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Linking environmental, social, and governance (ESG) disclosure to corporate financial performance: Evidence from India

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Abstract
The purpose of this study is to investigate how ESG and its components impact financial performance of Indian firms. Content analysis was used to calculate ESG disclosure of selected companies' annual and sustainability reports. The GRI framework, the CRISIL methodology, and relevant academic literature were used to construct ESG disclosure index. Our sample comprises 273 companies covering a period from 2019-2024.
The study employs the Ordinary Least Squares (OLS) regression technique to analyse the association between ESG disclosure and CFP, including a combination control variable. CFP indicators are categorized into two groups: accounting-based variables (ROA and ROE) and market-based variables (Tobin's Q). The results show a strong and positive relationship between ESG disclosure levels and CFP. While Each dimension of ESG has a different effect on different measures of corporate financial performance (CFP). These findings may help companies and regulators identify features that make them more transparent about their ESG practices, especially because voluntary CSR and governance reporting is frequently low in India.

Keyword: ESG Disclosure, Corporate financial performance, Stakeholder Theory, India

1. Introduction
Environmental, Social, and Governance (ESG) considerations have become increasingly important in recent years, influencing corporate governance, investment decision-making, and sustainable development. By the late 90s, initiatives like Global Reporting Initiatives (GRI), 1997 and Elkington's Triple Bottom Line (1998) enabled the evolution of ESG from a niche initiative into an organised framework for sustainable investing. ESG was formally introduced in 2004 through "Who Cares Win" report, which outlined its incorporation into business operations. ESG emphasises on environmental issues consisting of emissions and climate change; social issues like human rights and equal remuneration, shifting from profit optimization to stakeholders' value (Andrey, 2023) [8].
Earlier, company's performance was measured by its financial position in that year. Now, ESG has evolved from voluntarily framework to a fundamental element of corporate strategies and financial markets. A numerous amount of empirical research has been conducted on how ESG and its sub-components affect financial performance (Ahmad *et al*., 2022; Candio, 2024; Saba, 2025) [1, 11, 45]. As investors actively priorities ESG criteria, companies are developing a variety of sustainable investing choices for customers worldwide. ESG investments are gaining significant popularity due to their superior market performance. ESG has acquired a substantial adoption in developed countries such as United States, Canada, and Germany (Hamdi *et al.*, 2022; Koundouri *et al*., 2022) [22, 28]. But there is less research in emerging countries (Naeem *et al*., 2022; Ruan and Liu, 2021) [36].
Despite numerous studies of empirical research examining the relationship between ESG and corporate financial performance (CFP), the results are inconsistent and can be classified into four perspectives: positive, negative, not significant, and U-shaped (Maaloul *et al*., 2023; Khan *et al*., 2021; El Khoury *et al*., 2021) [33, 26, 14]. These variations highlight the necessity of developing and executing a standardized framework for ESG practices to ensure that results are both reliable and consistent. These diverse outcomes can mostly be attributed to varying

factors of ESG and CFP (Wu, 2006) [49]. In this perspective, two major approaches may direct future research. Firstly, it is crucial to analyze the influence of each ESG pillar on accounting and market-based performance separately to achieve a more precise understanding of their individual consequences. Secondly, researchers must thoroughly evaluate the duration of the study to obtain significant results. This study utilizes accounting and market data from NIFTY 500 Indian companies from 2019 to 2024 to examine how ESG practices affect corporate financial performance (CFP).

The remaining parts of the study are structured as follow. Section 2 discusses the theoretical background and hypotheses formulation. Section 3 outlines the sample and data selection process. Section 4 represents the descriptive statistics and empirical findings with explanations. Finally, section 5 concludes the results and suggests directions for future research.

2. Theoretical foundation and Hypothesis Development

This study uses a combined approach based on both stakeholder and legitimacy theories. Stakeholder theory (Freeman, 1994) [18] states that companies must generate values for all stakeholders, not only for shareholders. ESG disclosure is a crucial mechanism for fulfilling stakeholder expectations, as it has been considered highly valuable to stakeholders (Khatib *et al*., 2022) [27]. ESG disclosure and stakeholder engagement have similar costs and benefits; effective stakeholder engagement improves corporate financial performance.

