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(An Autonomous Institute)
University Road, Kolhapur - 416004, Maharashtra State, India.

website : www.siberindia.edu.in
E-mail : editorsajmr@siberindia.edu.in

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Chhatrapati Shahu Institute of Business Education & Research (CSIBER)

(An Autonomous Institute)

University Road, Kolhapur - 416004, Maharashtra State, India

Phone : 0231-2535706 / 2535707

website : www.siberindia.edu.in

E-mail : editorsajmr@siberindia.edu.in

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University Road, Kolhapur – 416004, Maharashtra, India.
Phone: 91-231-2535706/07, Fax: 91-231-2535708,
Website: www.siberindia.edu.in
Email: csiberpress@siberindia.edu.in
Editor Email: editorsajmr@siberindia.edu.in

Editorial Note

South Asian Journal of Management Research (SAJMR), is a scholarly journal that publishes scientific research on the theory and practice of management. All management, computer science, environmental science related issues relating to strategy, entrepreneurship, innovation, technology, and organizations are covered by the journal, along with all business-related functional areas like accounting, finance, information systems, marketing, and operations. The research presented in these articles contributes to our understanding of critical issues and offers valuable insights for policymakers, practitioners, and researchers. Authors are invited to publish novel, original, empirical, and high quality research work pertaining to the recent developments & practices in all areas and disciplined.

Cross-functional, multidisciplinary research that reflects the diversity of the management science professions is also encouraged, the articles are generally based on the core disciplines of computer science, economics, environmental science, mathematics, psychology, sociology, and statistics. The journal's focus includes managerial issues in a variety of organizational contexts, including for profit and nonprofit businesses, organizations from the public and private sectors, and formal and informal networks of people. Theoretical, experimental (in the field or the lab), and empirical contributions are all welcome. The journal will continue to disseminate knowledge and publish high-quality research so that we may all benefit from it.

Dr. Pooja M. Patil
Editor

Address:
CSIBER Press
Central Library Building
Chhatrapati Shahu Institute of Business Education and Research (CSIBER),
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C O N T E N T S

Corporate Financial Performance and its impact on Environmental, Social, Governance and ESG Performance: A Study of Indian Firms

Pawan Kumar

Research Scholar (Ph.D.),
University School of Management and Entrepreneurship (USME), Delhi Technological University (DTU), Delhi, India.

Dr. Amit Mookerjee

Professor and HOD,
University School of Management and Entrepreneurship (USME), Delhi Technological University (DTU), Delhi, India.

Abstract

Companies are increasingly paying attention to "Environmental", "Social", and "Governance" (ESG) disclosures to create long-term value. In this context, the "financial performance" of companies also plays a crucial role in determining the extent of engagement in ESG activities. Enhanced financial performance results in increased ESG engagement, whereas superior ESG engagement does not always translate to better financial performance (Lin et al.,2019). Consequently, we observe a dearth of studies that investigate the impact of "Corporate Financial Performance (CFP) on ESG Performance (ESGP)", especially in the Indian context.

Thus, the purpose of this paper is to examine the impact of "Corporate Financial Performance (CFP)" on "ESG Performance (ESGP)" using an imbalanced panel dataset of 304 firm-year observations of Indian firms listed on the Nifty100 ESG Index over the period of 5 years (2018 to 2022). The relationship is empirically investigated by employing the fixed-effect regression analysis between CFP as measured by accounting-based measure, Return on Assets (ROA) and market-based measure, Tobin's Q and ESGP as measured by Environmental Scores (ES), Social Scores (SS), Governance Scores (GS) and overall ESG Scores (ESGS) obtained from the Bloomberg database. The findings indicate that Tobin's Q affects "Environmental Score (ES)", "Social Score (SS)", "Governance Score (GS)" and "ESG Score (ESGS)" positively and significantly. On the other hand, ROA has statistically insignificant effects on ESGP. Market measures are more adequate for assessment of future and long-term performance. Accounting measures, especially the return on assets, are subject to bias from managerial manipulations. Generally, a high Tobin's Q ratio may indicate that the company is experiencing a period of overvaluation. This study indicated the overvaluation of share price in the market leads to higher ESG activities in Indian companies.

Keywords: ESG Performance (ESGP); Corporate Financial Performance (CFP); Nifty100 ESG Index; India.

