

# EXPLORING THE ESG–PROFITABILITY NEXUS: A FIRM-LEVEL ANALYSIS

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**Abstract:** *This paper examines the relationship between Environmental, Social, and Governance (ESG) performance and corporate profitability using a panel of 23 German companies from 2019 to 2024. Return on equity (ROE) is used as the main measure of financial performance to assess whether stronger ESG engagement improves firm outcomes. The results show a positive relationship between ESG performance and ROE, indicating that companies with stronger sustainability and governance practices tend to achieve higher financial returns. Conversely, leverage, measured by the debt-to-equity ratio, has a negative effect on ROE, suggesting that higher financial risk constrains profitability. These results remain robust after controlling for the disruptions caused by the COVID-19 pandemic and after incorporating firm fixed effects to account for company-specific characteristics, such as organizational culture.*

**Key words:** *ESG, profitability, German companies, debt-to-equity-ratio*

**JEL Classification:** *Q56, L25, P52*

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