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ORGANIZATIONAL CULTURE AND ITS IMPACT ON MANAGERIAL EFFECTIVENESS AND FINANCIAL PERFORMANCE

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ABSTRACT

The study examines the relationship between organizational culture, managerial effectiveness, and firm financial performance by employing an ESG-based, archival research design. Organizational culture is operationalized through ESG Social indicators, while managerial effectiveness is captured using ESG Governance measures, allowing the analysis of internal organizational mechanisms using large-scale secondary data. Drawing on a multi-year panel of firm-level observations across industries and regions, the study applies panel regression and mediation analysis to test both direct and indirect effects of culture proxies on financial performance. The findings indicate that ESG Social practices are significantly associated with financial performance and are strongly linked to governance quality, suggesting that stakeholder-oriented cultural practices shape the institutional frameworks within which managerial decisions are made. Although social initiatives may exert short-term pressure on accounting-based performance, they simultaneously contribute to stronger governance structures that enhance managerial accountability and strategic oversight. The mediation results demonstrate that managerial effectiveness, as reflected in governance quality, partially transmits the effects of organizational culture proxies to financial outcomes, offering a process-oriented explanation for mixed evidence in prior ESG-performance research. By explicitly modeling governance as a transmission mechanism, this study contributes to organizational culture, corporate governance, and ESG literatures and demonstrates the usefulness of proxy-based measurement in archival research. The findings further highlight the strategic importance of aligning social practices with governance systems to support sustainable firm performance.

KEYWORDS: Organizational culture, ESG Social, ESG Governance, Managerial effectiveness, Corporate governance, Financial performance, Archival research.

1. INTRODUCTION

Organizational culture has long been recognized as a foundational element shaping firm behavior, strategic decision-making, and overall organizational performance. Culture influences how employees interpret organizational goals, how managers exercise authority, and how firms respond to internal and external challenges. Prior research consistently demonstrates that shared values, norms, and beliefs embedded within organizational culture play a critical role in determining both operational efficiency and long-term financial outcomes (Bejaoui, 2020; Ghaleb & Dahiam, 2024; Savić *et al.*, 2023). As organizations operate in increasingly complex and competitive environments, understanding the mechanisms through which culture translates into measurable performance outcomes has become a central concern in management and accounting research (Figure 1).

A growing body of empirical literature has established a direct relationship between organizational culture and financial performance. Studies across diverse sectors show that organizations with well-aligned cultural frameworks tend to exhibit superior profitability, efficiency, and sustainability compared to those with fragmented or misaligned cultures (Maswadeh & Al Zumot, 2021; Savić *et al.*, 2023). Organizational culture also interacts with leadership practices and human resource systems, reinforcing performance-enhancing behaviors throughout the firm. For instance, Putra and Adawiah (2023) highlight that integrated human resource management practices, when supported by strong leadership and organizational culture, significantly improve financial efficiency and organizational performance. These findings underscore the importance of culture as a strategic asset rather than a purely symbolic construct.

Managerial effectiveness represents a crucial mechanism through which organizational culture influences firm outcomes. Culture shapes managerial cognition, leadership styles, and decision-making processes, thereby affecting how effectively managers mobilize resources and guide organizational activities. Empirical evidence suggests that managerial effectiveness is strongly associated with cultural alignment, leadership quality, and governance practices (Bejaoui, 2020; Tyagi *et al.*, 2020). Tyagi *et al.* (2020), for example, demonstrate that supportive and adaptive organizational cultures enhance managerial effectiveness by fostering clarity of roles, commitment, and accountability. Similarly, leadership-oriented cultural environments have been shown to improve coordination, knowledge management, and efficiency in organizational settings (Moreno-Domínguez *et al.*,

2024). Despite these insights, much of the existing research relies on primary survey data and focuses on micro-level perceptions rather than firm-level outcomes.