Introduction

Environmental, Social, and Governance (ESG) refers to the basic modern dimension of corporate social responsibility (CSR) (Miralles-Quiros et al., 2019). Specifically, CSR refers to "policies and practices of corporations that reflect business responsibility for some of the wider societal good" (Matten and Moon, 2008), however, ESG places lesser emphasis on the overall corporate ethics and primarily centres on three specific aspects: Environmental, Social, and Governance concerns. The term ESG (Environmental, Social, and Governance) was popularly used first in a 2004, report titled "Who Cares Wins", which was a joint initiative of financial institutions at the invitation of the United Nations. In recent times, the ESG performance of firms has become increasingly important for policymakers and investors (Nekhill et al., 2019; Tarmuji et al., 2016; Velte, 2017). More and more companies have realized that ESG is a key driver for competitive advantage, operational efficiency, and reputation establishment (Alsayegh et al., 2020; Aouadi and Marsat, 2018; Buallay, 2019; Filbeck et al., 2019). Companies as identified as green typically receive greater media attention, which can draw more investment from the capital market (Liu and Hamori, 2020).

In India, Securities & Exchange Board of India (SEBI) has introduced measures to enhance ESG disclosure level through Regulation 34(2)(f) of the Listing Obligations and Disclosure Requirement (LODR). Researchers have widely focused on analyzing the impact of ESG Performance on a firm's economic and financial performance (Do and Kim, 2020; Landi and Sciarelli, 2019; Velte, 2017). But, ESG objectives should be viewed not merely as elements impacting a company's financial performance, but as integral components of a firm's overall performance that must be actively pursued. Although firms with greater profitability have greater financial flexibility, it strongly affects managerial decision-making (Pasquale Ruggiero and Sebastiano Cupertino, 2018). Considering that the firms have limited financial resources which need to be allocated efficiently in various investment activities (Ahmed et al., 2021), managers may tend to allocate resources to initiatives that are more remunerative in the short term, rather than ESG investments. Managers' personal interests often clash with a strategic ESG-

focused approach, especially during times of financial downturn. In such instances, managers must find motivation to justify ESG objectives by articulating how they contribute to a sustainable future financial scenario. Firms should engage in pursuing ESG initiatives for increasing stakeholders' satisfaction beyond expectations and regulations through investments in pursuits where they can attain that goal. The high profit-generating entities have great potential to invest their returns towards building ESG performance, and thus, the reverse of the relationship between ESG and CFP also holds true.

The current study aims to investigate the impact of Corporate Financial Performance (CFP) on ESG Performance (ESGP), using "firm-level panel data" from 2018 to 2022 on 304 firm-year observations from the Indian listed companies' constituent of the Nifty100 ESG Index.

This paper is organized as follows: Section 2 suggests a connection between CFP-ESGP. Section 3 represents objective and hypothesis, Section 4 outlines the methodology employed for the statistical analysis. In Section 5, the study findings are presented and in section 6, discussion and conclusion. Section 7 represents implications subsequently followed by limitations and future work in Section 8. Section 9 represents references.

Review of literature

Carroll (1979) classified "corporate social responsibility (CSR)" investments into "environmental, social, and governance" frameworks. Subsequently, CSR and ESG have been interchangeably employed in literature. Various studies indicate both favourable and unfavourable connections between "ESG" practices and "corporate financial performance (CFP)". Many studies indicate both favourable and unfavourable connections between "ESG performance (ESGP)" and "corporate financial performance (CFP)". Perhaps the pioneering proposition on ESG and CFP often referred to as trade-off theory dates back to the neoclassical researchers (Friedman, 1970; Vance, 1975; Wright & Ferris, 1997). They argue that a company's sole societal responsibility is to maximize financial returns for its shareholders. According to this perspective, allocating funds to ESG initiatives needlessly increases operational expenses, ultimately resulting in reduced profitability. On the contrary, proponents of stakeholder theory (Freeman, 1984; Jones, 1995) assert that besides firm owners, other stakeholders are equally essential to an enterprise's success for more beneficial contracting that opens new avenues of growth and stability (Fatemi & Fooladi, 2013).

