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Sustainability and Profitability: An Empirical Study for Examining the Link between ESG Initiatives and Financial Outcomes in Indian Corporates

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Abstract

The present research aims to suggest that environmental, social and governance (ESG) practices have become a key element in today's economic environment while assessing both financial outcomes and long-term sustainability. This study explores how Indian companies can strategically align their ESG efforts with economic goals, offering insights to support sustainable growth. Key ESG initiatives, such as carbon neutrality, board governance, CSR activities, and sustainability integration, are examined to assess their influence on profitability, market value, and capital cost. Integrating machine learning techniques, particularly Random Forest Regression, provides valuable insights into the complex, non-linear relationships between ESG factors and financial outcomes in Indian corporates. Environmental, social, and governance have emerged as vital pillars of modern corporate strategy because they are about meeting compliance requirements and influencing how companies operate, communicate, and generate long-term value. This paper will help us understand the rising significance of ESG in the Indian business world, as it serves as a key foundation for driving the shift toward sustainable business practices. A sample of 219 was collected from people from different industries.

Keywords: Sustainable business practices, Profitability, Machine learning, Corporate Strategy, Environmental.

Introduction

During recent years, Climate change has heightened the need for environmental protection because of increasing carbon emissions, rising global temperatures, melting ice caps, rising sea levels, and the growing accumulation of e-waste and non-biodegradable materials. Countries like India are also experiencing a rising focus on environmental, social, and governance (ESG), which is gaining importance globally because of business growth and long-term sustainability. Environmental, social, and governance (ESG) has emerged as a key pillar of modern corporate strategy, fulfilling formal requirements and influencing how companies operate, communicate, and create long-term value (Kaur & Saluja, 2025). Towards the advancement of the ESG movement, the Paris Agreement has played a very crucial role in motivating nations all across the globe to announce their net-zero targets and sustainability plans. In line with such agreements, India has pledged through nationally determined contributions (NDCs) to achieve net-zero emissions by 2070. Thus, ESG strategy in Indian corporates is essential for surviving in this competitive market and providing a competitive advantage to drive higher revenue and strengthen stakeholder confidence. Significance of ESG factors in Indian corporates has grown worldwide, fueled by such rising awareness of environmental challenges, social disparities, and shortcomings in corporate governance. Businesses and corporates in India are steadily realizing this critical need to link their strategies and operations with ESG initiatives. Therefore, these changes will significantly move away from the conventional practices, reflecting a significant transformation in the country's corporate

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landscape. Kumar. (2025), mentioned within India's distinct socio-economic and regulatory framework, this study showcases the specific ESG initiatives and, more importantly, examines their impact on financial outcomes. International ESG (Environmental, Social and Governance) standards and rating agencies have significantly impacted Indian corporations, guiding and shaping their ESG practices in multiple ways. According to Sharma et.al. (2020), uniform Environmental, Social and Governance (ESG) reporting frameworks are essential in Indian corporations because they create a consistent and structured platform for businesses to disclose their sustainability initiatives, enabling stakeholders to evaluate and compare performance more accurately. Multiple factors, including the need for improved operational efficiency and access towards green financing, fuel the rising importance of ESG in this business world. The Companies Act of 2013 marks a pivotal legislative change, bringing in key measures to strengthen transparency and improve accountability. "Corporate governance in India has seen huge, major reforms in recent years." According to Jha & Rangarajan. (2020), by lowering their risks and operational expenses, drawing investors and customers through their stronger reputation, as well as supporting long-term growth and value creation with improved access to funding and reducing borrowing costs, ESG practices can strengthen the financial performance of Indian companies, aligning with international sustainability standards. For example, firms in water-heavy sectors like Tata Steel have implemented water-saving technologies and methods. Their efforts include rainwater collection and the reuse of water within their facilities. Companies like Mahindra & Mahindra, one of the prominent automobile companies, have been developing electric vehicle technology and have launched electric cars to help lower carbon emissions. P Shravan & Vaishali. (2024) stated that the linkage between ESG initiatives enables Indian corporates to strengthen their resilience, achieve a competitive advantage, and adapt to the growing global emphasis on sustainable and responsible business practices.