Legitimacy theory (Guthrie and Parker, 1989) is based on social agreement between business and society, business align their actions with social norms and seek legitimacy through transparent ESG reporting. Legitimacy theory suggests that firms can earn or lose public support based on how successfully they manage their sustainability efforts to meet stakeholder expectations and build public trust (Patten, 2020; Ali *et al*., 2021) [39, 7].

2.1 ESG Disclosure and Corporate Financial Performance (CFP)

Researchers have used different terminologies associated with ESG disclosure, including Corporate social responsibility (CSR) initiatives, socially responsible investment, sustainability practices, ethical and social investment, impact investing, responsible investment, and sustainable investment. Several researches have explored the impact of ESG elements, individually or as a whole, on the financial performance of organizations. While, majority of studies indicate positive relationship (Kuo *et al*., 2021; Shahzad *et al.*, 2022) [29], some report mixed findings, including negative (Duque-Grisales, 2019; Khan *et al.*, 2021) [13, 26] insignificant and different causal effects (Nollet *et al*., 2016) [38].

Nollet *et al*. (2016) [38] discovered a U-shaped link between total ESG scores, governance scores and ROA in S&P 500 firms. On other side, Surroca *et al.* (2010) [47] found no significant relationship between CSR and CFP. They argued that more detailed study models will reduce the positive relationship demonstrated in previous studies. Garcia and Orsato's (2020) [19] study on developing countries reveal that ESG initiatives adversely affect return on assets (ROA) and free cash flow (FCF). In contrast, Ramzan *et al.* (2021) [41] indicate that Pakistani banks who invest more money into CSR activities do better financially because they build stronger relationships with their clients. Rodriguez-Fernandez (2016) [43] find that CSR and financial performance (measured as ROA, ROE, and Tobin's Q) are positively correlated in Spanish firms, indicating that socially focused organizations perform better. Also, according to Alareeni and Hamdan (2020) [4] social and environmental disclosure diminishes ROE and ROA but increases Tobin's Q, whereas governance disclosure improves Tobin's Q and ROA while decreasing ROE. According to prior research and stakeholder and legitimacy theories, companies' ESG disclosure reduces investor and stakeholder uncertainty, improving financial performance. Accordingly, the following hypothesis is formulated:

H$_1$: ESG disclosure positively affects profitability and market value.

2.2 Environmental, Social, and Governance Disclosure and Corporate Financial Performance (CFP)

In a study of UK public companies, Li *et al.* (2018) [31] found that each pillar of ESG has a positive impact on firm performance. They conclude that ESG disclosure can improve financial performance by enhancing transparency, accountability, and stakeholder trust. Higher environmental disclosure enhances investors' perceptions, which boost the company's reputation, market position, and performance. Johnson *et al*. (2019) [13] discovered that company success is not affected by ESG score, even though environmental and social scores may reduce value generation.

Studies on environmental element of ESG indicate that environmental reporting boost financial performance, competitiveness, and reputation by optimizing utilization of resources. Gerged *et al*. (2020) [20] observed that environmental disclosure increases company value in GCC countries, especially in oil and energy industries, where government and NGO involvement encourages voluntary reporting. Alhazmi (2017) [6] emphasized government role in promoting firms to involve in environmental practices and disclosure. In India, while many firms are unaware of environmental practices, government are promoting awareness towards sustainable development.

In terms of the social dimension of ESG practices, multiple studies show that social concerns play a crucial role in an enterprise's public relations, impacting financial performance o firms. EI-Deeb *et al*. (2022) [16] demonstrate that Egypt's non-financial sector companies with stronger social disclosure have higher market value, indicating the significant effect of ESG aspects on firm value. Han *et al*. (2016) [23] found insignificant correlation between social disclosure and firm value. The findings underscore the relevance of social disclosure in Indian firms.

Strong corporate governance mechanism enhances sustainability reporting by ensuring that internal controls priorities shareholders' interests. A number of studies have been conducted to analyze the relationship between Governance disclosure and financial performance. For example, Pham *et al*. (2025) [40] find that governance disclosure has positive impact on financial performance of commercial banks operating in Southest and East Asia. Broadstock *et al*. (2020) [10] conclude that transparent and well- governed firms outperform the market. The results emphasize the need of Indian companies to give greater attention to governance disclosure in their operations.

