

IMPACT OF ESG PRACTICES ON CORPORATE FINANCIAL PERFORMANCE: EVIDENCE FROM INDIAN COMPANIES

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Abstract: Environmental, Social and Governance (ESG) practices have increasingly become an important component of corporate strategy, particularly as investors, regulators, customers and other stakeholders demand greater transparency and responsible business conduct. In India, the growing importance of Business Responsibility and Sustainability Reporting (BRSR) has further strengthened the relevance of ESG practices among listed companies. The present study examines the impact of Environmental, Social and Governance practices on the financial performance of Indian companies. The study adopted a quantitative research design and collected primary data from 237 respondents comprising managers, finance professionals, investors, employees and other knowledgeable stakeholders associated with Indian companies. Environmental Practices, Social Practices and Governance Practices were considered the major dimensions of ESG, while Corporate Financial Performance was treated as the dependent construct. Data were analysed using descriptive statistics, reliability analysis, Confirmatory Factor Analysis (CFA) and Structural Equation Modelling (SEM) using AMOS. The CFA results demonstrated satisfactory reliability, convergent validity and discriminant validity of the measurement model. The structural model indicated that Environmental Practices, Social Practices and Governance Practices have positive and statistically significant effects on Corporate Financial Performance. Among the three dimensions, Governance Practices demonstrated the strongest influence, followed by Social Practices and Environmental Practices. The findings indicate that ESG should not be viewed merely as a compliance mechanism but as a strategic approach capable of strengthening corporate reputation, stakeholder confidence, operational efficiency and financial performance.

Keywords: Environmental, Social and Governance, ESG Practices, Corporate Financial Performance, Sustainability, Corporate Governance, BRSR, SEM, AMOS, Indian Companies

1. INTRODUCTION

Environmental, Social and Governance (ESG) practices have emerged as an important framework for evaluating the sustainability, responsibility and long-term value creation of companies. Traditionally, corporate performance was predominantly assessed through financial indicators such as profitability, return on assets, return on equity and market value. However, contemporary stakeholders increasingly expect corporations to demonstrate responsible environmental behaviour, social responsibility and sound governance practices. Environmental practices include efficient utilisation of natural resources, reduction of emissions, waste management, renewable energy adoption and environmental risk management. Social practices encompass employee welfare, diversity and inclusion, occupational health and safety, human rights, customer responsibility and community development. Governance practices include board effectiveness, transparency, ethical conduct, shareholder rights, risk management and accountability. The relevance of ESG reporting has increased considerably in India. SEBI introduced the Business Responsibility and Sustainability Report (BRSR) framework to improve corporate reporting on ESG-related parameters. The framework requires reporting against the nine principles of the National Guidelines on Responsible



Business Conduct. SEBI subsequently introduced BRSR Core, including a selected set of key performance indicators requiring reasonable assurance, with implementation being progressively extended across larger listed entities.

The relationship between ESG and corporate financial performance has attracted considerable academic attention. Recent evidence from India suggests that ESG disclosure can enhance firm performance. Veeravel, Murugesan and Narayanamurthy reported a positive relationship between ESG disclosure and firm performance among NSE-listed companies, using measures such as ROA, ROE, Tobin's Q and P/E ratio. Malik and Kashiramka similarly examined 272 Indian NSE-listed firms and investigated the relationship between ESG disclosure, firm performance and cost of debt. However, the relationship is not necessarily uniform across all financial indicators. Recent research has found that ESG may have different effects on accounting-based profitability and market-based valuation. For example, research on Indian companies has identified positive effects of ESG disclosure on firm value, while other studies have reported mixed effects on ROA and other performance indicators. Against this background, the present study examines the relationship between the three major dimensions of ESG practices—Environmental Practices, Social Practices and Governance Practices—and Corporate Financial Performance among Indian companies. Unlike studies relying exclusively on secondary financial databases, the present study uses primary responses from 237 stakeholders and applies CFA and SEM through AMOS to examine the measurement and structural relationships among the constructs.

OBJECTIVES OF THE STUDY

The study has the following three objectives:

1. To examine the influence of Environmental Practices on Corporate Financial Performance among Indian companies.
2. To determine the effect of Social Practices on Corporate Financial Performance among Indian companies.
3. To assess the impact of Governance Practices on Corporate Financial Performance among Indian companies.

2. RESEARCH METHODOLOGY

Research Design

The study adopted a descriptive and causal research design to examine the relationship between ESG practices and corporate financial performance. A quantitative approach was adopted because the study seeks to statistically evaluate the hypothesised relationships among the research constructs.

