

A Study on Indian Listed Companies Perform in ESG Areas Affects Its Overall Value and Profit

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Abstract- Introduction: *Environment, Social, and Governance (ESG) from listed company's view, doing something about these issues can cost money. In meetings and other groups, a common question is whether the money and resources needed are worth it financially. This paper looks into whether being good in ESG an area is connected to a company's financial success.*

Objective of study: *In this study, we examine how a company's performance in Environment, Social, and Governance (ESG) areas influences its value and profitability.*

Research methodology: *In this paper used a large amount of data to better understand this link. Started by choosing the top 100 publicly listed companies in India, Covering 5 years from 2014 to 2018.*

Finding: *Findings show that the overall ESG score has a positive and significant relationship with the company's value.*

Results: *The Social and Governance parts of the ESG score also have a positive and important connection to value, but the Environment part does not. However, all the ESG scores—when considered together, as well as individually for Environment, Social, and Governance—are positively and importantly related to the company's profitability.*

Suggestion: *Suggest that focusing on strong ESG performance can lead to better financial outcomes for the company in terms of both its value and its profits.*

Keywords: *Company, Environment, Social, Governance, Value, Profit*

I. INTRODUCTION

More and more investors are showing interest, and people are becoming more aware of the risks that come from things like the environment and other non-money factors, like being good to society and having good management. This is making companies work harder to pay attention to these issues. Investors, workers, suppliers, customers, and even the government now want companies to care about these matters, take steps to deal with the risks, and report on what they do. Companies usually share information about how they

do in these areas through three key areas: Environment, Social, and Governance (ESG). But from a company's view, doing something about these issues can cost money. In meetings and other groups, a common question is whether the money and resources needed are worth it financially. This paper looks into whether being good in ESG an area is connected to a company's financial success.

These companies don't just focus on making profits for owners but also think about the needs of customers, workers, and communities, the environment, and suppliers. The Business Roundtable, which includes top US company leaders, backs this stakeholder model and believes that a company's main goal is to serve more than just its owners.

More publicly listed companies are starting to report on ESG issues these days. These companies are trying to include more involved people, meet investor needs, build trust, and be ready for problems and competition. Some use sustainability to get an advantage, while others see it as part of normal business. Either way, the process of becoming more sustainable is ongoing and complex. Many businesses around the globe are now taking more ESG steps on their own, which suggests they may be getting some financial benefits from these actions. International groups, industry sectors, and governments are all helping to create a more sustainable economy.

More and more companies and investors are considering ESG issues when making decisions. The effect of ESG performance on a company's value and profit has been talked about for a long time. Many studies looked at how good management affects stock prices. Now, with more interest in climate change, a circular economy, and biodiversity, research is starting to look at how environmental performance links to stock prices.

Many researchers have studied the connection between ESG and a company's financial performance. While more recent studies often find positive results, there are also many studies with negative findings, which support the Shareholder theory. This theory argues that the main goal of a company is to make the most profit for its owners. This paper aims to add to this ongoing discussion.

II. LITERATURE REVIEW

According to Brammer and others (2006) looked at UK companies and found that those with lower social scores did better than the market.

According to Barnett (2007) suggests that focusing on CSR (Corporate Social Responsibility) might reduce a company's financial performance because it takes money away from shareholders and gives it to other groups.

According to Marsat and Williams (2011) reported a negative relationship between CSR ratings and company value using MSCI ESG scores.

According to Friede et al. (2015) say that researchers began looking for a connection between ESG standards and financial success in the 1970s. They reviewed 2200 papers and found that about 90% of them showed a positive link between ESG and financial performance.

According to Han and others (2016) studied companies listed on the Korean Stock Exchange between 2008 and 2014 and found no link for social scores, a positive link for governance scores, and a negative link for environmental scores.

According to Nollet and others (2016) used accounting and market data to study S&P 500 companies from 2007 to 2011 and found that on linear models, there was a negative relationship, but on non-linear models, it was positive.

According to Velte (2017) found that ESG has a positive impact on firm value (Tobin's Q) and profitability (Return on Assets - ROA) for German companies. He also found that good governance has a big effect on financial performance.

According to Alshehhi et al. (2018) studied 132 papers from respected journals and found that 78% showed a positive link between sustainability and financial results.

According to Yoon et al. (2018) looked at ESG ratings and market value in South Korea and found that CSR activities have a good and significant effect on a company's market value, but this effect can vary depending on the company's characteristics.

According to Zhao et al. (2018) studied Chinese energy companies and found that better ESG performance can improve financial performance.

According to Fatemi et al. (2018) studied US companies from 2006 to 2011 and found that strong ESG activities and reporting improve firm value. They said that reporting helps by reducing the negative effects and making the positive effects stronger.

III. OBJECTIVES OF STUDY

- The main purpose of the study, titled "A Study on Indian Listed Companies Perform in ESG Areas Affect Its Overall Value and Profit," is to examine how a company's performance in Environmental, Social, and Governance (ESG) areas impacts its financial results and market value.
- The study wants to find out if there is a connection between a company's financial performance, measured using metrics like Return on Assets, Return on Equity, and Tobin's Q, and its overall ESG score.
- It also wants to understand how each part of ESG—Environmental, Social, and Governance—on its own affects a company's value and profits.
- Lastly, the study aims to check whether doing well in ESG areas leads to better financial results for companies in India.

IV. DATA AND METHODOLOGY

This section first talks about the sample data, then explains the variables, basic statistics, and the methods we used. We applied two different types of panel data models for each dependent variable, resulting in eight models for each independent variable. In this paper, a lot of data was used to better understand this

relationship. We began by choosing the top 100 publicly traded companies in India, covering a five-year period from 2014 to 2018.

