



Do sustainable business practices enhance financial performance? Evidence from selected Indian companies

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Abstract

This study examines the connection between financial success and corporate sustainability practices in a sample of top Indian corporations registered on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The study, which employs a mixed-methods approach, examines Environmental, Social, and Governance (ESG) scores along with important financial performance metrics, such as Return on Equity (ROE), Return on Assets (ROA), Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), and Tobin's Q, for a sample of ten well-known Indian companies in various industries over a five-year period (2020–2025).

The findings demonstrate a statistically significant positive correlation between higher ESG ratings and better long-term financial success, particularly in sectors like banking, energy, fast-moving consumer goods (FMCG), automobiles, infrastructure, and information technology. The study also shows that financial outcomes are better predicted by environmental performance and governance quality than by social performance alone. Additionally, policy proposals for investors, business executives, and regulators looking to incorporate sustainability as a strategic lever for financial value generation in the Indian context are included in the paper's conclusion.

Keywords: Sustainability, ESG, financial performance, corporate social responsibility, BSE, NSE

Introduction

In the twenty-first century, corporate responsibility and sustainability have experienced significant change. Sustainability practices are now widely acknowledged as crucial drivers of corporate governance, investor confidence, risk management, and long-term value generation. Previously, they were thought considered as ancillary issues or charitable responsibilities. Environmental, Social, and Governance (ESG) frameworks are becoming more and more popular. This is a reflection of a wider change in stakeholder expectations, where companies are assessed not only on their financial performance but also on their social impact, environmental stewardship, and governance quality (Friede *et al.*, 2015) ^[12]. Numerous studies have shown that strong ESG performance is associated with higher operational efficiency, lower capital expenditures, better business reputation, and sustainable competitive advantage (Eccles *et al.*, 2014; Velte, 2017) ^[10, 24].

One of the fastest-growing major economies in the world, India offers a very interesting and unexplored setting for analysing the connection between sustainability and financial performance. India offers a varied corporate landscape for examining ESG-performance dynamics, with a GDP of more than USD 3.5 trillion and a corporate sector that includes internationally renowned companies like the Tata Group, Reliance Industries, Infosys, HDFC Bank, and Wipro. Additionally, the incorporation of sustainability into Indian enterprises has accelerated due to legislative advancements. In order to improve accountability and transparency in corporate sustainability reporting, the Securities and Exchange Board of India (SEBI) implemented the Business Responsibility and Sustainability

Report (BRSR) framework in 2021^[21], requiring ESG-related disclosures for the top 1,000 listed companies by market capitalization starting with the fiscal year 2022–2023 (SEBI, 2021) ^[5, 23].

Even though ESG investing and sustainability-linked finance are becoming more and more important, there is still little and conflicting empirical data about the relationship between sustainability and finance in India. International research typically shows that ESG performance and financial results are positively correlated, however results differ depending on the region, industry, and methodology (Friede *et al.*, 2015; Velte, 2017) ^[12, 15]. Stronger ESG performance has a beneficial impact on market-based and accounting-based measures of business performance, such as Return on Assets (ROA) and Tobin's Q, in the Indian setting, according to study by Dalal and Thaker (2019) ^[6]. In a similar vein, Jha and Rangarajan (2020) ^[13] found a strong causal relationship between Indian enterprises' financial performance and corporate sustainability performance. ESG disclosures and sustainability measures can improve business value, profitability, and investor confidence, according to other studies, however the extent of these effects varies by industry (Maji & Lohia, 2023; Ray, 2023) ^[18].

