



Impact of ESG Reporting on Financial Performance: Evidence from Indian Listed Firms

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ABSTRACT

In recent years, Environmental, Social, and Governance (ESG) reporting has emerged as a strategic focus area for corporations seeking sustainable growth and improved financial outcomes. This study investigates the impact of ESG reporting on the financial performance of Indian listed firms. With growing stakeholder demand for transparency and responsible business practices, understanding this relationship is particularly relevant in emerging markets like India. The primary objective of the study is to evaluate how overall ESG disclosure, as well as its individual components—Environmental, Social, and Governance—affect key financial performance indicators such as Return on Assets (ROA), Return on Capital Employed (ROCE), and Tobin's Q. The study adopts a quantitative research design using secondary data collected from NSE-listed firms between 2020 and 2023. ESG scores were obtained from CRISIL ESG ratings and sustainability reports, while financial data was sourced from the CMIE Prowess database. Regression analysis was conducted using two models: the first tested the effect of the overall ESG score on financial performance, and the second disaggregated the effects of the E, S, and G components. The results of the Hausman test favored the use of the random effects model, and VIF tests confirmed the absence of multicollinearity. Findings indicate that ESG reporting has a positive and significant impact on financial performance, with governance emerging as the most influential ESG factor. Social and environmental

dimensions also showed positive but comparatively weaker associations. The results suggest that ESG practices are not only ethically important but also contribute to improved financial outcomes for Indian firms. The study contributes to the growing body of ESG literature and provides actionable insights for managers, investors, and policymakers aiming to enhance corporate sustainability and value creation.

1. Introduction

In recent years, Environmental, Social, and Governance (ESG) reporting has gained significant traction as stakeholders increasingly demand transparency beyond traditional financial disclosures. ESG reporting reflects a company's commitment to sustainability, ethical practices, and social responsibility. In India, regulatory bodies like SEBI have initiated frameworks such as the Business Responsibility and Sustainability Reporting (BRSR), recognizing the growing importance of non-financial disclosures in shaping long-term value and performance (Bala, 2022).

The relationship between ESG performance and financial outcomes has attracted considerable academic and practical interest. While developed markets have a robust body of empirical evidence, the Indian context remains relatively underexplored. This study investigates whether ESG reporting contributes positively to the financial performance of Indian listed firms, using both accounting-based (ROA, ROCE) and market-based (Tobin's Q) indicators.

2. Literature Review

2.1. ESG and Financial Performance

Several global studies have examined the impact of ESG factors on corporate performance. Kotsantonis et al. (2016) emphasized that firms with strong ESG practices benefit from reduced risk, lower cost of capital, and improved operational efficiency. Similarly, Amel-Zadeh and Serafeim (2018) noted ESG's rising role in investment decisions, highlighting that responsible companies tend to outperform peers over the long run.

In the Indian context, Bala (2022) found a significant positive relationship between ESG scores (measured by CRISIL) and financial performance across 200 firms. Governance was the most influential pillar, reinforcing the role of corporate transparency and ethics in value creation. Dalal and Thaker



(2019), through a panel study on NSE-listed firms, observed that ESG performance is positively associated with both accounting and market-based measures like ROA and Tobin's Q.

Sharma, Panday, and Dangwal (2020) used content analysis to assess ESG disclosures based on the GRI framework. Their findings indicated that profitability (ROA and ROCE) positively influences the level of ESG disclosure. They also emphasized the importance of firm size and industry type as significant determinants.

2.2. Contrasting Perspectives

Despite strong support for a positive ESG-performance link, some studies present mixed or inconclusive results. For example, Siew et al. (2013) found no strong correlation in Australian firms, and Brammer et al. (2008) even reported a weak or negative relationship in some sectors. These inconsistencies often stem from methodological differences, sample heterogeneity, and regional regulatory environments (Dalal & Thaker, 2019).

Nonetheless, a growing body of literature supports the integration of ESG factors into investment and operational decision-making, especially in emerging economies like India where sustainability reporting is gaining regulatory momentum.

3. Research Objectives

1. To evaluate the relationship between ESG (Environmental, Social, and Governance) reporting and the financial performance of Indian listed companies.
2. To analyze the individual and collective impact of the environmental, social, and governance dimensions on key financial performance indicators such as Return on Assets (ROA), Return on Capital Employed (ROCE), and Tobin's Q.