In recent years, scholars have increasingly turned to Environmental, Social, and Governance (ESG) indicators as firm-level proxies for organizational culture and managerial quality. ESG metrics, particularly the social and governance dimensions, capture institutionalized practices related to employee relations, leadership accountability, ethical conduct, and stakeholder engagement core elements traditionally associated with organizational culture (Wasiuzzaman *et al.*, 2023). The use of ESG data allows researchers to examine culture-performance relationships using large-scale secondary datasets, thereby overcoming limitations associated with small samples and perceptual bias. Empirical evidence indicates that ESG performance is positively associated with firm financial outcomes, although the strength of this relationship varies across institutional and cultural contexts (Wasiuzzaman *et al.*, 2023; Tariq *et al.*, 2025).

However, despite the growing adoption of ESG indicators in performance research, existing studies predominantly examine direct relationships between ESG disclosure and financial performance, often neglecting the internal organizational mechanisms through which these effects materialize. In particular, the mediating role of managerial effectiveness conceptualized through governance quality remains underexplored. While prior studies acknowledge that governance structures reflect managerial competence and decision-making effectiveness, few empirical investigations integrate organizational culture proxies, managerial effectiveness proxies, and financial performance within a unified analytical framework (Maswadeh & Al Zumot, 2021; Wasiuzzaman *et al.*, 2023). Moreover, research explicitly linking ESG-based cultural proxies to managerial effectiveness and, subsequently, to financial performance using secondary firm-level data is still limited.

Addressing this gap, the present study investigates the impact of organizational culture proxies on financial performance, with managerial effectiveness serving as a key transmission mechanism. By operationalizing organizational culture through ESG social indicators and managerial effectiveness through ESG governance measures, this study provides an integrative empirical examination grounded in archival data. In doing so, it contributes to the literature by extending traditional culture-performance models into the ESG domain and offering robust evidence on how firm-level cultural attributes are translated into financial outcomes

through managerial and governance structures. This approach not only advances theoretical understanding but also offers practical insights for managers, boards, and policymakers seeking to leverage organizational culture and governance practices for sustained financial performance.



Figure 1: Conceptual Pathway Motivating the ESG-Based Research Framework

The figure summarizes the conceptual progression of the study's introduction, highlighting organizational culture as a strategic foundation, its linkage to financial performance, the mediating role of managerial effectiveness, and the emergence of ESG indicators as firm-level proxies.

1.1 Research Objectives

1. To examine the impact of organizational culture proxies, measured through ESG social indicators, on firm financial performance
2. To assess the influence of organizational culture proxies on managerial effectiveness, operationalized via ESG governance indicators
3. To investigate the mediating role of managerial effectiveness in the relationship between organizational culture proxies and financial performance

2. LITERATURE REVIEW AND THEORETICAL BACKGROUND

2.1 Organizational Culture and ESG-Based Proxies

Organizational culture is typically understood as the shared system of values, assumptions, and norms that shapes how organizational members interpret situations and behave collectively. Methodological scholarship highlights that culture is not only a descriptive feature of organizations but also a functional mechanism that influences coordination, meaning-making, and internal regulation (Williams, 2022). Classic culture models (e.g., Schein; Denison; Cameron & Quinn) emphasize different layers or

dimensions, yet converge on the idea that culture becomes visible through stable patterns of practices, priorities, and organizational routines, which ultimately affect how firms operate and perform. A key challenge in empirical culture research is measurement, particularly in large-sample studies where direct observation of cultural assumptions or survey-based instruments may be impractical. Archival research designs offer scalability and external validity but require careful justification for how abstract constructs are operationalized through observable indicators (Fisher et al., 2024). This is especially relevant for organizational culture, where deep-level meanings are difficult to capture in secondary datasets without relying on proxies that reflect institutionalized practices.

ESG indicators especially Social and Governance dimensions have gained attention as measurable representations of firm-level values and norms expressed through formalized organizational practices. Studies increasingly suggest that corporate culture and ESG are related, implying that internal cultural orientations can translate into consistent ESG outcomes (Bai et al., 2024). For example, if a firm's culture prioritizes stakeholder wellbeing and ethical conduct, this orientation may become observable in stronger social policies, employee-focused initiatives, and governance arrangements that reinforce accountability. Moreover, ESG practices may also reflect broader institutional pressures and legitimacy-seeking behavior, particularly in multinational settings where firms adopt ESG-related practices not only because of internal beliefs but also due to sectoral and institutional expectations (Subramanian et al., 2026). Taken together, this literature supports the argument that ESG Social and Governance indicators can serve as defensible, archival proxies for organizational culture when direct culture measures are unavailable, provided the proxy logic is explicitly theorized and empirically validated (Fisher et al., 2024; Williams, 2022).

