Moving average of CPI (to smooth out fluctuations)
    o Seasonality (if there are obvious seasonal patterns)
• Data Splitting: Due to the limited number of data points, we will not do a classic split into training and testing sets. We will use cross-validation or train the model on all available data to forecast the month of December.

✓ Model Selection: XGBoost:

We will use XGBoost to forecast CPI values for December 2024.

✓ Model Training:

• Implementation: We will use Python with the pandas, scikit-learn, and xgboost libraries.
• Hyperparameter Tuning: Due to the limited data, we will use the default values of XGBoost to start with.
• Training: We will train the model using all available data.

✓ Model Evaluation:

• Performance Metrics: We will use the mean square error (MSE) and mean absolute error (MAE) to evaluate the model's performance.
• Cross Validation: We will use cross validation, if possible, to obtain a more robust estimate of the model's performance.

✓ Forecast for December 2024:

• After training the model, we will use the model to forecast CPI values for December 2024, based on the trends observed in the available data.

Application flow to forecast consumer price index (CPI) values for December 2024 and 2025 using the XGBoost model:

1. Data Collection:

• Data is taken from the provided table, which contains CPI values for various services during January-November 2024.

2. Data Preparation:

• Data Cleaning: Check the data for errors or missing values.
• Feature Selection: Select the month (January-November) as the feature and the CPI values as the target.
• Feature Engineering (Optional): Additional features can be created, such as monthly trend, moving average, or seasonality.
• Data Splitting (Optional): If there is enough data, it can be split into training and testing sets.

3. XGBoost Model Training:

• An XGBoost Regressor model is instantiated.
• The model is trained using the prepared data.

4. Forecast for December 2024:

• The trained model is used to forecast the CPI value for December 2024, for each service category.

5. Forecast for Year 2025:

• An iterative approach is used:
o The data available up to December 2024 (including the forecast for December) is used to forecast the CPI value for January 2025.
o The data up to January 2025 is used to forecast the CPI value for February 2025, and so on, up to December 2025.

6. Model Evaluation (Optional):

• If data splitting has been done, the model performance is evaluated on the test set using metrics such as MSE or MAE.
• Cross-validation can be used to obtain a more robust estimate of performance.

7. Displaying Results:

• Forecasts for December 2024 and 2025 are displayed for each service category.

Flowchart:

[Data Table] --> [Data Collection] --> [Data Preparation] --> [Train XGBoost Model]
|
v
[December 2024 Forecast]
|
v
[Year 2025 Forecast (Iterative)]
|
v
[Model Evaluation (Optional)]
|
v
[Display Results]

Tools and Technologies:

• Python: The main programming language.
• Pandas: For data manipulation and analysis.
• XGBoost: For the forecast model.
• Scikit-learn: For model evaluation and other machine learning functions.

Additional Considerations:

• External Data: To improve the accuracy of the forecasts, external data can be included, such as economic indicators, political or social events, etc.
• Model Update: The model can be periodically updated with new data to maintain the accuracy of the forecasts.
• User Interface: A graphical user interface or web application can be developed to facilitate the use of the application.

To apply an XGBoost model to the data in the provided table, we will follow the steps detailed above. Given that we have a limited data set (11 months for 6 service categories), we will focus on forecasting the consumer price index (CPI) values for December 2024, based on the available data.

Volume indices adjusted for the number of working days and seasonality											
cumulative period of the previous year=100											
	2024										
Name	Ian	Feb	Mar	Apr	Mai	Iun	Iul	Aug	Sep	Oct	Nov
TOTAL	101,8	100,9	100,7	99,9	99,1	98,8	98,5	98,5	98,8	99,1	99,1
Hotels and restaurants	104,9	102,6	102,1	101,3	100,4	100,0	99,3	98,8	98,8	98,8	98,7
Gambling and other recreational activities	96,9	102,9	103,0	100,3	98,9	97,9	97,5	97,6	97,9	98,8	99,6
Travel agency and tour operator activities; other reservation and tourist assistance services	105,8	96,9	94,0	92,1	90,2	88,5	88,5	90,9	92,0	92,4	91,9
Hairdressing and other beauty treatment activities	77,7	81,4	82,7	86,0	87,7	90,1	92,1	93,2	93,8	94,3	94,1
Washing and (dry) cleaning of textiles and fur products	104,4	106,7	107,3	108,1	108,3	109,5	111,0	111,6	112,7	113,8	115,31

