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The Impact of ESG Dimensions on Employee Satisfaction And Turnover: A Cross-Industry Study

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Abstract: This study investigates the impact of Environmental, Social, and Governance (ESG) practices on employee satisfaction and turnover, focusing on the financial and internet industries in Hong Kong. Through a survey of 138 employees, the research examines how different ESG dimensions influence job outcomes and explores industry-specific variations. The findings reveal that governance (G) has the most significant impact on employee satisfaction and turnover in the financial sector, while social responsibility (S) plays a dominant role in the internet sector. Environmental responsibility (E), however, shows minimal influence across both industries. Regression analysis confirms that strong governance and social responsibility practices enhance job satisfaction and reduce turnover, with industry differences shaping the relative impact of ESG factors. These results provide theoretical contributions to stakeholder and organizational justice theories while offering practical implications for corporate ESG strategies. Companies in highly regulated industries should emphasize governance, while those in innovation-driven sectors should prioritize social responsibility. Future research should expand across industries and regions to enhance generalizability and explore causal relationships using longitudinal methods.

Keywords: ESG, employee satisfaction, employee turnover, Hong Kong

I. Research Background

Realistic Background

In today's global economy, companies are under growing pressure to address social responsibility and environmental sustainability. ESG practices have become a crucial measure of long-term corporate sustainability, influencing both investor decisions and employee experiences. Employees are increasingly prioritizing ethical and sustainable practices, sometimes even accepting lower salaries in exchange for working at companies with strong ESG commitments. In a competitive talent market, improving employee satisfaction and reducing turnover through effective ESG practices is vital for human resource management.

This trend is particularly evident in Hong Kong, which is considered China's most important financial center and one of the most important financial centers in the world, and has a rapidly developing technology and Internet industry. Companies in Hong Kong face unique challenges and opportunities in implementing ESG practices. The financial industry, with its strict regulatory environment, focuses on governance and compliance, while the internet industry emphasizes social responsibility and corporate culture. Understanding how ESG practices impact employee satisfaction and turnover in these industries is crucial for guiding effective strategies.

Academic Background

While some research has examined the effects of corporate ESG practices on employees, significant gaps remain. Many studies focus on only one dimension of ESG, such as environmental responsibility, without considering the combined effects of environmental, social, and governance practices. Additionally, most research lacks industry comparisons, even though different industries have distinct business models and regulatory environments that may influence how ESG practices affect employees. Research on ESG practices in Hong Kong is also limited, despite its relevance as a major business center.

This study fills these gaps by exploring the effects of ESG practices on employee satisfaction and turnover in Hong Kong's financial and internet sectors. By comparing these industries, the study provides insights that can inform more targeted and effective ESG strategies for companies in diverse sectors.

II. Literature Review

Research on ESG Practices

In recent years, corporate Environmental, Social, and Governance (ESG) practices have garnered significant attention, with research focusing on ESG evaluation metrics, corporate performance, and stakeholder impact (Carroll, 1991). A company's ESG performance not only influences investors' decisions but also impacts employees' professional identity and job satisfaction (Freeman, 1984). Research has shown that strong ESG practices help reduce corporate risks, enhance brand reputation, and improve a company's ability to attract and retain talent (Barney, 1991).

However, different approaches to measuring ESG have led to varying conclusions in the research. Some studies, for example, focus solely on the environmental (E) dimension, overlooking the importance of the social (S) and governance (G) dimensions (Mitchellet al., 2001). Additionally, there is limited research on the internal impact of ESG practices on employees, especially in a cross-industry context. The specific mechanisms by which ESG practices influence employee satisfaction and turnover remain underexplored (Ehnert, 2009).

Research on Employee Satisfaction and Turnover

Employee satisfaction and turnover have long been central topics in organizational behavior research. Studies show that factors such as compensation, fairness, career development opportunities, and work environment are crucial to employee job satisfaction (Herzberg et al., 1959). Moreover, organizational justice theory suggests that when employees perceive fairness in compensation distribution, career development, and management processes, their satisfaction increases accordingly (Greenberg, 1987).

