



# A STUDY ON IMPACT OF ENVIROMENTAL SOCIAL GOVERNANCE ON FINANCIAL PERFORMANCE OF L&T CONSTRUCTIONS

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## ABSTRACT

This study examines and assesses how Larsen & Toubro construction businesses' ESG (Economic, Social, and Governance) management and financial performance related using Construction Group Corporation as a sustainability example the study assesses the impact of these strategies on the company's financial outcomes. A standardized questionnaire was employed to gather information from 424 workers. Data analysis was conducted using percentage analysis, weighted average, multiple regression. The findings offer recommendations how can ESG improve the financial performance and growth of the company.

Key words: Environmental, Social, governance, ESG Management, financial performance, sustainability, profitability.

## 1.INTRODUCTION

ESG (environmental, social, and governance) considerations have quickly progressed from a /specialized issue to a crucial aspect in determining a business's financial success. Companies are realizing how important it is to include ESG factors into their business plans as sustainability becomes a top priority for investors, customers, and regulators. This essay explores the main factors that influence, hinder, and present possibilities for firms in the complex relationship between ESG and financial success. Environmental, social, and governance aspects that affect a company's operations and stakeholders are all included in the broad category of ESG. Businesses are under pressure to step up their efforts and concentrate on nonfinancial components of their work due to growing investor interest and global awareness of the hazards associated with the environment and other non-financial considerations like social responsibility and good governance. The relationship between ESG and a company's financial performance has been the subject of numerous studies. The shareholder hypothesis, which holds that the firm's main goal is to maximize shareholder profit, is supported by a number of publications with negative results, even if more recently they have usually found favorable results

Strong environmental stewardship has several financial advantages, such as lower operating expenses, increased brand loyalty, and improved risk management

Improved consumer loyalty, lower employee turnover, and higher employee satisfaction are all results of strong social performance that have a beneficial impact on the bottom line.

Good governance can lower risk premiums and raise stock values because investors are more likely to trust a transparent, well-run business. However, poor governance can cause one's reputation and finances to suffer

## 2.OBJECTIVES

To figure out the impact of ESG rankings on the financial performance of the company

To investigate how company's financial success is affected by their environmental value.

To investigate how company's financial performance is affected by their social ranking.

To examine how company's financial performance gets impacted by their corporate governance score.

To analyze which area has more impact on the company's financial performance

### 3.SCOPE OF THE STUDY

The ESG framework has gained significant traction in recent years as investors, regulators, consumers, and other stakeholders have recognized the importance of incorporating these factors into decision-making as it shows the financial position and the performance of the company. It shows the company's performance and financial status. Assessing the organization's reaction to environmental hazards is another aspect of environmental considerations. Social factors also consider the organization's involvement in social issues, such as promoting social equality, supporting local communities, and addressing societal challenges which affect financial performance. Governance factors also encompass the organization's adherence to legal and regulatory requirements and its commitment to ethical business conduct.

### 4.RIVEWE OF LITRATURE

Nurul Nabila Sulaiman, Abdul Jalil Omar, Faizal Pakir, Marlina Mohamad (2024)

The implementation of Environmental, Social and Governance (ESG) in company strategy has become critical as it increases investors confident in the company. The investigation was conducted using content analysis based on ESG pillars and themes of FTSE Russell rating model. The rating model consists of 3 individual pillars and 14 themes. A binary scoring method was used, and the result was analyses in descriptive analysis.

Rangel Ribeiro Bezerra ORCID,Vitor William Batista Martins (2024)

This study validated the challenges of implementing ESG in the construction industry in an emerging country like Brazil, considering its relationship with the United Nations Sustainable Development Goals (SDGs). A literature review identified challenges associated with ESG implementation, followed by the development of a questionnaire based on these challenges. Subsequently, the questionnaire was administered to professionals in the construction industry and validated using the Lawshe method.

### 5.RESEARCH METHODOLOGY

The study uses a descriptive research design to examine the impact of the environmental social governance management on financial performance of the company. A sample size of 205 employees was selected using convenience sampling from a total population of 424. Data collection follows quantitative methods, and since the data is not normally distributed, non-parametric tools were applied for analysis.