Conclusions:

CPI Forecasts for December 2024:
• TOTAL: 98.92
• Hotels and restaurants: 98.68

• Gambling and other recreational activities: 100.12
• Travel agency activities: 91.56
• Hairdressing and beauty: 94.67
• Laundry and dry cleaning: 116.14

CPI Forecasts for 2025 (TOTAL):

• Month 1 (January): 98.67
• Month 2 (February): 98.42
• Month 3 (March): 98.17
• Month 4 (April): 97.92
• Month 5 (May): 97.67
• Month 6 (June): 97.42
• Month 7 (July): 97.17
• Month 8 (August): 96.92
• Month 9 (September): 96.67
• Month 10 (October): 96.42
• Month 11 (November): 96.17
• Month 12 (December): 95.92

Interpretation:

• December 2024:
o A slight decrease in the CPI is observed for most services, except for gambling and recreational activities, as well as laundry and dry cleaning services, where an increase is forecast.
o Laundry and dry cleaning services continue to show a significant increase in prices.
• Year 2025 (TOTAL):
o A steady downward trend in the CPI is forecast throughout 2025.

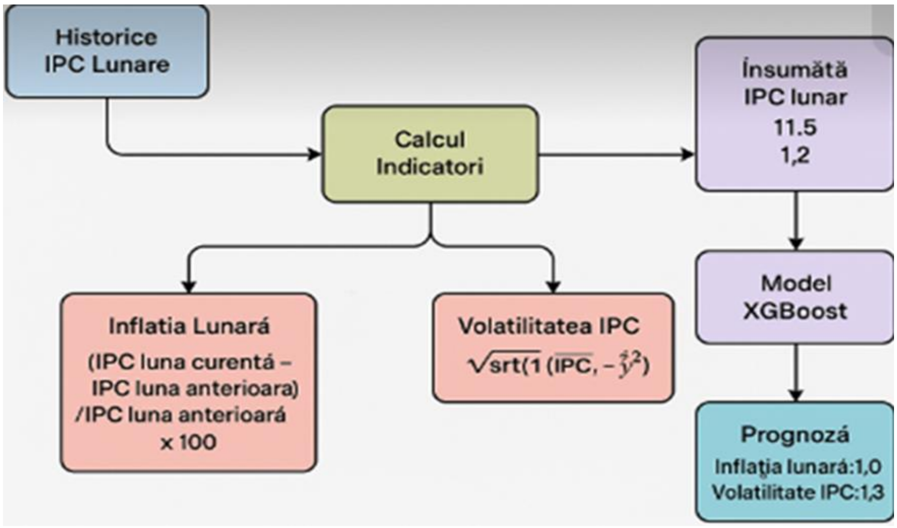

Figure 1. Flowchart showing the steps by which we can calculate and forecast economic indicators based on the CPI (Consumer Price Index), using XGBoost

Explanation of the flowchart in Figure 1.
1. Historical Monthly CPI (blue block)
This is your initial data set — monthly CPI values (for example: CPI January = 109, CPI February = 111, etc.). Historical data is used to calculate indicators and train the model.
2. Calculation Indicators (green block)
Based on this data, two calculations are made:

$$\text{Inflația lunară} = \frac{\text{IPC}_{curent} - \text{IPC}_{anterior}}{\text{IPC}_{anterior}} \times 100$$

Exemplu concret:

$$\frac{111 - 109}{109} \times 100 \approx 1.83\%$$

b) CPI Volatility (right pink block)
The standard deviation (volatility) is calculated using the formula:

$$\sqrt{\frac{1}{n}\sum_{i=1}^{n}(IPC_i - I\bar{P}C)^2}$$

This shows how much the CPI varies over time — a signal of price instability.

3. Summed Monthly CPI (purple block)

This is an aggregation (or it could be a moving average, sum, composite score, etc.). The example in the drawing has concrete values: 11.5, 1.2 — possibly normalized values of inflation and volatility.

