European Economic Letters
ISSN 2323-5233
Vol 15, Issue 2 (2025)
http://eelet.org.uk

The Impact of ESG Practices on Financial Performance: A Study of India's Top 30 Companies

Dr. Neetu Jain1*,
*1*Sr. Assistant Professor, The Bhopal School of Social Sciences, Bhopal, India.*

Dr. Sarita Rana2,
2Associate Professor, Acropolis Faculty of Management and Research, Indore, India.

Prof. Ishita Rana3
3Assistant Professor, Indore Institute of Law, Indore, India.

ABSTRACT

The idea of Environmental, Social, and Governance (ESG) criteria has been increasingly popular among investors, businesses, and governments in recent years. Socially conscious investors employ Environmental, Social, and Governance (ESG) principles to evaluate possible investments. Social, environmental, and governance criteria all deal with a company's executive compensation, leadership, internal controls, audits, and shareholder rights.

Purpose

The purpose of this study is to examine the relationship between ESG scores and financial performance of the top 30 companies. It aims to explore the extent and direction of ESG practices' impact on key financial indicators.

Design/methodology/approach

Quantitative research methods were utilized in this study. The present study is descriptive, analytical and empirical study. The study tries to look to what extent ESG measure affects the financial performance of selected top 30 listed companies. Selection of listed companies is based on ESG score published in CRISIL which is extracted on 22nd March, 2024. 3 Pillars of **ESG** are – **E**nvironmental, **S**ocial and (corporate) **G**overnance aspects are considered.

As ESG score is the combination of Environmental disclosure score, Social disclosure score and Governance disclosure score, Collinearity test is done to examine whether they are closely related to one another. It is observed that there is significant correlation between ESG Score and its components whereas there is no correlation between three components with each other. Therefore, to avoid the existence of multicollinearity among independent variables, two models are used for studying the impact on financial performance.

Model I – This will explore the impact of combined or consolidated ESG Score on the financial parameters to assess financial performance keeping in view size and leverage of the companies.

Model II – This will explore the impact of Environment disclosure score, Social disclosure score and Governance Disclosure Score individually on the financial parameters to assess financial performance keeping in view size and leverage of the companies.

European Economic Letters
ISSN 2323-5233
Vol 15, Issue 2 (2025)
http://eelet.org.uk

Findings
We found that higher ESG scores are associated with better performance in terms of Tobin's Q (a measure of market value), Return on Assets (ROA), and Return on Capital Employed (ROCE). Interestingly, when we break down ESG into its components, we see that each aspect - environmental, social, and governance - plays a crucial role in shaping these financial outcomes. Companies that excel in these areas tend to have higher market valuations and more efficient use of their assets and capital. However, our research uncovered an unexpected twist. Despite the positive impact on other metrics, ESG scores showed little to no influence on Return on Equity (ROE). This suggests that while good ESG practices can boost a company's market value and operational efficiency, they may not directly translate into higher returns for shareholders.

Research limitations/implications: The study is limited to only the top 30 companies, which may not represent the broader market, potentially limiting the generalizability of the findings. The analysis is based on ESG data from specific sources, which may have inconsistencies or biases in reporting across different firms. The study focuses on financial indicators and may not fully capture the long-term non-financial benefits of ESG practices.

Originality/value
This paper explores how ESG factors influence the performance of Indian public companies. This research investigates how ESG outcomes impact financial performance and market value, with financial performance acting as a mediating factor. The study provides evidence that improved ESG performance can enhance a company's market value, offering valuable insights for organizations, authorities, and shareholders.

Keywords*:* ESG score, Environmental Score, Social Score, and Governance Score, Financial Performance

Introduction

The idea of Environmental, Social, and Governance (ESG) criteria has been increasingly popular among investors, businesses, and governments in recent years. Socially conscious investors employ Environmental, Social, and Governance (ESG) principles to evaluate possible investments. Social, environmental, and governance criteria all deal with a company's executive compensation, leadership, internal controls, audits, and shareholder rights. Environmental criteria look at how a company manages relationships with suppliers, customers, and the communities in which it operates.

In the past decade, India's regulatory landscape has seen significant changes. The revised Companies Act of 2013, specifically Section 135, mandates eligible companies to allocate 2% of their net annual profit to CSR activities. This shift reflects a growing investor interest in sustainable and responsible investment strategies, particularly ESG-based portfolio selection. Such strategies, supported by initiatives like the United Nations Environment Program Finance Initiative, aim to capitalize on firms with strong governance and socially responsible practices, believed to enhance long-term value through effective ESG risk management.

These ESG parameters represent the non-financial aspects of organizational performance and are diverse and constantly evolving. They encompass:

- Environmental factors such as climate change, greenhouse gas emissions, resource depletion (including water, waste, and pollution), and deforestation.
- Social considerations including working conditions (including slavery and child labor), impacts on local and indigenous communities, conflict management, health and safety practices, employee relations, and diversity.
- Governance issues such as executive compensation, bribery and corruption policies, political lobbying and donations, board diversity, and tax strategies.

