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Do ESG Disclosures Create Value for Investors of Nifty 500 Firms?

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Abstract

We examine the influence of ESG disclosure on the financial performance measured by firm value and profitability in an emerging market context using financial data of NSE India 500 index firms for the 2012-2021 decade. The result of the panel data regression analysis exhibited that after controlling for leverage, firm size, firm risk, and age of the firm, ESG performance negatively influences financial performance proxied by firm value and profitability. This negative linkage between ESG and financial performance is explained by the shareholder perspective and agency theory. The results signal the applicability of the shareholder value perspective, in the Indian context. We find that since ESG regulations are still nascent, the ESG reporting and investments of firms are not rewarded by the shareholders in the Indian capital market. The paper offers practical implications to managers and regulatory bodies.

JEL Code : L25, M14, Q56,, G32, G34, G38
Keywords : Market Performance, Firm Performance, Financial Performance, Firm Value, Environmental Social and Governance, ESG Disclosures, ESG

I. Introduction

IN THE WAKE of global warming, the sustainability of commerce, and the responsibility of corporate houses towards society, stakeholders, and the environment have been strongly favoured. Amid these concerns, policymakers emphasize mandatory Environmental, Social, and Governance (ESG) disclosure by corporations (Kumar and Firoz, 2022; Shroff, 2014). ESG reporting has thus, culminated into an important component of listed companies' annual reports globally. ESG reporting contains non-financial information (Saini, Antil, Gunasekaran, Malik, and Balakumar, 2022) that disseminates responsible and sustainable business practices.

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