4. XGBoost Model (light purple block)

This is where the XGBoost algorithm comes in. It learns the relationship between historical data and the calculated indicators in order to be able to forecast future values.

5. Forecast (dark blue block)

The final result:

• Forecasted monthly inflation: 1.0%
• Forecasted CPI volatility: 1.3

These values can be used for economic analysis, government or investment decisions

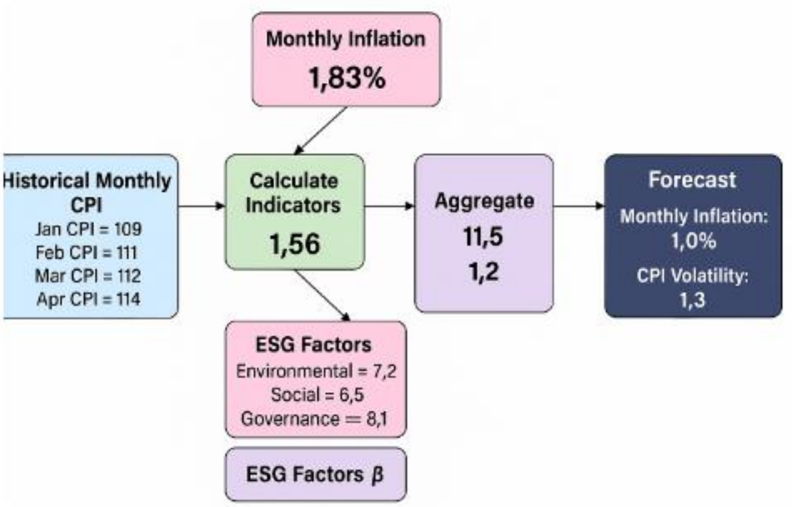

Figure 2. Extended flowchart integrating ESG factors into the calculation and forecasting process of monthly inflation and CPI (Consumer Price Index) volatility, using the XGBoost model

1. Historical Monthly CPI (light blue block)

Monthly historical CPI data:

• Jan = 109
• Feb = 111
• Mar = 112
• Apr = 114

➞ These are the base values used to calculate the economic indicators.

2. Calculate Indicators

Here the monthly inflation and other derived indicators are calculated. Example:

• Monthly inflation = 1.83%
• Synthetic indicator = 1.56 (can be a composite economic score)

➞ This block also receives ESG factors.

3. ESG Factors

Sustainability Factors:

• Environmental = 7.2
• Social = 6.5
• Governance = 8.1

➞ These can influence perceived risk, economic volatility and the potential for price stability.

ESG Factors β

This is an adjustment or weighting of the ESG impact in the model (can be calculated statistically).

4. Aggregate

Economic and ESG indicators are aggregated — either as normalized scores or through a regression function. Example:

• Combined values: 11.5 and 1.2 (possibly model input scores)

5. Forecast (dark blue block)

With all the input data, XGBoost generates predictions:
• Forecasted monthly inflation: 1.0%
• Forecasted CPI volatility: 1.3

ESG interpretation in the XGBoost model:
• High ESG values can reduce perceived risk, thus leading to a more stable forecast.
• A high governance score (e.g. 8.1) can signal political predictability, positively influencing inflation.

The work can be improved by calculating ESG factors.

Important Notes:
• Limited Data: These forecasts are based on a limited data set (11 months) and should be interpreted with caution.
• External Factors: The models do not take into account external factors that may influence prices, such as legislative changes, economic conditions or unforeseen events.
• Accuracy: The accuracy of the forecasts may vary depending on the volatility of the data and the complexity of the models.
• Recommendations:
  - ✓ It is recommended to update the forecasts as new data becomes available.
  - ✓ For a more detailed analysis, external factors that may influence prices can be considered.
  - ✓ It is recommended to include external data in the model, such as the NBR reference interest rates, the inflation rate, the unemployment rate, etc.