In India, the ESG Index was launched through a collaboration between CRISIL and NSE India. The primary goal of this index is to assess exposure to securities that meet sustainability investing criteria. While there is ample literature on ESG practices in developed economies, research on the current state of ESG implementation and its impact on companies in emerging economies remains limited. This paper aims to investigate how ESG factors influence the performance of Indian public limited companies.

The fundamental tenet of the ESG framework is that ethical and sustainable company practices are inextricably related to long-term financial success. This strategy goes against the conventional business model, which places the highest priority on maximising short-term profits. Rather, it promotes for a model in which social wellbeing and profitability can reinforce one another rather than being mutually exclusive.

With an emphasis on the social component of ESG, businesses are being held more and more responsible for their effects on social welfare. This covers a broad spectrum of topics, such as customer satisfaction, community involvement, diversity and inclusion, labour practices, and human rights. Creating equitable and welcoming work environments, guaranteeing ethical and safe supply chains, and making constructive contributions to the communities in which they operate are all parts of a commitment to social welfare.

This paper explores how ESG factors influence the performance of Indian public companies. This research investigates how ESG outcomes impact financial performance and market value, with financial performance acting as a mediating factor. The study provides evidence that improved ESG performance can enhance a company’s market value, offering valuable insights for organizations, authorities, and shareholders.

Literature review

Sinha Ray et al. (2023) stated the use data gathered by Prowess IQ and Yahoo Finance between 2014 and 2018 to look into the relationship between firm financial results and ESG ratings. Tobin's Q is used to choose companies, with the Nifty 100 index serving as a proxy for the company's value and performance. Business size and the sustainable score's ESG subcategories have further effects on company value. The result is significantly influenced by the ESG score. Standard linear squares have been used to test the hypotheses.

Zhou and others, 2022 explored the relationship between financial and environmental, social and governance (ESG) results has been extensively studied. A significant field of research examines

whether financial accomplishment is positively impacted by the disclosure of ESG data. This relationship stems from the idea that businesses are more likely to adopt sustainable business practices if they offer more detailed information about their environmental, social, and governance (ESG) initiatives and devote more resources to CSR. As a result, these kinds of actions could result in better reputations, competitive advantages, and organisational improvements.

Landi et al., (2022) noted that using a framework such as PRI aids investors in understanding sustainable investments and enables them to make more responsible decisions. PRI facilitates the engagement, exchange of best practices, and education of a global investor signatory network that aims to include environmental, social, and governance considerations into ownership and investment decisions. Aside from that, a number of businesses have expressed a willingness to incorporate ESG practices into various aspects of their operations.

In conclusion, the research highlighted underscores the growing recognition of ESG factors as critical drivers of corporate performance and investor decision-making. From enhancing transparency and governance to promoting sustainable practices and improving financial outcomes, integrating ESG considerations into business strategies proves beneficial across various sectors, fostering a more resilient and responsible corporate landscape globally.

Research design

The statistical technique used to empirically test the hypothesis is the multiple regression analysis. It has been identified to estimate the causal relationship between explained and explanatory variables.

Objectives of the study

The study aims at the following objectives:

1. To show the relation between ESG Scores and Financial performance of selected top 30 companies.
2. To explore the direction and degree of impact of ESG practices undertaken by companies on financial indicators or performance.

Hypothesis of the study

H1: There is significant impact of consolidated ESG Score on financial parameters of performance i.e. Tobin's Q, ROA, ROCE and ROE.

H2: There is significant impact of Environment Disclosure Score on financial parameters of performance i.e. Tobin's Q, ROA, ROCE and ROE.

H3: There is significant impact of Social Disclosure Score on financial parameters of performance i.e. Tobin's Q, ROA, ROCE and ROE.

H4: There is significant impact of Governance Disclosure Score on financial parameters of performance i.e. Tobin's Q, ROA, ROCE and ROE.

Data and research methodology

Research methodology

The present study is descriptive, analytical and empirical study. The study is designed to be a narrative study with appropriate analytical discussions presented in tune with the proposed objective. The study tries to look to what extent ESG measure affects the financial performance of selected top 30 listed companies. Selection of listed companies is based on ESG score published in CRISIL which is extracted on 22nd March, 2024. 3 Pillars of **ESG** are – **E**nvironmental, **S**ocial and (corporate) **G**overnance aspects are considered. Since ESG factors are often interrelated, there may be scenarios where identifying and classifying an ESG activity as only an Environmental, social or governance practice might not be feasible.

Time period of the study

In the present study, research data was secondary in nature which is taken for the year 2023-24 of 30 top ESG Score companies.