Accordingly, the study formulates the following sub-hypotheses:

- **H_2a:** Environmental disclosure positively affects profitability (ROA and ROE).
- **H_2b:** Social disclosure positively affects profitability (ROA and ROE).
- **H_2c:** Governance disclosure positively affects profitability (ROA and ROE).
- Sub-hypotheses based on the impact of element-wise ESG disclosure on firm value:
- **H_3a:** Environmental disclosure positively affects market value (Tobin's Q).
- **H_3b:** Social disclosure positively affects market value (Tobin's Q).
- **H_3c:** Governance disclosure positively affects market value (Tobin's Q).

3. Research Methodology

3.1 Research Design

We employ a sample of 500 Indian companies listed on National Stock Exchange (NSE) over the period 2019-2020. Firstly, we exclude 95 financial firms due to different regulations, diverse accounting standards and sector specific disclosure practices. Data for ESG disclosures was collected manually through content analysis, utilizing NVivo software to analyze annual and sustainability reports. Annual reports for 54 companies for all 5 years were not available. For analysis, financial data were collected from CMIE ProwessIQ database. Due to unavailability of complete financial data for all firms over the five-year period, 78 firms with missing values were removed from the analysis. The study's final sample consists of 273 companies, comprising 1365 firm-year observations.

3.2 Variables Descriptions

- **Independent Variables:** Due to the absence of data pertaining to emerging economies like India in international databases such as Bloomberg or LSEG (formerly known as Refinitiv) databases, ESG disclosure scores are calculated on individual basis. Following the method of (Chopra *et al*.,2024; Masud *et al*., 2025) [12, 35], ESG and its sub components scores are calculated based on a check-list of ESG metrics included in GRI guidelines and CRISIL methodology. A total of 46 metrics were identified- 17 of them were related to environmental, 18 to social element, and 11 to governance element. A company assigned an ESG value of "1" if disclosed the elements, and "0" otherwise. The ESG score, along with its individual components was determined by combining the total disclosure scores of the indicators, dividing by maximum possible scores and converting the outcome into percentage (Al Amosh *et al*., 2022) [3].
- **Dependent Variables:** This study included 3 different financial measures: two accounting- based indicators- return on assets (ROA) and return on equity (ROE)-and one market-based measure, Tobin's Q. Some studies use all three performance measures, whereas others use one or two, depending on their research objective and data availability (Alareeni and Hamdan, 2020; Song *et al*., 2017; Bhaskaran *et al*., 2020) [4]. Using three different performance measures provide a broader perspective and robustness of the study.
- **Control Variables:** Following the completion of an analysis of previous studies, we utilized a group of variables to control the influence of independent variables. Table 1 presents a comprehensive analysis of the study variables.

Table 1: Variables of the study

Variables	Code	Explanation	References
Independent Variables			
ESG Scores	ESGS	Dummy 1 for item disclosing, 0 otherwise	Masud *et al*., 2025 [35]
Environment Scores	ES	Dummy 1 for item disclosing, 0 otherwise	Masud *et al*., 2025 [35]
Social Scores	SS	Dummy 1 for item disclosing, 0 otherwise	Masud *et al*., 2025 [[35]
Governance Scores	GS	Dummy 1 for item disclosing, 0 otherwise	Masud *et al*., 2025 [35]
Dependent Variables			
Return on Assets	ROA	Net Income/ Total assets	Lee and Isa (2023) [30]
Return on Equity	ROE	Net Income/ total Equity	Lee and Isa (2023) [30]
Tobin's Q	TobinQ	Market capitalization/total asset	Al Amosh *et al.* (2023) [2]
Control Variables			
Size	LnTA	Natural logarithm of total assets	Kalia and Aggarwal (2023); Velte (2017) [25]
Leverage	Lev	Total debt/ total equity	Kalia and Aggarwal (2023) [25]
Liquidity	CR	Current Assets/ Current Liabilities	Hyusein and Cek (2025) [24]
Sales Revenue	LnSale	Natural log of sales	Fatemi *et al.* (2018) [17]
Tangibility	Tang	Total fixed tangible asstes/ total assets	Alathamneh *et al.* (2025) [5]

Source: Authors' own work

Research Models

The following regression model is formulated to assess the hypothesis (H1):

$$FP_{it}(ROA) = \beta_0 + \beta_1 ESGS_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + +\beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it} \quad \text{(Model 1)}$$

$$FP_{it}(ROE) = \beta_0 + \beta_1 ESGS_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it} \quad \text{(Model 2)}$$

$$FP_{it}(TobinQ) = \beta_0 + \beta_1 ESGS_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it} \quad \text{(Model 3)}$$