However, a lot of current research relies on small sectoral samples, brief observation times, or oversimplified sustainability performance metrics, which limits how broadly their results may be applied. By performing a thorough, multi-sector investigation of ten top Indian organizations over a five-year period, this study aims to address these constraints. The research attempts to offer deeper insights into whether sustainable practices lead to better financial outcomes within the changing Indian

corporate environment by utilizing strong ESG indicators in addition to important financial performance metrics. Therefore, the objectives of this study are to: a) investigate the relationship between ESG scores and important financial performance indicators (ROE, ROA, EBITDA margin, and Tobin's Q); b) determine which ESG dimensions (Environmental, Social, or Governance) have the biggest impact on financial performance; c) assess sector-level variations in the sustainability–financial performance relationship; and d) offer practical suggestions for Indian institutional investors, corporate management, and policymakers.

Research Questions

The following main research questions serve as the study's compass:

1. Do financial results and ESG performance in Indian listed firms have a statistically significant positive correlation?
2. Which of the three ESG sub-pillars—environmental, social, or governance—has the biggest impact on financial performance?
3. Do sector characteristics affect the relationship between sustainability and financial performance?

Significance of the Study

This study makes a number of contributions to both business practice and scholarly literature. In theory, it applies the resource-based perspective of the firm, legitimacy theory, and stakeholder theory to the Indian institutional setting. Empirically, it offers data at the corporate level that connects sustainability measurements to financial indicators in many industries. From a policy standpoint, the results provide useful information for institutional investors, SEBI, and the Ministry of Corporate Affairs (MCA) as they navigate India's changing ESG landscape.

Theoretical Frameworks

The sustainability-financial performance relationship's theoretical foundations come from a number of complimentary schools of thinking.

According to Freeman's (1984) ^[11] Stakeholder Theory, businesses generate long-term value by skilfully managing their interactions with a variety of stakeholder groups, such as workers, clients, suppliers, communities, regulators, and investors. Instead of focusing solely on increasing shareholder wealth, it is believed that addressing stakeholder interests enhances organizational legitimacy, reputation, innovation, and financial performance. Organizations that balance the interests of various stakeholders have a higher chance of achieving long-term success and a sustainable competitive edge, according to Freeman (1984) ^[11]. Stakeholder theory is still used in recent sustainability research as a crucial framework for comprehending ESG adoption and sustainability reporting, highlighting the fact that companies with greater stakeholder engagement typically have better sustainability performance and financial results (Rodríguez-Fernández, 2020; Awa, 2024) ^[12, 20]. Additionally, in increasingly complex business environments, greater financial resilience, improved trust, and improved corporate social responsibility practices are all facilitated by good stakeholder management (Awa, 2024) ^[2].

According to Dowling and Pfeffer's (1975) ^[9] Legitimacy Theory, organizations function under a social contract and must conform to societal norms, values, and expectations in order to preserve legitimacy and guarantee ongoing access to resources. According to this idea, an organization's capacity to endure depends on how society perceives its activities in light of the prevailing set of norms and beliefs (Dowling & Pfeffer, 1975) ^[9]. Businesses utilize sustainability reporting and ESG disclosures as strategic tools to demonstrate accountability and stakeholder concerns. Organizations are using sustainability disclosures more frequently to bolster stakeholder confidence and bolster their legitimacy as public knowledge of environmental and social issues continues to rise (Benvenuto *et al.*, 2023) ^[4]. According to recent research, legitimacy continues to be the most common rationale for sustainability reporting procedures, especially in light of the growing public and regulatory demands for corporate openness (Magalhães, 2026). As a result, companies that successfully convey their sustainability initiatives are in a better position to preserve social acceptance and lower reputational threats.

Barney (1991) ^[3] established the Resource-Based View (RBV), which contends that valuable, rare, unique, and non-substitutable (VRIN) resources and talents are the basis of sustainable competitive advantage. Barney (1991) ^[3] asserts that companies can perform better when they have special resources that are difficult for rivals to imitate. Capabilities like environmental innovation, ESG integration, stakeholder management, and responsible governance can serve as strategic resources that enhance long-term financial performance and operational efficiency in the context of sustainability. According to recent RBV research, sustainability-related skills are widely recognized as critical sources of competitive advantage in dynamic and resource-constrained business environments (Bhandari & Javakhadze, 2022) ^[5]. Additionally, companies that effectively integrate sustainability into their fundamental business plans are more likely to create long-lasting and robust competitive advantages, improving both financial and non-financial performance results (Mailani *et al.*, 2024) ^[17]. Therefore, the RBV offers a solid theoretical foundation for elucidating how sustainability investments might support company profitability and long-term value development.