Data base, statistical tools and techniques

Study is based on secondary data. Information has been collected from annual reports of companies, journals, articles, newspapers and relevant government websites. ESG score of companies has been taken from website of CRISIL. Top 30 listed companies from different sector have been taken into consideration. The data obtained has been analyzed using appropriate statistical measures/ techniques like averages, Standard Deviation, Skewness, Kurtosis. In the present study, ANOVA used to determine the significance affect f ESG score on financial performance. The statistical technique used to empirically test the hypothesis is Multiple Regression Analysis. It has been identified to estimate the causal relationship between explained and explanatory variables. The performance of the firm, assessed through metrics such as return on assets (ROA), return on equity (ROE), and return on capital employed (ROCE) and Tobin's Q is viewed as the dependent variable. In contrast, the independent variable is the ESG score, representing the firm's environmental, social, and governance performance. Additionally, factors like firm size and leverage are treated as control variables, aiming to understand their influence alongside other determinants on financial performance. The various variables identified for the investigation are defined as follows:

Table -1

Variable	Type of Variable	Measurement	Significance
Return on Asset (ROA)	**DV**	**(Earnings before Interest and tax + Depreciation)/Total Assets**	It shows that how competently the assets are used in generating the income
Return on Equity (ROE)	**DV**	**Earnings after Interest and tax / Shareholders Equity**	It provides insight into how effectively a company utilizes shareholders' capital to earn profits.
ROCE	**DV**	**Earnings before Interest and tax / Capital Employed**	ROCE is a financial ratio that shows whether a company is doing a good job for generating profits out of its capital.

Tobin's Q	**DV**	**(Total Assets + Market Capitalisation – Net Worth) / Total Assets**	It is an economic ratio calculated to compare market value with its book value or replacement value of the asset. When the Q Ratio equals to 1, it suggests that the market fairly values the company's assets. High Tobin's q values encourage companies to invest more in capital because they are "worth" more than the price they paid for them.
ESG Consolidated Score	**IV**		It is combined score of three components of ESG i.e Environmental Disclosure Score, Social Disclosure score and Governance score. This score is taken from CRISIL. CRISIL's ESG scores are designed to support financial institutions and corporates to measure and monitor inherent ESG risks across their financial exposures - both equity and debt.
Environmental Disclosure Score (ESG)	**IV**	**Based on CRISIL's Score**	This criterion encourages whether a company adopts low carbon footprint and follows eco-friendly methods in its functioning.
Social Score (ESG)	**IV**	**Based on CRISIL's Score**	This criterion looks at a company's business relationships with its customers, community and business partners. It even observes how a business organisation upholds social good in the wider world
Governance Score (ESG)	**IV**	**Based on CRISIL's Score**	It reflects on how the board and management compel positive changes. It also shows the transparency and ethical values of the company and embraces the highest standards of governance.
Leverage	**Control Variable**	**Total Debt/ Equity**	Control Variable
Size	**Control Variable**	**Natural logarithm of Assets**	Control Variable

Table – 2 - DESCRIPTIVES

Variables	N	Range	Minimum	Maximum	Mean	Standard Deviation	Variance	Skewness	Kurtosis
Tobin's q	30	9.240	1.060	10.300	3.999	2.799	7.832	0.946	-0.037
ROA	30	32.050	0.350	32.400	10.087	8.299	68.869	0.742	0.034
ROCE	30	61.650	2.650	64.300	20.229	14.441	208.535	1.111	1.315
ROE	30	51.500	0.000	51.500	20.064	10.971	120.361	1.181	2.971
Leverage	30	10.150	1.050	11.200	3.606	3.023	9.137	1.132	0.088
Size	30	3.920	2.480	6.400	4.648	0.917	0.841	-0.133	-0.179
environmental_score	30	27.000	52.000	79.000	63.967	7.659	58.654	0.608	-0.624
social_score	30	24.000	48.000	72.000	63.100	5.554	30.852	-0.606	0.475
governance_score	30	16.000	68.000	84.000	76.267	3.695	13.651	-0.481	0.021
ESG_score	30	11.000	65.000	76.000	68.733	3.513	12.340	1.184	0.111

Source: Researcher's Calculation through SPSS Version 21

ESG score ranges from **65** to **76** of selected 30 companies with a mean score of 68.73 which is under the category of 'STRONG' as per CRISIL Rating. Governance disclosure Score has the highest mean score which indicates that the company has a strong level of transparency and disclosure regarding its governance practices. By openly disclosing governance-related information, they can identify and mitigate potential risks more effectively. It is also observed that environmental score has more variance than other components of ESG (Environmental, Social, and Governance), it means that there is greater diversity or fluctuation in how companies perform in environmental criteria compared to social and governance criteria. It may be due diverse environment practices or industry specific factors.

ROCE ratio showed highest variance 208.535%. ROCE can vary significantly across industries due to differences in capital requirements, operating margins, and asset turnover ratios. Some companies may prioritize environmental sustainability initiatives, while others may focus more on social responsibility or governance practices. Variations in ESG focus areas can impact operational efficiency and profitability, influencing ROCE.