### 6.DATA ANALYSIS AND INTERPRETATION

Table 1: Demographic profile of employees

Categories	sub categories	No.Responses	Percentage
Gender	Male	113	55
	Female	89	44
	Prefer Not To Say	3	1
Age	Under 25	73	35
	25-34	57	28
	35-44	49	24
	45-54	18	9
	55-64	7	3
	65 Or Above	1	1
Income	Less Then Rs. 20000	24	12
	Rs. 20000 To 40000	73	35
	Rs. 40000 To 60000	69	34
	Rs. 60000 To 90000	29	14
	Above Rs. 90000	10	5
Experience	Less Then 1 Year	35	17
	1-3 Years	86	42
	4-6 Years	63	31
	7-10 Years	13	6
	10 Years And Above	8	4
Education	Bachelor's Degree	51	25

	Associate Degree	29	14
	Master's Degree	106	52
	Doctorate Or Professional Degree	19	9
Marital Status	Single	95	46
	Married	107	53
	Prefer Not To Say	3	1

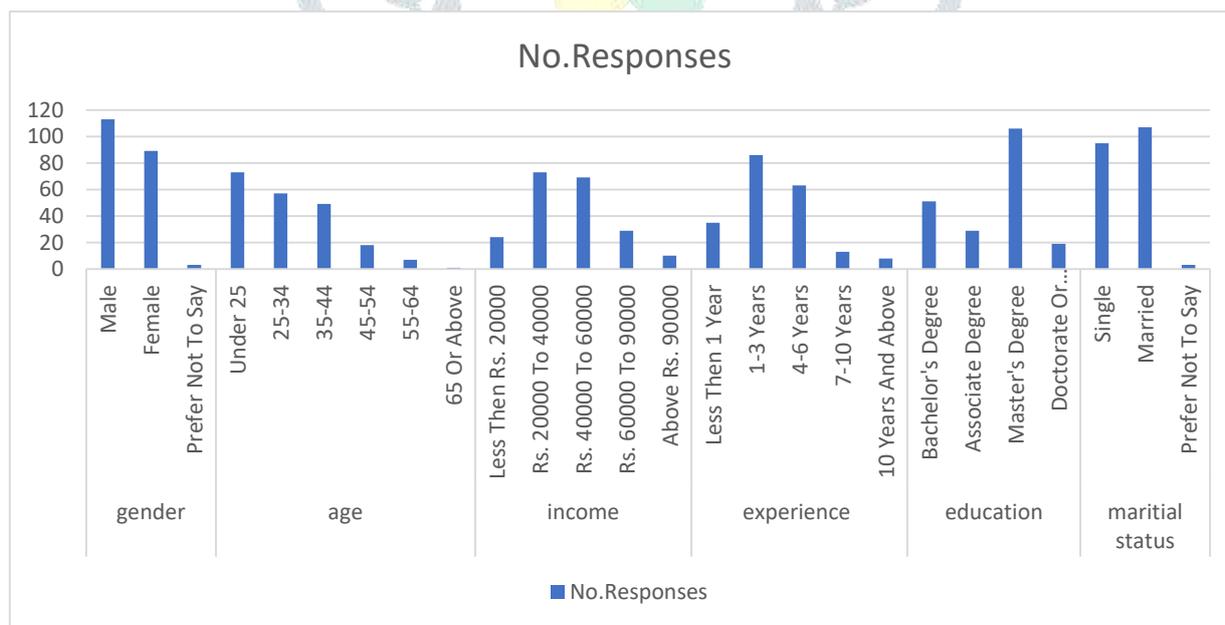
**FINDINGS**

The most of the respondents are male with 55% while female are with 44% and other 1% of the respondents are not prefer to say their gender. Majority of the respondents are under age 25 with 35%, 25-34 with 28%, 35-44 with 24%, 45-54 with 9%, 55-64 with 3%, above 65 age group are with 1%. 12% of the respondents are earing less then 20000, 35% of the respondents are earing between 20000 to 40000, 34% of the respondents are earing between 40000 to 60000, 14% of the respondents are earing between 60000 to 90000 and the other 5% of the respondents are earing more then 90000. 17% of the respondents are with less then one year experience, 42% of the respondents are with 1-3 years of experiences 31% of the respondents are with 4-6 years of experience, 6% of the respondents are with 7-10 years of experience and 4% of the respondents are with 10 years and above of experience. 25% of the respondents holds Bachelor's Degree, 14% of the respondents hold Associate Degree, 52% of the respondents hold Master's Degree and 9% of the respondents hold Doctorate Or Professional Degree. It shows that 46% of the respondents are single and 53% of the respondents are married and the remaining 1% of the respondents are not prefer to say their marital status.