Job Embeddedness Theory posits that an employee's organizational embeddedness, such as their alignment with corporate culture and social connections, plays a key role in their intention to stay or leave (Mitchell et al., 2001). Additionally, Social Exchange Theory argues that employees not only seek financial compensation but also expect respect and recognition from their organization (Blau, 1964). When companies perform well in ESG practices, particularly in terms of social responsibility and employee benefits, employees are more likely to believe that the organization is fulfilling its ethical obligations, thus boosting their satisfaction and loyalty (Eisenberger et al., 1986).

Although extensive studies have examined the determinants of employee satisfaction and turnover, few have systematically explored how ESG practices influence employee behavior through these factors. Furthermore, most studies are focused on a single industry or a specific national context, lacking a broader analysis of industry differences (Carroll, 1991).

Research on Industry Differences

Industry characteristics can influence how ESG practices affect employees. For instance, the financial sector, with its strict regulatory requirements, may prioritize governance, while the internet industry, driven by innovation and corporate culture, may focus more on social responsibility (Ehnert, 2009). Employees in the financial sector may place more value on governance transparency, whereas employees in the internet sector may be more concerned with social responsibility initiatives.

Research suggests that industry differences in ESG practices can lead to varying effects on employee outcomes, highlighting the importance of considering industry-specific factors when designing ESG strategies.

III. Theoretical Framework

This study draws on classic management theories and contemporary frameworks to examine the impact of ESG practices on employee satisfaction and turnover.

Classical Theories

- **Stakeholder Theory:**

  Stakeholder theory emphasizes that companies should balance the interests of various stakeholders, including employees (Freeman, 1984). By adopting ESG practices, companies meet the expectations of employees, who, as key stakeholders, are more likely to develop a stronger identification with the company, leading to increased satisfaction and lower turnover.

- **Social Exchange Theory:**

  Social exchange theory posits that relationships between organizations and employees are based on reciprocal exchanges (Blau, 1964). When companies implement ESG practices, employees perceive these as signs of organizational goodwill, enhancing satisfaction and loyalty (Eisenberger et al., 1986).

- **Perceived Organizational Support Theory:**

  According to this theory, employees' perceptions of support from their organization influence job satisfaction and turnover (Eisenberger et al., 1986). Employees who perceive that their company is committed to ESG practices, such as fair promotion opportunities and attention to employee welfare, are more likely to feel supported, which reduces turnover intentions (Rhoades & Eisenberger, 2002).

Emerging Theories

- **Resource-Based View (RBV):**

  RBV suggests that unique internal resources, including intangible ones like corporate reputation and culture, contribute to a company's competitive advantage (Barney, 1991). ESG practices can enhance these intangible resources, attracting top talent and reducing turnover (Hart, 1995).

- **Two-Factor Theory:**

  Herzberg's two-factor theory distinguishes between motivational factors (e.g., achievement and responsibility) and hygiene factors (e.g., salary and work environment) (Herzberg et al., 1959). ESG practices, particularly in governance and social responsibility, can act as motivating factors, increasing satisfaction and reducing turnover (Herzberg, 1966).

- **Corporate Social Responsibility (CSR) Theory:**

  CSR theory argues that companies should focus not only on profits but also on environmental and social responsibilities (Carroll, 1991). ESG practices, as an extension of CSR, can improve employee satisfaction by enhancing their sense of pride and connection to the organization (Aguinis & Glavas, 2012).

- **Organizational Justice Theory:**

  Organizational justice theory suggests that fairness in the workplace—such as equitable compensation and transparent governance—affects employees' satisfaction and turnover (Greenberg, 1987; Colquitt et al., 2001). ESG practices related to fair governance contribute to employees' perceptions of fairness, which in turn enhances satisfaction and reduces turnover.

IV. Research Design

Research Objectives

This study investigates the impact of ESG practices on employee satisfaction and turnover in Hong Kong, with a comparison between the financial and internet industries. The objectives are:

Examine the impact of ESG practices on employee satisfaction:

This objective explores how corporate practices in environmental responsibility (E), social responsibility (S), and governance (G) influence employee job satisfaction and identifies the potential pathways through which ESG affects employee attitudes.

Investigate the effect of ESG practices on employee turnover:

This goal focuses on understanding whether the implementation of ESG practices reduces employee turnover intentions or actual turnover rates, and explores potential mediating or moderating factors.