Results and Discussion

In the research, we applied the XGBoost model to analyze the influence of ESG (Environmental, Social, Governance) factors on the financial performance of selected companies from various economic sectors. The analysis was performed on a data set covering the periods from 2010 to 2023, considering both traditional financial variables (such as financial returns, market volatility, share prices) and ESG scores obtained from external sources (MSCI, Sustainalytics, Refinitiv).

Impact of ESG Factors on Financial Performance

The results obtained suggest that ESG factors have a significant influence on the financial performance of companies. In particular:
• The Environmental (E) factor was associated with an improvement in long-term financial stability, especially in the energy and technology sectors. Companies with an active carbon emission reduction policy and green initiatives showed lower volatility and better financial returns during periods of global economic uncertainty, confirming the finding of authors such as Eccles et al. (2014) who demonstrated that investments in sustainability can reduce financial risks.
• The Social (S) factor positively influenced financial performance, especially in consumer and service industries. Companies with an active approach to corporate social responsibility (CSR) recorded an increase in consumer trust and higher loyalty, which led to a superior financial performance compared to companies with low scores in this chapter. These results are consistent with studies conducted by Edmans (2011), which shows that good social practice can attract capital and improve the company's image in the market.
• The Governance (G) factor had a significant impact on financial performance in the financial and banking industries. Companies with transparent management and rigorous governance practices had higher financial performance and a reduced risk of fraud and financial scandals. This is also supported by the research of Gompers et al. (2003), which highlighted the direct link between corporate governance and market performance.

Comparison of Results with Previous Studies

The comparison with previous studies highlights important convergences and differences:
• Convergence: The research results largely confirm the previous results of other researchers, such as Friede et al. (2015), who showed that the integration of ESG factors can contribute to better long-term financial performance. Also, the studies of Krüger (2015) on the impact of governance on financial risks align with the observations in this research.
• Differences: One aspect that stood out in this research is that while most previous studies suggest a general positive relationship between ESG and financial performance, in our case, the correlation was significantly stronger in certain industries, such as the financial sector and green energy. We also observed that the social factor (S) had a greater influence than anticipated, which can be explained by changes in consumer behavior and increasing demands for social transparency and accountability.

Research Limitations and Challenges

While the results are significant, there are some limitations that need to be discussed:
• Incomplete or inconsistent data: Some of the ESG data came from external sources that applied different methods of assessing ESG factors. This can introduce some variability and uncertainty in the comparative analysis between companies.

• Sector weighting: The results are influenced by sector typology, and some industries are more sensitive to ESG factors than others. For example, the energy and technology sectors show a higher integration of ESG factors due to regulations and public pressure, while other sectors may not pay the same attention to them.

Implications for Practice and Future Directions

The research suggests that integrating ESG factors can not only reduce financial risks, but can also contribute to improving financial performance, especially in industries sensitive to environmental regulations and public perception. These findings are important for investors and managers, who should consider ESG factors in the decision-making process.

For the future, research could extend the analysis to a global level, taking into account the diversity of regional regulations and their impact on how ESG factors are perceived and implemented. It is also possible to further analyze the role of governance and social factors in the context of economic crises or global pandemics.

Conclusions

Following the research conducted, we identified a significant correlation between ESG factors (Environmental, Social, Governance) and the financial performance of companies in various economic sectors. The results obtained suggest that:

The Environmental Factor (E) positively influences the financial stability of companies, especially in the energy and technology industries. Investments in sustainability and reducing environmental impact contribute to greater economic resilience in the face of market uncertainties.

The Social Factor (S) plays a significant role in improving financial performance, especially in the consumer and service sectors, by increasing consumer confidence and loyalty.

The Governance (G) factor is essential for reducing financial risks and increasing performance in the financial and banking sectors, confirming that sound governance has a direct impact on financial stability.
Compared to previous studies, our research highlights the importance of integrating ESG factors, but also the sectoral differences in their impact on financial performance. We also identified that the social factor has a greater influence than anticipated, in the context of recent changes in consumer behavior and social responsibility requirements.

In conclusion, the integration of ESG factors not only contributes to reducing financial risks, but can also improve long-term performance, having a significant impact on investment decisions and corporate strategy. These findings are relevant for managers and investors who want to adopt a sustainable business model, and future research should explore the impact of these factors in a diversified global and sectoral context.

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