In this section, the data analysis of the article includes a correlation matrix analysis, test analysis, and regression analysis.

V. DATA ANALYSIS

5.1. Correlation Analysis:

Table 1.
 Pearson correlation matrix

Empty Cell	TQ	ROA	ESG_CS	ENV	SOC	GOV	Log_TASST	TDTA
TQ	1							
ROA	0.346	1						
ESG_CS	-0.123	0.017	1					
ENV	-0.178	0.094	0.983	1				
SOC	-0.024	0.027	0.838	0.164	1			
GOV	-0.021	0.029	0.314	0.623	0.634	1		
Log_TASST	-0.320	-0.021	0.275	0.328	0.246	0.247	1	
TDTA	-0.116	-0.145	0.039	0.011	0.023	0.068	0.032	1

*All Pearson coefficients are statistically significant at 0.01 level.

Table 1 shows the Pearson correlation matrix for each variable. Table can see that there is no link between ESG scores and Tobin's Q, or between ESG scores and ROA. However, ESG scores are closely related to each other. This makes sense because Refinitiv uses separate ENV, SOC, and GOV scores to calculate ESG_CS. To handle this, we made different models for each individual ESG score. The table also shows that Tobin's Q and ROA have some connection. This is expected because both show how well a company is doing financially. There is also a small connection between all ESG scores, especially ENV, and company size (LOG_TASST), which suggests that bigger companies tend to have higher ESG scores. After removing the highly related variables from the model and checking the VIF (variance inflation factor) for all variables, this paper found no multicollinearity.

We use an F test to check for individual effects and find that fixed effects is better than the pooled model.

Next, we compare pooled and random effects.

We use the Breusch-Pagan Lagrange Multiplier test and find that random effects is better than the pooled model.

Lastly, we compare fixed effects and random effects.

We do a test analysis and find that fixed effects is better than random effects for both TQ and ROA. Table 2 shows the results of these tests.

5.2. Test Analysis:

Table 6.
 Test Analysis

Dependent Variable	Test Result	Chi-Square Statistic	p-Value
Tobin's Q	Fixed effects	86.821	7.539
ROA	Fixed effects	79.132	2.751

Tests are done to find the best model for our analysis.

First, we compare pooled and fixed effects.

5.3. Regression Analysis:

Table 7.
 Regression Analysis

Empty Cell	Dependent Variable: ROA			
	1	2	3	5
ESG_CS	0.037* * (0.007)			
ENV		0.027* ** (0.007)		
SOC			0.028* **	

			(0.007)	
GOV				0.028* **
				(0.007)
log(TAS ST)	0.124	0.098	0.176	0.106
	(0.248)	(0.247)	(0.231)	(0.248)
TDTA	-5.741 ***	-6.921 ***	-6.847 ***	-6.837 ***
	(1.654)	(1.681)	(1.689)	(1.670)
Observations	100	100	100	100

*p < 0.1; **p < 0.05; ***p < 0.01.

As shown in Table 3, the impact of the ESG combined score (ESG_CS) on profitability is 0.037, which is roughly 1.3 times higher than the impact of the Environment (ENV), Social (SOC), and Governance (GOV) scores individually. Among these three separate ESG scores, the Environment score has the strongest effect on profitability, with a coefficient of 0.027. When we compare each ESG score to control variables, the effect of company size on profitability is 0.124, which is about twice as strong as the effect of the ESG combined score. The effect of leverage on profitability is about six times greater than the effect of company size in absolute terms.

We find that the ESG combined score has a positive and very strong connection with ROA.

The Social, Governance, and Environment scores also all have a positive and very strong connection with ROA.

Even though there is no link between the Environment score and firm value, there is a strong and positive connection between the Environment score and profitability.

This suggests that profitability might be a better way to show how well a company is doing in terms of environmental performance compared to firm value.

Based on these findings, we created a model that connects profitability with the ESG score as follows:

Return on Assets (ROA) = 0.037 × ESG_CS (ESG Combined Score) - 5.741 × TDTA (Total Debt to Total Assets).

VI. CONCLUSION

The main goal of this paper is to understand how a company's ESG performance affects its value and profits. We studied data from 100 companies over the years 2014 to 2018. To better understand how ESG factors influence a company's value and profitability, we used a panel data fixed effects model.

When we looked at the results from four models focusing on company value, we found that the overall ESG score (ESG_CS) was strongly and positively connected with company value. The social (SOC) and governance (GOV) scores also had strong positive links with company value. However, the environment (ENV) score did not show a significant relationship with company value. From a theoretical point of view, these findings support stakeholder theory, except for the environment part. Some environmental projects may take years to affect a company's value. Another possible reason is that making environmental improvements can be expensive. Governance and social improvements, on the other hand, might be quicker and cheaper. We also noticed that the average environment score was lower compared to the average scores for governance and social factors. This could mean that progress in the environment area is slower and more costly.

When we focused on profitability, ESG_CS was still strongly linked to profitability. All three ESG factors—environment (ENV), social (SOC), and governance (GOV)—also showed strong positive connections with profitability. These results again support stakeholder theory and match findings from other studies.

They also suggest that policymakers should provide more support for ESG efforts. The link between ESG performance, company value, and profitability is an area worth exploring further. For future research, we recommend looking into the specific factors that cause ESG to impact financial performance. For example, how actions related to emissions, innovation, resource use, human rights, workforce, product responsibility, community, shareholders, management, and corporate social responsibility strategies affect a company's financial results.

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