Empirical studies have widely acknowledged the one-way influence of investments in ESG-related activities on "corporate financial performance (CFP)". Some observed a positive association between environmental performance and CFP (King & Lenox, 2002; Lee et al., 2016; Stanwick & Stanwick, 1998). Zhao et al. (2 018) Examined this phenomenon within China's "energy and power generation sector", and the findings from "panel-based regression" confirm that superior "ESG performance" significantly boosts the financial performance of Chinese companies. From the perspective of a strong corporate governance mechanism and resulting firm value, Achim et al. (2016) investigated a sample of firms listed on the Bucharest stock exchange. Their study demonstrates a positive relationship between the caliber of "corporate governance" and the "market value" of the analysed companies. Therefore, a strong performance in "corporate governance indicators" holds the potential to increase "firm value". Thus, achieving a high score in "corporate governance indicators" can maximize "firm value". Therefore, achieving a high score on "corporate governance indicators" can enhance the value of a firm. In the banking industry, a higher score on corporate governance and employee dimensions led to a higher CFP, whereas product responsibility and society dimensions do not show any positive effects on CFP (Esteban-Sanchez et al., 2017). Although the definition and methodological approach to examine ESG and firm performance vary substantially in the existing studies (Nelling & Webb, 2009; Peloza & Papania, 2008; Surroca et al., 2010), there is, however, a consensus that ESG-related investments do affect the financial performance of a firm (Xie et al., 2019; Yu et al., 2018). Firms that pollute the environment or have unfair employee relations may suffer penalties or consumer boycotts, which results in financial losses and is unattractive for investors (Garcia et al., 2017). Hence, companies are motivated to invest in "environmental, social, and governance" initiatives.

However, being a responsible corporate entity comes with a price, demanding firms to actively cultivate and maintain their social reputation, which can yield intangible benefits. In contrast, ESG activities incur tangible costs. As a result, stakeholders may find it difficult to assess this long-run value proposition (Broadstock et al., 2019). Hence, a few studies also indicate an adverse correlation between ESG performance and firm performance. For example, Garcia et al. (2017) examined companies from BRICS countries and concluded a negative association between profitability and environmental performance. Similarly, Jain et al. (2017) indicates a negative link between a firm's ESG score and corresponding CFP. Nevertheless, Achim and Borlea (2014) studied the impact of environmental investment on the accounting performance of the listed Romanian firms measured by ROA. Their findings support the idea that environmental investments significantly increase a company's internal financial strain, thereby reducing its overall financial performance. Friede et al. (2015) conducted an extensive systematic literature review and found that the relationship between ESGP and CFP is well-founded.

Most of the researchers found a non-negative connection, with a significant majority of studies demonstrating a positive relationship between "ESG performance (ESGP)" and "corporate financial performance (CFP)". Furthermore, using a large global data set, a recent study found a non-negative relationship between most of ESG activities with CFP (Xie et al., 2019). Hence, from a strategic management viewpoint, good performance on various dimensions of ESG can have a much wider connotation (Waddock & Graves, 1997) than a cost, a restriction, or a donation. Besides, it can serve as a major source of innovation and competitive advantage (Michael E Porter & Kramer, 2006) which shall lead to improved CFP in the future (McGuire et al., 1990). In addition, the slack resource theory proposes that instead of firms' ESG influencing CFP, it is the better CFP that leads to an enhanced ESG performance (Waddock & Graves, 1997). According to them, there might be a two-way relationship where ESG impacts CFP while CFP also affects ESG simultaneously, referred to as the positive/negative synergy hypothesis. Improved financial standing enables firms to deploy more financial resources in socially responsible activities such as employee relations, society, and the environment (Preston & O'Bannon, 1997). Enhanced financial performance results in increased ESG engagement, whereas superior ESG engagement does not always translate to better financial performance Lin et al. (2019). Consequently, we observe a dearth of studies that investigate the impact of "Corporate Financial Performance (CFP) on ESG Performance (ESGP)", especially in the Indian context.

Objective and hypothesis

This study aims to investigate the impact of "Corporate Financial Performance" measured by "ROA", "accounting-based" metrics and "Tobin's Q", "market-based" metrics on "ESG Performance" measured by "Environmental Scores (ES)", "Social Scores (SS)", "Governance Scores (GS)" and "Overall ESG Scores (ESGS)" in the context of Indian firms under the Nifty100 ESG Index.

We propose the following hypotheses for empirical investigation:

Hypothesis H1: Corporate Accounting Performance (ROA) directly and positively impacts the ESG Performance (ESGP).