As ESG score is the combination of Environmental disclosure score, Social disclosure score and Governance disclosure score, Collinearity test is done to examine whether they are closely related to one another. As stated in table 2, it is observed that Mean VIF value is higher than maximum

acceptance value 5, so they are highly correlated. Correlation Table also signifies that there is significant correlation between ESG Score and its components whereas there is no correlation between three components with each other. Therefore, to avoid the existence of multicollinearity among independent variables, two models are used for studying the impact on financial performance. VIF value is calculated to find whether there is any multicollinearity in independent variable ESG score and control variables Leverage and Size. As per table VIF value is less than 5, there is no issue of multi collinearity among the variables.

The control variables, SIZE_A and LEV, exhibit a negative association with the performance of the entity across all three dependent variables. The coefficient for SIZE_A is statistically significant at the 5% level in relation to TOBIN's Q, ROCE, and ROE. This suggests that as firm size increases, organizational inefficiencies may be impacting its overall value negatively.
Similarly, LEV measuring the impact of capital structure on firm's financial performance is statistically significant at 5%, when regressed with RO_A. It indicates that higher amount of debts on the part of firm are not greeted by shareholders.

Table 3 - Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.875	13.132		-.143	.888		
	ESG_score	.871	1.448	1.093	.601	.553	.012	85.185
	environ_score	-.270	.480	-.739	-.562	.579	.022	44.512
	social_score	-.148	.355	-.293	-.416	.681	.078	12.803
	governance_score	-.359	.612	-.474	-.587	.562	.059	16.816
	Mean VIF Value							39.829

Table 4 - Correlations

		ESG_score	environ_score	social_score	governance_score
ESG_score	Pearson Correlation	1			
	Sig. (2-tailed)				
environ_score	Pearson Correlation	.794**	1		
	Sig. (2-tailed)	.000			
social_score	Pearson Correlation	.572**	.205	1	
	Sig. (2-tailed)	.001	.277		
governance_score	Pearson Correlation	.484**	.009	.126	1
	Sig. (2-tailed)	.007	.963	.506	
	N	30	30	30	30

**. Correlation is significant at the 0.01 level (2-tailed).

European Economic Letters
ISSN 2323-5233
Vol 15, Issue 2 (2025)
http://eelet.org.uk

Model I – This will explore the impact of combined or consolidated ESG Score on the financial parameters to assess financial performance keeping in view size and leverage of the companies in Figure 1.

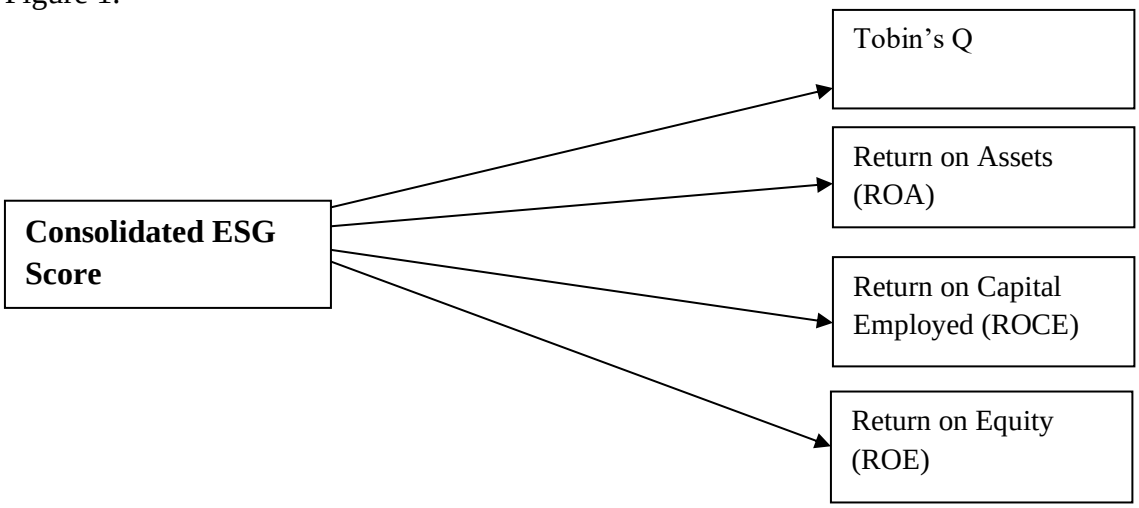

Figure 1: Conceptual Framework illustrating the relationship between the Consolidated ESG Score and Firm Financial Performance Indicators.

Model II – This will explore the impact of Environment disclosure score, social disclosure score and Governance disclosure Score individually on the financial parameters to assess financial performance keeping in view size and leverage of the companies in Figure 2.

