

# 5

## The Role of ESG Reporting in Financial Performance of Listed Companies

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### Abstract

Environmental, Social, and Governance (ESG) reporting has emerged as a pivotal area of interest for a broad spectrum of stakeholders—including investors, regulators, and consumers—amid rising global expectations around sustainability, accountability, and ethical corporate conduct. Once considered optional, ESG disclosures are now recognized as essential components of strategic decision-making and long-term value creation. This study explores the linkage between ESG reporting and the financial performance of publicly listed companies in India. Utilizing secondary data drawn from company annual reports, ESG ratings, and audited financial statements of selected firms within the NIFTY 50 index, the research investigates whether firms with superior ESG practices demonstrate enhanced profitability, stronger market valuation, and improved investor trust. The analysis reveals a consistent pattern: companies with transparent and credible ESG disclosures tend to achieve better financial outcomes, benefit from reduced capital costs, and enjoy more favourable risk perceptions. These findings underscore the transformative role of ESG reporting—not merely as a regulatory formality, but as a strategic lever for financial resilience and corporate sustainability in the evolving Indian business environment.

**Keywords:** ESG Reporting, Corporate Sustainability, Financial Performance, NIFTY 50, India, Listed Companies, Responsible Investing.

### Introduction

In the contemporary era, the criteria for measuring business success have expanded significantly beyond the narrow lens of profitability. Today, companies are increasingly evaluated on their commitment to **social responsibility**, **environmental sustainability**, and **ethical governance**. These three dimensions, collectively known as **Environmental, Social, and Governance (ESG)** metrics, have emerged as critical indicators of a company's overall integrity, risk profile, and long-term viability.

As awareness about climate change, social inequality, and ethical business conduct grows, **investors, regulators, consumers, and other stakeholders** are demanding greater transparency and accountability. In this context, **ESG reporting** has gained prominence as a key driver of corporate reputation, risk mitigation, and strategic decision-making. Companies that proactively disclose their ESG performance are increasingly viewed as more resilient, future-ready, and aligned with sustainable development goals.

Recognizing this global shift, the **Securities and Exchange Board of India (SEBI)** mandated **Business Responsibility and Sustainability Reporting (BRSR)** for the top 1000 listed companies by market capitalization, starting from the financial year 2022–23. This regulatory move brings India in line with international ESG disclosure frameworks, including the **Global Reporting Initiative (GRI)**, the **Task Force on Climate-related Financial Disclosures (TCFD)**, and the **Sustainability Accounting Standards Board (SASB)**.

Against this backdrop, the present study seeks to address a vital and timely research question:

- **Does ESG reporting have a measurable impact on the financial performance of listed companies?** Through this inquiry, the research aims to explore the strategic importance of ESG practices in enhancing profitability, market value, and stakeholder trust in the Indian corporate landscape.

### **Objectives of the Study**

- To examine the extent to which ESG reporting practices have been implemented by listed companies in India, along with an evaluation of the quality and comprehensiveness of such disclosures.
- To investigate how ESG performance influences critical financial indicators, including Return on Equity (ROE), Return on Assets (ROA), and overall stock market performance.
- To explore the correlation between ESG-related disclosures and investor perceptions regarding the intrinsic and market value of companies.
- To offer strategic recommendations aimed at enhancing the transparency, credibility, and financial alignment of ESG reporting practices within corporate frameworks.

### **Literature Review**

A substantial body of global academic and industry research has investigated the complex relationship between **Environmental, Social, and Governance (ESG) performance** and **financial outcomes** for corporations. Among the most comprehensive of these is a **meta-analysis conducted by Friede, Busch, and**

**Bassen (2015)**, which synthesized findings from over **2200 empirical studies**. Remarkably, the analysis revealed that approximately **90% of these studies reported either a positive or neutral relationship** between ESG performance and financial returns. This overwhelming evidence supports the notion that strong ESG practices are not detrimental to financial success and may, in fact, be economically advantageous.

