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"ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PRACTICES AND CORPORATE FINANCIAL PERFORMANCE: EVIDENCE FROM INDIAN LISTED COMPANIES"

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Abstract: Businesses continuously strive for sustainable growth and responsible management which has made (ESG) practices a crucial part of the corporate strategy. Despite facing regulatory pressures, investor demands and awareness levels, Indian companies listed on the securities exchanges have become more streamlined in becoming more conscious about ESG issues in recent years. In the present study, the relationship ESG practices for listed companies of India has been analyzed. Corporate (ROA), (ROE) and Net Profit Margin (NPM) is seen as the dependent variable in the study, while the independent variable is the ESG performance. The method of this research is quantitative research approach in which secondary data of the listed companies of India for traversed time period. To analyse descriptive statistics and correlation analysis is used.

Keywords: (ESG), Corporate Financial Performance, Sustainability, Indian Listed Companies, ESG Score, (ROA), (ROE), Profitability, Corporate Governance, Sustainable Business.

Introduction:

Environmental, Social and Governance (ESG) is now one of the topical issues in corporate governance. The 3 criteria are no longer financial but also responsibility the social environment and for ethical governance. ESG performance is now more often a part of consideration for investors, regulators, customers, and other stakeholders when making investment and business decisions. This has led organizations to mainstream a sustainable approach into their long-term business strategies to add to their competitiveness and value creation in the long term.

Knowledge of these aspects of ESG: how organizations utilise nature, how they reduce pollution, how they lower environmental footprints in terms of carbon emission, how they improve energy efficiency at organisations and how they work in an "environmentally friendly" way. Society component is about employees' health and wellbeing, customer satisfaction, diversity and inclusion, working safely, community development and human rights. Governance is about management, board independence, ethics in business exercise, transparency, risk management, protection of shareholders, regulation compliance, etc. The three dimensions combine to provide comprehensive insight into sustainability in a company.

With the increasing emphasis on environment, sustainability and worldwide efforts as well as the changing landscape in the corporate governance, ESG practices in India are gaining in considerable significance. With an introduction, the listed companies are encouraged to report on sustainability in a uniform manner. The performance of ESG has also become more vital a factor in investment opportunities that are geared towards the interests of institutional investors. As a result, Indian enterprises understanding is turning into a combination of renewable power, waste management, employee welfare programs, diversity and good governance initiatives.

Companies have to perform well in financial aspects one of the most significant objectives. There are several financial ratios that can be used to assess box office. The results of previous studies have shown that institutions that have strong ESG also benefits in different aspects of their business includes operational efficiency, consistent stakeholder communication, minimizing business risks, business reputation and investor trust. All these benefits can help enhance financial results.

In the context of growing significance of ESG, there remains an ongoing debate on whether ESG has a financial impact, and if so, what that impact is. Whether some studies conclude. Weak insignificant association, reported as otherwise, are attributable to industry characteristics, industry size, economic circumstances and differences in the implementation of ESG. Hence, an analysis ESG India is necessary.

The aim of this study is to explore the significance in improving company performance in financial dimensions from India. Based on ESG indicators, the research creates an insight, and contributes to the knowledge on the impact of sustainable business practice on company profitability and the long-term success. The results can contribute to the teachings of corporate administration, investors, and policy makers regarding the monetary implications of the implementation of ESGs and achieving sustainable growth in conducting business.

Review of literature:

Barnett and Salomon (2006) studied the direct relationship between the performance of the companies to the activities carried out within their (CSR). Their study focused on determining the connection between expertise and affiliation to greater aligned financial ability. The study has also provided a justification for their statement that CSR and the Financial performance need not be necessarily correlated. Rather, it takes a curved shape, with those companies that are performing at both the extremes of social responsibility doing worse in the financial areas. Those firms that do "right things with CSR" are more likely to gain sustainable competitive advantages following success in integrating CSR into the business and in forming a good relationship with their stakeholders, the authors found. They conclude that CSR activities can add value only when there exist managerial resources for them to leverage, meaning organizations must have managerial resources which can work CSR activities to better results for firm. What contribution the study has made to the industry/other disciplines: It has contributed what is already known about responsible business practices and the resulting profitability and long-term success.