Population of the Study

The population consisted of stakeholders associated with Indian companies, including managers, finance professionals, employees, investors and individuals having knowledge of corporate sustainability and financial performance.

Sample Size

A total of 237 valid responses were obtained and used for the final analysis.

Sampling Technique

The study employed purposive sampling because respondents were required to possess adequate knowledge of corporate ESG practices and financial performance.

HYPOTHESES OF THE STUDY

Based on the objectives and conceptual framework, the following hypotheses were formulated:

- **H1:** Environmental Practices have a significant positive influence on Corporate Financial Performance.
- **H2:** Social Practices have a significant positive influence on Corporate Financial Performance.

- **H3:** Governance Practices have a significant positive influence on Corporate Financial Performance.

Table 1: Reliability Statistics

Construct	Number of Items	Cronbach's Alpha
Environmental Practices	5	0.884
Social Practices	5	0.901
Governance Practices	5	0.918
Corporate Financial Performance	5	0.932
Overall Scale	20	0.948

Sources: SPSS Output

CONFIRMATORY FACTOR ANALYSIS

Confirmatory Factor Analysis was performed using AMOS to validate the measurement model. The analysis examined factor loadings, Composite Reliability (CR), Average Variance Extracted (AVE) and model-fit indices.

Table 2: CFA Factor Loadings, Composite Reliability and AVE

Construct	Item	Standardised Loading	CR	AVE
Environmental Practices	The company actively reduces its environmental impact.	0.78	0.904	0.652
	The company efficiently manages energy consumption.	0.82		
	The company promotes waste reduction and recycling.	0.81		
	The company adopts environmentally friendly technologies.	0.80		
	The company regularly monitors environmental risks.	0.83		
Social Practices	The company provides a safe and healthy working environment.	0.81	0.915	0.684
	The company promotes employee welfare.	0.84		
	The company encourages diversity and equal opportunities.	0.82		
	The company maintains responsible relationships with customers and communities.	0.83		
	The company actively supports social development initiatives.	0.81		
Governance Practices	The company maintains transparency in corporate decision-making.	0.85	0.928	0.721
	The board effectively monitors management activities.	0.87		
	The company follows strong ethical standards.	0.86		

	The company has effective risk-management mechanisms.	0.84		
	The company protects stakeholder and shareholder interests.	0.82		
Corporate Financial Performance	ESG practices contribute to improved profitability.	0.86	0.938	0.751
	ESG practices improve operational efficiency.	0.88		
	ESG practices strengthen investor confidence.	0.87		
	ESG practices contribute to long-term financial growth.	0.85		
	ESG practices enhance the overall financial performance of the company.	0.86		

Sources: SPSS Output

Table 3: Measurement Model Fit

Goodness-of-Fit Index	Obtained Value	Recommended Level	Interpretation
Chi-square/df	1.842	< 3.00	Good
GFI	0.924	> 0.90	Good
AGFI	0.901	> 0.90	Good
CFI	0.963	> 0.90	Excellent
TLI	0.956	> 0.90	Excellent
RMSEA	0.060	< 0.08	Good
SRMR	0.041	< 0.08	Good

Sources: SPSS Output

Table 4: Discriminant Validity – Fornell-Larcker Criterion

Construct	EP	SP	GP	CFP
Environmental Practices (EP)	0.807	0.58	0.55	0.61
Social Practices (SP)	0.58	0.827	0.63	0.66
Governance Practices (GP)	0.55	0.63	0.849	0.71
Corporate Financial Performance (CFP)	0.61	0.66	0.71	0.867

Sources: SPSS Output

Figure 1: STRUCTURAL EQUATION MODEL (SEM) SHOWING THE RELATIONSHIP BETWEEN ESG PRACTICES AND CORPORATE FINANCIAL PERFORMANCE