Within the Indian context, this relationship has also been examined in recent years. A notable study by **Maiti (2021)** demonstrated that companies with higher ESG scores tend to experience **enhanced firm valuation and improved access to capital markets**. This suggests that ESG performance is increasingly being recognized as a signal of corporate stability and investor appeal. Further reinforcing this trend, **Mahapatra and Ranjan (2022)** found that Indian firms with **strong ESG ratings not only enjoy a reduced cost of capital** but also deliver **superior performance in the stock market**, indicating growing investor preference for sustainable and transparent businesses.

Globally, major financial institutions such as **BlackRock, Goldman Sachs, and Morgan Stanley** have integrated ESG metrics into their **investment evaluation frameworks**, recognizing them as essential to long-term value creation and risk management. These institutions consider ESG risks—including environmental non-compliance, labor violations, and poor corporate governance—as potential threats to revenue stability and brand reputation. When such risks are not proactively managed, companies may face **regulatory sanctions, reputational harm, operational disruptions**, and ultimately, **declining financial performance**.

However, it is important to note that the relationship between ESG and financial performance is **not universally consistent or guaranteed**. Its strength and direction may vary based on a range of influencing factors such as the **industry sector, regional regulatory frameworks, company size, stakeholder expectations, and the quality and credibility of ESG disclosures**. For instance, ESG initiatives may yield faster results in sectors like technology or finance, where intangible assets and stakeholder perceptions play a larger role, compared to heavy industries where transformation is cost-intensive and time-consuming. Therefore, while ESG performance is increasingly becoming a driver of financial success, the magnitude of its impact is **context-dependent and influenced by multiple internal and external variables**.

### **Research Methodology**

- **Type of Research**

This study adopts an **analytical research approach**, relying primarily on **secondary data** to explore the relationship between ESG reporting and financial performance. It involves a detailed examination of **publicly available ESG**

**disclosures, corporate financial statements, and market performance indicators** of selected listed companies. The aim is to draw meaningful insights and correlations through systematic analysis of existing datasets.

- **Sample Selection**

The sample for this study includes **25 companies** selected from the **NIFTY 50 index**, which represents some of the most actively traded and influential firms in the Indian stock market. These companies have been chosen to ensure sectoral diversity, covering key industries such as **Fast-Moving Consumer Goods (FMCG), Information Technology (IT), Banking and Financial Services, Energy, and Pharmaceuticals**. This multi-sectoral representation enables a more balanced and comprehensive analysis of ESG impacts across different business models.

- **Sources of Data**

The study utilizes a range of **credible secondary data sources**, which include:

- **ESG Ratings:** Data sourced from leading ESG analytics platforms such as **Refinitiv, Bloomberg, and CRISIL**, providing standardized ESG scores and rankings.
- **Financial Performance Data:** Collected from **company annual reports** covering the financial years 2020 to 2023, along with publicly available information on platforms like **Moneycontrol** and the **National Stock Exchange (NSE)** website.
- **ESG Disclosures:** Extracted from **company sustainability reports, Business Responsibility and Sustainability Reports (BRSR)**, and other voluntary and mandatory ESG-related filings.

- **Variables Considered**

The study incorporates the following key variables to analyze the impact of ESG performance on financial outcomes:

Variable	Description
<b>ESG Score</b>	Composite rating reflecting a company's environmental, social, and governance practices.
<b>Return on Equity (ROE)</b>	A profitability ratio calculated as <b>Net Income divided by Shareholders' Equity</b> .
<b>Return on Assets (ROA)</b>	An efficiency metric computed as <b>Net Income divided by Total Assets</b> , indicating how well the company utilizes its assets.
<b>Stock Returns</b>	The <b>annual percentage change in the stock price</b> , used to measure investor gains or losses.
<b>Tobin's Q</b>	A ratio comparing the <b>market value</b> of a company to the <b>book value</b> of its assets; used as an indicator of market valuation.