H1a: ROA directly and positively impacts Environmental Scores (ES).

H1b: ROA directly and positively impacts Social Scores (SS).

H1c: ROA directly and positively impacts Governance Scores (GS).

H1d: ROA directly and positively impacts Overall ESG Score (ESGS).

Hypothesis H2: Corporate Market Performance (Tobin's Q) directly and positively impacts the ESG Performance.

H2a: Tobin's Q directly and positively impacts Environmental Scores (ES).

H2b: Tobin's Q directly and positively impacts Social Scores (SS).

H2c: Tobin's Q directly and positively impacts Governance Scores (GS).

H2d: Tobin's Q directly and positively impacts Overall ESG Score (ESGS).

4. Research Methodology

In this section, the sample and data collection methods are outlined, including the variables used in the study. Additionally, it delves into the model employed to attain the study's objective.

Sample Description

The sample data is sourced from the Nifty100 ESG Index as of March 29, 2023. The NIFTY100 ESG Index reflects the performance of companies based on the ESG risk score assigned to the company, where the weight of each constituent is derived from its free-float market capitalization and modified ESG risk score. The final sample is taken for 304 firm year observations after excluding financial and banking companies, and those with missing data (Table1). The data on financial variables, control variables and ESG disclosure scores collected from Bloomberg database.

Table 1: Sample Selection

Sample Selection	2018	2019	2020	2021	2022	Total
Nifty100 ESG Index Companies in the database	89	89	89	89	89	445
Financial and banking companies	23	23	23	23	23	115
Missing data companies	4	3	3	7	9	26
Final Sample	62	63	63	59	57	304

Variable Measurement

To explore the connection between "Corporate Financial Performance (CFP)" and "ESG Performance (ESGP)", "ROA" and "Tobin's Q" are used as indicators for "CFP", while "Environmental Scores (ES)", "Social Scores (SS)", "Governance Scores (GS)", and overall "ESG Scores (ESGS)" represent ESGP in the regression equation. Additionally, the study incorporates control variables such as firm size, debt-equity ratio, and industry dummies.

Table 2: Description of Variables

Variable Type	Variable Name	Variable Code	Variable Definitions	Consistent with Literature
Independent	Corporate Financial Performance (CFP)	ROA	Ratio of Net Income/Total Assets	Fernando García et al. (2020), Pasquale Ruggiero et al. (2018), Renard Y.J. Siew et al. (2013). Chelawat H., Trivedi I.V. (2016), Velte P. (2017), Dalal K. K., Thaker N. (2019), Kumar S., Dua p. (2020).
		Tobin's Q	Ratio of Equity Market value to Equity Book value	
Dependent	ESG performance (ESGP)	ES	Environmental Scores	Jha M. K. and Rangrajan K. (2020), Velte Partrick (2017), Jyoti G. and Khanna A. (2021), Pasquale Ruggiero et al., (2018), Fernando García et al. (2020) and Preeti Sharma et al. (2020).
		SS	Social Scores	
		GS	Governance Scores	
		ESGS	Overall ESG Scores	
Control	Company scale	SIZE	The natural logarithm of a company's Total Assets	Garcia et al. (2017), Landi and Sciarelli (2019), Miralles-Quiros et al. (2019), Paltrinieri et al. (2020), Sun et al. (2019).
	Financial leverage	LEV	Ratio of Net Debt to Shareholders' Equity	
	Industry	INDS	The industry dummies obtain a value of 1 for the firm's industry and 0 otherwise.	

Model

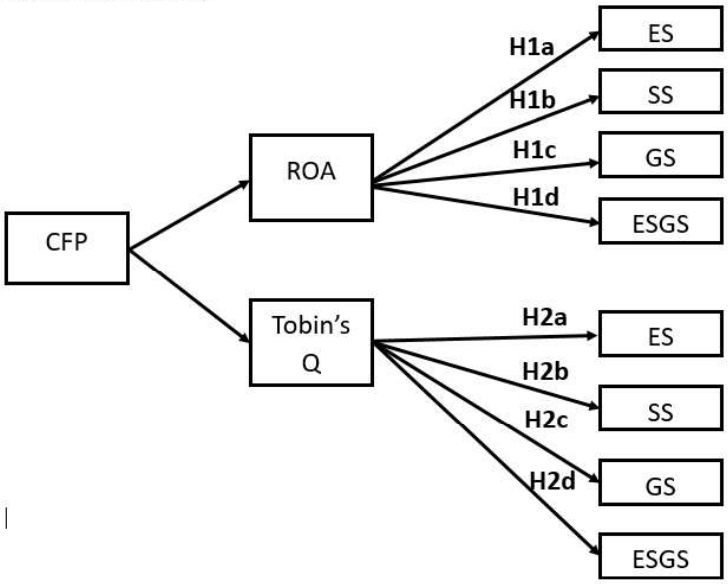
The research utilizes fixed effect regressions in panel data, validated by the "statistically significant chi-square" from the Hausman test. The data is scrutinized for "multicollinearity", "heteroscedasticity", "autocorrelation", "stationarity", and "normality". Robust "standard errors", accounting for "heteroscedasticity" and "autocorrelation", are computed as "regression estimates" in STATA 13.