To test the sub-hypothesis (H2a-H2c), the following regression model is developed:

$$FP_{it}(ROA) = \beta_0 + \beta_1 ES_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it}$$

$$FP_{it}(ROA) = \beta_0 + \beta_1 SS_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it}$$

$$FP_{it}(ROA) = \beta_0 + \beta_1 GS_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it} \quad \text{(Model 4)}$$

$$FP_{it}(ROE) = \beta_0 + \beta_1 ES_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it}$$

$$FP_{it}(ROE) = \beta_0 + \beta_1 SS_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it}$$

$$FP_{it}(ROE) = \beta_0 + \beta_1 GS_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it} \quad \text{(Model 5)}$$

To test the sub-hypothesis (H3a-H3c), the following regression model is developed:

$$FP_{it}(TobinQ) = \beta_0 + \beta_1 ES_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it}$$

$$FP_{it}(TobinQ) = \beta_0 + \beta_1 SS_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it}$$

$$FP_{it}(TobinQ) = \beta_0 + \beta_1 GS_{it} + \beta_2 CR_{it} + \beta_3 LnTA_{it} + \beta_4 Lev_{it} + \beta_5 LnSale_{it} + \beta_6 Tang_{it} + \varepsilon_{it} \quad \text{(Model 6)}$$

here i denotes number of companies, t represents the year, and ε stands for the error term.

4. Empirical Results
4.1 Descriptive Analysis
Table 2 shows a summary of descriptive statistics of variable considered in this study. The mean value across the three dimensions of ESG imply that firms prioritize governance transparency (65.7), followed by social initiatives (62.44), while environmental disclosure (59.49) is minimal. Similar result has been obtained by Maji and Lohia (2024) [34] in Indian context. The ROA exhibits a mean of 9.021 and a standard deviation of 8.28, indicating that firms are utilizing their assets effectively to generate profits on average. ROE has a mean value of 15.26 with a standard deviation of 15.71, showing profitability performance among firms is inconsistent. Tobin's Q shows a mean of 3.8 and a standard deviation of 5.24, suggesting significant variability in market valuation across firms.

Table 2: Summary Statistics

Variable	Obs.	Mean Std. dev.	Min	Max
Dependent Variable				
ROA	1,365	9.02 8.28	-45.95	78.32
ROE	1,365	15.26 15.71	-95.4	136.24
TobinQ	1,365	3.8 5.24	0	99.72
Independent Variable				
ESGS	1,365	62.22 13.74	0	93
ES	1,365	59.49 13.66	0	94
SS	1,365	62.44 17.73	0	100
GS	1,365	65.7 14.2	0	100
Control Variable				
LnTA	1,365	11.26 1.32	6.47	16.09
Lev	1,365	0.42 2.3	0	81.37
CR	1,365	2.22 4.77	0.01	153.44
Lnsale	1,365	10.69 1.82	0	15.57
Tang	1,365	0.25 0.18	0	0.78

Source: Authors' own work

4.2 Correlation Results
Table 3 represents the correlation between the variables of this study. The overall ESG scores demonstrate a strong correlation with ROE and Tobin's Q, while their relationship with ROA is not significant. The correlation between ROA and ESG, along with its sub-dimensions, is positive yet not statistically significant. ROE and Tobin's Q show a significant correlation with nearly all variables, with the exception of the social dimension and the liquidity variable. It is evident that ESG scores are highly correlated with the environmental (.896), social (.937), and governance (.787) pillars, indicating that organizations with great ESG performance also perform well in each pillar. The result shows no multicollinearity, as the variance inflation factor

(VIF) lies between 1.03 to 2.22 with an average of 1.44, consistent with the findings of Maji and Lohia (2024a) [34].