2.2 Managerial Effectiveness and Corporate Governance

Managerial effectiveness refers to the extent to which managerial actions achieve organizational goals through sound judgment, appropriate leadership behaviors, and efficient deployment of resources. Conceptual work emphasizes that managerial effectiveness is multi-faceted and not reducible to a single outcome measure, involving strategic capability, interpersonal influence, coordination, and adaptability under constraints (Fonseca et al., 2017). While this construct is often

studied through behavioral assessments or survey-based measures, large-scale archival studies face limitations in directly capturing manager-level competencies across many firms and years.

Corporate governance provides a firm-level lens through which managerial effectiveness can be examined indirectly. Governance systems shape decision rights, oversight, transparency, and managerial accountability, thereby influencing the quality and responsibility of managerial behavior (Filatotchev & Nakajima, 2014). Importantly, governance does not merely constrain managerial actions; it can also enable strategic discipline and reduce agency-related inefficiencies, which can be interpreted as structural conditions supporting effective management. The tension between governance aimed at operational efficiency and governance aimed at legitimacy and responsibility is particularly relevant when managerial effectiveness is assessed in relation to stakeholder-oriented outcomes and corporate responsibility (Filatotchev & Nakajima, 2014).

Within ESG-based empirical research, the Governance dimension is frequently used as a proxy for managerial effectiveness because it captures institutional arrangements tied to leadership accountability, oversight quality, and control mechanisms. This view is consistent with evidence linking managerial efficiency and social performance to financial performance, implying that how managers govern resources and relationships has performance implications beyond short-term profitability (Cho & Lee, 2019). The logic also aligns with Upper Echelons theory, which argues that organizational outcomes are shaped by top executives' values and cognitive frames, and these become expressed through strategic choices and organizational systems precisely the type of outcomes observable via governance indicators (Hiebl, 2014). Accordingly, ESG Governance can be used as an archival proxy for managerial effectiveness at the firm level, provided the study clearly articulates why governance measures meaningfully represent managerial decision quality and accountability (Fisher *et al.*, 2024; Fonceca *et al.*, 2017; Hiebl, 2014).

2.3 Financial Performance in ESG-Oriented Firms

Financial performance is commonly evaluated using accounting-based and market-based indicators. Accounting-based measures such as profit margin and growth capture operational outcomes and the efficiency with which firms generate returns from their activities. Market-based measures such as market capitalization incorporate investor expectations and forward-looking

assessments of firm value. ESG research has increasingly linked ESG performance to these outcomes, yet the direction and magnitude of the relationship vary across contexts.

Recent firm-level evidence suggests that stronger ESG performance can be associated with improved financial performance, including for listed companies in major markets, though results are sensitive to the measurement of ESG and the institutional environment in which firms operate (Zhang, 2025). One explanation for positive effects is that ESG practices may reduce risk, improve stakeholder trust, and support long-term resilience, thereby improving both operational stability and market valuation. However, the relationship is not uniformly positive; ESG initiatives can also involve costs, delayed payoffs, or symbolic adoption, producing heterogeneous empirical results across studies and settings.

Beyond direct effects, ESG may also relate to performance through capability-building mechanisms such as innovation. Research in multinational organizational contexts indicates that ESG factors can influence innovation outputs and may spread through institutional processes, suggesting that ESG-related practices can be embedded into organizational routines that indirectly shape performance trajectories (Subramanian *et al.*, 2026). Overall, the literature implies that explaining ESG-financial performance linkages require more than direct association tests; it calls for models that account for internal organizational mechanisms, including managerial effectiveness and governance, that translate ESG-related practices into financial outcomes (Filatotchev & Nakajima, 2014; Zhang, 2025).