To test the effect of CFP on ESGP (Figure 1), one-year lagged variables of ESGP is used as CFP will not immediately lead to better ESGP. The following model, therefore, compares the CFP of the year t with the ESGP variables of the year t+1 to analyse the impact of CFP on ESGP, starting from 2018 to 2022:

$Y_{it+1} = \beta_0 + \beta_a X_{it} + \beta_s C_{it} + v_{it}$, where:
Y_{it} : is ESG disclosure score,

X_{it} : is CFP measure,
C_{it} : is a vector of control variables for firm i at time t.
t: 2018, 2019, …2022.

Figure 1: Research Design



Results

The analysis of the relationship between "CFP-ESGP" is presented through summary statistics, correlation matrix, and regression analysis with fixed effects.

Descriptive Statistics and Correlation Matrix: Summary statistics and correlation matrix for the sample data:

Table 3: Descriptive Statistics

Variables	Obs.	Mean	Std. Dev.	Min	Max
ESG	318	49.902	11.373	22.36	76.98
E	318	34.283	20.976	0	81.184
S	319	31.87	12.355	3.658	69.891
G	319	83.405	6.16	57.676	98.615
ROA	329	10.848	13.223	-74.98	95.18
TQ	324	12.04	34.683	0.37	566.62
size	330	9.14E+11	1.85E+12	1.35E+10	1.71E+13
lev	328	63.421	580.594	-182.98	10186.44

Table 4: **Pearson's correlation matrix**

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) ESG	1.000							
(2) E	0.928*	1.000						
(3) S	0.862*	0.677*	1.000					
(4) G	0.656*	0.528*	0.460*	1.000				
(5) ROA	-0.085	-0.083	-0.050	-0.038	1.000			
(6) TQ	-0.154*	-0.154*	-0.104	-0.099	0.046	1.000		
(7) size	0.404*	0.404*	0.277*	0.400*	-0.268*	-0.195*	1.000	
(8) lev	-0.062	-0.071	-0.024	-0.018	-0.128*	0.889*	0.077	1.000
VIF	1.273	2.22	1.928	1.514	1.26	1.787	1.778	1.793

*Significance level: *** p<0.01, ** p<0.05, * p<0.1*

The descriptive statistics in Table 3 display the "mean", "standard deviation", "minimum" and "maximum" value of variables used in the study. The average ESG scores in our sample are approximately 50 which indicates a positive response of companies to ESG while compare individual component, "G (83)" is much higher than that of "E (34)" and "S (32)". Among the sample companies, the average Tobin's Q (12.04) is higher than that of ROA

with 10.85. In Table 4, the pairwise correlations are presented. "Values below 0.70" among "independent variables" in the "correlation matrix" confirmed the absence of multicollinearity issues in the data. Further, variance inflation factors (VIF) in the data also lie below 5; the multicollinearity therefore should not affect the results. "ROA" has a negative correlation with "E, S, G and ESG" but it is insignificant while "Tobin's Q" has a negative correlation with "E, S, G and ESG" but it is significant in respect of "E and ESG", hence, needs to be further explored. Also, the "control variable" firm size has a significant positive correlation with "E, S, G and ESG", however, leverage shares a negative correlation with "E, S, G and ESG" but insignificant.

Regression Analysis

Table 5 presents the results of the fixed-effect regression analysis conducted to assess the influence of ROA on E, S, G, and ESG and impact of Tobin's Q on E, S, G and ESG in Table 6, for the sample firms.