Table 3: Correlation Analysis

	ROA	ROE	TobinQ	ESGS	ES	SS	GS	LnTA	Lev	CR	LnSale	Tang
ROA	1											
ROE	0.843***	1										
TobinQ	0.409***	0.357***	1									
ESGS	0.022	0.072***	0.058**	1								
ES	0.006	0.067***	0.017	0.896***	1							
SS	0.031	0.077***	0.086***	0.937***	0.749***	1						
GS	0.017	0.032	0.028	0.787***	0.599***	0.63***	1					
LnTA	-0.139***	-0.061**	-0.295***	0.278***	0.259***	0.282***	0.166***	1				
Lev	-0.152***	-0.196***	-0.067**	-0.086***	-0.091***	-0.087***	-0.035***	0.025	1			
CR	0.060**	0.001	0.023	-0.082***	-0.071***	-0.075***	-0.073***	-0.132***	-0.047	1		
LnSale	0.093***	0.175***	-0.153***	0.209***	0.202***	0.202***	0.132***	0.705***	0.001	-0.259***	1	
Tang	-0.108***	-0.064***	-0.096***	0.025	0.008	0.049*	-0.01	0.171***	0.129***	-0.155***	0.286***	1

Note: *** represents p<0.01; ** represents p<0.05; *** represents p<0.1
Source: Authors' own work

4.3 Regression Results

4.3.1 Impact of overall ESG score on financial performance

First, we use equations (1), (2), and (3) to get an understanding of how ESG scores and financial performance are related. Table 4 displays the outcomes of pooled OLS regressions. It is observed that the coefficient of ESG score is positive and statistically significant for all three financial indicators. Consequently, we are unable to reject hypothesis H1. Enhanced overall ESG disclosure can facilitate more profitability and raise the market value for Indian companies (Naeem *et al*., 2022) [36]. The statistically significant positive relationship between ESG and financial indicators supports stakeholder theory. Our results also align with (Ray and Goel, 2023; Zhou *et al*., 2022) [42, 50]. Liquidity has positively significant impact on ROA and ROE, but no impact on firm value (Tobin's Q). Further, sales revenue is positively associated with financial performance, consistent with (Lee and Isa, 2023) [30]. However, leverage and size adversely impact financial performance. The coefficient of both control variables aligns with other previous studies, such as (Fatemi *et al*., 2018; Giannopoulos *et al*., 2022) [17].

Table 4: Impact of overall ESG Disclosure on CFP

	ROA		ROE		Tobin's Q	
	Model 1		Model 2		Model 3	
	Coeff.	Std. err.	Coeff.	Std. err.	Coeff.	Std. err.
ESGS	0.03*	0.01	0.08***	0.02	0.05***	0.010
CR	0.17***	0.04	0.18**	0.08	0.00	0.029
LnTA	-2.71***	0.22	-4.65***	0.42	-1.62***	0.145
Lev	-0.41***	0.09	-1.11***	0.17	-0.08	0.058
LnSale	2.06***	0.17	4.16***	0.32	0.35***	0.109
Tang	-6.17***	1.22	-9.34***	2.3	-1.74**	0.782
Con.	17.03***	1.87	20.36***	3.53	15.33***	1.202
N	1365	1365	1365	1365	1365	1365
Adj. R^2	0.1382		0.1497		0.1154	

Note: *** represents p<0.01; ** represents p<0.05; *** represents p<0.1
Source: Authors' own work

4.3.2 Impact of element-wise ESG score on financial performance

We separately analyzed how each sub-component of ESG affects financial performance of Indian companies. The aim of this analysis is to determine whether any specific pillar is more strongly associated with CFP than overall ESG score. The results of the impact of sub-components of ESG on financial performance are presented in Table 5. It is notable that only S component has a statistically positive impact on ROA. The environmental and governance components remain insignificant in Model 4. On the contrary, ROE is impacted by environmental and social components; consistent with the results of (Al Amosh *et al*., 2023) [2]. While, Tobin's Q is impacted by all the three components (E, S, and G); this result is consistent (El-Deeb *et al*., 2023) [15]. Furthermore, the results revel that social disclosure significantly impact all the indicators of corporate financial performance, aligning with previous study (Nekhili *et al*., 2017) [37], indicating socially responsible firms are gaining attention from stakeholders and improving their market valuation and profitability. The results of all control variables are consistent with earlier results as reported in Table 4.