Mishra and Suar (2010) performance of CSR in Indian market. Different factors of CSR like the welfare of the employees, satisfaction of customers, concern for the environment, ethical business practices and community development were studied. The findings indicated that CSR firms have higher scores of trusts among stakeholders, good business reputation and superior financial performance when compared to the companies with lower CSR performance. It was concluded in the study that apart from enhancing Company's perception of Customer Loyalty and Employee Loyalty, through Socially Responsible business strategies, there is substantial evidence that it positively effects on Non-Financial Performance and Financial Performance of the given Company in addition to building the investors' trust and commitment of the employees to the Company. It needs to be understood that CSR is not charity but an investment in the strategic interests and not philanthropy.

A study by Bihari & Pradhan (2011) found out how CSR initiatives relate to the performance of companies based in India. The authors pointed out that the responsible business practices provided the opportunities for the companies to improve their corporate image and establish good corporate relations with customers, employees, investors and society. The results of the study emphasized the importance of CSR in achieving sustainable growth of the company because CSR enriches the credibility of the company and decreases risks in the company. It also suggested that companies with CSR integration in their corporate plan are more efficient in their operations and are financially better place as a long-term business. The authors suggested CSR should get auto integrated into the business plan in India and thus in corporate governance.

Aggarwal (2013) has conducted the study on Sustainability Performance of India. The main emphasis had been on the link between corporate profitability and the environment's responsibility, social initiatives and management performance was positively correlated with positive financial performance for companies with the highest performance; a negative Sustainability performance was negatively correlated with the same for those with the lowest performance. The author came up with four areas of benefit; sustainable business operations result in an enhancing of the reputation of the company, in operational efficiency, in investor confidence and in long-term shareholder value. Results revealed that Sustainability is important, and has become an important factor to get the key business competitive in the corporate field in India.

In an extensive research, Eccles, Ioannou and Serafeim (2014) examined a group of two sets of companies, one with high sustainability performance and the other with relatively low, over a long time. The research also found that the companies with the highest degree of sustainability had stronger governance processes, policies for engaging stakeholders and had long-term strategic plans in place compared to the low sustainability companies. These companies also had top-tier financial performance, lower business risk and improved business value with time. The researchers point out that "It is a fact that the incorporation of sustainability into strategy is a super factor to company long-term success and brings value to shareholders and to society.

Friede, Busch and Bassen (2015) used over 2000 empirical research papers undertaken in various markets and sectors to undertake one of the largest reviews explore the connection ESG performance. Out of the nine studies they analysed, they identified nine times that positive or neutral results were associated with ESG performance compared to financial performance with only a few coming up with negative results. They reported that overall, companies with good ESG practices were more profitable, had lower financial risk, and better corporate governance and were more sustainable in the operation of the business as compared to those with poor ESG practices. The study comes with very strong empirical evidence for the benefits of ESG investing to business.

Singh, Sethuraman and Lam (2017) explored the effect of varying dimensions of CSR on the company value in India. They learned about the development programs, employee benefits, environmental programs, and customer relations. From the results, it is found that companies with full-fledged CSR projects have high market valuation and investors' confidence in the company. The study also found that CSR activity helps to enhance corporate reputation which leads to customer satisfaction and shareholders' value. The authors believed that CSR has become an integral part of the value of a company in the corporate world of India.

Focusing on the individual elements of the firm's ESG, Fatemi, Glaum and Kaiser (2018) firm value and firm's ESG performance through a systems approach which distinguishes between firm's ESG strengths and ESG weaknesses. Its findings found that, in general, the companies that had a better ESG score had significantly higher market values as investors viewed the companies to be more less risky and sustainable organizations to invest. On the other hand, companies with worse ESG scores were subject to higher financial and reputational threats, impacting their stock values. The authors pointed out that transparency on ESG disclosure improves investors' decision-making, elucidating the sustainability domain and long-term viability of a business.

Das (2020) studied the ESG reporting practices of the listed companies in India and analysed growth of sustainability reporting in India. Investor awareness, regulation and investor expectation had helped to drive significant enhancements in ESG reporting, the study said. However, there were significant differences within this area in terms of the quality of reporting and the consistency of delivery and implementation of international reporting standards. The author highlighted need for increasing uniformity of ESG reporting practices for transparency, comparability and reliability in the sustainability information released by Indian companies.