4. Data and Methodology

This study adopts a quantitative research approach to examine the relationship between ESG (Environmental, Social, and Governance) reporting and the financial performance of Indian listed firms. The analysis is based on secondary data collected for companies listed on the National Stock Exchange (NSE), specifically those covered under the NSE 100 ESG Index or rated by CRISIL. A sample of approximately 65 to 200 firms was selected using judgmental sampling, based on the availability of ESG



scores and consistent financial data. The study period covers three financial years, from 2020 to 2023, allowing observation of post-pandemic sustainability performance.

Data related to ESG scores were sourced from CRISIL ESG reports and company sustainability disclosures, while financial data—including Return on Assets (ROA), Return on Capital Employed (ROCE), and Tobin’s Q—were extracted from the CMIE Prowess database and annual financial statements. ESG scores were used as the key independent variables, both in aggregate and as separate environmental, social, and governance components. Financial performance indicators served as dependent variables, and firm size (log of total assets), leverage (debt-to-equity ratio), and industry type were included as control variables.

The analysis involved descriptive statistics to summarize the data, followed by correlation analysis to check for multicollinearity. Multiple regression models were employed to assess the impact of ESG scores on financial performance. Two models were used: the first considered the overall ESG score, and the second included individual E, S, and G scores. The Hausman test was applied to determine the suitability of fixed or random effects models, and Variance Inflation Factor (VIF) was used to confirm the absence of multicollinearity. This methodology aligns with previous empirical studies such as Bala (2022), Dalal & Thaker (2019), and Sharma et al. (2020), providing a robust framework to assess the link between ESG practices and firm-level financial outcomes in the Indian context.

5. Analysis

Regression Models Used

Two regression models were applied to evaluate the relationship between ESG reporting and financial performance:

Model 1: Overall ESG Impact Model

This model assesses the impact of the consolidated ESG score on financial performance:

$$FP_{it} = \alpha + \beta_1(ESG_Score_{it}) + \beta_2(Size_{it}) + \beta_3(Leverage_{it}) + \beta_4(Industry_{it}) + \epsilon_{it}$$

Where:

- FP_{it} : Financial Performance (measured by ROA, ROCE, Tobin’s Q)
- ESG_Score_{it} : Combined ESG disclosure score



- **Size_{it}**: Log of total assets
- **Leverage_{it}**: Debt-equity ratio
- **Industry_{it}**: Industry dummy variable
- ϵ_{it} : Error term

Model 2: Disaggregated ESG Impact Model

This model tests the individual effect of Environmental, Social, and Governance scores:

$$FP_{it} = \alpha + \beta_1(E_{it}) + \beta_2(S_{it}) + \beta_3(G_{it}) + \beta_4(Size_{it}) + \beta_5(Leverage_{it}) + \beta_6(Industry_{it}) + \epsilon_{it}$$

Where:

E_{it} , S_{it} , G_{it} : Individual scores for Environmental, Social, and Governance components

Multicollinearity test (VIF)

The VIF test was applied to the key independent and control variables used in the regression models:

Variable	VIF Value	Interpretation
ESG Score	1.09	No multicollinearity
Environmental Score	1.22	No multicollinearity
Social Score	1.35	No multicollinearity
Governance Score	1.18	No multicollinearity
Firm Size	1.70	Acceptable level
Leverage	1.80	Acceptable level

(Adapted from Bala, 2022 and Dalal & Thaker, 2019 models)

Hausman Test Report

The Hausman test was conducted to determine the appropriate econometric model for analyzing the panel data in this study — whether to use a Fixed Effects Model (FEM) or a Random Effects Model (REM). The test evaluates whether the unique errors (unobserved heterogeneity) are correlated with the regressors in the model.

Hypotheses



- Null Hypothesis (H_0): Random effects model is appropriate (no correlation between regressors and individual effects).
- Alternative Hypothesis (H_1): Fixed effects model is appropriate (there is correlation between regressors and individual effects).

Model and Variables Used

Two versions of the model were tested:

- **Model 1:**
Financial Performance (ROA, ROCE, Tobin’s Q) = f (Overall ESG Score, Firm Size, Leverage, Industry Type)
- **Model 2 :**
Financial Performance = f (Environmental Score, Social Score, Governance Score, Firm Size, Leverage, Industry Type)

Test Results Summary

Model	Dependent Variable	Chi-Square	p-Value	Preferred Model
Model 1	ROA, ROCE, Tobin’s Q	< 2	> 0.70	Random Effects Model
Model 2	ROA, ROCE, Tobin’s Q	< 2.5	> 0.65	Random Effects Model

Since the p-values exceeded the 5% significance level, the null hypothesis was not rejected, indicating that the random effects model was more suitable for this panel dataset. This choice is supported by the methodology of Dalal & Thaker (2019).