**INFERENCE**

- It is inferred that majority of the respondents are male
- It is inferred that majority of the respondents are under the age of 25
- It is inferred that majority of the respondents are earing 20000-40000
- It is inferred that majority of the respondents are with 1-3 years of experience
- It is inferred that majority of the respondents are holding master degree
- It is inferred that majority of the respondents are married

**Figure 6.1: Demographic profile of employees**



Source: Author generated

**7.WEIGHTED AVERAGE****TABLE SHOWING THE COMPANY'S FINANCIAL PERFORMANCE IMPACT BY THEIR ENVIRONMENTAL VALUE WITH WEIGHTED AVERAGE METHOD**

PARTICULARS	R1	R2	R3	R4	R5	WEIGHTED AVERAGE	RANK
Company's commitment to environmental sustainability has positively impacted its financial performance	57	76	32	16	24	49.4	6
Environmental practices have had an impact on its profit margins	52	89	31	24	9	51.06	5
Investors are willing to pay more for the services for good environmental practices	57	82	40	13	13	51.46	4
Environmental risk management strategy has contributed to its financial stability	73	74	35	15	8	53.6	1
Environmental sustainability will continue to be a major drive for the financial performance in upcoming years	61	88	26	13	17	51.93	3
Environmental leadership has resulted in higher profitability or financial success	65	83	32	20	5	53.2	2

**FINDINGS**

Therefore it is conclude that Environmental risk management strategy has contributed to its financial stability ranked 1<sup>st</sup> , Environmental leadership has resulted in higher profitability or financial success has been ranked 2<sup>nd</sup> , Environmental sustainability will continue to be a major drive for the financial performance in upcoming years ranked 3<sup>rd</sup> , Investors are willing to pay more for the services for good environmental practices ranked 4<sup>th</sup> , Environmental practices have had an impact on its profit margins ranked 5<sup>th</sup> and Company's commitment to environmental sustainability has positively impacted its financial performance has been ranked 6<sup>th</sup>

**INFERENCE**

It is inferred that Environmental risk management strategy has contributed to its financial stability has been ranked high by the employees

**TABLE SHOWING THE FINANCIAL PERFORMANCE BASED ON SOCIAL FACTOR**

WITH WEIGHTED AVERAGE METHOD

Particular	R1	R2	R3	R4	R5	Weighted Average	Rank
Company Social Contribution Helps To Make Financial Growth	55	79	43	10	18	50.53	5
Positive Social Image Has Made It Easier To Attract Investment And Capital	49	103	23	23	7	48.86	6
Commitment To Social Cause (E.G Donation, Volunteerism ) Resulted In Higher Financial Return	62	75	40	18	10	51.73	2
Social Ranking Has Influenced The Investors To Make Decision Which Affect The Financial Performance	63	86	28	17	11	52.53	4
Community Engagement, Employee Welfare) Will Impact In The Financial Performance Of The Company	63	86	36	11	9	53.2	1
Financial Institutions Should Prioritize Social Factors, Such As Diversity And Community Impact, When Making Investment Decisions.	55	97	27	17	9	52.46	3

**FINDINGS**

Therefore it is concluded that community engagement, employee welfare) will impact in the financial performance of the company has been ranked 1<sup>st</sup> , commitment to social cause (e.g donation, volunteerism ) resulted in higher financial return ranked 2<sup>nd</sup> , Financial Institutions Should Prioritize Social Factors, Such As Diversity And Community Impact, When Making Investment Decisions has been ranked 3<sup>rd</sup> , Social Ranking Has Influenced The Investors To Make Decision Which Affect The Financial Performance ranked 4<sup>th</sup> , Company Social Contribution Helps To Make Financial Growth ranked 5<sup>th</sup> , Positive Social Image Has Made It Easier To Attract Investment And Capital ranked 6<sup>th</sup> as per the weighted average method.

