

Chapter 9


Impact of ESG Factors on the Financial Performance of Corporates in India

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ABSTRACT

This study investigates the connection between Indian companies' financial results and Environmental, Social, and Governance (ESG) performance, with a focus on socially and environmentally sensitive industries. There is little data on the financial effects of ESG integration in developing nations like India, even though it is becoming more and more crucial for long-term value development. Using a quantitative approach involving ESG ratings and financial indicators (Return on Equity [ROE], Return on Assets [ROA], and Return on Capital Employed [ROCE]) we analyze the performance of firms from 2021 to 2023 in five different sectors. Among the pillars, environmental issues had the most significant effect on material financial success, showing a positive but weak correlation with ESG scores. However, the study also investigates into sectoral distinctions, pointing to differential financial outcomes associated with ESG across industries.

1. INTRODUCTION

The modern-day global economy has come to recognize ESG (Environmental, Social, Governance), which now influencing company strategy and investment selections. Corporations are anticipated to incorporate sustainability into their business strategies as a means to fulfil investors growing demand for ethics and responsibility (Smith & Jones, 2020). ESG – Environmental, Social and Governance (Focus on these areas has become an imperative in the creation of lasting value.) The increasing environmental

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crises, social inequalities, and governance failings are forcing stakeholders to demand that firms be held more accountable for its costs (Lee et al., 2019).

We are seeing an increased trend towards ESG integration particularly in the Indian economy, which is a rapidly growing one. National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities and ESG reporting requirement drive Indian corporations towards social and environmental accountability; Government from within the List of Abbreviations encourages companies to become conscious about their social and environmental effects (Kumar et al., 2021). Although recent times have shown a rise in ESG performance scores of Indian enterprises, their power to drive financial results across organizations is still shrouded in relative obscurity. The research is also providing no definitive answer in terms of the relationship between ESG practices and financial performance (Gupta & Das, 2022). This gap highlights the need for further research on the association between ESG practices and financial performance in a developing economy such as India.

The term ESG integration refers to the process of embedding environmental, social and governance considerations into a company's operations that are crucial in assessing its long-term performance Sustainability Criteria Initiative, 2020). Social aspects include community involvement, labor relations and diversity, while environmental factors cover execution around carbon footprint and resource efficiency. Implementation of governance is key focused on board composition, CEO compensation, and openness. A conglomerate ESG score formed by these factors effects financial productivity of a firm (Brown & Clark, 2021). On one hand, whereas the research on ESG and financial performance in Indian corporate sector is increasing, however most of the studies on this topic are from developed economies; hence, it left a significant research gap.

The purpose of this study is to fill that gap by studying the impact of ESG practices on major financial ratios such as Return on Equity (ROE), Return on Assets (ROA) and Return on Capital Employed (ROCE) in Indian companies (Patel, 2021). The basic issue arises due to lack of comprehensive study and understanding which has been done on the impact of these ESG factors on financial performance of our diverse companies in India as particularly those which have externalities attached with them socially or environmentally (Sharma, 2020).

The very purpose of present study is to assess the impact of ESG factors on the financial performance Indian Companies with a major focus on the manufacturing and energy segment.(Agarwal,2022). To look at the relation between Environmental, Social and Governance (ESG) performance and Financial Performance is one of the primary purposes of this study along with assesses those factors influence financial opportunities separately, explores sectors which are relevant to the Indian economy from Environment, Social as well Governance perspective on their impact on financial results. Some limitations of this study, the extent of coverage and quality ESG data for different industries and companies available at that time which may complicate the identification of long-term effects of ESG practices on financial performance, no consideration was given to non-public companies, small businesses or risk considerations; a relatively short period studied (Singh & Verma & 2021).

2. LITERATURE REVIEW

The authors of this paper (Ray and Goel 2023) investigate the complex link between a company's ESG score and its financial success in light of India's recent ESG reporting legislation. They use static and dynamic panel regression models to examine the impact of ESG scores on various financial variables

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