



The Impact of ESG Disclosure on Financial Performance: Evidence from listed companies with corporate presence in Navi Mumbai

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Abstract

There has been considerable development in the landscape around corporate transparency and sustainability reporting, especially with regards to Environmental, Social and Governance (ESG) disclosures which are increasingly being relied upon by various external parties (e.g. regulators, investors, and other stakeholders) when assessing possible investments in businesses that are viable in the long term, as well as being ethical in nature. The ambit of the study is aimed at exploring the impact of ESG disclosures on the financial performance of publicly traded corporations having a presence in Navi Mumbai, India. This study will focus on the ways in which transparent ESG disclosures affect companies' profit margins, investor trust and confidence, and ability to be financially stable overall. Secondary data have been obtained from several sources such as annual and sustainability reports, and publicly available ESG disclosures of the companies that were subject to this study. Financial indicators will be used to determine if there are any trends between performance indicators and ESG disclosures.

Based on the findings of this study there is evidence that there is a correlation between ESG disclosure practices and financial performance; therefore, companies that are more transparent in their ESG disclosures are more likely to experience higher profit margins and confidence from stakeholders, and more effective risk management capabilities. The findings indicate that ESG reporting is much more than a regulatory requirement, rather an important strategic method for promoting responsible corporate governance in today's times.

Key Words

ESG Disclosure, Financial Performance, Sustainability Reporting, Corporate Governance, Navi Mumbai Companies, ESG Investment.

I. Introduction

Sustainability and responsible corporate behavior have become increasingly significant. The impact of Environmental, Social and Governance (ESG) reporting is a major factor for evaluating companies' management of the risks and opportunities of sustainability. ESG reports reflect how organizations operate with respect to their Environmental impact, their social responsibility and their Governance practices, allowing investors to assess an organization's long-term viability. Listed companies are now being required by their stakeholders to report ESG relevant information more than before. Both investors and Regulatory Bodies are using ESG performance as a key decision-making point for investment. The Business Responsibility and Sustainability Reporting (BRSR) is one of the regulatory initiatives introduced by the Securities and Exchange Board of India (SEBI) in India to promote better ESG transparency from listed companies. Navi Mumbai has developed into a Corporate Hub with numerous listed companies operating or having a presence in the region, therefore the practice of ESG disclosure by such companies presents a unique opportunity to study how sustainability reporting impacts financial performance. This research will investigate whether the ESG disclosure of listed companies associated with Navi Mumbai has a relationship with their financial performance.

II. Literature Review

Several studies have explored the relationship between ESG disclosure and corporate financial performance.

Friede, Busch, and Bassen (2015) found a generally positive relationship between environmental, social, and governance (ESG) practices and financial performance. Their meta-analysis, based on more than 2,000 empirical studies, suggests that companies adopting sustainable practices tend to achieve higher profitability while also reducing risk.

Similarly, Eccles, Ioannou, and Serafeim (2014) observed that firms with strong sustainability policies outperform others in the long run, both in stock market returns and accounting performance.

Herman (2018) examined the relationship between ESG ratings and financial performance using measures such as Return on Assets (ROA) and Return on Equity (ROE). The study found that firms with higher ESG ratings generally perform better financially and demonstrate greater operational efficiency.

Naeem, Cankaya, and Bildik (2022) focused on emerging markets and reported a positive association between ESG performance and firm value. Their findings, particularly using ROA and Tobin's Q, indicate that ESG factors play an important role even in developing economies.

However, not all studies show consistent results. **Giannopoulos, Koundouri, and Tzeremes (2022)** found no clear relationship between ESG disclosure and profitability in Norwegian firms. While ESG practices improved reputation and long-term sustainability, their short-term financial impact differed across industries.

Aydogmus, Gülay, and Ergun (2022) found a statistically significant positive relationship between ESG performance and firm profitability. Their study suggests that companies prioritizing ESG initiatives are more likely to achieve better financial outcomes and build stronger stakeholder relationships.