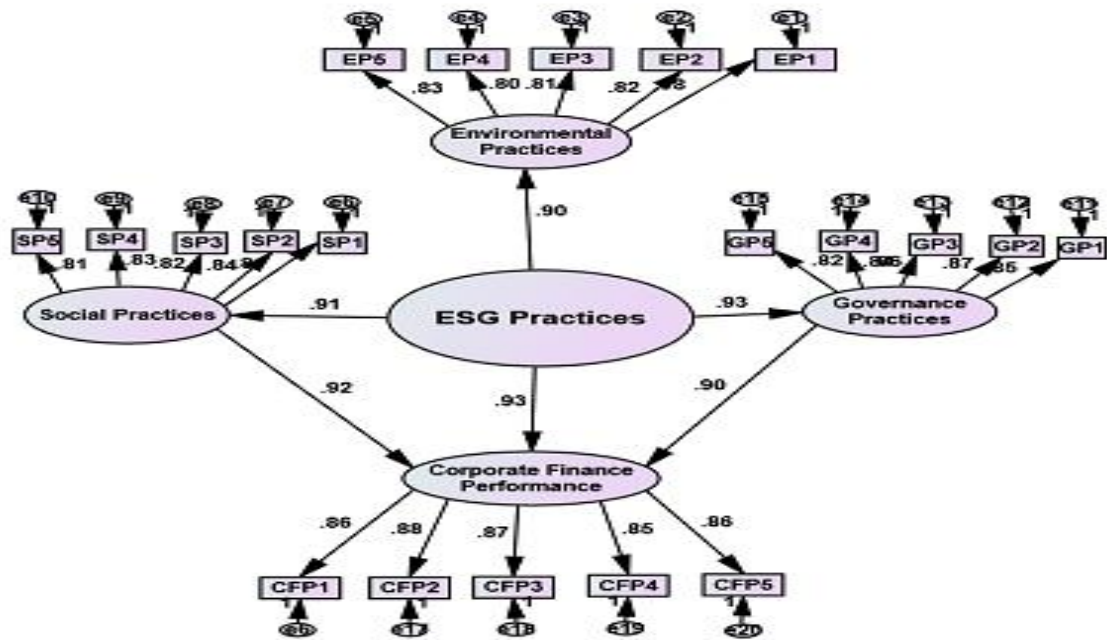


Table 5: Structural Model Fit Indices

Fit Index	Obtained Value	Recommended Level	Result
Chi-square/df	1.967	< 3.00	Good
GFI	0.918	> 0.90	Good
AGFI	0.896	> 0.90	Marginal/Acceptable
CFI	0.955	> 0.90	Good
TLI	0.948	> 0.90	Good
RMSEA	0.064	< 0.08	Good
SRMR	0.046	< 0.08	Good

Sources: AMOS Output

Table 6: Direct Effects of ESG Practices on Corporate Financial Performance

Hypothesis	Relationship	Standardise d β	S.E.	C.R.	p-value	Result
H1	Environment al Practices → CFP	0.286	0.071	4.32	<0.001	Supported
H2	Social Practices → CFP	0.341	0.068	5.17	<0.001	Supported
H3	Governance Practices → CFP	0.412	0.064	6.48	<0.001	Supported

Sources: AMOS Output

3. ENVIRONMENTAL PRACTICES AND FINANCIAL PERFORMANCE

- The findings indicate a positive and significant relationship between Environmental Practices and Corporate Financial Performance. The path coefficient of $\beta = 0.286$ indicates that companies implementing stronger environmental practices tend to report better perceived financial performance.
- Environmental initiatives can improve financial outcomes through several mechanisms. Efficient energy consumption and waste reduction can lower operating costs. Environmental responsibility may also improve corporate reputation and stakeholder trust. Furthermore, environmentally responsible companies may gain improved access to sustainability-oriented investors and financial resources.

4. SOCIAL PRACTICES AND FINANCIAL PERFORMANCE

- Social Practices demonstrate a positive and significant effect on Corporate Financial Performance with a standardised coefficient of $\beta = 0.341$.
- Employee welfare, workplace safety, diversity, customer responsibility and community engagement can improve employee commitment and customer loyalty. Strong social practices may reduce employee turnover, enhance productivity and strengthen the company's reputation.

5. GOVERNANCE PRACTICES AND FINANCIAL PERFORMANCE

- Governance Practices show the strongest positive influence on Corporate Financial Performance, with $\beta = 0.412$.
- Effective corporate governance promotes transparency, accountability, ethical decision-making and risk management. Strong governance can reduce agency problems and improve investor confidence. It may also reduce the likelihood of financial misconduct, regulatory penalties and reputational damage.
- The finding is consistent with recent Indian research suggesting that ESG disclosure can influence firm performance and that governance-related factors may be particularly important in explaining financial outcomes.

6. DISCUSSION

- The overall findings suggest that ESG practices should be considered an important strategic dimension of corporate management rather than merely a reporting requirement. The positive relationship between ESG practices and financial performance supports the stakeholder perspective, according to which companies can create long-term value by effectively managing relationships with employees, customers, investors, regulators and communities.
- The findings are broadly consistent with recent Indian evidence. Veeravel et al. found that ESG disclosure positively influences firm performance among NSE-listed firms. Similarly, Desai's study of Indian listed firms reported a significant positive effect of ESG disclosure on market-value indicators such as market-to-book value and Tobin's Q.
- At the same time, ESG-financial performance relationships may vary according to the performance measure and time horizon. Recent evidence has reported positive effects on market valuation but less favourable short-term effects on accounting-based profitability in some settings. Therefore, companies should evaluate ESG investment not only through immediate profitability but also through long-term value creation, risk reduction and stakeholder confidence.