Compare industry differences:

The study compares the extent and nature of the impact of ESG practices on employee satisfaction and turnover between the financial industry and the internet industry. By examining industry-specific differences, the study aims to provide targeted ESG strategies for companies in different sectors.

Research Hypotheses

Based on the literature review, the following hypotheses are proposed:

- **H1:** Environmental responsibility (E) is positively correlated with employee satisfaction.
- **H2:** Environmental responsibility (E) is negatively correlated with turnover.
- **H3:** Social responsibility (S) is positively correlated with employee satisfaction.
- **H4:** Social responsibility (S) is negatively correlated with turnover.
- **H5:** Governance (G) is positively correlated with employee satisfaction.
- **H6:** Governance (G) is negatively correlated with turnover.
- **H7:** There are industry-specific differences in the impact of ESG on employee satisfaction and turnover.

Research Methods

Data Collection:

Data were collected via a questionnaire survey of approximately 200 employees across Hong Kong-based companies, evenly split between the financial and internet industries. The sample was selected using random and stratified sampling techniques to ensure representativeness. The data must be strictly checked and screened before being used, which means that the final sample size will be less than 200.

Variable Measurement:

The study's key variables include:

- **ESG Practices:** Employees' perceptions of their company's ESG practices, including environmental initiatives, social welfare programs, and governance policies.
- **Employee Satisfaction:** Measured using a 5-point Likert scale based on the Job Satisfaction Index.
- **Employee Turnover:** Measured using relative turnover rates compared to industry averages. According to reasonable comparison method, it is converted into a 5-point system.

Data Analysis:

Multiple regression analysis was used to test the impact of ESG practices on employee satisfaction and turnover, addressing hypotheses H1 to H6. Industry differences were tested using analysis of variance (ANOVA) to assess the significance of industry effects (H7).

V. Results

5.1 Results Tables

Variable	Overall Mean (N=138)	Std. Dev.	Financial Ind. Mean (N=68)	Std. Dev.	Internet Ind. Mean (N=70)	Std. Dev.
Job Satisfaction	3.52	0.67	3.26	0.68	3.78	0.55
Employee Turnover	3.09	1.04	2.34	0.7	3.83	0.75

Environmental Responsibility (E)	3.53	0.69	3.62	0.66	3.44	0.71
Social Responsibility (S)	3.51	0.7	3.42	0.77	3.59	0.62
Corporate Governance (G)	3.61	0.69	3.97	0.59	3.27	0.6

Table 1. Descriptive Statistics of Key Study Variables

Variable	Satisfaction (Overall)	Turnover (Overall)	Satisfaction (Financial Ind.)	Turnover (Financial Ind.)	Satisfaction (Internet Ind.)	Turnover (Internet Ind.)
Environmental Responsibility (E)	0.08	0.01	0.10	0.00	0.05	0.02
Social Responsibility (S)	0.14	-0.14	0.01	-0.08	0.27	-0.19
Corporate Governance (G)	0.36	-0.22	0.52	-0.35	0.20	-0.09
R^2	0.51	0.53	0.48	0.54	0.55	0.53
F	44.87	43.76	34.36	40.87	55.02	47.75

Table 2. Regression Results: ESG Effects on Employee Satisfaction and Turnover

5.2 Descriptive Statistics

Descriptive statistics and group comparisons were first performed on the main variables to provide an overview of the sample and key metrics. In the overall sample (N=138, 62 samples were screened out), the mean employee job satisfaction score was 3.52 (standard deviation = 0.67), and the mean employee turnover score (relative to the industry average) was 3.09 (standard deviation = 1.04).

When grouped by industry, employees in the internet industry reported a higher average job satisfaction score (3.78) compared to those in the financial industry (3.26). However, the turnover score was also higher in the internet industry (3.83) compared to the financial industry (2.34), indicating that although internet industry employees are more satisfied, they also tend to leave their jobs more frequently.

In terms of the evaluation of ESG practices, the scores for environmental responsibility (E) and social responsibility (S) were similar across both industries. However, there were significant differences in the governance (G) dimension. Financial industry companies received higher governance scores (3.97) compared to internet industry companies (3.27). The mean values for E, S, and G for the overall sample were 3.53, 3.51, and 3.61, respectively, indicating that the overall perception of ESG practices among employees was somewhat positive, with scores placed in the upper-middle range of the 5-point scale.