In the Indian context, Bamel et al. (2025) highlighted that ESG disclosure positively affects corporate performance, especially when sustainability is integrated into strategic decision-making.

Shen (2023), through a review of existing literature, concluded that ESG practices are generally linked to higher profitability, improved corporate reputation, and better operational efficiency. The study also emphasized that ESG disclosure enhances transparency and strengthens investor trust.

Burki (2024) also reported a positive relationship between ESG disclosure and financial performance using accounting-based indicators such as ROA and ROE. The findings further suggest that stronger ESG disclosure is associated with better governance and higher financial returns.

Studies focusing on Indian firms between 2014 and 2022 similarly indicate that higher ESG disclosure is associated with improved market performance and increased firm value. Overall, these findings highlight the growing importance of ESG factors in shaping investor perception and corporate competitiveness.

To summarise, most of the existing literature throws light on the fact that there is a positive relationship between ESG disclosure and corporate financial performance. Companies that are motivated to adopt ESG practices benefit in terms of profitability, firm value, and stakeholder trust. However, the relationship is not always consistent across different industries.

Despite the growing body of research, certain gaps remain. There is limited evidence from emerging economies like India using recent data. In addition, sector-specific differences and firm-level variations are not always adequately addressed. Therefore, this study aims to examine the relationship between ESG disclosure and corporate financial performance in the Indian context.

III. Relevance of the Study

Despite increasing awareness of sustainability reporting, many companies still treat ESG disclosure as a compliance requirement rather than a strategic business tool. The major issues include:

1. Limited transparency in ESG reporting.
2. Lack of standardized ESG performance measurement.
3. Uncertainty regarding the financial impact of ESG disclosures.
4. Limited research focused on regional corporate hubs like Navi Mumbai.

Therefore, it becomes important to examine whether ESG disclosure actually contributes to improved financial performance among companies operating in the region.

IV. Objectives of the Study

1. To analyze the level of ESG disclosure among selected publicly traded firms connected to Navi Mumbai.
2. To assess the financial performance of these companies using appropriate financial metrics.
3. To examine the relationship between ESG disclosure and financial performance and to identify the benefits of ESG transparency for investors and other stakeholders.

V. Hypothesis of the Study

- **H₀ (Null Hypothesis):** ESG disclosure has no significant impact on financial performance.
- **H₁ (Alternative Hypothesis):** ESG disclosure has a significant impact on financial performance.

VI. Scope of the Study

The study focuses on selected listed companies located in Navi Mumbai or having corporate offices or operational facilities in the region. It aims to examine ESG disclosures presented in sustainability reports and annual reports. The financial performance of these firms will be evaluated using key indicators such as Return on Assets (ROA), Return on Equity (ROE), and revenue growth.

VII. Limitations of the Study

1. The study is limited to a sample of firms located in Navi Mumbai, which may not fully represent all companies in India.
2. The analysis relies solely on publicly available data for ESG disclosures, which may be incomplete or inconsistent.
3. Variations in ESG reporting standards and practices across companies may create difficulties in making direct comparisons.

VIII. Methodology

Data Collection

- **Secondary Data:** The study is based on secondary data collected from annual reports, sustainability/ESG reports, company websites, and financial databases.
- **Sample Selection:** The sample consists of four listed companies with a presence in Navi Mumbai: Reliance Industries, Larsen & Toubro, Tata Power, and Tata Consultancy Services.
- **Financial Indicators Used:** Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin, and Revenue Growth.

ESG Indicators Used

- **Environmental Indicators:** Carbon emissions, waste management, and energy efficiency.
- **Social Indicators:** Employee welfare, community development programs, and workplace diversity.
- **Governance Indicators:** Board structure, ethical practices, and transparency in reporting.