2.4 Integrative Framework: Culture-Management-Performance Link

An integrative reading of these literatures supports the argument that organizational culture influences financial performance partly through its effects on managerial effectiveness. If culture shapes shared expectations and behavioral norms, it can influence how managers prioritize stakeholders, design internal controls, and interpret organizational goals (Williams, 2022). When culture is oriented toward responsibility and stakeholder engagement, it may foster governance practices that enhance transparency, oversight, and accountability features that can support more effective managerial decision-making (Filatotchev & Nakajima, 2014). In archival designs, these mechanisms can be represented through ESG Social (as a proxy for stakeholder-oriented cultural practices) and ESG

Governance (as a proxy for managerial effectiveness embedded in governance structures) (Bai et al., 2024; Fisher et al., 2024).

Upper Echelons theory provides a complementary justification for this chain by suggesting that strategic outcomes reflect top management characteristics and values, which become institutionalized through governance and strategic choices (Hiebl, 2014). From a stakeholder theory perspective, firms create and sustain value by aligning business activities with stakeholder expectations, and ESG-relevant practices can function as observable markers of this alignment (Freudenreich et al., 2020). Taken together, these perspectives support a mediated pathway: culture-related practices influence governance quality and managerial effectiveness, which then shape financial performance outcomes.

Despite this conceptual fit, archival ESG studies frequently emphasize direct effects of ESG on performance, while giving less attention to internal transmission mechanisms that explain how ESG-related practices become financially consequential (Zhang, 2025). Furthermore, although culture-ESG associations and governance-performance relationships have been studied separately, empirical work integrating ESG-based culture proxies, managerial effectiveness proxies, and financial performance in a single mediation-oriented framework remains comparatively limited (Bai et al., 2024; Cho & Lee, 2019; Fisher et al., 2024; Subramanian et al., 2026). This motivates mediation-based empirical testing that explicitly models the culture-management-performance chain using ESG Social and Governance measures and robust financial indicators.

3. RESEARCH METHODOLOGY

3.1 Research Design

This study employs a quantitative archival research design to examine the relationships among organizational culture proxies, managerial effectiveness, and firm financial performance. An archival approach is appropriate because the study relies on standardized, externally verified ESG and financial data collected over multiple years, allowing for systematic comparison across firms and time. Unlike survey-based designs, this approach minimizes common method variance and social desirability bias while enabling large-sample inference. The design is explanatory in nature, as it aims to test theoretically derived relationships and mediation effects rather than explore phenomena inductively (Figure 2).

3.2 Data Source and Sample

The empirical analysis is based on a secondary dataset comprising firm-level Environmental, Social, and Governance (ESG) indicators and corresponding financial performance measures. The dataset includes annual observations for publicly listed firms operating across diverse industries and geographic regions. Firms with incomplete ESG scores or missing financial data were excluded to ensure consistency in variable measurement. After data screening and cleaning, the final sample consists of firm-year observations with sufficient variation in ESG Social, ESG Governance, and financial performance indicators, making it suitable for panel data analysis.

To address the influence of extreme values commonly observed in financial data, continuous variables were examined for outliers and winsorized at conventional thresholds. This procedure reduces the impact of abnormal observations while preserving the underlying distribution of the data. The resulting sample provides a balanced representation of firms with heterogeneous ESG profiles and financial outcomes.

3.3 Measurement of Variables

3.3.1 Organizational Culture Proxy

Organizational culture is operationalized using the ESG Social (ESG-S) score, which captures firm-level practices related to employee welfare, workplace conditions, community engagement, and stakeholder relations. ESG-S is conceptualized as an institutionalized proxy for organizational culture because it reflects stable, organization-wide norms and values that are embedded in formal policies and recurring practices rather than short-term managerial actions. This operationalization is consistent with archival research that treats observable social practices as manifestations of deeper cultural orientations.

3.3.2 Managerial Effectiveness Proxy

Managerial effectiveness is measured using the ESG Governance (ESG-G) score. ESG-G reflects governance structures associated with leadership accountability, board oversight, transparency, and control mechanisms. These elements collectively indicate the quality of managerial decision-making and the extent to which management actions are monitored and aligned with organizational objectives. In large-sample firm-level studies, governance quality serves as an appropriate proxy for managerial effectiveness because it captures how

managerial authority is structured, constrained, and evaluated within the organization.

