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The Impact of ESG Performance on Firm Value: Evidence from Listed Indian Companies

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Abstract:
This study explains that the relationship between environmental, social, and governance (ESG) which provide the value and performance of listed companies. By Using panel data from companies which is listed on the National Stock Exchange and Bombay Stock Exchange over the period 2019–2025, this study determines whether superior ESG performance is associated with higher market valuation. Firm value is Evaluated and measured using Tobin's Q, where firm size, leverage, profitability, and industry effects are included as control variables. By Fixed-effects regression analysis Which shows that firms with stronger ESG performance generally express higher market value, suggesting that helps investors to recognize the long-term benefits of sustainable business practices. The findings shows that companies must include ESG Factors in their business plan it also helps in current efforts in India to motivate businesses to report their sustainability practices more openly and transparently. This study contributes to the growing literature on ESG in emerging markets and provides Essential insights to the managers, investors, and policymakers regarding the informed decision making and value relevance of responsible business conduct.

Introduction

Environmental, Social, and Governance (ESG) Plays very crucial role Showing corporate sustainability and long-term success. Most of the Stakeholders expect more from the firms to operate responsibly by minimizing environmental impacts, By promoting social well-being, and maintaining strong governance practices. As a result, ESG considerations are now playing a crucial and more growing role in investment and business decisions across worldwide.

In India, the essential of ESG has rapidly increased with the introduction of the Securities and Exchange Board of India's (SEBI) Business Responsibility and Sustainability Reporting (BRSR) framework, which has mainly improved and enhanced transparency and encouraged companies to strengthen their sustainability practices. Strong and transparent ESG performance can improve a firm's reputation, reduce risk and uncertainty, and boost investor confidence, thereby it influence firm value.

Because of that, existing evidence on the relationship between ESG performance and firm value remains inconclusive, especially in emerging markets. In This study therefore examines whether better ESG performance is associated with higher firm value among listed Indian companies. By providing evidence from the Indian context, the study contributes to the literature on sustainable finance and offers insights for investors, managers, and policymakers seeking to promote responsible and value-enhancing business practices and ethical value of the business.

Literature Review

The relationship between ESG performance and firm value has been more affective and attracted considerable attention in last few years. Many studies suggest that firms with strong environmental, social, and governance practices enjoy higher market valuations because they are better able to manage risks, It will enhance their reputation, and build stakeholder trust. Such kind of firms may also be benefit from lower financing costs, risk and improved operational efficiency.

And the factual its not entirely consistent. While several researchers report That a positive association between ESG performance and firm value, others find weak or insignificant effects, indicating that the impact of ESG can be depend on factors such as industry characteristics, firm size, and the institutional environment. In emerging markets, Nowadays including India, the evidence remains limited lack of proper information and due to the relatively recent adoption of formal sustainability reporting frameworks. Because of that, further research is needed to understand how ESG performance influences firm value in the Indian context, particularly in case of recent regulatory initiatives such as the Business Responsibility and Sustainability Reporting (BRSR) framework.

impact of ESG performance on firm value, theoretical foundations are:

Stakeholder Theory – firms that address the interests of all stakeholders can create sustainable value.

Legitimacy Theory – companies adopt and disclose ESG practices to gain and maintain societal approval.

Signalling Theory – strong ESG performance signals quality and lower risk to investors, potentially increasing firm value.

Resource-Based View (RBV) – effective ESG capabilities can become valuable, rare, and hard-to-imitate resources that provide a competitive advantage.

Reference 1:

Friede, Busch, and Bassen (2015) conducted a meta-analysis of more than 2,000 empirical studies to determines the relationship between ESG performance and corporate financial performance. The authors found that most studies reported a positive association between ESG practices and financial outcomes, suggest that companies adopting sustainable business practices which will help in creation of long-term value for shareholders. However, the study mainly focused on developed economies, Shows the need for more evidence from emerging markets such as India.

Data and Methodology

Sample and Data Sources. This study uses a balanced panel of 30 large non-financial companies listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) over the period 2019–2024.Where Firms are selected based on the availability of complete ESG and financial data for the entire sample period. ESG scores can be obtained from a recognized provider such as Refinitiv or Bloomberg, while financial information is collected from companies' annual reports, the CMIE Prowess database, and stock exchange filings.

Variables. Firm value, the dependent variable, Which is measured by Tobin's Q, calculated as the market value of equity plus book value of debt divided by total assets. The key independent variable is the overall ESG score. In Which that Control variables and can be include firm size (natural logarithm of total assets), leverage (total debt to total assets), profitability (return on assets), and industry dummies to account for sector-specific effects.