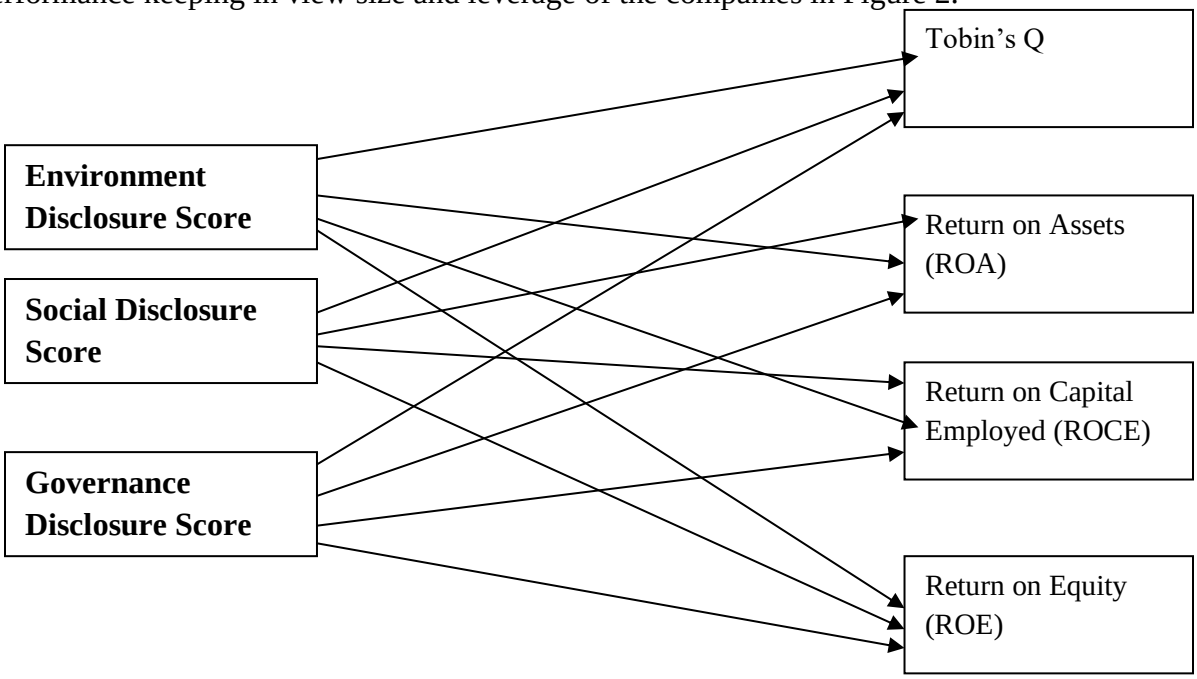

Figure – 2: Conceptual Framework representing the influence of individual ESG dimensions.

European Economic Letters
ISSN 2323-5233
Vol 15, Issue 2 (2025)
http://eelet.org.uk

MODEL I

Impact of combined or consolidated ESG Score on the financial parameters to assess financial performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.013	8.831		-.002	.999		
	ESG_score	.168	.143	.210	1.171	.252	.698	1.433
	Leverage	-.205	.206	-.221	-.995	.329	.456	2.191
	Size	-1.458	.699	-.478	-2.086	.047	.430	2.324

Table 5 - Impact of ESG Consolidated Score on Tobin's Q

Hypothesis	**Regression weights**	**Beta Coefficient**	**R^2**	**F**	**p-value**	**Hypothesis supported**	**Impact (significant/Insignificant)**
H1	**ESG→Tobin's Q**	**0.168**	.413	6.100	.003	**YES**	**Significant Impact**
	ESG→ROA	**0.446**	0.546	10.433	.000	**YES**	**Significant Impact**
	ESG→ROCE	**0.934**	0.484	8.139	.001	**YES**	**Significant Impact**
	ESG→ROE	**0.685**	.08	1.567	.221	**NO**	**Insignificant Impact**

The ANOVA results reveal the effectiveness of the regression model in elucidating variations in Tobin's Q which is a measure of firm performance. The F-statistic of 6.100, accompanied by a p-value of .003, demonstrates to the statistical significance of the regression model inclusive of ESG score as predictor with control variables size and leverage. This implies that ESG score significantly influences Tobin's Q.

The regression model, incorporating independent variable consolidated ESG score with control variables firm size and leverage as predictors, moderately explains Tobin's Q variability (R-squared = 0.413) signifies that approximately 41.3% of the variability in ROA can be accounted for by consolidated ESG score with the predictors size and leverage included in the model.

Impact of ESG Consolidated Score on ROA

The Model Summary provides a concise overview of the regression model's performance in explaining variations in ROA, the dependent variable.

The coefficient of determination (R-squared) value of 0.546 indicates that approximately 54.6% of the variability in ROA can be accounted for by ESG score with the predictors size and leverage included in the model. Overall, the model summary suggests that the regression model,

incorporating consolidated ESG score, size and leverage as predictors, moderately explains variations in ROA, as evidenced by the R-squared value.