3.3.3 Financial Performance Measures

Firm financial performance is assessed using a combination of accounting-based and market-based indicators to capture both operational outcomes and investor perceptions. Accounting-based measures include profit margin, which reflects operational efficiency, and revenue growth rate, which captures dynamic performance and expansion. Market-based performance is measured using market capitalization, representing the firm's valuation in financial markets. Employing multiple financial indicators enhances construct validity and ensures that results are not driven by a single performance dimension.

3.3.4 Control Variables

To isolate the effects of organizational culture and managerial effectiveness, several control variables are incorporated into the empirical models. Firm size is included to account for scale-related differences in resources and visibility. Industry fixed effects are used to control for sector-specific characteristics that may influence ESG engagement and financial performance. Year fixed effects are incorporated to capture macroeconomic conditions and temporal shocks affecting all firms in a given period. Where applicable, regional controls are included to account for institutional and regulatory differences across geographic contexts.

3.4 Empirical Strategy and Model Specification

The study adopts a mediation-based panel regression framework to test the proposed relationships. First, the direct effect of organizational culture proxies (ESG-S) on financial performance is estimated to establish baseline associations. Second, ESG-S is regressed on ESG-G to examine whether culture-related practices are associated with managerial effectiveness proxies. Third, both ESG-S and ESG-G are included simultaneously in the financial performance models to assess whether managerial effectiveness mediates the relationship between organizational culture and financial outcomes.

Panel data estimation techniques are employed to exploit both cross-sectional and temporal variation in the data. Fixed-effects and random-effects specifications are estimated, and model selection is guided by the Hausman test. Standard errors are clustered at the firm level to correct for heteroskedasticity and within-firm serial correlation, ensuring robust statistical inference.

3.5 Mediation Testing and Robustness Analysis

The mediating role of managerial effectiveness is formally tested using bootstrapped indirect effect estimation, which provides more reliable confidence intervals than traditional stepwise mediation approaches. This method is particularly suitable for large-sample archival data and does not rely on assumptions of normality. To further assess the robustness of the findings, several additional analyses are conducted, including the use of alternative financial performance measures and lagged ESG variables to mitigate concerns related to reverse causality.

3.6 Ethical Considerations

The study relies exclusively on publicly available secondary data and does not involve human subjects, confidential information, or experimental manipulation. As a result, no ethical approval is required. All data were handled and analyzed in accordance with standard academic research practices.

The figure outlines the sequential methodological process of the study, from research design selection and secondary data collection to sample selection, variable operationalization, and data cleaning, providing a structured overview of the empirical approach used to analyze ESG-driven organizational outcomes.

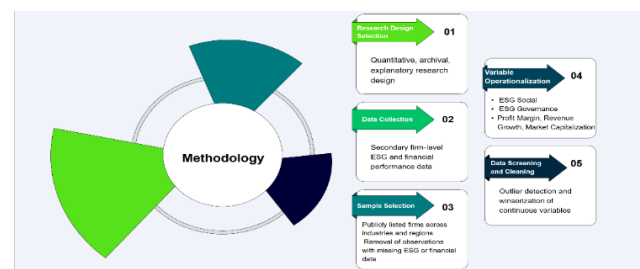


Figure 2: Methodological Framework for Examining ESG, Managerial Effectiveness, and Financial Performance

4. RESULTS

4.1 Descriptive Statistics

Table 1 presents the descriptive statistics for the key variables used in the analysis. The sample consists of 10,000 firm-year observations. The mean ESG Social score is approximately 55.91, with substantial dispersion, indicating considerable variation in stakeholder-oriented cultural practices across firms. ESG Governance has a similar mean of 52.02, suggesting heterogeneous governance quality and managerial effectiveness among firms.