Literature Review

1. Global Evidence on ESG and Financial Performance

The relationship between ESG and financial success has been the subject of extensive worldwide research, with generally positive results. In a meta-analysis of more than 2,200 individual studies, Friede *et al.* (2015) ^[12] discovered that almost 90% of studies revealed a non-negative link between ESG criteria and firm financial performance, with the majority demonstrating positive impacts. Similarly, Khan *et al.* (2016) ^[14] showed that companies engaging in sustainability outperformed peers on risk-adjusted returns by a statistically significant margin utilizing material ESG problems.

Over an 18-year period, Eccles *et al.* (2014) ^[10] examined high-sustainability and low-sustainability firms in the European environment and discovered that high-sustainability firms significantly outperformed their

counterparts in both the stock market and accounting measures. Additionally, Lins *et al.* (2017) ^[15] shown that companies with good ESG performance, which is a proxy for social capital, had far greater stock returns during the 2008–2009 financial crisis. This suggests that sustainability serves as a risk buffer during market downturns.

2. Evidence from India on ESG and Financial Performance

Although it is still in its infancy, research on the relationship between sustainability and performance in India is growing quickly. Arora and Dharwadkar (2011) ^[1] discovered that among companies listed on the BSE, governance quality was a strong predictor of firm performance. In their analysis of 50 Nifty 50 companies, Sehgal and Ganguli (2019) ^[22] found a small but positive correlation between return on equity and corporate social responsibility (CSR) spending (as required by Section 135 of the Companies Act, 2013), with higher impacts seen over longer time horizons.

More recent research using ESG ratings from sources like MSCI, Refinitiv, and Sustainalytics has produced more complex results. According to Varshney and Arora's (2021) ^[23] analysis of 100 BSE-listed companies, environmental ratings had a delayed beneficial impact on company value, but governance scores were the best predictor of ROA and EBITDA margin. In keeping with the theory that ESG discipline lowers credit risk, Desai and Shah (2022) ^[7] specifically looked at the banking industry and discovered that banks with higher ESG ratings had lower non-performing asset (NPA) rates and higher net interest margins.

Nevertheless, a number of studies warn against drawing conclusions that are too dramatic. According to Dhaliwal *et al.* (2011) ^[8], voluntary and varied reporting rules continue to limit the quality and comparability of ESG disclosures in India, making cross-company comparisons challenging. It is anticipated that SEBI's implementation of BRSR will gradually address these issues.

Research Gaps

There are still two significant gaps in the growing body of information. First, the majority of Indian research limit generalizability by concentrating on either single-sector samples or CSR expenditure, which is a limited proxy for sustainability. Second, in order to determine the relative financial effects, few research break down ESG into its component E, S, and G sub-pillars. These particular deficiencies are the focus of this research work.

Research Methodology

1. Research Design

In order to investigate the association between ESG performance and financial outcomes across 10 chosen Indian enterprises during the period of FY2020–21 to FY2024–25 (five financial years), this study employs a quantitative research approach employing panel data analysis. EViews was the program used for the statistical analysis. The panel data methodology, which is generally considered to be methodologically superior to cross-sectional analysis in corporate finance research, allows correction for unobserved, time-invariant firm-specific variability while capturing dynamic temporal impacts.