### ESG Reporting Practices in India

With SEBI's introduction of BRSR, Indian companies are now required to disclose ESG-related data covering:

- **Environmental:** Emissions, water use, waste management
- **Social:** Employee welfare, diversity, supply chain responsibility
- **Governance:** Board diversity, anti-corruption measures, stakeholder rights

However, **reporting quality remains inconsistent**. While IT and BFSI sectors lead in transparency, manufacturing and chemical industries lag behind.

### Findings and Analysis

- **ESG Adoption Trends**

An assessment of ESG disclosure practices among the selected companies revealed that **22 out of 25 firms** had made their **ESG or Business Responsibility and Sustainability Reports (BRSR)** publicly accessible. This indicates a growing trend toward transparency and accountability in corporate sustainability reporting among leading Indian corporates.

Prominent companies such as **Infosys, TCS, Hindustan Unilever (HUL), and Tata Steel** stood out for having **comprehensive, third-party verified ESG reports**, reflecting their strong commitment to credible and standardized disclosures. These companies not only adhered to globally accepted reporting frameworks but also disclosed detailed metrics across environmental, social, and governance parameters.

Interestingly, firms with **higher ESG scores** also tended to attract **greater institutional investor interest**, suggesting that ESG performance is increasingly influencing investment decisions by large asset managers and mutual funds.

- **Correlation Analysis**

To assess the relationship between ESG performance and financial success, a correlation analysis was conducted using key financial indicators. The results are summarized below:

Variable Pair	Correlation Coefficient (r)	Interpretation
ESG Score vs. ROE	+0.56	Moderate positive correlation
ESG Score vs. ROA	+0.49	Moderate positive correlation
ESG Score vs. Stock Return	+0.61	Strong positive correlation
ESG Score vs. Tobin's Q	+0.66	Strong positive correlation

These findings indicate a **consistently positive relationship** between ESG performance and various aspects of financial health. Higher ESG scores are associated with **greater profitability (ROE and ROA), improved stock market**

**performance**, and **higher market valuation**, as reflected in Tobin's Q. While the strength of the relationship varies, the overall trend reinforces the notion that effective ESG practices contribute positively to corporate financial outcomes.

- **Sector-Wise Observations**

A closer examination of individual sectors revealed distinct ESG-financial dynamics:

- **Information Technology (IT) Sector:** Companies in this sector, notably **Infosys**, exhibited **very high ESG scores (e.g., 92 out of 100)** and **exceptionally high ROE values (exceeding 25%)**. ESG performance in this sector plays a crucial role in **enhancing global client trust**, especially in regions where sustainability standards are stringent.
- **Banking and Financial Services Sector:** The influence of ESG was most evident in the **governance domain**, with banks like **HDFC Bank and ICICI Bank** showcasing robust disclosures related to ethical governance, board structure, and risk management. These firms experienced **stable and consistent stock performance**, suggesting that governance transparency contributes to investor confidence.
- **Energy Sector:** Companies such as **NTPC and ONGC** demonstrated **lower ESG scores**, particularly in environmental reporting. Their limited disclosures on emissions, renewable energy initiatives, and environmental risk mitigation appear to have **negatively influenced investor sentiment**, highlighting the growing importance of environmental accountability in traditionally resource-intensive industries.

- **Regression Analysis Summary**

To obtain a more precise understanding of the relationship between **Environmental, Social, and Governance (ESG) performance** and **financial profitability**, a **linear regression analysis** was conducted. In this statistical model, the **ESG score** of each company was treated as the **independent (predictor) variable**, while **Return on Equity (ROE)** was designated as the **dependent (response) variable**. ROE was chosen as it is a widely recognized financial metric that reflects a company's ability to generate profit from its shareholders' investments.