**INFERENCE**

It is inferred that community engagement, employee welfare) will impact in the financial performance of the company has been ranked highly among the employees.

**TABLE SHOWING THE FINANCIAL PERFORMANCE GETS IMPACTED BY THEIR CORPORATE GOVERNANCE SCORE WITH WEIGHTED AVERAGE METHOD**

Particular	R1	R2	R3	R4	R5	Weighted Average	Rank
The Board Meet Regularly And Makes Informed, Collective Decision Regarding Financial Matters	70	52	47	15	21	50	6
Having A Diverse And Independent Board Of Directors Has Contributed To Your Company's Financial Performance	40	97	40	21	7	50.46	5
Accountability Mechanism (E.G., Clear Performance Target, Transparent Reporting) Improve Management's Ability To Meet Financial Goals	65	76	44	9	11	52.66	3
Investor Trust In Your Company's Governance Practices Influences Its Financial Performance	50	90	37	16	12	51	4
Improving Governance Structure Of The Company Will Have A Positive Impact On The Financial Performance	60	89	32	15	9	52.73	2
Effective Risk Management Practices Within Corporate Governance Contribute To Improved Financial Stability And Performance	57	94	34	12	8	53	1

### FINDINGS

Therefore the above method shows that Effective Risk Management Practices Within Corporate Governance Contribute To Improved Financial Stability And Performance ranked 1<sup>st</sup>, Improving Governance Structure Of The Company Will Have A Positive Impact On The Financial Performance ranked 2<sup>nd</sup>, Accountability Mechanism (E.G., Clear Performance Target, Transparent Reporting) Improve Management's Ability To Meet Financial Goals ranked 3<sup>rd</sup>, Investor Trust In Your Company's Governance Practices Influences Its Financial Performance ranked 4<sup>th</sup>, Having A Diverse And Independent Board Of Directors Has Contributed To Your Company's Financial Performance ranked 5<sup>th</sup> and The Board Meet Regularly And Makes Informed, Collective Decision Regarding Financial Matters ranked 6<sup>th</sup>.

### INFRENCE

It is inferred that Effective Risk Management Practices Within Corporate Governance Contribute To Improved Financial Stability And Performance has been highly ranked among employees.

## 8.SUMMARY OF FINDINGS

- It is inferred that majority of the respondents are male
- It is inferred that majority of the respondents are under the age of 25
- It is inferred that majority of the respondents are earning 20000-40000
- It is inferred that majority of the respondents are with 1-3 years of experience
- It is inferred that majority of the respondents are holding master degree
- It is inferred that majority of the respondents are married
- It is inferred that Environmental risk management strategy has contributed to its financial stability has been ranked high by the employees
- It is inferred that community engagement, employee welfare) will impact in the financial performance of the company has been ranked highly among the employees.
- It is inferred that Effective Risk Management Practices Within Corporate Governance Contribute To Improved Financial Stability And Performance has been highly ranked among employees.

## 9.SUGGESTION

Strong environmental stewardship has several financial advantages, such as lower operating expenses, increased brand loyalty, and improved risk management. Environmental stability Make the company to grow their reputation and financial performance

When a company is socially responsible the the company can Improve consumer loyalty, lower employee turnover, and higher employee satisfaction are all results of strong social performance that have a beneficial impact on the bottom line.

Good governance can lower risk premiums and raise stock values because investors are more likely to trust a transparent, well-run business. However, poor governance can cause one's reputation and finances to suffer proper and stabled governance structure can improve the financial performance of the company.

## 10.CONCLUSION

It is becoming more and more evident how Environmental, Social, and Governance (ESG) management affects a business's bottom line. Businesses that successfully use ESG principles typically see improvements in risk management, reputation, operational efficiency, and stakeholder relationships. These benefits frequently result in improved financial outcomes, such as higher profitability, easier access to finance, and the development of longterm value. ESG is now a must for competitiveness and sustainable growth in today's business climate; it is no longer a choice. Businesses that put an emphasis on ESG are more dependable, trustworthy, and well-positioned to prosper in the changing global economy.

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