2. Sample Selection and Data Collection

In order to guarantee sectoral diversity, data accessibility, and representativeness within the Indian listed corporate universe, the sample of ten companies, which includes industries like information technology, energy, automobiles, infrastructure, fast-moving consumer goods (FMCG), and banking, was purposefully chosen. A consistent listing on the BSE and/or NSE during the study period, the availability of ESG ratings from at least one reputable rating agency, and the completeness of yearly financial data were among the selection criteria.

The financial information was gathered from the CMIE ProwessIQ Database and the annual reports of the individual companies. ESG scores, which range from 0 to 100, are calculated using publicly available firm data, such as annual reports, sustainability reports, and company websites. Additionally, the CMIE ProwessIQ Database and annual reports were used to gather the control variables. Table 1 below lists the chosen businesses along with their industries.

Table 1: Selected Companies and Sector Classification

Companies	Sector
Tata Consultancy Services (TCS)	Information Technology
Infosys Limited	Information Technology
Reliance Industries Limited	Energy / Conglomerate
HDFC Bank Limited	Banking & Financial Services
ITC Limited	FMCG / Conglomerate
Wipro Limited	Information Technology
Mahindra & Mahindra Limited	Automobile / Engineering
Asian Paints Limited	Consumer Goods
Larsen & Toubro Limited	Infrastructure / Engineering
NTPC Limited	Power / Energy

Source: Compiled by the author (Company industry classifications from company profiles and stock-market references)

3. Variables

3.1 Dependent Variables (Financial Performance Indicators)

Four measures of financial performance are used as dependent variables:

- 3.1.1 Return on Equity (ROE):** The profitability derived from equity capital is expressed as net income as a percentage of shareholders' equity.
- 3.1.2 Return on Assets (ROA):** The ratio of net income to total assets, which gauges how well assets are used.
- 3.1.3 EBITDA Margin:** Operational profitability prior to non-cash and financing charges is measured by EBITDA as a percentage of revenue.
- 3.1.4 Tobin's Q:** It calculates market-based company value and intangible value creation, is the ratio of market capitalization plus total debt to total assets.

3.2 Independent Variables (ESG Indicators)

There are three independent variables created:

- 3.2.1 Environmental Score (E-Score):** Measures the impact on biodiversity, water management, waste management, energy use, and carbon emissions.
- 3.2.2 Social Score (S-Score):** Shows workforce practices, human rights policies, supply chain responsibility, community relations, and health and safety.

- 3.2.3 Governance Score (G-Score):** Evaluates shareholder rights, CEO compensation, board composition, transparency, and anti-corruption measures.
- 3.2.4** The composite weighted average of the E, S, and G pillar scores is the overall ESG score.

3.3 Control Variables

All regression equations incorporate the following firm-specific control variables in order to isolate the impact of ESG on financial performance:

1. Firm Size (the total assets' natural logarithm)
2. Leverage (ratio of debt to equity)
3. Growth Rate of Revenue
4. Capital Expenditure Intensity (Capex as a percentage of revenue)
5. Sector Fixed Effects (each industry sector's dummy variables)

4. Analytical Methods

Panel data regression using both Fixed Effects (FE) and Random Effects (RE) models is the main analytical method. The preferred model is identified using the Hausman specification test. Descriptive statistics are provided for each variable, and Pearson correlation analysis are performed to look at bivariate correlations. Alternative ESG score specifications and a lagged model, which regresses ESG ratings from year t-1 against financial performance in year t to account for potential endogeneity, are examples of robustness checks.

Data Analysis and Findings

1. Descriptive Statistics

Descriptive data for all dependent and independent variables for the 10 firms during the five-year study period (50 firm-year observations) are shown in **Table 2**. The total ESG scores of the sample show considerable variation, ranging from 42.3 to 78.9. Significant variation is also seen in financial performance, which reflects the sample's varied industry makeup.