7. MANAGERIAL IMPLICATIONS

The findings provide several implications for corporate managers.

- First, ESG should be integrated into the strategic planning process rather than being treated solely as a compliance activity.

- Second, companies should strengthen governance mechanisms because Governance Practices demonstrated the strongest relationship with financial performance.
- Third, organisations should invest in employee welfare, workplace safety, diversity and community development because strong social practices can contribute to productivity, reputation and stakeholder loyalty.
- Fourth, environmental investments should be evaluated from a long-term financial perspective. Energy efficiency, waste reduction and environmentally friendly technologies can simultaneously support sustainability and cost efficiency.
- Finally, companies should improve the credibility and transparency of ESG reporting. This is particularly relevant given the increasing importance of BRSR and BRSR Core in India's corporate reporting environment.

8. SUGGESTIONS

Based on the findings, the following suggestions are offered:

1. **Strengthen ESG governance:** Companies should establish dedicated ESG committees or assign clear ESG responsibilities to senior management and boards.
2. **Integrate ESG with financial planning:** ESG expenditure should be evaluated in terms of both sustainability outcomes and long-term financial returns.
3. **Improve environmental efficiency:** Companies should increase investments in renewable energy, energy-efficient technologies, waste reduction and resource conservation.
4. **Enhance employee-oriented policies:** Organisations should strengthen employee welfare, occupational safety, diversity, training and career-development programmes.
5. **Improve ESG disclosure quality:** Companies should provide transparent, comparable and reliable ESG information to investors and other stakeholders.
6. **Strengthen board accountability:** Boards should regularly monitor ESG risks, targets and performance indicators.
7. **Develop ESG-linked performance indicators:** ESG targets can be incorporated into managerial performance evaluation and incentive systems.
8. **Increase stakeholder engagement:** Companies should regularly communicate with employees, customers, investors, suppliers and local communities regarding ESG initiatives.
9. **Focus on long-term value creation:** Management should recognise that the financial benefits of ESG investments may materialise over the medium and long term rather than immediately.
10. **Strengthen ESG assurance:** Companies should adopt independent assurance mechanisms to improve the credibility of sustainability disclosures.

9. LIMITATIONS OF THE STUDY

The study has certain limitations.

- First, the study was based on 237 respondents, which may limit the generalisability of the findings to all Indian companies.
- Second, the study used purposive sampling, and therefore the sample may not perfectly represent the entire population of corporate stakeholders.
- Third, the study relied on respondents' perceptions rather than exclusively on audited financial statements and objective ESG scores.

- Fourth, the cross-sectional nature of the primary survey limits the ability to establish long-term causal relationships.
- Fifth, the study considered Environmental, Social and Governance Practices as the principal explanatory dimensions. Other factors such as firm size, industry characteristics, leverage, innovation and macroeconomic conditions were not incorporated into the proposed SEM.
- Sixth, ESG practices can differ substantially between industries, particularly between manufacturing, financial services, information technology, energy and infrastructure sectors.

10. CONCLUSION

The present study examined the impact of ESG practices on Corporate Financial Performance among Indian companies using responses from 237 stakeholders. The study considered Environmental Practices, Social Practices and Governance Practices as the major dimensions of ESG and Corporate Financial Performance as the outcome variable. The CFA results demonstrated satisfactory reliability, convergent validity and discriminant validity. The structural model also demonstrated acceptable model fit. The SEM results indicated that all three dimensions of ESG practices have significant positive relationships with Corporate Financial Performance. Among the three dimensions, Governance Practices recorded the strongest influence, followed by Social Practices and Environmental Practices. This indicates that effective governance, transparency, accountability, ethical management and risk control may play a particularly important role in translating ESG commitments into financial benefits. The findings support the view that ESG should be integrated into corporate strategy rather than treated merely as a regulatory reporting exercise. Strong ESG practices can contribute to stakeholder confidence, corporate reputation, operational efficiency, risk management and long-term value creation. For Indian companies, the growing importance of BRSR and BRSR Core further reinforces the need for reliable and transparent sustainability practices. The study therefore concludes that companies seeking sustainable financial performance should adopt a balanced ESG strategy that simultaneously addresses environmental responsibility, social development and strong corporate governance.

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