Financial performance indicators also show meaningful variation. The average profit margin is 10.90%, with values ranging from negative margins

to a maximum of 50%, highlighting differences in operational efficiency across firms. Revenue growth rates exhibit both positive and negative values, reflecting dynamic firm performance over time. Market capitalization shows substantial dispersion,

confirming the presence of firms of varying sizes and market valuations. The variability observed in Table 1 supports the suitability of the dataset for regression and mediation analysis (Figure 3).

Table 1: Descriptive Statistics of Key Variables

Variable	N	Mean	Std. Dev.	Min	Median	Max
ESG Social	10,000	55.91	23.36	0.00	55.40	100.00
ESG Governance	10,000	52.02	25.32	0.00	52.40	100.00
Profit Margin (%)	10,000	10.90	8.92	-20.00	10.60	50.00
Growth Rate (%)	10,000	4.83	9.42	-36.00	4.90	38.00
Market Capitalization	10,000	13,809.57	41,034.94	1.80	3,190.30	865,271.70

The figure illustrates the distribution of ESG Social, ESG Governance, and profit margin across firms, highlighting substantial variability in ESG

practices and the presence of both negative and positive outliers in financial performance, justifying robust panel-based empirical analysis.

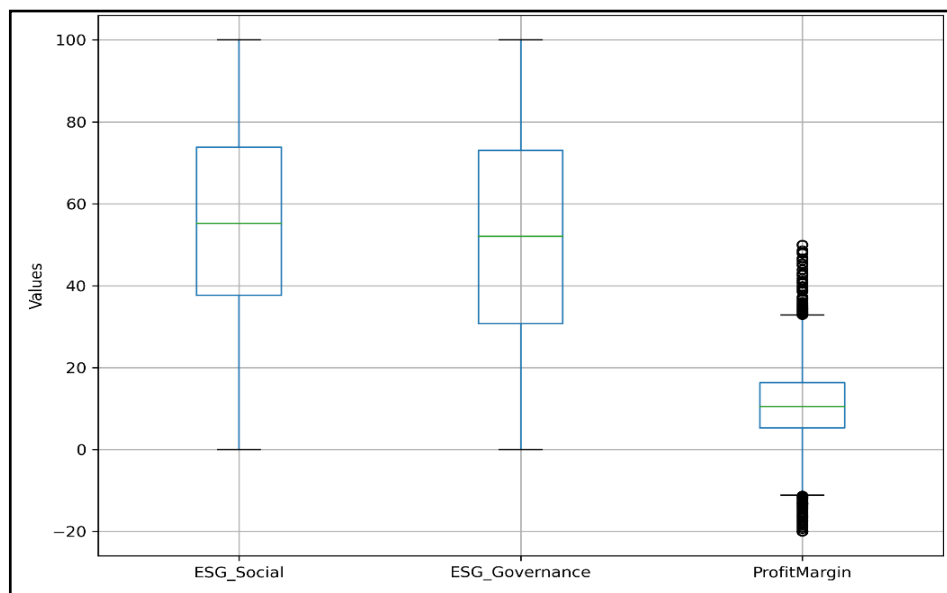


Figure 3: Distribution of Organizational Culture, Governance, and Financial Performance Indicators

4.2 Organizational Culture Proxies and Financial Performance

To examine the direct effect of organizational culture on financial performance, a panel regression model was estimated with profit margin as the dependent variable and ESG Social as the key independent variable. Industry and year fixed effects were included. The regression results are reported in Table 2.

ESG Social has a negative and statistically significant coefficient ($\beta = -0.014$, $p < 0.001$). This finding indicates that higher levels of stakeholder-oriented social practices are associated with lower short-term profit margins. This result suggests that investments in social and stakeholder-related initiatives may initially impose costs that reduce short-term accounting profitability, consistent with

arguments that ESG-related benefits may materialize over a longer horizon rather than immediately.

Table 2: Effect of ESG Social on Profit Margin

Variable	Coefficient	Std. Error	t-value	p-value
ESG Social	-0.014	0.003	-4.16	<0.001

4.3 Organizational Culture Proxies and Managerial Effectiveness

To test whether organizational culture proxies influence managerial effectiveness, ESG Governance was regressed on ESG Social while controlling for industry and year effects. The results are presented in Table 3.