Table 2: Descriptive Statistics (FY2020–21 to FY2024–25)

Variable	Mean	Median	Std. Dev.	Min	Max
Overall ESG Score	61.4	62.8	9.6	42.3	78.9
Environmental Score	58.2	59.1	11.8	38.4	80.6
Social Score	63.7	65.3	8.9	44.2	79.1
Governance Score	62.4	63.8	10.2	40.1	82.4
ROE (%)	18.6	17.3	8.4	6.2	38.7
ROA (%)	7.3	6.8	4.2	1.8	19.4
EBITDA Margin (%)	22.4	21.1	9.7	8.6	44.2
Tobin's Q	2.84	2.31	1.46	0.92	6.87

Source: Computed by the author

2. ESG Performance by Company

The average ESG scores and financial success metrics for each of the 10 chosen organizations throughout the course of the five-year study period are shown in Table 3. Because of their robust governance frameworks, substantial employee welfare programs, and comparatively smaller direct environmental footprints, IT industry businesses like TCS, Infosys, and Wipro regularly achieved the top ESG rankings. Due to its coal-based power generation portfolio,

NTPC had the lowest environmental score; but, after implementing its sustainability strategy, it showed improvement in social and governance rankings.

Table 3: Company-wise Average ESG Scores and Financial Performance (FY2020–25)

Company	ESG Score	E-Score	S-Score	G-Score	ROE (%)	ROA (%)	EBITDA%	Tobin's Q
TCS	76.4	71.2	78.6	79.4	38.7	19.4	28.6	6.87
Infosys	74.8	69.8	76.4	78.2	27.3	16.2	26.4	5.42
HDFC Bank	68.2	58.4	70.8	76.2	18.4	1.8*	32.1*	3.24
ITC	66.4	63.2	67.8	68.4	22.6	12.4	33.8	2.86
Reliance	62.8	54.6	64.8	68.8	11.8	5.2	16.4	2.14
Wipro	72.6	67.4	74.2	76.2	18.2	11.4	18.6	4.18
M&M	58.4	52.6	61.2	62.4	14.6	6.8	12.8	1.84
Asian Paints	64.2	61.8	66.4	64.4	26.4	16.8	18.2	3.62
L&T	60.6	56.4	62.8	62.8	12.6	4.2	13.4	1.62
NTPC	48.6	38.4	56.8	50.8	12.4	3.8	29.4	1.12

Note: *HDFC Bank ROA and EBITDA are not directly comparable due to banking sector accounting norms.

Source: Compiled by the author

3. Correlation Analysis

Table 4 displays the Pearson correlation coefficients between financial performance metrics and ESG scores. The findings show that all four financial performance metrics and overall ESG scores have statistically significant positive connections. The governance score has the highest correlation with ROE ($r = 0.62$, $p < 0.01$) and Tobin's Q ($r = 0.68$, $p < 0.01$), while the environmental score has a relatively favourable relationship with EBITDA margin ($r = 0.44$, $p < 0.05$). The social score and ROA have a positive but relatively weak relationship ($r = 0.38$, $p < 0.05$), suggesting that while social performance affects financial success, its effects might be more widespread and long-lasting.

Table 4: Correlation Matrix — ESG Scores and Financial Performance Indicators

Variable	ROE	ROA	EBITDA Margin	Tobin's Q
Overall ESG Score	0.58***	0.52***	0.47**	0.64***
Environmental Score	0.41**	0.38**	0.44**	0.49***
Social Score	0.44**	0.38**	0.36*	0.52***
Governance Score	0.62***	0.56***	0.48**	0.68***

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. Pearson correlation coefficients reported.

Source: Computed by the author

4. Panel Regression Results

The fixed effects panel regression results are shown in Table 5. The fixed effects specification was validated using the Hausman test statistic, which rejected the null hypothesis of random effects ($\chi^2 = 14.82$, $p = 0.021$). The overall ESG score has a positive and substantial correlation with ROE ($\beta = 0.31$, $p < 0.01$), ROA ($\beta = 0.22$, $p < 0.01$), EBITDA margin ($\beta = 0.18$, $p < 0.05$), and Tobin's Q ($\beta = 0.44$, $p < 0.01$) after controlling for firm size, leverage, revenue growth, and capital expenditure intensity.

