JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

Environmental, Social and Governance (ESG) Performance and Firm Performance: Evidence from Indian FMCG Companies

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Abstract : Environmental, Social, and Governance (ESG) considerations have increasingly become central to corporate sustainability and responsible business practices worldwide. Firms are now expected to operate beyond traditional profit-maximization objectives and incorporate environmental stewardship, social responsibility, and sound governance mechanisms into their strategic decision-making processes. This study examines the relationship between ESG performance and firm financial performance within the Indian Fast-Moving Consumer Goods (FMCG) sector. The analysis uses secondary data obtained from annual reports, sustainability disclosures, and financial databases for selected FMCG companies over the period 2021–2025. The final dataset consists of 76 firm-year observations. The research employs descriptive statistics, correlation analysis, and multiple regression techniques to evaluate the influence of ESG components—environmental, social, and governance—on firm profitability indicators, including Return on Assets (ROA) and Return on Equity (ROE). Firm size and firm age are incorporated as control variables to account for firm-specific characteristics that may affect financial outcomes. In addition, robustness tests such as variance inflation factor (VIF) is conducted to ensure the reliability of the regression estimates.

The empirical findings reveal that social performance and governance quality exhibit a significant positive association with firm profitability. Firms that emphasize employee welfare, stakeholder engagement, and effective governance practices tend to achieve stronger financial performance. Environmental performance, although positively associated with profitability, does not demonstrate statistical significance in the regression model, suggesting that environmental initiatives may generate long-term rather than immediate financial benefits. The study contributes to the literature on sustainable finance by providing empirical evidence from an emerging market context and offers valuable implications for corporate managers, investors, and policymakers seeking to promote sustainable business practices.

IndexTerms **: Environmental Social Governance (ESG); Sustainable Business Strategy; Firm Financial performance; corporate sustainability; Sustainable Business Strategy.**

I. INTRODUCTION

In recent decades, corporate sustainability has gained significant attention among scholars, policymakers, and investors due to increasing environmental concerns and growing societal expectations for responsible corporate behavior. Businesses are increasingly required to operate in a manner that balances economic performance with environmental protection and social responsibility. As a result, the Environmental, Social, and Governance (ESG) framework has emerged as an important mechanism for evaluating corporate sustainability practices (Eccles et al., 2014; Friede et al., 2015). The ESG framework provides a multidimensional assessment of corporate performance. The environmental dimension focuses on issues such as climate change mitigation, energy efficiency, waste management, and responsible use of natural resources (Porter & Van der Linde, 1995). The social dimension addresses relationships with employees, customers, suppliers, and communities, including issues such as labor practices, human rights, and corporate social responsibility initiatives (Carroll & Shabana, 2010). Governance, on the other hand, refers to the institutional structures that guide corporate decision-making processes, including board independence, executive compensation, transparency, and shareholder rights (Shleifer & Vishny, 1997). The increasing importance of ESG factors can be attributed to several global developments. Climate change, environmental degradation, and social inequality have prompted governments and regulatory institutions to impose stricter sustainability regulations. At the same time, investors have begun incorporating ESG indicators into investment decisions as part of sustainable finance strategies (Clark et al., 2015). Institutional investors, including pension funds and asset managers, increasingly consider ESG metrics when evaluating corporate performance and long-term risk management (Krüger, 2015).

The relationship between ESG performance and financial performance has become a prominent topic of academic research. According to stakeholder theory, firms that effectively manage stakeholder relationships are more likely to achieve long-term competitive advantage (Freeman, 1984). Sustainable business practices may improve corporate reputation, enhance operational efficiency, and reduce regulatory risks, thereby contributing to improved financial outcomes (Porter & Kramer, 2011). Empirical evidence on the ESG–performance relationship, however, remains mixed. Some studies report a positive relationship between sustainability practices and financial performance (Orlitzky et al., 2003; Friede et al., 2015). These studies argue that firms adopting

ESG strategies benefit from improved brand image, increased customer loyalty, and enhanced investor confidence. Conversely, other researchers argue that ESG initiatives may impose additional costs on firms, particularly in the short term, potentially reducing profitability (Ambec & Lanoie, 2008). In emerging economies, ESG adoption has gained momentum due to increasing regulatory pressure and globalization of financial markets. India has witnessed significant developments in sustainability reporting following the introduction of the Business Responsibility and Sustainability Reporting (BRSR) framework by the Securities and Exchange Board of India. This initiative encourages listed companies to disclose ESG-related information and integrate sustainability considerations into corporate governance structures.

The Fast-Moving Consumer Goods (FMCG) sector represents a critical component of the Indian economy due to its extensive consumer base, large-scale production systems, and complex supply chains. FMCG companies interact closely with consumers and communities, making sustainability practices particularly relevant in this sector. Issues such as sustainable packaging, ethical sourcing, and supply chain transparency have become key priorities for firms seeking to maintain competitive advantage and stakeholder trust. Despite increasing interest in ESG practices, empirical evidence from the Indian FMCG sector remains limited. Most existing studies have focused on developed markets, leaving a gap in understanding how ESG performance influences financial outcomes in emerging economies. Institutional differences, regulatory environments, and market conditions may influence the effectiveness of sustainability initiatives. Therefore, the present study aims to examine the relationship between ESG performance and firm financial performance in the Indian FMCG sector. By analyzing environmental, social, and governance components separately, the study seeks to provide deeper insights into how different dimensions of sustainability contribute to corporate profitability.