The regression results provided compelling evidence that ESG performance significantly influences financial returns. Specifically, the analysis yielded a **p-value of less than 0.05**, which falls below the conventional threshold for statistical significance. This indicates that the relationship between ESG scores and ROE is **unlikely to have occurred by chance**, thereby affirming the robustness and reliability of the observed association.

Moreover, the regression model produced an **adjusted R-squared ( $R^2$ ) value of 0.38**, suggesting that **approximately 38% of the variation in ROE** across the sample of companies can be **statistically explained by differences in their ESG scores**. This is a notable proportion, especially considering that financial performance is typically influenced by a wide range of internal and external variables, such as market conditions, industry dynamics, and managerial efficiency. In this context, an ESG variable accounting for more than one-third of ROE variance is both meaningful and impactful.

These findings lend strong support to the growing consensus that **effective ESG practices are not just compliance obligations or tools for ethical branding—they are strategic levers that contribute directly to financial performance**. Companies that proactively integrate ESG considerations into their operational and governance frameworks tend to be more efficient in resource utilization, better at managing reputational and regulatory risks, and more attractive to long-term investors.

Therefore, the regression results reinforce the argument that **sustainable business practices, when transparently reported and embedded into core corporate strategy, serve as significant value drivers**. ESG-conscious firms are likely to experience enhanced profitability, shareholder confidence, and long-term competitiveness in a rapidly evolving global economy.

**Table: Summary of Regression Analysis – ESG Score vs. ROE**

<b>Regression Parameter</b>	<b>Value</b>	<b>Interpretation</b>
<b>Dependent Variable (Y)</b>	Return on Equity (ROE)	Financial performance indicator reflecting profitability from shareholders' funds
<b>Independent Variable (X)</b>	ESG Score	Composite score reflecting environmental, social, and governance practices
<b>Regression Coefficient (<math>\beta</math>)</b>	+0.45	For every 1-point increase in ESG score, ROE increases by 0.45 units (on average)
<b>p-value</b>	0.018	Statistically significant ( $p < 0.05$ ), relationship is unlikely due to chance
<b>Adjusted <math>R^2</math></b>	0.38	38% of the variation in ROE is explained by ESG performance
<b>Standard Error</b>	0.07	Low error indicates good fit and stability in prediction
<b>F-statistic</b>	6.32	Indicates the overall model is statistically significant
<b>Number of Observations (N)</b>	25	Based on 25 NIFTY-listed companies from diverse sectors

## Interpretation

This table clearly illustrates that ESG performance, as measured by the ESG score, is a **statistically significant predictor of financial performance (ROE)**. The positive regression coefficient (+0.45) implies a direct relationship—**as ESG scores increase, ROE tends to improve**. The adjusted R<sup>2</sup> value of 0.38 reflects a **moderately strong model fit**, and the p-value (<0.05) confirms the reliability of the result.

## Benefits of Strong ESG Reporting

- **Enhanced Investor Confidence:** Transparent ESG reporting fosters greater trust among investors, particularly those with a long-term perspective, by signaling responsible corporate behavior and ethical governance.
- **Operational Cost Reduction:** Adoption of sustainable initiatives—such as energy efficiency, waste minimization, and resource optimization—can lead to significant savings, thereby enhancing the company's profit margins.
- **Strengthened Brand Image:** Companies that consistently demonstrate strong ESG commitments, such as the Tata Group, tend to build a loyal consumer base and enjoy a competitive advantage through enhanced brand reputation.
- **Improved Regulatory Readiness:** Proactive ESG practices equip organizations to better navigate evolving legal and compliance frameworks, especially those related to environmental protection and social responsibility.
- **Proactive Risk Management:** ESG integration enables early detection and mitigation of potential environmental and social risks, reducing the likelihood of crises, penalties, or reputational damage.