Literature Review

During recent years, Environmental, Social, and Governance (ESG) considerations have become increasingly significant as investors in companies acknowledge their influence on an organization's financial performance. According to Hasan et.al (2025), in India, ESG investing has been gaining traction recently, because Indian corporations that focus on ESG factors tend to achieve improved risk management, reduction in capital costs, which leads to stronger long-term financial outcomes. India faces significant risks from climate change, such as severe weather conditions, water shortages and rising sea levels. Businesses nationwide have been increasingly aware of these challenges and are considering actions to minimise their environmental footprint and support sustainable practices (Srivastav & Mittal, 2021). ESG investments have been fueled by regulatory mandates, a rise in investors' interest, and increasing awareness of environmental and social challenges. Saxena & Fouzdar. (2025) asserted that ESG is becoming increasingly important for Indian corporations in order to strengthen long-term sustainability, appeal to investors, and comply with regulations such as SEBI's BRSR framework. Indian companies have been influenced by a mix of regulatory bodies for the adoption of Environmental, Social and Governance (ESG) linkage, including India's pledge to achieve net-zero emissions by 2070. Robust ESG practices and their linkage between Indian companies have attracted funding from global markets and investors, with rising public awareness. Inclusion of SEBI's BRSR framework and updates to the corporation's act have significantly contributed to requiring ESG disclosures and promoting a wider move towards sustainable business operations. Agbakwuru et.al. (2024) mentioned that Environmental, Social and Governance (ESG) initiatives assist companies in mitigating risks, enhancing resilience towards climate challenges and social disruptions by boosting brand image, and showing dedication to national and global sustainability objectives, thereby making them more appealing to conscientious investors and customers. The significance of ESG initiatives has grown rapidly across Indian companies as investors increasingly understand that sustainable business practices can drive towards stronger financial results. Indian corporations with strong ESG practices are often viewed as safer investments, as they are better positioned to avoid controversies, regulatory fines, and other issues that could negatively impact their market value. Goel. (2018) stated that Environmental, Social, and Governance initiatives lead to strengthening the financial performance of Indian companies, thereby lowering risks and operational expenses, improving access towards funding and reducing borrowing costs, drawing investors and customers through a stronger reputation, and supporting long-term growth and value creation by aligning with all international sustainability standards. Some reports published by the Indian School of Business stated that sustainable investments across India expanded by 15% in 2020, even amid the challenges posed by the COVID-19 pandemic. Investors' interest in ESG factors has seen a rapid rise in recent years. Integration of ESG initiatives can also help companies to strengthen customer loyalty, enhance brand image, and increase market share. Studying market research findings and measuring financial gains in such areas leads to tracking customer satisfaction scores and examining consumer behaviour trends. According to Bandna et.al. (2025), the Implementation of ESG strategies helps Indian corporations align themselves with national development priorities, such as advancing renewable energy and supporting community growth, as well as global frameworks like the United Nations Sustainable Development Goals (SDGs). Firms with strong ESG performance across their organization often enjoy several advantages in capital markets and lower borrowing expenses. Therefore, measuring such financial outcomes and their advantages can, though, involve comparing capital costs across companies with varying ESG ratings or assessing how ESG practices influence financing conditions and interest rates. Between the years 2016 and 2020, Tata Steel, a prominent steel producer in India, successfully lowered its carbon emissions by 15% thus achieving remarkable strides in minimizing its environmental footprint. Furthermore, Tata Steel has launched a project to incorporate plastic waste into its production process, reducing its reliance on coal and lowering CO2 emissions. Kumar. (2025), mentioned that one of the leading manufacturers of automobiles and agricultural equipment, Mahindra & Mahindra, has also shown a strong dedication towards ESG initiatives. Mahindra & Mahindra has also prioritized water conservation, managing to cut freshwater usage per vehicle by 76% between 2016 and 2021. Mahindra's ESG initiatives form a key part of its 'Together We Rise' mission by following a 'Planet Positive' strategy, which embeds environmental and social accountability into its main business operation. This Indian organization is a signatory to the United Nations Global Compact and has established ambitious goals to achieve carbon neutrality by the year 2040. Prominent international IT firm Wipro has shown its dedication to environmental, social, and governance (ESG) principles through multiple actions, such as cutting greenhouse gas emissions intensity by 47% compared to its 2010 levels. Additionally, the above-mentioned Indian corporation has committed to renewable energy, with renewable sources accounting for 40% of its worldwide energy usage in 2020. Wipro's ESG programs are framed towards supporting long-term financial success, with the latest financial results reporting a 10.9% rise during Q1 net profit for the fiscal year ending July 2025, alongside steady growth. The company tries to weave sustainability and ESG initiatives into every aspect of its operations, from consulting services to internal processes, by making ESG a central element of its overall strategy. Larsen & Toubro (L&T) is considered one of the major players in engineering, construction and technology. Such a corporation has been advancing its agenda through several key initiatives. Between 2016 and 2021, this company successfully lowered its greenhouse gas emissions intensity by 22%. L&T has introduced water-saving practices across their operations within their organisation, thereby achieving a 36% cut in freshwater usage from 2016 to 2021. The company continues to set an example towards driving ESG initiatives that foster long-term value and sustainable growth. Countries like India's ESG landscape are progressing swiftly, fueled by growing awareness, shifting regulations, and rising investor interest in sustainable investments. Top telecom service provider in India, Bharti Airtel, has taken keen active initiatives to embrace ESG practices, and has pledged to reach net-zero greenhouse gas emissions by the year 2050. This Indian corporation has introduced several energy-saving initiatives, including the setting up of solar power systems at its telecom towers and also adopting energy-efficient technologies, leading to a 15% drop in energy usage per terabyte of data between 2017 and 2021. The findings of this research also provide valuable insights for investors, policymakers, regulators, and Indian businesses. Dalal & Thaker. (2019) stated that Indian corporations with lower ESG risks are better positioned to deliver sustainable financial performance, making them more attractive to long-term investors. Investors are more inclined towards companies that have stronger carbon management, higher social acceptance, and transparent governance practices. Sandberg et.al. (2023) acknowledged that consumers and investors of these businesses are becoming more conscious of social and ethical matters with fair labour practices, including human rights, and supply chain transparency. Therefore, “companies which actively show commitment to these values are more likely to gain and keep the trust of both customers and investors.” To share detailed information about their ESG performance, investors are also placing greater pressure on companies. Indian corporations can take advantage of the rising global demand for sustainable and responsible investment by strengthening their ESG reporting and disclosure practices. For instance, ESG initiatives often help companies cut costs and enhance operational efficiency. Thus, the adoption of energy-efficient methods can lower power expenses, waste reduction programs can decrease disposal costs, and optimisation of supply chains can generate additional savings. Organisations can assess their financial advantages better. By measuring the cost cuts and efficiency improvements achieved through ESG efforts. Companies are able to increase their employee productivity, attract top talent across the nation and lower turnover. According to Yadav & Yadav. (2025), ESG practices allowed the evaluation of the financial advantages of ESG, such as reduction in hiring costs, improved performance, and stronger workforce retention, by tracking productivity data, employee satisfaction, and retention figures. Still, ESG reporting amongst Indian corporations suffers from a lack of uniformity and consistent standards. Many organisations offer limited ESG disclosures during their annual reports, making it more challenging for investors to assess their ESG performance properly. Efthymiou et.al. (2023) mentioned that for companies operating in industries with significant environmental and social impacts, adoption of ESG initiatives and policies is difficult. Overcoming such challenges is crucial for the effective embedding of ESG initiatives into Indian companies' business practices for better financial outcomes.

