

# Impact of ESG Performance on Firm Profitability: Evidence from Indian FMCG Firms

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*Abstract- This study investigates the impact of Environmental, Social, and Governance (ESG) performance on firm profitability in the Indian Fast-Moving Consumer Goods (FMCG) sector. Using panel data from NSE-listed firms over the period 2019–2024, the study employs fixed-effects regression models to examine the relationship between ESG scores and firm performance, measured by Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The results reveal a statistically significant positive association between ESG performance and both ROA and ROE, indicating that firms with stronger ESG practices achieve improved asset efficiency and enhanced shareholder returns. However, ESG performance does not exhibit a statistically significant relationship with Net Profit Margin, suggesting that ESG benefits may not immediately translate into operational profitability. The findings remain robust after controlling firm size, leverage, and revenue growth. By providing sector-specific panel evidence from an emerging market context, this study contributes to the growing literature on ESG and financial performance and highlights ESG as a strategic driver of long-term value creation.*

**Keywords:** ESG Performance, Firm Profitability, FMCG, Panel Data, ROA, ROE, India

## I. INTRODUCTION

Environmental, Social, and Governance (ESG) considerations have evolved from peripheral compliance requirements to core elements of corporate strategy. In emerging economies such as India, regulatory developments—particularly the introduction of Business Responsibility and Sustainability Reporting (BRSR) by the Securities and Exchange Board of India—have accelerated ESG adoption among listed firms. At the same time, increasing investor awareness and stakeholder expectations have intensified pressure on firms to

integrate sustainability into business operations. However, the financial implications of ESG investments remain debated, especially in emerging market contexts.

The Fast-Moving Consumer Goods (FMCG) sector provides a relevant setting to examine this relationship. FMCG firms operate in competitive, low-margin environments where brand reputation, supply-chain efficiency, and operational performance are critical. While ESG initiatives such as sustainable sourcing and governance reforms may enhance firm value, they can also impose short-term costs, making their impact on profitability uncertain.

Prior literature presents mixed evidence on the ESG–performance relationship, with limited sector-specific insights from emerging markets. In the Indian context, existing studies largely rely on cross-sectional or multi-sector data, restricting the ability to capture firm-level dynamics over time.

This study addresses these gaps by examining the impact of ESG performance on firm profitability in the Indian FMCG sector using panel data from 2019–2024. Profitability is measured using Return on Assets (ROA), controlling for firm size, leverage, and revenue growth. The analysis captures firm-specific heterogeneity and temporal variations, including regulatory changes and macroeconomic disruptions. The study is grounded in stakeholder theory and the resource-based view, which suggest that effective ESG practices can contribute to long-term value creation and competitive advantage. Accordingly, the primary objective is to assess whether ESG performance significantly influences firm profitability in the Indian FMCG sector.

This research contributes by providing sector-specific evidence, employing a panel data approach, and offering insights into ESG–performance dynamics within an emerging market context.

The remainder of the paper is structured as follows. The next section reviews the literature, followed by methodology, results, discussion, and conclusion.

## II. RESEARCH CONTRIBUTION

This study contributes to the literature on ESG and financial performance in several important ways.

First, it provides sector-specific empirical evidence from the Indian Fast-Moving Consumer Goods (FMCG) industry, a context that remains underexplored despite its economic significance and distinct operational characteristics. By focusing on a single sector, the study offers more precise insights compared to prior research relying on broad multi-sector samples.

Second, the study employs a panel data framework to examine the ESG–profitability relationship over time. Unlike cross-sectional approaches commonly used in emerging market studies, the panel structure enables control for unobserved firm-specific heterogeneity and captures dynamic relationships across firms and periods.

Third, the study incorporates firm-level financial controls, including size, leverage, and revenue growth, to isolate the effect of ESG performance on profitability. This allows for a more robust assessment of whether ESG operates as an independent driver of financial performance or reflects underlying firm characteristics.

Fourth, the study provides evidence from an emerging market setting during a period marked by regulatory changes and economic disruptions, including the implementation of ESG disclosure frameworks by the Securities and Exchange Board of India and the impact of the COVID-19 pandemic. This temporal context enhances the relevance of the findings for both researchers and practitioners.

Collectively, these contributions extend the existing literature by offering context-specific, methodologically robust, and policy-relevant evidence on the role of ESG in shaping firm profitability.

## III. LITERATURE REVIEW

### 3.1 Theoretical Foundations

The relationship between ESG performance and firm profitability is supported by established theoretical frameworks. Stakeholder theory, developed by R. Edward Freeman, suggests that firms that effectively manage stakeholder relationships can enhance long-term performance, particularly in consumer-facing sectors such as FMCG. The resource-based view proposed by Jay Barney further argues that ESG capabilities can act as strategic resources that generate sustained competitive advantage. Additionally, legitimacy and signaling theories suggest that ESG disclosure enhances transparency and reduces information asymmetry, thereby improving investor confidence.