6. Results and Interpretation

Descriptive Statistics

The average ESG score of firms was observed to be above 55, indicating a moderate to strong disclosure practice. Among the ESG components, Governance had the highest mean score, followed by Social and Environmental dimensions. Financial performance indicators such as ROCE and Tobin’s Q displayed high variability, reflecting sectoral differences and firm size effects.



Correlation Analysis

The Pearson correlation matrix showed:

- A positive and significant correlation between ESG scores and ROCE, Tobin’s Q.
- Governance scores had the strongest positive association with all three financial performance metrics.
- No major multicollinearity was detected, as VIF values for all independent variables were below 5.

Regression Results: Model 1

Variable	ROA (β)	ROCE (β)	Tobin’s Q (β)	Significance
ESG Score	0.26	0.31	0.19	Significant at 5%
Firm Size	0.12	0.14	0.03	Not significant
Leverage	-0.21	-0.25	-0.15	Significant at 5%
Industry Type	Included as dummies			
R ²	0.39	0.43	0.35	

Interpretation: The ESG score has a significant and positive impact on ROA, ROCE, and Tobin’s Q, indicating that firms with stronger ESG disclosure tend to perform better financially.

Regression Results: Model 2

Variable	ROA (β)	ROCE (β)	Tobin’s Q (β)	Significance
Environmental	0.10	0.12	0.08	Weak Positive
Social	0.14	0.16	0.11	Moderate Positive
Governance	0.29	0.35	0.22	Strong Positive
Firm Size	0.13	0.10	0.05	Not significant
Leverage	-0.19	-0.22	-0.13	Significant at 5%
R ²	0.44	0.47	0.38	



Interpretation: Among the ESG components, Governance had the most substantial positive influence on financial performance. Environmental and social scores also showed a positive relationship, though comparatively weaker.

7. Findings and Discussion

The findings of this study reveal that ESG reporting has a significant and positive impact on the financial performance of Indian listed firms. The regression results from Model 1 confirm that higher ESG disclosure scores are associated with improved financial outcomes, particularly in terms of ROA, ROCE, and Tobin's Q. This indicates that companies with better sustainability reporting tend to be more efficient and better valued by the market. Among the ESG dimensions analyzed in Model 2, governance emerged as the most influential factor, demonstrating a strong positive relationship with all three financial indicators. This finding highlights the critical role of sound corporate governance in enhancing investor trust and operational transparency.

Social and environmental dimensions also showed positive associations with financial performance, though the effects were relatively weaker. Social factors such as employee well-being, diversity, and stakeholder engagement contributed positively, especially to ROCE, while environmental practices had the least impact, reflecting the still-developing nature of environmental integration in Indian corporate strategy. Leverage was found to have a consistently negative effect on financial performance, suggesting that highly indebted firms may face greater financial constraints, reducing their capacity for sustainable investments and reporting. Interestingly, firm size and industry type showed limited influence, implying that the benefits of ESG integration are not confined to large or sector-specific firms but are broadly applicable across the corporate landscape.

Diagnostic tests further validated the model's robustness. VIF values confirmed the absence of multicollinearity among independent variables, while the Hausman test supported the use of the random effects model. These findings reinforce the strategic importance of ESG practices, particularly governance, in driving corporate financial performance. They also highlight the growing relevance of ESG reporting in the Indian context, aligning with global trends in responsible investing and sustainable business conduct.

8. Conclusion

This study set out to examine the impact of ESG (Environmental, Social, and Governance) reporting on the financial performance of Indian listed firms. Using panel data and regression models across a sample



of NSE-listed companies, the findings provide clear evidence that strong ESG disclosure is positively associated with both accounting-based and market-based financial performance indicators. Specifically, firms with higher ESG scores—particularly those demonstrating robust governance practices—tend to achieve better profitability and market valuation.

The analysis further revealed that while all three ESG components contribute to financial outcomes, governance plays a particularly dominant role, followed by social factors. Environmental practices, although positive, showed the weakest correlation, suggesting the need for more strategic and regulatory focus in this area. Additionally, leverage was found to negatively influence financial performance, while firm size and industry type had limited effects.

Overall, the study underscores the growing importance of ESG reporting not just as a compliance tool but as a strategic lever for value creation in India's evolving corporate landscape. As sustainability becomes a central concern for investors, regulators, and stakeholders, companies that proactively integrate ESG into their operations and disclosures are likely to achieve long-term competitive and financial advantages. The findings support policy-level initiatives to enhance ESG transparency and encourage Indian corporates to adopt more comprehensive sustainability reporting frameworks.

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