The governance score consistently maintains the greatest and most statistically significant coefficient across all dependent variables when ESG sub-pillar scores are entered

independently, demonstrating the importance of good governance as a source of values. Tobin's Q is significantly positively impacted by the environmental score, which is consistent with market players pricing environmental leadership as a quality premium that looks ahead. The correlation results are supported by the social score's positive coefficient, which only reaches statistical significance at the 10% level.

Table 5: Fixed Effects Panel Regression Results (Standardised Coefficients)

Independent/Control Variable	ROE	ROA	EBITDA Margin	Tobin's Q
Overall ESG Score	0.31***	0.22***	0.18**	0.44***
Environmental Score (E)	0.18**	0.14*	0.16**	0.28***
Social Score (S)	0.16*	0.13*	0.12	0.21**
Governance Score (G)	0.38***	0.29***	0.22***	0.48***
Firm Size (log assets)	0.12**	0.09*	0.08	0.16**
Leverage (D/E ratio)	-0.24***	-0.18***	-0.14**	-0.31***
Revenue Growth	0.19***	0.14**	0.21***	0.22***
Capex Intensity	-0.08	-0.06	0.04	-0.12*
R-squared (within)	0.64	0.58	0.52	0.71
Number of Observations	50	50	50	50

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. Sector fixed effects included in all models.

Source: Computed by the author

5. Sector-Level Analysis

Subgroup study at the sector level shows significant variability in the association between financial performance and sustainability. The labour-intensive, knowledge-driven business model of the IT sector, where human capital management (a crucial component of S-scores) and governance integrity (G-scores) are critical competitive factors, is probably why the sector shows the strongest and most consistent positive ESG–financial performance association. The FMCG industry, which is mostly represented by ITC, exhibits a robust environmental–EBITDA margin relationship that is in line with cost savings from waste reduction and energy efficiency.

In line with the idea that sustainability transitions in capital-intensive, historically high-emission industries are longer-cycle investments whose financial gains accrue with a lag. The ESG-performance relationship is weaker but getting better over time in the energy industry (Reliance and NTPC). While environmental scores lag, the infrastructure sector (L&T) shows a moderately favourable governance–ROE association. This is indicative of the difficulties in integrating environmental sustainability into large-scale engineering and construction activities.

6. Interpretation of Key Findings

The study's empirical findings together support the main hypothesis, which states that among top Indian listed firms, sustainability and financial success are positively and significantly correlated. It is worthwhile to elaborate on a few important interpretive ideas.

First, the predominance of governance scores as indicators of financial performance is in line with India's institutional framework. Significant wealth destruction in the Indian market has historically been linked to corporate governance issues, such as related-party transactions, limited board

independence, and inadequate disclosure policies. In contrast, firms with robust governance frameworks, like TCS, Infosys, and HDFC Bank, have continuously demanded better financial ratios, lower capital costs, and market premiums, which is consistent with the results of the current study.

Second, it is analytically noteworthy to find that environmental scores show a strong positive correlation with Tobin's Q but a lesser short-term correlation with accounting-based metrics (ROE, ROA). It implies that rather than being a direct cause of current-period accounting profitability, environmental excellence is largely recognized by capital markets as a forward-looking quality signal. This is in line with the idea that environmental investments, such as those in resource efficiency, pollution reduction, and the switch to renewable energy, require upfront capital expenditures with long-term financial advantages. These potential rewards seem to be included into current equity prices by investors.

Third, it is important to interpret social scores carefully due to their comparatively smaller financial significance. This does not mean that social performance is meaningless; rather, its long-term, indirect, and diffuse financial consequences are possible. It is challenging to measure the financial rewards of social investments in employee well-being, community development, and inclusive supply chains since they create intangible assets like talent social license to operate, brand equity, and retention.

