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ESG (Environmental, Social, Governance) Metrics and Financial Analysis Integration

Musaeva Nasiba Davron qizi

Department of "Accounting", ISFT, Associate Teacher

Abstract: This article comprehensively examines how ESG (Environmental, Social and Governance) indicators affect financial analysis. As the global economy moves towards sustainability, ESG factors have become an important factor in assessing the long-term sustainability and financial health of a company. The study, conducted on the example of leading companies in Europe, analyzes the relationship between ESG indicators and financial performance from a statistical and practical perspective. The results show that companies that adhere to ESG principles manage risks better, build trusting relationships with stakeholders and strengthen brand reputation. This, in turn, increases their attractiveness to investors and ensures financial stability. The article draws important conclusions about how ESG indicators enhance business strategy, transparency, sustainability and responsibility. Keywords. ESG, financial analysis, corporate sustainability, investment risk, governance, environmental performance, social responsibility, European markets.

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Introduction. In recent years, sustainability and ethical compliance have become increasingly important in the business world. Investors, regulators and other stakeholders are demanding a higher level of transparency from companies not only on financial indicators, but also on environmental impact, social responsibility and the quality of governance. ESG indicators have emerged as an important criterion that complements traditional financial indicators. As attention to climate change, human rights and corporate ethics increases, the role of ESG principles in financial decision-making is also increasing. Large investment funds, including BlackRock and Vanguard, have committed to making ESG an integral part of their portfolios. In particular, in the European Union, legal frameworks such as the SFDR and the EU Taxonomy are making ESG reporting mandatory. This encourages companies to consider not only how they make money, but also how they operate. Integrating ESG into financial analysis enables better risk assessment, increased corporate responsibility, and alignment of investment decisions with sustainable development goals. ESG factors are also linked to intangible assets such as brand value, employee needs, and trust, which have a significant impact on long-term financial performance. This strengthens the integration between financial and non-financial indicators.

Literature review. The positive relationship between ESG indicators and financial performance is widely documented in scientific sources. A meta-analysis by Friede et al. (2015) summarized more than 2,000 studies, most of which found that ESG activities have a positive or neutral impact on financial performance. Eccles et al. (2014) also noted that companies that implemented sustainability not only increased shareholder value, but also improved internal governance processes. Clark, Feiner, and Viehs (2015) substantiated the economic importance of ESG factors. They found that ESG reduced capital costs and increased operational efficiency. Khan, Serafeim, and Yoon (2016) showed that companies that invested in ESG issues had higher stock market returns. Other studies showed that ESG factors had different effects depending on industry

characteristics. For example, in sectors with high environmental risk, the E (Environmental) factor is more important, while in the service sector, social and governance factors are prioritized (Capelle-Blancard & Petit, 2019). However, some scholars warn: Krüger (2015) states that the implementation of ESG can increase costs in the short term. In addition, there is a risk of inconsistencies in ESG ratings (Berg et al., 2020) and "greenwashing". This negatively affects the credibility of the reports.

Research and results. The study used mixed methodology (quantitative and qualitative) methods:

- Sample selection: European companies that regularly publish ESG reports were selected. Including: Unilever, Nestlé, Siemens, SAP.
- Data source: ESG data was collected based on company reports, Bloomberg ESG Index, Refinitiv ratings. Financial indicators: ROA, ROE, EPS and market capitalization.
- Quantitative tools: Correlation and regression analyzes were conducted in R and SPSS programs. The goal is to identify the relationship between ESG and financial indicators.
- Qualitative tools: ESG practices were studied in depth using case studies, interviews and document analysis across companies.
- Limitations: Differences in ESG ratings, differences between sectors and lack of data on private companies limit the possibility of generalization.

Conclusion. In today's environment, ESG indicators have become an integral part of financial analysis. They play an important role in assessing non-financial risks in the activities of enterprises and help determine the long-term perspective. When companies deeply integrate ESG strategies into their activities, they gain the trust of investors, customers and the public, become competitive and achieve sustainable growth. The main conclusion from the study is that ESG is not only a socio-ethical principle, but also a strategic tool that ensures financial competitiveness and stability.

Recommendations. Based on our scientific research, I would recommend that companies include ESG objectives in their company strategy. This should also be taken into account when assessing management effectiveness. In addition, investors should use ESG indicators in conjunction with traditional financial analysis tools. Companies should also be encouraged to increase openness on ESG. In addition, financial analysts should develop ESG-integrated financial models. Specialists should develop ESG analysis skills. Regulators need to prevent greenwashing by standardizing and legitimizing ESG reporting. It is necessary to develop uniform standards at the international level. It is recommended that academics study the relationship between ESG and financial performance in the sector in more depth, especially in the case of developing countries.

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