The ANOVA results indicate that the regression model significantly explains the variability in ROA ($F(3, 26) = 10.433$, $p < .05$) with the predictors (consolidated ESG_score, size, and leverage). Overall, the ANOVA highlights the model's efficacy in explaining ROA fluctuations, suggesting that the predictors play a significant role in determining firm performance.

Impact of ESG Consolidated Score on ROCE

The model summary indicates that the regression model, comprising size, ESG score, and leverage as predictors, moderately explains the variability in the dependent variable (R-squared = 0.484) representing 48.4% variation in ROCE is due to ESG Score.

The ANOVA results indicate that the regression model significantly explains the variability in ROCE ($F(3, 26) = 8.139$, $p < .05$). The predictors (size, ESG_score, and leverage) collectively contribute to this explanation, as evidenced by the substantial regression. Overall, the ANOVA highlights the model's efficacy in elucidating ROA fluctuations, suggesting that the predictors play a significant role in determining firm performance.

Impact of ESG Consolidated Score on ROE

The hypothesis tests if ESG score do not carry significant impact on ROE. The dependent variable ROE was regressed on predicting variable ESG Score to test the hypothesis H4. ESG Score does not significantly predicted ROE, $F(3,26) = 0.754$, $p > .05$ which indicates that ESG Score do not play a significant role in shaping ROE ($b= 0.139$, $p> .05$). These results clearly direct the positive effect of the ESG Score. Moreover, the $R^2 = .413$ depicts that model explains 41.3% of variance in Tobin's Q.

MODEL II

Impact of ESG Components (Three Pillars) Score on financial parameters

Table 6 - Impact of Environment Score on financial parameters

Hypothesis	Regression weights	Beta Coefficient	R^2	F	p-value	Hypothesis supported	Impact (significant/Insignificant)
H1	**Environ_Score→Tobin's Q**	**.036**	**0.39**	**5.543**	**.004**	**YES**	**Significant Impact**
	Environ_Score →ROA	**.105**	0.530	9.782	.000	**YES**	**Significant Impact**
	Environ_Score →ROCE	**.145**	.465	7.541	**.001**	**YES**	**Significant Impact**
	Environ_Score →ROE	**.129**	.009	0.254	.618	**NO**	**Insignificant Impact**

ENV_SCORE WITH TOBIN'S Q

The hypothesis tests if Environmental score carries impact on Tobin's Q . The dependent variable Tobin's Q was regressed on predicting variable Environmental Score to test the hypothesis H1. Environmental score significantly predicted Tobin's Q, $F(3,26) = 5.543$, $p (.004) < .05$ which

indicates that Environmental Score can play a significant role in shaping Tobin's Q (b= 0.036, p< .05). These results evidently direct the positive effect of the ESG Score. Moreover, the R^2 = .413 depicts that model explains 41.3% of variance in Tobin's Q.

ENVIRON_SCORE WITH ROA

The hypothesis tests the impact of Environmental Score on ROA. The dependent variable ROA was regressed on predicting variable Environmental Score with control variable size and leverage to test the hypothesis H1. Environmental score significantly predicted ROA, F(3,26) = 9.782, p < .05 which indicates that Environmental Score can play a significant role in shaping ROA (b= 0.145, p< .05). These results undoubtedly direct the positive effect of the Environmental Score. Moreover, the R^2 = .530 depicts that model explains 53% of variance in ROA.

ENVIRON_SCORE WITH ROCE

The hypothesis tests the impact of Environmental Score on ROCE. The dependent variable ROCE regressed on predicting variable Environmental Score with control variable size and leverage to test the hypothesis H1. Environmental score significantly predicted ROCE, F(3,26) = 7.541, p < .05 which indicates that Environmental Score can play a significant role in shaping ROCE (b= 0.036, p< .05). These results evidently direct the positive effect of the Environmental Score. Moreover, R^2 = .465 depicts that model explains 46.5% of variance in ROE.

ENVIRON_SCORE WITH ROE

The hypothesis tests the impact of Environmental Score on ROE. The dependent variable ROCE regressed on predicting variable Environmental Score with control variable size and leverage to test the hypothesis H1. Environmental score do not significantly predicted ROE, F(3,26) = 0.254, p < .05 which indicates that Environmental Score unable to play a significant role in shaping ROE (b= 0.129, p >.05). Moreover, R^2 = .009 depicts that model explains only 0.9 % of variance in ROE.