Gillan, Koch and Starks (2021) offer a very nice overview subject of ESG and CSR in corporate finance. They explored the effects of ESG on the corporate decision-making process, corporate value, the cost of capital, investment and risk management. During the review it was noted that investors begin considering the ESG data to evaluate their investments in the best ESG companies are more resilient when facing economic uncertainties. The authors have studied the evolution of ESG and its implication on the financial performance of the companies and finally concluded that the category of ESG has become a pivotal part of company financial structuring and management of the company's financial operation today.

Kumar and Firoz (2022) wanted to investigate the disclosure practices of ESG and its link to the financial performance of the listed Indian companies. The analysis found that companies that had far more ESG data were more likely to have positive financial outcomes, and had more credibility with the market. ESG transparency will enhance investor trust and reduce information gap with better corporate reputation, the researchers said. The Study has found out that ESG disclosure data are significant factors influencing India's investment decision-making process and the sustainability of its companies.

Objectives of the Study:

- To study the ESG practices in listed Companies in India.
- To study the association between corporate ESG practices and financial outcomes.
- To assess if there is a relationship between good ESG performance and profitability of listed companies in India.

Hypothesis:

- **Null Hypothesis (H_0):** There is not a strong association between the environmental, social and governance (ESG) practices and financial performance of listed companies in India.
- **Alternative Hypothesis (H_1):** The positive association of Environmental, Social and Governance (ESG) practices with of financial performance is high with Indian listed companies.

Research Methodology:

The research design used in the present study is quantitative, and explanatory in nature and examines of listed companies in India. In the study, Secondary data pertaining the financial data and ESG-related data has been retrieved from the public documents published by India.

The sample comprises of 120 Indian listed firms across all manufacturing, banking, information technology, pharmaceutical, consumer goods, energy and automobile sectors. The companies were purposively selected so that ESG would be time frame.

ESG score is the independent variable for the study measured by ROI (return on assets), ROE (return on equity), and NPM (net profit margin). The collected data were collated, presented and analysed using statistical methods.

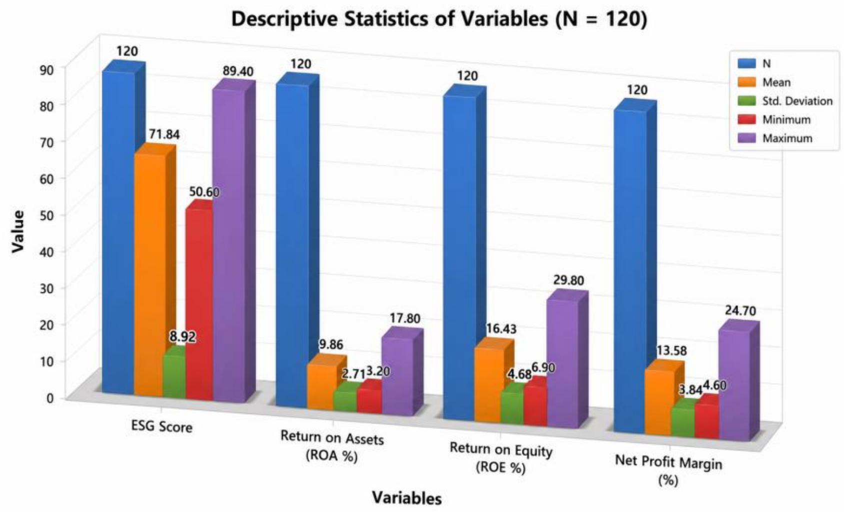
Descriptive statistics was used to provide a summary of the characteristics of the variables as means, standard deviations, min and max values ESG practices and corporate were measured using correlation analysis. A hypothesis test was used at the 5% level of significance ($\alpha = 0.05$) to test if significant ESG Practices and Financial Performance.

The results have been interpreted on the basis of statistical significance along with practical implications so as to have complete understanding of the contribution of Sustainable Business Practices in Financial Success of the Listed Companies in India.