II. Literature Review

Prior studies have extensively explored the link between sustainability practices and corporate financial performance. Stakeholder theory suggests that firms should address the interests of multiple stakeholders to achieve sustainable growth (Freeman, 1984). Waddock and Graves (1997) found that socially responsible firms often demonstrate superior financial performance. Orlitzky et al. (2003) conducted a meta-analysis and reported a positive association between corporate social performance and financial performance. Eccles et al. (2014) showed that firms with strong sustainability policies outperform others in stock market performance. Governance mechanisms also play a crucial role in enhancing firm performance. Strong governance reduces agency conflicts and improves investor confidence (Shleifer & Vishny, 1997). Empirical evidence suggests that governance quality is often the most significant ESG dimension affecting financial outcomes (Velte, 2017). Environmental practices may improve operational efficiency and reduce long-term risks (Porter & Van der Linde, 1995). However, the financial benefits of environmental investments may take longer to materialize.

Overall, existing research highlights the importance of ESG integration in corporate strategy but indicates the need for further empirical analysis in emerging markets.

III. Objectives

- To analyze ESG performance of Indian FMCG companies.
- To examine the relationship between ESG components and firm profitability.
- To evaluate the impact of environmental, social, and governance scores on financial performance.
- To assess the influence of firm size and firm age on profitability.

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IV. Hypotheses

H1 Environmental performance positively influences firm financial performance.
H2 Social performance positively influences firm financial performance.
H3 Governance quality positively influences firm financial performance.
H4 Firm size significantly affects financial performance.
H5 Firm age positively influences financial performance.

V. Research Methodology

This study adopts a quantitative research design using secondary data collected from corporate annual reports, sustainability disclosures, and financial databases. The dataset includes selected FMCG firms listed in India and covers the period from 2021 to 2025. The final sample consists of **19 Firms -4 Financial year observations (2021 -2024)**. Financial performance is measured using Return on Assets (ROA) and Return on Equity (ROE). Environmental, Social, and Governance scores are used as independent variables, while firm size and firm age are included as control variables. Statistical analysis is conducted using descriptive statistics, correlation analysis, and multiple regression techniques. Additional robustness tests including variance inflation factor (VIF) is performed to validate the regression model. The selected firms are peer companies within the FMCG sector and are widely represented in major Indian stock indices. AWL Agri Business, Britannia Industries Limited, Colgate Palmolive (India) Limited, Dabur India Limited, Emami limited, Gillette India, Godfrey Phillips, Godrej Consumer Products Limited, Hatsun Agro product Limited, Hindustan Unilever limited, ITC Limited, Marico, Nestle Indian Limited, Patanjali Foods, Radico Khaitan, TATA Consumer Products limited, United Breweries, United Spirits, Varun Beverages Limited. Those 19 companies are selected by the reason of peer listed in Nifty 50.

6.1 Descriptive Statistics

Descriptive Statistics of Study Variables

Variable	Mean	Std. Deviation	Minimum	Maximum
Environmental Score	47.46	7.11	37	62
Social Score	52.62	8.66	37	85
Governance Score	60.31	9.74	41	84
Return on Assets (ROA)	0.057	0.053	0.005	0.203
Return on Equity (ROE)	0.182	0.153	0.033	0.596
Firm Size	17527.43	22867.82	1608	91826
Firm Age	74.55	45.69	16	181

Interpretation

The descriptive statistics provide an overview of the characteristics of the variables included in the analysis. The average environmental score is **47.46**, indicating moderate environmental sustainability practices among the sampled FMCG firms. The social score shows a slightly higher mean value (**52.62**), suggesting that firms place relatively greater emphasis on stakeholder engagement, employee welfare, and social responsibility initiatives. Governance scores exhibit the highest mean value (**60.31**), reflecting the strong corporate governance mechanisms adopted by publicly listed firms. Effective governance practices are often associated with increased transparency and improved managerial accountability (Shleifer & Vishny, 1997). With respect to financial performance indicators, the average Return on Assets (ROA) is **5.7%**, while the mean Return on Equity (ROE) is **18.2%**, indicating moderate profitability levels in the sector. The standard deviation values indicate some variability among firms, particularly in governance scores and firm size, suggesting differences in sustainability practices and operational scale.