Table 7 - Impact of Social Score on financial parameters

Hypothesis	Regression weights	Beta Coefficient	R^2	F	p-value	Hypothesis supported	Impact (significant/Insignificant)
H1	**Social_Score →Tobin's Q**	**.050**	**.391**	**5.566**	**.004**	**YES**	**Significant Impact**
	Social_Score →ROA	**.150**	.531	9.795	.000	**YES**	**Significant Impact**
	Social_Score →ROCE	**.371**	.467	7.591	**.001**	**YES**	**Significant Impact**
	Social_Score ore →ROE	**.217**	.013	.379	.543	**NO**	**Insignificant Impact**

SOCIAL_SCORE WITH TOBIN'S Q

The hypothesis tests the impact of Social Score on Tobin's Q. The dependent variable Tobin's Q was regressed on predicting variable Social Score with control variable size and leverage to test the hypothesis H1. Social score significantly predicted Tobin's Q, F(3,26) = 5.566, p < .05 which

indicates that Social Score can play a significant role in shaping ROA (b= 0.050, p< .05). These results clearly direct the positive effect of the Social Score. Moreover, the R^2 = 0.391 depicts that model explains 39.1% of variance in Tobin's Q.

SOCIAL_SCORE WITH ROA

The hypothesis tests the impact of Social Score on ROA. The dependent variable ROA was regressed on predicting variable Social Score with control variable size and leverage to test the hypothesis H1. Social score significantly predicted ROA, F(3,26) = 9.795, p < .05 which indicates that Social Score can play a significant role in shaping ROA (b= 0.150, p< .05). These results clearly direct the positive effect of the Social Score. Moreover, the R^2 = .531 depicts that model explains 53.1% of variance in ROA.

SOCIAL_SCORE WITH ROCE

The hypothesis tests the impact of Social Score on ROCE. The dependent variable ROCE was regressed on predicting variable Social Score with control variable size and leverage to test the hypothesis H1. Social score significantly envisaged ROCE, F(3,26) = 7.591, p < .05 which indicates that Social Score can play a significant role in shaping ROCE (b= 0.371, p< .05). These results clearly direct the positive effect of the Social Score. Moreover, the R^2 = .467 depicts that model explains 46.7% of variance in ROCE.

SOCIAL_SCORE WITH ROE

The hypothesis tests the impact of Social Score on ROE. The dependent variable ROE regressed on predicting variable Social Score with control variable size and leverage to test hypothesis H1. Social score significantly predicted ROE, F(3,26) = 0.379, p > .05 which indicates that Social Score plays an insignificant role in shaping ROE (b= 0.217, p< .05). Moreover, the R^2 = .013 depicts that model explains only 1.3 % of variance in ROE.

Table 8 - Impact of Governance Score on financial parameters

Hypothesis	Regression weights	Beta Coefficient	R^2	F	p-value	Hypothesis supported	Impact (significant/Insignificant)
H1	**Governance_Score→Tobin's Q**	.065	.389	5.518	**.005**	YES	**Significant Impact**
	Governance_Score →ROA	.175	.527	9.656	.000	YES	**Significant Impact**
	Governance_Score →ROCE	.212	.451	7.120	**.001**	YES	**Significant Impact**
	Governance_Score →ROE	.752	.071	2.133	.155	**NO**	**Insignificant Impact**

GOV_SCORE WITH TOBIN'S Q

The hypothesis tests the impact of Governance Score on Tobin's Q. The dependent variable Tobin's Q was regressed on predicting variable Governance Score with control variable size and

leverage to test the hypothesis H1. Governance score significantly predicted Tobin's Q, F (3,26) = 5.518, p (.005) < .05 which indicates that Governance Score can play a significant role in shaping ROA (b= 0.065, p< .05). These results clearly direct the positive effect of the Governance Score. Moreover, the R^2 = .389 depicts that model explains 38.9% of variance in Tobin's Q.

GOV_SCORE WITH ROA

The hypothesis tests the impact of Governance Score on ROA. The dependent variable ROA was regressed on predicting variable Governance Score with control variable size and leverage to test the hypothesis H1. Governance score significantly predicted ROA, F(3,26) = 9.656, p(.000) < .05 which indicates that Governance Score can play a significant role in shaping ROA (b= 0.175, p < .05). These results clearly direct the positive effect of the Governance Score. Moreover, the R^2 = .527 depicts that model explains 52.7% of variance in ROA.

GOV_SCORE WITH ROCE

The hypothesis tests the impact of Governance Score on ROCE. The dependent variable ROCE was regressed on predicting variable Governance Score with control variable size and leverage to test the hypothesis H1. Governance score significantly predicted ROCE, F(3,26) = 7.120, p(.001) < .05 which indicates that Governance Score can play a significant role in shaping ROCE (b= 0.212, p < .05). These results clearly direct the positive effect of the Governance Score. Moreover, the R^2 = .451 depicts that model explains 45.1% of variance in ROCE.

GOV_SCORE WITH ROE

The hypothesis tests the impact of Governance Score on ROE. The dependent variable ROE was regressed on predicting variable Governance Score with control variable size and leverage to test the hypothesis H1. Governance score is incapable of significantly predicting ROE, F(3,26) = 0.752, p (0.155) > .05 which indicates that Governance Score cannot play a significant role in shaping ROE (b= 0.752, p< .05). These results clearly direct the positive effect of the Governance Score. Moreover, the R^2 = .071 depicts that model explains only 7.1% of variance in ROE.