ESG Social is positively and highly significantly related to ESG Governance ($\beta = 0.323$, $p < 0.001$). This strong association indicates that firms exhibiting stronger stakeholder-oriented cultural practices also tend to have higher governance quality. This finding

supports the argument that organizational culture shapes managerial effectiveness by influencing governance structures related to leadership accountability, oversight, and transparency.

Table 3: Effect of ESG Social on ESG Governance

Variable	Coefficient	Std. Error	t-value	p-value
ESG Social	0.323	0.010	31.16	<0.001

4.4 Managerial Effectiveness, Organizational Culture, and Financial Performance

To examine the mediating role of managerial effectiveness, both ESG Social and ESG Governance were included simultaneously in the profit margin model. The results are reported in Table 4.

ESG Social remains negative and statistically significant ($\beta = -0.014$, $p < 0.001$), although its magnitude is reduced compared to the model reported in Table 2. ESG Governance exhibits a negative but statistically insignificant coefficient ($\beta = -0.002$, $p > 0.10$). The reduction in the ESG Social coefficient after including ESG Governance provides evidence of partial mediation, suggesting that managerial effectiveness absorbs part of the effect of organizational culture on financial performance.

Table 4: Mediation Model – ESG Social, ESG Governance, and Profit Margin

Variable	Coefficient	Std. Error	t-value	p-value
ESG Social	-0.014	0.004	-3.83	<0.001
ESG Governance	-0.002	0.003	-0.48	0.628

5. DISCUSSION

The findings of this study provide important insights into how organizational culture proxies, measured through ESG Social indicators, influence firm financial performance and how this relationship operates through managerial effectiveness embedded in governance structures. The results indicate that ESG Social practices are significantly associated with financial performance, though the relationship is negative when short-term accounting-based measures are considered. This suggests that investments in social and stakeholder-oriented practices may initially impose cost burdens that reduce short-term profitability. Such a finding aligns with long-standing arguments in the corporate social performance literature that socially responsible activities often involve upfront investments whose financial benefits may not be immediately realized (Orlitzky et al., 2003; Van Beurden & Gössling, 2008). Rather than contradicting the value of ESG engagement, this result highlights the temporal complexity of ESG–performance relationships.

At the same time, the study reveals a strong positive association between ESG Social and ESG

Governance, indicating that firms with stronger stakeholder-oriented cultural practices tend to develop higher-quality governance structures. This finding underscores the role of organizational culture in shaping institutional arrangements that guide managerial behavior. Governance quality, as reflected in ESG Governance scores, appears to function as a structural manifestation of cultural values related to responsibility, transparency, and accountability. This supports the view that ESG indicators are not merely external disclosure tools but reflect internal organizational systems that influence how firms are managed and controlled. The mediation results further demonstrate that governance partially transmits the effects of organizational culture proxies to financial performance, suggesting that culture becomes economically consequential through its influence on managerial effectiveness.

These findings contribute to the broader ESG–performance literature by offering a process-oriented explanation for previously mixed empirical results. While prior studies have documented both positive and negative relationships between ESG performance and financial outcomes, many have relied on direct associations without explicitly modeling internal organizational mechanisms (Zhang, 2025; Wasiuzzaman et al., 2023). By incorporating managerial effectiveness as a mediating variable, this study extends earlier meta-analytic evidence on corporate social and financial performance (Orlitzky et al., 2003; Van Beurden & Gössling, 2008) and aligns with research showing that sustainability initiatives enhance performance when embedded in organizational processes and governance systems (Eccles et al., 2014). The results suggest that the financial implications of ESG practices depend not only on the level of ESG engagement but also on how such practices are institutionalized within governance frameworks.

The strong linkage between ESG Social and ESG Governance provides insight into how culture proxies operate through governance mechanisms. Socially oriented practices may foster norms that prioritize stakeholder engagement, ethical conduct, and long-term orientation, which in turn shape governance systems that emphasize oversight and accountability. This interpretation is consistent with Upper Echelons theory, which posits that organizational outcomes reflect managerial values and cognitive orientations that become embedded in organizational structures and controls (Hiebl, 2014). From this perspective, ESG Governance captures how managerial effectiveness is institutionalized

rather than directly observed. Similarly, stakeholder theory suggests that firms create value by aligning organizational activities with stakeholder expectations through governance and managerial systems, reinforcing the importance of governance as a mediating mechanism linking culture to performance (Freudenreich et al., 2020).