### 3.2 Empirical Evidence

Global evidence largely indicates a positive association between ESG performance and financial outcomes. Friede et al. (2015), in a meta-analysis of over 2,000 studies, reports that most findings show a non-negative relationship. ESG practices are found to improve firm value through risk reduction, operational efficiency, and enhanced stakeholder trust.

However, evidence from emerging markets remains mixed. Bouri et al. (2023) show that firms with higher ESG performance achieve superior risk-adjusted returns, while Zhang et al. (2025) find that ESG enhances firm value by reducing firm-specific risk. The strength of this relationship varies across institutional contexts.

### 3.3 Evidence from India and FMCG Sector

In India, ESG research has expanded following regulatory developments such as Business Responsibility and Sustainability Reporting (BRSR) introduced by the Securities and Exchange Board of India. Some studies report a positive relationship between ESG and financial performance, particularly

driven by governance factors (Bala, 2022). Others find mixed or insignificant results, especially in the FMCG sector, suggesting that ESG may not immediately translate into profitability (Tadoori, 2023).

Sector-specific evidence indicates that environmental and governance dimensions tend to have stronger financial impacts than social factors in FMCG firms (Kumar & Sharma, 2025; Jain & Mehta, 2026).

### 3.4 Research Gap

Despite growing literature, key gaps remain. Many studies rely on cross-sectional or short-term data, limiting their ability to capture firm-level dynamics. Sector-specific evidence for the FMCG industry is limited, and prior research often relies on single profitability measures. Additionally, firm-level controls such as size, leverage, and growth are not consistently incorporated.

This study addresses these gaps by using panel data for Indian FMCG firms over 2019–2024, incorporating multiple profitability measures and firm-level controls to provide a more robust analysis of the ESG–profitability relationship.

## IV. METHODOLOGY

### 4.1 Data and Sample

The study uses a balanced panel dataset of 15 Indian FMCG firms over six years (2019–2024), resulting in 90 firm-year observations. Data is sourced from annual reports, stock exchange filings, and ESG databases.

### 4.2 Variables

Dependent Variables:

- ROA = Net Profit / Total Assets
- ROE = Net Profit / Shareholders' Equity
- NPM = Net Profit / Revenue

Independent Variable:

- ESG Score

Control Variables:

- Firm Size (log of total assets)
- Leverage (total debt / total assets)
- Revenue Growth

### 4.3 Model Specification

$$ROA_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 Size_{it} + \beta_3 Leverage_{it} + \beta_4 Growth_{it} + \mu_i + \epsilon_{it}$$

Similar models are estimated for ROE and NPM.

Fixed-effects models are employed to control unobserved firm-specific heterogeneity. Robust standard errors are used to address potential heteroskedasticity.

## V. RESULTS

	ESG Score	ROA	ROE	Net Profit Margin	Firm Size	Leverage	Revenue Growth
count	90.00000	90.00000	90.00000	90.00000	90.00000	90.00000	90.00000
mean	66.88889	0.179909	0.358652	0.143465	8.960140	0.083655	0.028929
std	8.915892	0.100656	0.290042	0.060991	1.132826	0.101839	0.274540
min	45.00000	-0.030502	-0.044531	-0.039799	7.098376	0.000000	-0.822767
25%	61.00000	0.104466	0.155364	0.108541	7.971085	0.007601	0.004581
50%	68.00000	0.178716	0.264901	0.144740	8.945346	0.042425	0.077719
75%	74.00000	0.234266	0.451677	0.169017	9.619575	0.102190	0.144389
max	86.00000	0.414138	1.219601	0.315724	11.426866	0.407951	0.992733

Table 1: Descriptive statistics

Variable	ESG	ROA	ROE	NPM	Size	Leverage	Growth
ESG	1	0.22	0.17	0.39	0.57	-0.39	0.24
ROA	0.22	1	0.86	0.63	-0.29	-0.36	-0.10

ROE	0.17	0.86	1	0.35	-0.24	-0.22	-0.04
NPM	0.39	0.63	0.35	1	0.25	-0.37	-0.08
Size	0.57	-0.29	-0.24	0.25	1	0.07	0.20
Lev	-0.39	-0.36	-0.22	-0.37	0.07	1	0.28
Growt h	0.24	-0.10	-0.04	-0.08	0.20	0.28	1

Table 2: Correlation Matrix

The correlation matrix indicates that ESG performance has a positive but moderate association with profitability measures. ESG is positively correlated with ROA (0.22), ROE (0.17), and Net Profit Margin (0.39), suggesting that firms with higher ESG scores tend to exhibit better financial performance, although the relationships are not strong.

The correlation between ESG and firm size (0.57) is relatively higher, indicating that larger firms tend to have better ESG performance. However, the magnitude does not indicate severe multicollinearity. Among control variables, leverage shows a negative relationship with profitability measures, while revenue growth exhibits weak correlations with both ESG and profitability. Overall, the correlation values do not indicate serious multicollinearity concerns, supporting the suitability of the dataset for regression analysis.