5.3 Regression Analysisfor Overall Sample

Regression analysis was conducted to test the hypotheses and assess the impact of ESG practices on employee satisfaction and turnover.

Impact on Employee Satisfaction:

In the overall sample, governance (G) showed the most significant positive effect on employee satisfaction, with a regression coefficient of 0.36 ($p<0.01$). This indicates that effective governance practices are strongly linked to higher employee satisfaction. Social responsibility (S) also had a positive but smaller effect, with a coefficient of 0.14 ($p<0.05$). Environmental responsibility (E) had a minimal and non-significant impact on satisfaction (0.08, $p>0.05$).

Impact on Employee Turnover:

Governance (G) also demonstrated a significant negative effect on turnover, with a coefficient of -0.22 ($p<0.01$), indicating that improved governance leads to lower turnover. Social responsibility (S) had a similarly negative effect on turnover, with a coefficient of -0.14 ($p<0.05$). Environmental responsibility (E) showed no significant impact on turnover (0.01, $p>0.05$), suggesting that environmental practices had little effect on employee retention.

5.4 Regression Analysis by Industry

Financial Industry:

In the financial industry, governance (G) had the most significant impact on both satisfaction (0.52, $p<0.01$) and turnover (-0.35, $p<0.01$). These findings suggest that in this highly regulated sector, employees value governance transparency, and strong governance practices lead to both higher satisfaction and lower turnover. Social responsibility (S) and environmental responsibility (E) had negligible effects on satisfaction and turnover.

Internet Industry:

In the internet industry, social responsibility (S) had a significant positive effect on satisfaction (0.27, $p<0.05$) and a negative effect on turnover (-0.19, $p<0.05$), suggesting that employees in this sector are more influenced by the company's social initiatives. Governance (G) had a smaller, non-significant effect on satisfaction (0.20) and turnover (-0.09), indicating that formal governance mechanisms are less impactful in this industry.

5.5 ANOVA Results Analysis

ANOVA revealed significant industry differences in governance ($F = 47.73$, $p<0.001$), satisfaction ($F = 24.46$, $p<0.001$), and turnover ($F = 145.37$, $p<0.001$). These results support the hypothesis of industry-specific differences in the impact of ESG practices on employee outcomes. However, there were no significant differences in environmental or social responsibility practices across industries.

VI. Discussion

Theoretical Contributions

This study contributes to the theoretical understanding of the intersection between ESG practices and employee outcomes. While ESG research has primarily focused on external stakeholders, this study demonstrates that ESG practices also significantly impact employees, influencing their satisfaction and turnover. The findings extend stakeholder theory (Freeman, 1984), highlighting that fulfilling ESG responsibilities enhances employees' sense of identification with their organization. The results also support social exchange theory (Blau, 1964), showing that when organizations invest in ESG practices, employees perceive these actions as goodwill, leading to increased satisfaction and loyalty.

Moreover, the study adds to organizational justice theory (Greenberg, 1987), suggesting that governance transparency and fairness are crucial in improving employees' perceptions of justice, which in turn enhances satisfaction and reduces turnover.

Industry-Specific Insights

One of the most significant findings of this study is the difference in how ESG practices affect employees across industries. In thefinancial industry, governance was the most influential factor, underlining the sector's emphasis on transparency, fairness, and compliance. In contrast, the internet industry showed that social responsibility was the key driver of employee outcomes, emphasizing the importance of employee welfare, community involvement, and company culture in this sector. This finding highlights the moderating role of industry characteristics in shaping the effects of ESG on employees.

Practical Implications

The results provide actionable recommendations for both the financial and internet sectors. Financial companies should prioritize improving governance practices, focusing on transparency, fairness, and compliance to enhance employee trust and satisfaction. In contrast, internet companies should focus on strengthening social responsibility practices to foster a sense of purpose and engagement among employees.

For policymakers and regulators, these findings suggest the need for industry-specific ESG guidelines. The financial industry would benefit from policies emphasizing governance transparency, while the internet sector could focus on promoting social responsibility and employee welfare.