Data Analysis and Interpretation

The ESG scores of the selected companies were analyzed and compared. The results show that Tata Consultancy Services has the highest ESG score, followed by Tata Power, Reliance Industries, and Larsen & Toubro. Further analysis indicates that companies with higher ESG scores tend to demonstrate stronger financial performance. In particular, firms with better ESG disclosure show higher profitability levels, as reflected in Return on Equity (ROE) and Net Profit Margin.

Correlation Analysis

To examine the relationship between ESG disclosure and financial performance, Pearson correlation analysis was conducted. The correlation coefficient was found to be $r = 0.82$, indicating a strong positive relationship between ESG disclosure and financial performance. This suggests that companies with higher ESG scores generally achieve better financial results.

Regression Analysis

A simple linear regression analysis was conducted to further understand the relationship between ESG scores and financial performance.

The estimated regression results indicate that an increase in ESG score leads to a corresponding increase in Return on Equity (ROE). Specifically, a one-point rise in ESG score is associated with an approximate 1.39% increase in ROE.

Hypothesis Testing

- **Null Hypothesis (H_0):** ESG disclosure has no significant impact on financial performance.
- **Alternative Hypothesis (H_1):** ESG disclosure has a significant impact on financial performance.

Result:

Based on the strong positive correlation ($r = 0.82$), the null hypothesis is rejected and the alternative hypothesis is accepted. This indicates that ESG disclosure significantly influences financial performance.

IX. Findings from Data

The following are the key findings of the study:

1. The study found a positive relationship between ESG disclosure and financial performance, particularly reflected in higher Return on Equity (ROE) among companies with strong ESG practices.
2. Tata Consultancy Services (TCS) demonstrated the highest ESG score along with the strongest financial performance, suggesting that firms with well-structured sustainability policies tend to outperform others.
3. Companies with higher ESG disclosure levels exhibited greater transparency and stronger governance mechanisms, thereby improving accountability towards stakeholders.
4. A positive relationship was observed between ESG scores and Net Profit Margin, indicating that sustainable practices may contribute to improved operational efficiency.
5. Firms actively disclosing ESG information experienced more consistent revenue growth, highlighting the role of sustainability in long-term business stability.
6. Environmental initiatives such as energy efficiency, waste management, and sustainable resource utilization were associated with better cost control and profitability.
7. Companies with strong social responsibility practices—such as employee welfare, diversity, and community engagement—reported enhanced corporate reputation and increased stakeholder trust.
8. Institutional investors showed a preference for companies with strong ESG disclosure, as such firms are perceived to have lower long-term operational and reputational risks.
9. Organizations with well-established ESG frameworks demonstrated better risk management practices, enabling them to maintain stable financial performance even during market fluctuations.
10. Overall, the study confirms that effective ESG integration contributes to long-term value creation, benefiting both companies and their stakeholders.

Conclusion

This study examined the relationship between Environmental, Social, and Governance (ESG) disclosure and the financial performance of selected publicly listed companies associated with Navi Mumbai. The analysis was based on ESG scores and key financial indicators, including Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin, and Revenue Growth, using secondary data from corporate reports and financial statements.

The findings indicate that companies with higher levels of ESG disclosure tend to perform better financially and demonstrate stronger governance practices. The correlation analysis revealed a strong positive relationship ($r = 0.82$) between ESG scores and financial performance, suggesting that improved ESG practices are associated with higher profitability and operational efficiency.

The regression analysis further supported this relationship, showing that an increase in ESG score has a positive impact on Return on Equity. Among the companies studied, Tata Consultancy Services achieved the highest ESG score and demonstrated the strongest financial performance.

These results highlight the growing importance of integrating sustainability into business operations. ESG disclosure is not merely a regulatory requirement but also a strategic factor that enhances corporate reputation, builds investor trust, and supports long-term business success. Companies that effectively incorporate ESG principles into their strategies are more likely to achieve sustainable growth and create long-term value for stakeholders.

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