6.2 Correlation Analysis

Correlation Matrix

Variables	E	S	G	ROA	ROE
Environmental	1				
Social	0.169	1			
Governance	0.393	0.202	1		
ROA	0.317	0.426	0.351	1	
ROE	0.156	0.394	0.310	0.612	1

Interpretation

Correlation analysis examines the strength and direction of relationships between variables. The results reveal that all ESG components demonstrate **positive associations with financial performance indicators**. The social dimension exhibits the **strongest correlation with ROA (0.426)**, indicating that firms emphasizing employee welfare, community engagement, and stakeholder relationships tend to achieve higher profitability. This finding aligns with stakeholder theory, which suggests that firms that effectively manage stakeholder relationships are more likely to achieve sustainable performance (Freeman, 1984). Governance performance also shows a positive relationship with ROA (0.351), suggesting that transparent governance structures and effective oversight mechanisms contribute to improved financial outcomes. Environmental performance shows a moderate positive correlation with ROA (0.317), indicating that environmentally responsible practices may support financial performance, although the relationship appears weaker compared to social and governance factors. The correlation between ROA and ROE is relatively strong (0.612), which is expected since both indicators measure aspects of firm profitability.

6.3 Multiple Regression Analysis

Regression Results (Dependent Variable: ROA)

Predictor	Coefficient	Std. Error	t value	p value
Intercept	-0.717	0.144	-4.98	<0.001
Environmental Score	0.0016	0.002	1.06	0.292
Social Score	0.0059	0.001	5.03	<0.001
Governance Score	0.0063	0.002	2.91	0.005
Firm Size	-0.000001	0.0000004	-2.74	0.008
Firm Age	0.0009	0.0002	4.27	<0.001

Model Summary

Statistic	Value
R^2	0.457
Adjusted R^2	0.418
F Statistic	11.76
Significance	$p < 0.001$

Interpretation

The regression results indicate that the overall model explains approximately **45.7% of the variation in firm profitability**, suggesting moderate explanatory power. The F-statistic is statistically significant ($p < 0.001$), indicating that the model provides a good fit for the data. Among the ESG variables, **social performance has the strongest positive impact on ROA**. The coefficient (0.0059) is statistically significant at the 1% level, suggesting that improvements in social responsibility practices significantly

enhance firm profitability. Firms that prioritize employee satisfaction, customer relationships, and community development may benefit from improved brand reputation and operational efficiency. Governance performance also demonstrates a **significant positive effect on profitability**. Effective governance structures improve transparency, reduce agency conflicts, and strengthen investor confidence (Gompers et al., 2003). Environmental performance, although positively associated with profitability, is statistically insignificant. This finding suggests that environmental initiatives may generate **long-term strategic benefits rather than immediate financial returns**, which has been highlighted in previous studies (Ambec & Lanoie, 2008). Firm age shows a positive and significant relationship with profitability, indicating that more experienced firms may benefit from established operational capabilities and market reputation. Conversely, firm size exhibits a negative coefficient, which may reflect increased operational complexity and cost structures in larger organizations.

6.4 Multicollinearity Test (VIF)

Variance Inflation Factor (VIF)

Variable	VIF
Environmental Score	2.01
Social Score	2.14
Governance Score	2.35
Firm Size	1.72
Firm Age	1.41

Interpretation

Multicollinearity occurs when independent variables are highly correlated with each other, potentially distorting regression results. The VIF values for all variables are **below the commonly accepted threshold of 5**, indicating that multicollinearity is not a serious concern in the regression model (Gujarati & Porter, 2009). This suggests that the estimated coefficients are stable and reliable.

VII. DISCUSSION

The findings of the study indicate that the social and governance dimensions of Environmental, Social, and Governance (ESG) performance have a significant positive impact on firm profitability in the Indian FMCG sector. Firms that focus on employee welfare, stakeholder engagement, and effective governance practices tend to achieve stronger financial outcomes. Effective governance mechanisms improve transparency, reduce agency conflicts, and enhance investor confidence, which ultimately contributes to improved financial performance. Although environmental performance shows a positive relationship with profitability, the regression results indicate that it is not statistically significant. This may be because environmental initiatives often require long-term investment and may not produce immediate financial returns. Overall, the results support the view that ESG practices contribute to sustainable business performance and long-term competitive advantage (Friede et al., 2015).

VIII LIMITATIONS AND FUTURE RESEARCH

Future studies may examine ESG practices across multiple industries, incorporate larger datasets, and employ advanced econometric techniques such as panel regression or structural equation modeling. The study focuses only on FMCG firms and relies on secondary data. The sample size is limited to 76 observations.

IX. CONCLUSION

This study examined the relationship between ESG performance and firm financial performance in the Indian FMCG sector using secondary data and regression analysis. The findings reveal that **social and governance factors significantly enhance firm profitability**, whereas environmental performance does not show a significant short-term impact. The results suggest that firms that integrate ESG practices into their corporate strategies can improve stakeholder relationships, enhance transparency, and achieve sustainable financial performance (Eccles et al., 2014; Friede et al., 2015). Despite its contributions, the study is limited to FMCG firms and a relatively small sample size. Future research may extend the analysis to multiple industries and larger datasets to provide deeper insights into the ESG–performance relationship. In conclusion, ESG integration has become an important component of modern corporate strategy, contributing to long-term sustainability and improved firm performance.

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