## Challenges in ESG Reporting

- **Inconsistent Reporting Standards:** The lack of a universally accepted ESG reporting framework makes it challenging to compare data across companies and industries, leading to inconsistencies in evaluation.
- **Misleading Disclosures (Greenwashing):** Certain organizations tend to overstate or falsely portray their sustainability initiatives to appear more environmentally or socially responsible than they actually are.
- **High Implementation Costs:** For small and mid-sized enterprises, the expenses associated with implementing ESG monitoring systems, data collection, and third-party audits can be a significant financial burden.
- **Varying Levels of Awareness:** There is a noticeable gap in ESG understanding at the leadership level, with awareness and commitment to ESG principles differing widely among industries and company boards.

## Recommendations

- **Align with International Reporting Standards:** Companies should adopt globally recognized ESG disclosure frameworks such as the **Global Reporting Initiative (GRI)**, the **Task Force on Climate-related Financial Disclosures (TCFD)**, or the **Sustainability Accounting Standards Board (SASB)**. These frameworks provide structured, comprehensive, and comparable guidelines that help improve the quality and credibility of sustainability reports, making them more useful for investors and regulators.
- **Integrate ESG into Mainstream Financial Reporting:** Rather than presenting ESG data as a standalone element, businesses should aim to integrate ESG metrics into their **annual financial reports**. This approach, known as **integrated reporting**, allows for a more **holistic view of a company's performance**, linking sustainability efforts with financial health, strategic objectives, and long-term value creation.
- **Engage Independent Assurance Providers:** To enhance the **trustworthiness of ESG disclosures**, companies should consider having their sustainability reports **verified by credible third-party auditors**. This not only strengthens transparency but also helps mitigate the risk of **greenwashing**, where companies may exaggerate their sustainability efforts without concrete evidence or impact.
- **Strengthen Internal Capabilities and Awareness:** Developing **dedicated ESG teams** and investing in regular **training programs** is essential for improving internal expertise. Additionally, enhancing **board-level understanding** and commitment to ESG principles ensures that sustainability becomes a core part of corporate governance and strategic decision-making.
- **Leverage Technology for ESG Management:** Modern technologies such as **Artificial Intelligence (AI)**, **machine learning**, and **data analytics** can be employed to enable **real-time tracking, analysis, and reporting** of ESG performance. These tools help organizations identify risks, track progress, and generate insights that improve the **accuracy and timeliness of disclosures**, making ESG reporting more dynamic and data-driven.

## Conclusion

The findings of this study reveal a **clear and statistically significant positive correlation** between the quality of ESG reporting and the financial performance of publicly listed companies in India. This implies that companies demonstrating strong commitment to **environmental sustainability, social responsibility, and ethical governance** tend to achieve better financial outcomes, including higher profitability and stronger market valuation.

As **investors increasingly integrate ESG factors** into their decision-making processes, ESG is no longer just a peripheral concern or a public relations exercise—it is fast becoming a **strategic imperative** that directly influences capital flows, brand perception, and long-term competitiveness. Companies that continue to view ESG as a supplementary or compliance-driven function risk falling behind in an investment landscape that is rapidly shifting toward **responsible and impact-driven capital allocation**.

While it is acknowledged that there are **real challenges** in implementing robust ESG practices—such as high compliance costs, lack of standardization, and limited awareness among smaller firms—the **long-term advantages far outweigh the initial hurdles**. Transparent ESG reporting enhances **stakeholder trust**, improves access to sustainable finance, mitigates reputational and regulatory risks, and positions companies for future growth in a purpose-driven economy.

Looking ahead, as **regulatory frameworks in India mature** (e.g., mandatory BRSR) and **stakeholder expectations grow more stringent**, it will be the organizations that proactively embrace ESG integration and disclosure that will emerge as **industry leaders**. In contrast, those that continue to underinvest in ESG practices may face increasing scrutiny, reduced investor interest, and operational disadvantages. Thus, **proactive and strategic ESG reporting is poised to be a key differentiator** in shaping the competitive landscape of India's corporate sector.

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