Variables	ROA	ROE	NPM
ESG Score	0.0056*** (0.0012)	0.0159*** (0.0034)	0.0004 (0.0013)
Firm Size	-0.1519*** (0.0264)	-0.4355*** (0.0947)	0.0037 (0.0131)
Leverage	-0.0159 (0.1177)	0.5342 (0.3972)	-0.0180 (0.0640)
Revenue Growth	-0.0095 (0.0096)	-0.0327 (0.0230)	0.0000 (0.0092)
Constant	1.1681***	3.1519***	0.0816

	(0.2022)	(0.6980)	(0.0817)
R <sup>2</sup> (Within)	0.396	0.481	0.014
Observations	90	90	90

Table 3: Fixed Effects Regression Results

The fixed effects regression results indicate that ESG performance has a positive and statistically significant impact on firm profitability, particularly for ROA and ROE.

Specifically, ESG Score exhibits a positive and highly significant relationship with ROA ( $\beta = 0.0056$ ,  $p < 0.01$ ) and ROE ( $\beta = 0.0159$ ,  $p < 0.01$ ), suggesting that firms with stronger ESG performance achieve higher asset efficiency and shareholder returns. These findings support the view that ESG acts as a value-enhancing factor in the Indian FMCG sector.

However, ESG does not show a statistically significant relationship with Net Profit Margin, indicating that ESG benefits may not immediately translate into short-term operational profitability.

Among the control variables, firm size shows a negative and significant relationship with both ROA and ROE, implying that larger firms may experience lower efficiency, possibly due to operational complexity. Leverage and revenue growth do not exhibit statistically significant effects across the models.

The model explains approximately 39.6% of within-firm variation in ROA and 48.1% in ROE, indicating a moderate explanatory power. In contrast, the model performs poorly for Net Profit Margin, with very low explanatory power.

Overall, the results suggest that ESG contributes to long-term financial performance (ROA, ROE) rather than short-term profitability (NPM).

Variable	VIF
ESG Score	2.34
Firm Size	1.75
Leverage	1.67
Revenue Growth	1.30

Table 4: Variance Inflation Factor (VIF)

To further assess multicollinearity, Variance Inflation Factor (VIF) values were computed. The VIF values for ESG Score (2.34), Firm Size (1.75), Leverage (1.67), and Revenue Growth (1.30) are all well below the commonly accepted threshold of 5, indicating that multicollinearity is not a concern in the regression model.

## VI. Discussion

The findings of this study provide empirical support for the argument that ESG performance contributes to firm-level financial outcomes in the Indian FMCG sector. The positive and significant relationship between ESG and both ROA and ROE suggest that firms integrating ESG practices are better positioned to enhance asset efficiency and generate shareholder returns. These results are consistent with the theoretical expectations of stakeholder theory (R. Edward Freeman) and the resource-based view (Jay Barney), which emphasizes the strategic value of responsible business practices.

The absence of a significant relationship between ESG and Net Profit Margin indicates that ESG investments may not immediately translate into short-term operational gains. In a cost-sensitive sector such as FMCG, ESG initiatives—particularly environmental and governance improvements—may involve upfront costs, with financial benefits materializing over time.

The negative relationship between firm size and profitability further suggests that larger firms may face efficiency challenges, possibly due to operational complexity or diminishing returns to scale. Overall, the findings reinforce the perspective that ESG functions as a long-term value driver rather than a short-term profitability enhancer.

## VII. CONCLUSION

This study examines the impact of ESG performance on firm profitability in the Indian FMCG sector using panel data from 2019 to 2024. The results indicate that ESG performance has a positive and significant effect on ROA and ROE, while no significant relationship is observed for Net Profit Margin.

These findings highlight that ESG integration contributes to long-term financial performance and value creation, rather than immediate operational profitability. For managers, this underscores the importance of embedding ESG practices into core business strategy rather than treating them as compliance requirements. For investors, the results suggest that ESG-oriented firms may offer stronger long-term returns.

Overall, the study adds sector-specific evidence to the growing literature on ESG and financial performance in emerging markets.

## VIII. LIMITATIONS AND FUTURE RESEARCH

This study has several limitations. First, the sample size is relatively small and limited to 15 listed FMCG firms, which may restrict the generalizability of the findings. Second, the analysis relies on aggregate ESG scores, which do not capture the differential impact of environmental, social, and governance components. Third, the study uses secondary data, which may be subject to reporting inconsistencies. Future research can address these limitations by expanding the sample across sectors and time periods, and by incorporating disaggregated ESG indicators to better understand the relative contribution of individual ESG dimensions. Additionally, future studies may explore dynamic panel models or alternative performance measures to capture long-term effects more comprehensively.

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