Table 5: Regression Results for the Impact of ROA on E, S, G and ESG.

	(1) ESG	(2) E	(3) S	(4) G
ROA	-.018	.008	-.009	-.021
	(.049)	(.111)	(.057)	(.015)
size	7.641***	15.042***	7.895***	2.716***
	(1.769)	(3.705)	(1.936)	(.959)
lev	0.0001	0.0002	0.0001	0.00001
	(0.0002)	(0.0003)	(0.0002)	(0.0002)
_cons	-150.818***	-361.768***	-175.568***	12.334
	(46.676)	(97.894)	(51.051)	(25.265)
Observations	254	254	255	255
R-squared	.909	.87	.894	.808
Adj R^2	.875	.822	.855	.738
F-stat	7.872	6.762	7.001	2.752
Prob>F	.0001	.0002	.0002	.0440
Industry Effects	Yes	Yes	Yes	Yes
Time Effects	Yes	Yes	Yes	Yes

Robust standard errors are in parentheses
*** p<.01, ** p<.05, * p<.1*

Table 6: Regression Results for the Impact of Tobin's Q on E, S, G and ESG.

	(1) ESG	(2) E	(3) S	(4) G
TQ	.18***	.334***	.159***	.069***
	(.034)	(.064)	(.034)	(.025)
size	7.028***	14.315***	7.418***	2.338***
	(1.397)	(3.039)	(1.606)	(.773)
lev	-.01***	-.018***	-.008***	-.004***
	(.002)	(.003)	(.002)	(.001)
_cons	-136.353***	-345.381***	-164.408***	21.504
	(36.854)	(80.23)	(42.385)	(20.498)
Observations	253	253	254	254
R-squared	.923	.884	.902	.814
Adj R^2	.894	.841	.866	.745
F-stat	33.75	25.495	18.725	4.273
Prob>F	.0000	.0000	.0000	.0061
Industry effects	Yes	Yes	Yes	Yes
Time Effects	Yes	Yes	Yes	Yes

Robust standard errors are in parentheses
*** p<.01, ** p<.05, * p<.1*

Tables depicts the significant value of the "F-statistics" validating the "statistical significance" of the model. In table 5, ROA has negative but insignificant effect on S, G and ESG while positive but insignificant effect on E. In addition, Leverage also has a positive but negligible relationship with E, S, G and ESG. Table 6 show that "Tobin's Q" has positive and significant effect on E, S, G and ESG at 1% level of significance. In addition, Leverage has a negative and significant relationship with E, S, G and ESG at 1% level of significance. Size is positively and significantly related to E, S, G and ESG at 1% level of significance in both the tables.

Discussion and Conclusion

The studies of e relationship between CFP and ESGP, showing a mixed interaction (Margolis, J.D.; Walsh, J.P., 2003, Lu. W., et al., 2014). These results indicate the necessity for additional empirical examination. Although many studies support the idea that ESG activities could help companies to establish a competitive advantage over their rivals, as these activities enhance reputation (Porter, M.E., et al., 2006, Porter, M.E., et al., 2011), foster innovation, attract talents and increase customer and investor loyalty (among other things), managers need reliable and valid evidence to adopt ESG practices. Managers engage in ESG activities only when they contribute to enhancing a company's financial performance. This paper takes a unique approach by acknowledging the multifaceted nature of firms' performance. ESG performance, represented by ESGP, holds equal significance alongside financial performance in managerial decision-making. Effectively managing companies requires allocating limited financial resources across various investments to meet the expectations of all stakeholders, not just shareholders. Therefore, our primary objective has been to explore how the availability of financial resources influences firms' ESGP. Specifically, we have examined the proposed positive correlation between CFP and ESGP.

This study employs a data set of "Nifty100 ESG Index" during the last 5 years (2018–2022) to investigate the "causal nexus" between CFP and ESGP. This study gives an "empirical investigation" of the relationship between "CFP and ESG" using a "panel dataset" of 304 firm-year observations based on Indian-listed firms. The study reveals interesting results and confirms a negative CFP-ESGP relationship in respect of accounting measure (ROA) while a positive CFP-ESGP relationship in respect of market measure (Tobin's Q).