Correlations

		environ_score	social_score	governance_score	ESG_score	ROE
ROE	Pearson Correlation	.095	.116	.266	.230	1
	Sig. (2-tailed)	.618	.543	.155	.221	
	N	30	30	30	30	30

It was found that there is no significant impact of consolidated ESG Score, Environmental Score, Social Score and Governance Score. Due to this reason it was necessary to find the correlation between these predicting variables and ROE. The correlation between the predicting variables and ROE is weak and not signify+cant (p >.05). This lack of correlation means that changes in the environmental score do not correspond to significant changes in ROE. The reasons may be:

- ROE is influenced by various financial and operational factors such as profitability, efficiency, leverage, and asset management.
- Investors' and stakeholders' perceptions of environmental performance may not directly explain into financial outcomes ROE. While there is growing recognition of the importance of

sustainability in driving long-term value, market dynamics and investor preferences can vary, leading to discrepancies between environmental scores and ROE.
The lack of correlation between environmental score and ROE does not necessarily imply that environmental efforts are ineffective or unimportant but rather that their impact on financial metrics may be secondary to other strategic objectives.

FINDINGS

Our study reveals that a company's commitment to environmental, social, and governance (ESG) practices significantly influences several key financial metrics. We found that higher ESG scores are associated with better performance in terms of Tobin's Q (a measure of market value), Return on Assets (ROA), and Return on Capital Employed (ROCE).

Interestingly, when we break down ESG into its components, we see that each aspect - environmental, social, and governance - plays a crucial role in shaping these financial outcomes. Companies that excel in these areas tend to have higher market valuations and more efficient use of their assets and capital.

However, our research uncovered an unexpected twist. Despite the positive impact on other metrics, ESG scores showed little to no influence on Return on Equity (ROE). This suggests that while good ESG practices can boost a company's market value and operational efficiency, they may not directly translate into higher returns for shareholders. The lack of significant impact of ESG scores on ROE suggests that factors like profitability, operational efficiency, and asset management may have a stronger influence on this metric. These financial variables likely play a more immediate role in driving ROE.

This finding raises intriguing questions about the relationship between sustainable business practices and shareholder returns. It implies that other factors, perhaps more traditional financial and operational measures, might be driving ROE more strongly than ESG considerations.
In essence, our study paints a nuanced picture of ESG's impact on corporate financial performance. While it clearly matters for several important metrics, its relationship with ROE remains elusive, inviting further exploration into the complex interplay between sustainability practices and financial outcomes.

Conclusion

The study investigates the impact of Environmental, Social, and Governance (ESG) scores on the financial performance of companies, reflecting the growing integration of sustainability into corporate strategies. The findings underscore that companies with higher ESG scores tend to demonstrate better financial outcomes, including enhanced profitability, improved market valuation, and greater investor confidence. These results highlight the dual benefits of ESG practices: contributing to societal and environmental well-being while driving economic gains.
Furthermore, the analysis suggests that strong governance mechanisms and proactive environmental and social initiatives play a pivotal role in mitigating risks and fostering long-term financial stability. This aligns with the evolving expectations of stakeholders, including investors, consumers, and regulators, who increasingly prioritize corporate sustainability.

The research underscores the importance of ESG as a strategic framework for achieving financial and ethical objectives. Companies that integrate ESG principles not only contribute to sustainable development but also position themselves as leaders in a competitive market. Future studies could explore industry-specific dynamics and regional variations to provide deeper insights into the ESG-financial performance nexus.

REFERENCES:

1. Landi GC, Iandolo F, Renzi A, Rey A (2022). Embedding sustainability in risk management: The impact of environmental, social, and governance ratings on corporate financial risk. Corp Soc Responsib Environ Manag. https://doi.org/10.1002/csr.2256
2. Qu, W., & Zhang, J. (2023). Environmental, social, and corporate governance (ESG), life cycle, and firm performance: Evidence from China. Sustainability, 15(18), 14011.
3. Sharma, D., Bhattacharya, S., & Thukral, S. (2019). Resourcebased view on corporate sustainable financial reporting and firm performance: Evidences from emerging Indian economy. International Journal of Business Governance and Ethics, 13(4), 323–344.
4. Sinha Ray, R., & Goel, S. (2022). Impact of ESG score on financial performance of Indian firms: Static and dynamic panel regression analyses. Applied Economics, 55(15), 1742–1755.
5. Zhu et al. (2023) N. Zhu, Y. Zhou, S. Zhang, J. Yan. Tax incentives and environmental, social, and governance performance: empirical evidence from China. Environ. Sci. Pollut. Control Ser., 30 (19) (2023), pp. 54899-54913,