

**Eloisa Perez-de-Toledo**  
**MacEwan University**  
**Alberta, Canada**

**The impact of organizational slack and scarcity on Environmental, Social and Governance (ESG) practices: Evidence from publicly traded Canadian firms**

**Abstract**

In recent years, researchers and practitioners became increasingly interested in the relationship between environmental, social and governance (ESG) practices and financial performance. After an anthropological consideration of the impact of scarcity on individual and social behavior we step back and ask whether scarcity is related to ESG practices and whether ESG practices impact financial performance. In our empirical analysis, we use instrumental variable regression (generalized method of moments) to assess these relationships controlling for the problem of endogeneity inherent to it. Our results suggest that scarcity has a negative impact on ESG practices, evidence that the adoption of ESG practices has a different motivation than that of the total quality movement (TQM). The results also indicate that the presence of organizational slack is sine qua non to the adoption of ESG practices by Canadian firms. Regarding financial performance, we find that only the adoption of social practices is positively related to return on sales (ROS). The paper offers important insights on the adoption of ESG practices by showing that there is a learning curve and that investments in ESG become attractive only when certain learning is achieved.

**Keywords:** organizational slack; environmental, social and governance (ESG) practices; Firm performance