ROA affects all scores negatively but insignificantly except Environmental Score (ES). On the other hand, Tobin's Q affects "Environmental Score (ES), Social Score (SS), Governance Score (GS) and the overall ESG Score (ESGS)" positively and significantly. Results in respect of market measure (Tobin's Q) are consistent with slack resources theory which suggests a positive CFP–ESGP relationship, but conversely accounting measure (ROA) is consistent but statistically insignificant with the managerial opportunism hypothesis which postulates a negative CFP–ESGP relationship. Market measures are more reliable for the assessment of long-term performance of a company. A firm's behaviour can be explained using market indicators, but accounting data are less noisy because they indicate what is actually happening in the company. Accounting measures, especially the return on assets, are subject to bias from managerial manipulations. Tobin's Q is an economic ratio used to compare a company's share's market value to its book value. it is a means of estimating whether a given share is overvalued or undervalued. Generally, a high ratio may indicate that the company is experiencing a period of overvaluation. This study indicated the overvaluation of share price in the market leads to higher ESG activities in Indian companies.

The contribution of this paper is based on findings of the regression, we can state that there is a positive CFP-ESGP relationship in respect of market measure (Tobin's Q) while negative CFP-ESGP relationship in respect of accounting measure (ROA). Hence, companies must have ample financial resources and manage them effectively to achieve their ESG goals. Therefore, ESG initiatives should be meticulously planned, just like any other business activity, and adequately funded to achieve their objectives. To cater to the diverse needs of stakeholders, managers need to focus strategically on ESG activities. This involves carefully selecting ESG initiatives to invest in and managing the available resources prudently to attain both financial and ESG objectives.

Implications

This research carries several implications. The findings presented here offer valuable insights to researchers, allowing them to analyse the cause-and-effect relationship between "Corporate Financial Performance (CFP)" and "Environmental", "Social", and "Governance" Performance (ESGP) in a developing country such as India. Our study results contribute significantly to the existing body of literature on CFP-ESGP relationships. Unlike previous studies, our robust findings support the presence of causality between CFP and ESGP variables.

Results in respect of market measure (Tobin's Q) are consistent with slack resources theory which suggests a positive CFP–ESGP relationship, but conversely accounting measure (ROA) is consistent but statistically insignificant with the managerial opportunism hypothesis which postulates a negative CFP–ESGP relationship. Market measures are more adequate for assessment of future and long-term performance. It captures shareholders' value creation without being subject to accounting measure shortfalls. A firm's behaviour can be explained using market indicators, but accounting data are less noisy because they indicate what is actually happening in the company. Accounting measures, especially the return on assets, are subject to bias from managerial manipulations. Tobin's Q is an economic ratio used to compare a company's share's market value to its book value. it is a means of estimating whether a given share is overvalued or undervalued. Generally, a high ratio may indicate that the company is experiencing a period of overvaluation. This study indicated the overvaluation of share price in the market leads to higher ESG activities in Indian companies.

Limitations and Future Work

This research study comes with certain limitations. Firstly, our measurement of "Environmental, Social, and Governance Practices (ESGP)" relies on Bloomberg "ESG scores", utilizing a proprietary method. Consequently, it remains uncertain whether these scores comprehensively cover all ESG factors. To enhance the study, future research could incorporate reputational indices as a measure of non-financial performance, capturing intangible benefits derived from higher ESGP within the CFP-ESGP relationship framework. Secondly, our analysis is based on a limited number of companies listed on the Nifty100 ESG Index in India. Subsequent studies in this area could explore the CFP-ESGP relationship on a larger sample size. Furthermore, this study exclusively focuses on Indian firms. A valuable extension would involve conducting a cross-country comparative study, allowing for a comparison of results between developed and developing economies. In terms of methodology, this study employs multiple regression methods to evaluate the relationship between CFP and ESGP. In the future, researchers could consider employing path analysis, incorporating more variables for both CFP and ESGP. This approach would enable a deeper understanding of the direction and intensity of relationships among various variables, revealing intricate details within the Indian context.

Moreover, the literature highlights that the relationship between "ESGP" and "CFP" is significantly influenced by the context. Results tend to vary based on contextual variables, with the country's business environment being a critical factor. Future research endeavours could benefit from exploring "mediating" or "moderating" contextual variables to understand their impact. Different countries exhibit diverse business and regulatory environments, leading to varying patterns. Therefore, it remains to be determined whether a comprehensive "cross-country comparison" study is necessary to establish generalized conclusions regarding the "CFP-ESGP" relationship.

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