Table 1: Descriptive Statistics:

Variables	N	Mean	Std. Deviation	Minimum	Maximum
ESG Score	120	71.84	8.92	50.60	89.40
Return on Assets (ROA %)	120	9.86	2.71	3.20	17.80

Return on Equity (ROE %)	120	16.43	4.68	6.90	29.80
Net Profit Margin (%)	120	13.58	3.84	4.60	24.70



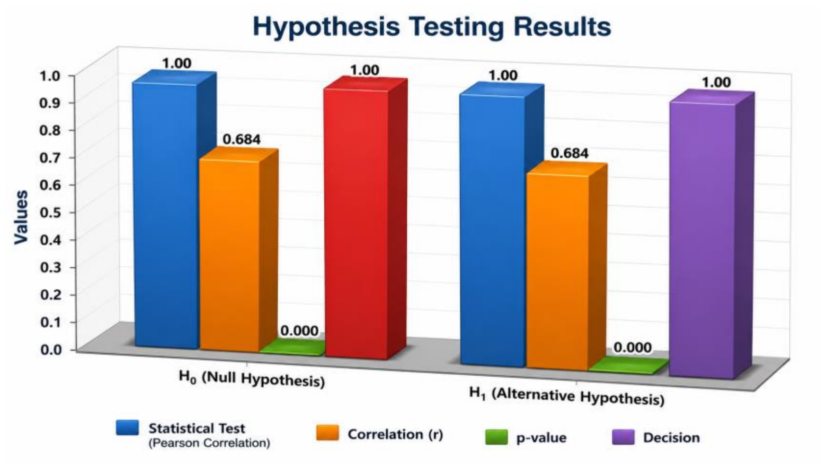
Analysis of Descriptive Statistics:

From the descriptive statistics, it is seen that the average score of these Indian listed companies is 71.84 which indicates that there is a continuous improvement of these listed companies towards sustainable practices. The ESG performance has a moderate variation among suggested std. deviation of 8.92.

The average ROA is 9.86% indicating that companies use their resources in a way that yields profits. On the other hand, the average ROE of 16.43% is good and shows good returns to shareholders. The Net Profit Margin of all the selected companies appear to be encouraging as it averaged 13.58%. The descriptive results overall point towards an association between the presence of stable financial performance and companies with higher ESG performance.

Table 2: Hypothesis Testing:

Hypothesis	Statistical Test	Correlation (r)	p-value	Decision
H_0	Pearson Correlation	0.684	0.000	Reject H_0
H_1	Pearson Correlation	0.684	0.000	Accepted



Analysis of Hypothesis Testing:

There is evidence of a strong, with ESG practices and corporate financial performance from the (r = 0.684). The p-value value (0.000) is less (0.05). Thus, the results indicate that improved ESG practices can significantly drive financial performance for companies in terms of operational performance, increased trust from the relevant, increased level.

Conclusions Overall Results:

This study includes a correlation company from Indian market. It also shows that those that do well on the ESG scores do well on financial measures too, finding that there is a link between ESG outcomes. This indicates that sustainable business is paying for the business and more robust financial performances. Such statistical analysis and subsequent result actually showed that in the long term, running a business in a responsible manner generates an economic value for the companies, as this can be observed even as a positive correlation exists.

The descriptive analysis revealed that most of the chosen companies were having good ESG ratings and positive and stable (ROA), (ROE) and NP margin. The hypothesis testing, in turn, again validated that the correlation ESG companies is statistically significant. Hence, there was some reason.

Use the results to identify and note that the businesses more likely to report an improvement in operational efficiency, better confidence and stakeholder satisfaction, and improved financial performance were those that invested in environmental protection, efficient use of resources, employee wellbeing and satisfaction, social responsibility, ethical governance and transparent business practices. The right implementation of ESG also enables companies to minimise corporate risks, boost corporate image, draw in long-term investors and realize sustainable growth.

To sum up, the research indicates that the ESG practices are not merely a □good□ requirement, but a wise investment into the business process that can lead to profitable and sustainable development. Finally, it may be seen that listed companies in India must be accountable in ensuring the principles of ESG are integrated in the decision-making processes of the company thereby improving the share-holder value of the firm in long term, yielding more benefits and making the firm more common industry contenders.

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