Policy and Managerial Recommendations

1. For Corporate Management

The following suggestions are made for the management of Indian listed companies in light of the empirical findings:

- 1.1 Rather of considering sustainability as a separate compliance or CSR activity, include ESG goals into capital allocation choices and core company strategy.
- 1.2 As the most significant ESG investment for generating financial value, give top priority to governance enhancements, including as board independence, CEO accountability, and open stakeholder communication.
- 1.3 Make investments in environmental sustainability projects (such as energy efficiency, the switch to renewable energy, and water conservation) with clear long-term financial return frameworks, informing analysts and investors of the anticipated payback period.
- 1.4 Create reliable tools for measuring social impact in order to more accurately assess the financial worth of investments in supply chain sustainability, human capital, and communities.
- 1.5 To match incentive structures with sustainability goals, senior executive compensation frameworks should incorporate ESG performance criteria.

2. For Regulators and Policymakers

- 2.1 In order to create a thorough sustainability disclosure ecosystem throughout the Indian listed universe, SEBI should gradually expand the BRSR mandate to mid-cap and small-cap businesses.
- 2.2 To increase the comparability and material relevance of ESG disclosures, the Ministry of Corporate Affairs should create sector-specific sustainability accounting rules.

- 2.3 To strengthen the commercial case for sustainability, enterprises with proven high ESG performance should be rewarded with tax incentives and preferred access to development funds.
- 2.4 The RBI should include climate stress testing for large financial institutions as well as ESG risk assessment in its frameworks for prudential regulation and bank supervision.

3. For Investors

- 3.1 ESG analysis should be methodically included into equities research, portfolio construction, and stewardship operations by institutional investors, such as mutual funds, insurance companies, and pension funds.
- 3.2 The Indian ESG rating system has to be expanded and standardized; investors should interact with several rating agencies and give material, industry-specific ESG indicators precedence over general composite ratings.
- 3.3 Given its proven importance as a driver of financial value, long-term investors should use a governance screen as a basic investing criterion when assessing Indian listed stocks.

Conclusion of the Study

This study examined the relationship between sustainable practices and financial performance in ten selected Indian listed companies between FY2020–2021 and FY2024–2025, as determined by ESG ratings. The study offers strong empirical evidence that ESG performance is favourably and significantly correlated with important financial performance metrics, such as Return on Equity, Return on Assets, EBITDA margin, and Tobin's Q, using panel data regression analysis with fixed effects.

The most potent driver of financial success among the three ESG pillars is governance quality, which reflects the significance of stakeholder transparency, board accountability, and institutional trust in the Indian corporate environment. In line with forward-looking capital market pricing of environmental risk and opportunity, environmental excellence has a particularly significant impact on market-based valuations. The need for improved social impact accounting techniques is highlighted by the fact that social performance has a beneficial impact on financial outcomes but is less measurable in the short term. The research's final conclusion is both analytically evident and practically significant: for well-run Indian businesses, sustainability is a structural driver of financial performance rather than a trade-off. Businesses, investors, and regulators will be better equipped to handle the potential and challenges of India's sustainable economic change in the next decades if they acknowledge and act upon this idea.

Limitations of the Study

1. Ten carefully chosen Indian businesses are included in the study, which may not accurately reflect all industries.
2. The analysis may miss long-term ESG effects because it only looks at the years 2020–2025.

3. The study uses secondary data from ESG disclosures and corporate reports, which may include reporting biases.
4. The comparability of ESG and financial performance outcomes may be impacted by sectoral differences.

Future Scope of the Study

1. Future studies can include a larger sample of companies and industries.
2. Research can extend the analysis over a longer time period.
3. Comparative studies between Indian and international firms can be conducted.
4. Advanced statistical methods and additional variables can be used to better understand the ESG–financial performance relationship.

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