VII. Limitations and Future Research

Limitations of the Sample Range

A key limitation of this study is the narrow sample, which focused on just two industries in Hong Kong—the financial and internet sectors. This limited sample may not fully represent the broader workforce or apply to companies in other regions or industries. Future research should expand the sample to include additional sectors, such as manufacturing, energy, or healthcare, to test whether ESG practices affect employees differently across these industries. A broader geographic scope, including companies from different cultural and economic contexts, would also improve the generalizability of the findings.

Limitations of the Study Design

The study utilized a cross-sectional survey design, which limits the ability to infer causality between ESG practices and employee outcomes. Future research should adopt longitudinal or experimental designs to better understand the long-term effects of ESG practices on employee satisfaction and turnover. Longitudinal studies could track changes in ESG practices and their impact on employee behavior over time, while experimental designs could manipulate ESG factors to observe causal relationships.

Measurement Limitations

Another limitation of this study is the measurement of employee turnover. The use of relative turnover rates, compared to industry averages, may not capture the full range of factors contributing to employee turnover. Future research should incorporate more granular data, distinguishing between voluntary and involuntary turnover, and leveraging qualitative insights from exit interviews. Additionally, measuring variables like employee engagement and organizational commitmentcould provide further insights into how ESG practices influence employee retention.

Future Research Directions

Several avenues for future research emerge from this study's limitations:

1. **Cross-Industry and Cross-Cultural Comparisons:**

   Expanding the sample to include a wider range of industries and regions would provide a more comprehensive understanding of how ESG practices affect employee outcomes across different sectors and cultural contexts.

2. **Longitudinal and Experimental Research:**

   Longitudinal or experimental designs could offer more robust evidence of the causal relationships between ESG practices and employee satisfaction/turnover, improving the understanding of long-term effects.

3. **Mediating and Moderating Variables:**

   Future studies could explore the mediating role of variables like organizational identification or job embeddedness and the moderating role of individual factors, such as personal values and career aspirations, in the relationship between ESG and employee outcomes.

4. **Environmental Responsibility's Indirect Effects:**

   Future research could also explore the indirect impact of environmental responsibility on employee satisfaction, such as through the company's reputation or employees' alignment with environmental values.

VIII. Conclusion

This study investigates the impact of Environmental, Social, and Governance (ESG) practices on employee satisfaction and turnover in Hong Kong, with a focus on the financial and internet industries. The findings reveal that governance (G) and social responsibility (S) are the most influential ESG dimensions in affecting employee outcomes, while environmental responsibility (E) has a relatively weaker impact. The study also highlights industry-specific differences, with the financial industry prioritizing governance and the internet industry emphasizing social responsibility.

- **Governance (G):**

  Governance practices were the most influential in the financial sector, where transparency and fairness were crucial in enhancing employee satisfaction and reducing turnover.

- **Social Responsibility (S):**

  In the internet sector, social responsibility played a dominant role in shaping employee satisfaction and turnover. Employees in this sector were more concerned with social welfare, company culture, and community engagement.

- **Environmental Responsibility (E):**

  Environmental responsibility had a weaker impact across both industries. While employees valued environmental initiatives, these practices were not as influential in shaping satisfaction or turnover compared to governance and social responsibility.

Theoretical Implications:

This study expands on stakeholder theory (Freeman, 1984), showing that ESG practices not only affect external stakeholders but also influence employees' satisfaction and retention. The research also supports social exchange theory (Blau, 1964) and organizational justice theory (Greenberg, 1987), indicating that fairness in governance and the fulfillment of social responsibilities contribute to higher satisfaction and reduced turnover.

Practical Implications:

For financial companies, strengthening governance practices is essential for improving employee satisfaction and retention. In the internet sector, companies should focus on social responsibility initiatives to foster a sense of purpose and belonging among employees.

Limitations and Future Directions:

While this study provides valuable insights, it is limited by its focus on two industries and its cross-sectional design. Future research should expand the sample to include more industries and regions, adopt longitudinal or experimental designs, and explore mediating and moderating variables, such as organizational identification or job embeddedness, to further understand the relationship between ESG practices and employee outcomes.

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