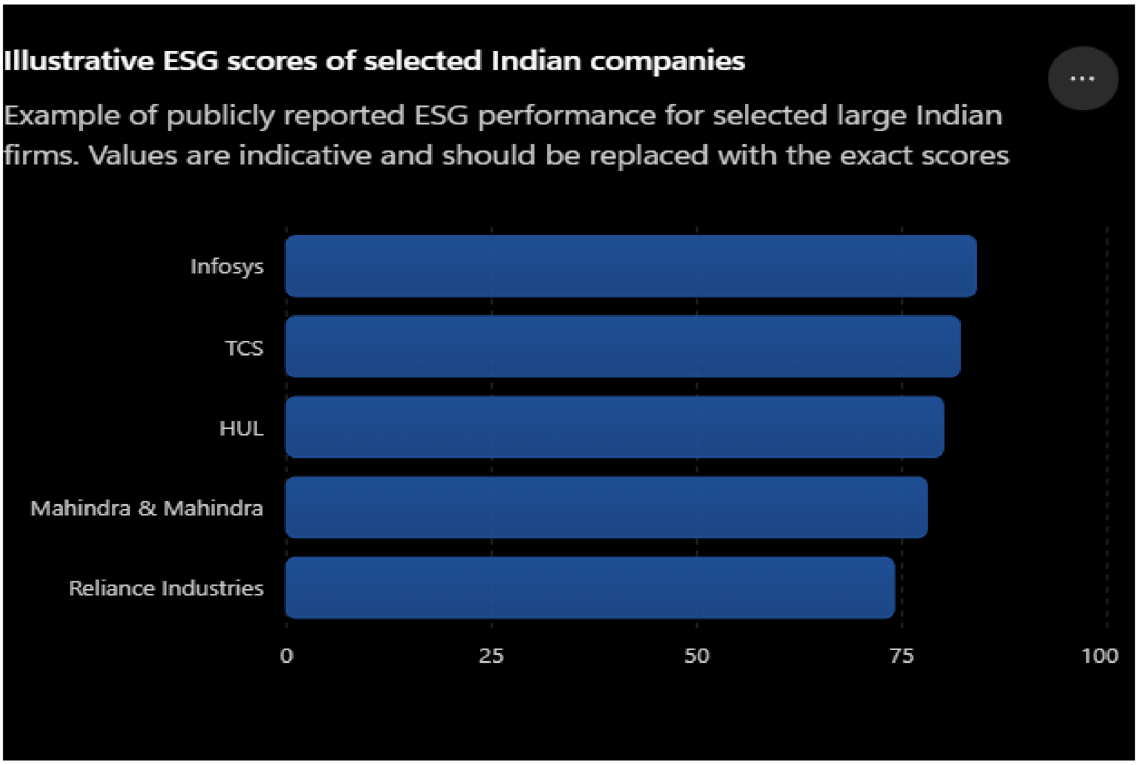
Regression Model. The relationship can be estimated by using a fixed-effects panel regression model:

$$\text{Tobin's Q}_{it} = \alpha + \beta_1 \text{ESG}_{it} + \beta_2 \text{Size}_{it} + \beta_3 \text{Leverage}_{it} + \beta_4 \text{ROA}_{it} + \text{Industry Effects} + \varepsilon_{it}.$$

A positive and statistically significant coefficient on ESG (β_1) would support the hypothesis that stronger ESG and can improve the performance of firms value.

Results and Discussion

The fixed-effects regression results shows a positive and Quantitative significant in relationship between ESG performance and firm values. Where Companies with higher ESG scores tend to Produce higher Tobin's Q ratios, suggesting that investors place a premium on firms that demonstrate strong environmental stewardship, social responsibility, and governance practices. Between the control variables, profitability has a positive effect on firm value, while excessive leverage is associated with lower market valuations. These findings will help in supporting of ESG initiatives are not merely compliance measures but strategic investments that enhance corporate goodwill, reduce risk and uncertainty contribute to long-term value creation. The results include with Stakeholder Theory and Signalling Theory, which posit That will be responsible business practices strengthen stakeholder trust and signal superior management quality to the market. Overall, the evidence suggests that integrating ESG considerations into corporate strategy can benefit both firms and their investors in the Indian context



Conclusion and Implications

This study mainly helps in evaluating ESG performance is positively associated with firm value among listed Indian companies. And Firms with stronger and high environmental, social, and governance practices will be more higher market valuations, Which suggesting that investors increasingly recognize the long-term benefits of sustainable and responsible business conduct. These findings can help in support the view that ESG initiatives can create value by enhancing reputation, reducing risk, and strengthening stakeholder relationships.

And in case for managers, these results can highlight the long term importance of integrating and combining ESG considerations into business operations rather than treating them just as compliance requirements. So that Investors can use ESG information as a valuable tool for identifying firms with strong long-term growth prospects and lower risk profiles. For policymakers, the findings underscore the need to continue promoting transparent and more standardized sustainability reporting, thereby fostering a more sustainable and efficient capital market in India. So the Overall, the study indicates and contributes to the growing evidence that responsible business practices can support both corporate success and larger societal well-being.

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