Table 5: Impact of component wise ESF Disclosure on CFP

	ROA			ROE			Tobin's Q		
	Model 4			Model 5			Model 6		
	Coeff.	Coeff.	Coeff.	Coeff.	Coeff.	Coeff.	Coeff.	Coeff.	Coeff.
ES	0.01 (0.01)			0.06** (0.02)			0.03*** (0.01)		
SS		0.03*** (0.01)			0.07*** (0.02)			0.05*** (0.00)	
GS			0.01 (0.01)			0.03 (0.02)			0.02*** (0.00)
CR	0.16*** (0.04)	0.17*** (0.04)	0.16*** (0.04)	0.18** (0.08)	0.1** (0.08)	0.17** (0.08)	-0.00 (0.02)	0.00 (0.02)	-0.00 (0.02)
LnTA	-2.66*** (0.22)	2.75*** (0.22)	-2.65*** (0.22)	-4.58*** (0.42)	-4.7*** (0.42)	-4.46*** (0.42)	-1.55*** (0.14)	-1.67*** (0.14)	-1.51*** (0.14)
Lev	-0.42*** (0.09)	-0.40 (0.09)	-0.42*** (0.09)	-1.1*** (0.17)	-1.1*** (0.17)	-1.15*** (0.17)	-0.09 (0.05)	-0.07 (0.05)	-0.1* (0.05)
LnSale	2.06*** (0.17)	2.06*** (0.17)	2.06*** (0.17)	4.15*** (0.32)	4.17*** (0.32)	4.16*** (0.32)	0.35*** (0.1)	0.37*** (0.1)	0.35*** (0.1)
Tang	-6.18*** (1.22)	-6.25*** (1.21)	-6.16*** (1.22)	-9.28*** (2.3)	-9.55*** (2.29)	-9.35*** (2.3)	-1.73** (0.78)	-1.88** (0.77)	-1.72** (0.78)
Con.	17.55*** (1.87)	17.29*** (1.82)	17.16*** (1.94)	20.86*** (3.53)	21.34*** (3.44)	21.5*** (3.66)	15.98*** (1.2)	15.91*** (1.16)	15.77*** (1.25)
N	1365	1365	1365	1365	1365	1365	1365	1365	1365
Adj. R^2	0.1364	0.1402	0.1368	0.1480	0.1515	0.1454	0.1036	0.1260	0.1012

Note: *** represents p<0.01; ** represents p<0.05; *** represents p<0.1
Source: Authors' own work

5. Conclusion, Limitations, and Future Research

This study reflects the first attempt to analyze the effects of each dimension of ESG independently in relation to three distinct indicators of CFP: accounting performance (ROA and ROE) and market-based performance (Tobin's Q). The results show a positive association between ESG scores and financial performance. This is in line with stakeholder and legitimacy theory, indicating that a firm's ESG performance can improve its credibility, reputation, and financial performance by addressing stakeholders' expectations, thus and ensuring societal legitimacy and support. Table 6 provides a summary of the hypothesis testing results.

Table 6: Hypothesis Testing Results

Hypothesis	Statement	Result
H1	ESG disclosure positively affects profitability and market value.	Supported
H2a	Environmental disclosure positively affects profitability (ROA and ROE).	Partially supported, as impact of environmental disclosure on ROA is insignificant.
H2b	Social disclosure positively affects profitability (ROA and ROE).	Supported
H2c	Governance disclosure positively affects profitability (ROA and ROE).	Not Supported
H3a	Environmental disclosure positively affects market value (Tobin's Q).	Supported
H3b	Social disclosure positively affects market value (Tobin's Q).	Supported
H3c	Governance disclosure positively affects market value (Tobin's Q).	Supported

Source: Authors' own work

This study offers practical implications for regulatory bodies, companies, and investors. Firstly, recognizing the positive impact of ESG on FP, Indian Government should enforce mandatory disclosure practices by incorporating additional ESG related concerns. Secondly, the disclosure on environmental and governance information has no significant impact on CFP because of low level of transparency. Indian companies should improve how they disclose information about the environmental and governance to meet the stakeholder expectations, which may enhance financial performance and corporate governance. Thirdly, investors can reduce risks and generate long-term value by incorporating ESG criteria into their investment strategies.

This study possesses some limitations that future research could address. ESG may not significantly impact corporate financial performance within five years, requiring a longer period. Moreover, ESG rankings might not adequately reflect a company's actual ESG practices. The other variables such as board composition and cultural factors can also influence financial performance. Future research may investigate these issues and analyze the impact of weighted scores of each ESG component.

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