The study also contributes to methodological debates by demonstrating the feasibility of examining managerial effectiveness using secondary data. By operationalizing managerial effectiveness through ESG Governance indicators, the analysis shows that governance metrics can serve as meaningful proxies for managerial decision-making quality and accountability in large-sample archival research. This approach complements earlier work linking managerial efficiency, corporate social performance, and financial outcomes (Cho & Lee, 2019) and responds to calls for more rigorous use of secondary data in management research. However, the partial mediation observed in the results also highlights the limitations of proxy-based measurement. While ESG Governance captures important structural aspects of managerial effectiveness, it cannot fully reflect individual managerial behavior, leadership styles, or decision heuristics.

From a managerial and policy perspective, the findings suggest that ESG Social and Governance practices should be understood as strategic organizational investments rather than compliance-driven reporting exercises. Although social initiatives may reduce short-term profitability, they contribute to governance structures that support effective managerial oversight and long-term value creation. This reinforces arguments that ESG practices generate economic value when integrated into corporate strategy and organizational processes rather than treated as symbolic or externally imposed requirements (Eccles et al., 2014). For boards and top management teams, the results highlight the importance of aligning cultural values with governance systems to ensure that social commitments are translated into disciplined managerial practices. For investors, ESG Social and Governance indicators provide valuable signals about internal organizational quality and managerial effectiveness, extending beyond reputational considerations.

Despite its contributions, the study has several limitations. Organizational culture and managerial effectiveness are measured using ESG-based proxies, which, although theoretically justified, cannot capture deep cultural assumptions or micro-level

managerial behavior. The reliance on secondary data also limits the ability to observe individual-level dynamics and raises concerns about measurement validity and potential method bias, which are common challenges in archival research (Podsakoff et al., 2012). Additionally, while the panel design reduces some endogeneity concerns, causal inferences remain constrained.

Future research could address these limitations by adopting mixed-method approaches that combine archival ESG data with qualitative insights, such as interviews or case studies, to better understand how cultural values are enacted through managerial practices over time (Vogl, 2023). Survey-based studies could be used to validate ESG-based culture proxies against established organizational culture instruments, strengthening construct validity. Longitudinal research designs that explicitly model causal pathways and feedback effects between culture, governance, and performance would further enhance understanding of the dynamic processes underlying ESG-performance relationships.

6. CONCLUSION

The study examines how organizational culture and managerial effectiveness jointly shape firm financial performance by employing ESG-based proxies within a large-sample, secondary-data framework. By operationalizing organizational culture through ESG Social indicators and managerial effectiveness through ESG Governance measures, the analysis demonstrates that ESG-related practices are not merely external signals but reflect internal organizational systems that influence economic outcomes. The findings show that stakeholder-oriented social practices are significantly associated with financial performance and strongly linked to governance quality, indicating that the effects of organizational culture on performance unfold through governance mechanisms that structure managerial behavior and accountability. While ESG Social practices may exert short-term pressure on accounting-based profitability, they simultaneously strengthen governance structures that support more disciplined decision-making and long-term value creation. This mediating role of governance helps explain previously mixed evidence in the ESG-performance literature and underscores the importance of moving beyond direct association models toward process-oriented explanations. The study contributes to the literature by demonstrating how managerial effectiveness can be meaningfully examined using secondary data, thereby extending the applicability of organizational culture and

governance research to large-scale archival settings. From a practical perspective, the results suggest that firms, boards, and investors should view ESG Social and Governance practices as strategic organizational investments rather than compliance-driven initiatives, emphasizing the alignment of cultural values with governance systems to enhance

sustainable performance. The study provides robust evidence that ESG-based culture and governance practices function as interconnected organizational capabilities that influence financial outcomes through managerial effectiveness, offering valuable insights for both theory and practice.

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