Objective

To examine the Link Between ESG Initiatives and Financial Outcomes in Indian Corporates.

Methodology

A survey was conducted among 219 respondents from different industries. "Random sampling method" along with "T-test" were used to collect and analyze the data.

Data Analysis

In the total population of the study survey, males make up 51.60% of the population and females 48.40%. 32.42% of them are 30 to 40 years of age, 31.51% are between 40 and 50 years, and 36.07% are above 50 years. Looking at the industry type, 36.99% are Electronics, 35.16% are Banking & Finance, and 27.85% are others.

“Table 1 General Details”

“Variables”	“Respondents”	“Percentage”
Male	113	51.60
Female	106	48.40
Total	**219**	**100**
Age (years)		
30 to 40	71	32.42
40 to 50	69	31.51

Above 50	79	36.07
Total	**219**	**100**
Industry type		
Electronics	81	36.99
Banking & Finance	77	35.16
Others	61	27.85
Total	**219**	**100**

Link Between ESG Initiatives and Financial Outcomes in Indian Corporations

"S. No."	**"Statements"**	**"Mean Value"**	**"t value"**	**"Sig."**
1.	ESG is gaining importance globally because of business growth and long-term sustainability	4.33	20.028	0.000
2.	ESG is essential to survive in a competitive market and provides a competitive advantage, driving higher revenue	4.27	19.246	0.000
3.	ESG reporting is essential as it tends to create a consistent and structured platform to disclose sustainability	4.23	18.937	0.000
4.	ESG practices strengthen financial performance, aligning with international sustainability standards	4.17	17.649	0.000
5.	ESG initiatives assist in mitigating risks, enhancing resilience towards climate challenges and social disruptions	4.11	17.019	0.000
6.	Strengthening financial performance, lower risks and operational expenses, and improve access towards funding	4.09	16.431	0.000
7.	ESG initiatives help companies strengthen customer loyalty, enhance brand image, and increase market share	4.14	17.347	0.000
8.	ESG strategies help align companies with national development priorities, and tend to advance renewable energy	4.00	15.284	0.000
9.	Strong ESG performance enjoys access to capital markets and lower borrowing expenses.	4.21	18.271	0.000
10.	Embracing ESG in a fast-changing business environment has positioned the country well to compete globally.	4.29	19.820	0.000

Above table shows statements for Link Between ESG Initiatives and Financial Outcomes in Indian Corporates, respondents says that ESG gaining importance globally because of business growth and long-term sustainability (4.33), ESG is essential to survive in competitive market and provides a competitive advantage driving higher revenue (4.27), ESG reporting are necessary as they tend to create consistent and structured platform to disclose sustainability (4.23), ESG practices strengthen financial performance aligning with international sustainability standards (4.17), ESG initiatives assist in mitigating risks, enhance resilience towards climate challenges and social disruptions (4.11), Strengthen financial performance, lowers risks and operational expenses, improves access towards funding (4.09), ESG initiatives help companies strengthen customer loyalty, enhance brand image, and increase market share (4.14), ESG strategies helps align companies with national development priorities, tend to advancing renewable energy (4.00), strong ESG performance enjoy accesses to capital markets and lower borrowing expenses (4.21), and embracing of ESG in fast-changing business environment has positioned the country well to compete globally (4.29). All statements pertaining to Link Between ESG Initiatives and Financial Outcomes in Indian Corporations are found to be significant, with p-values below 0.05 following the application of a t-test.

Conclusion

Within India's corporate sector, the integration and application of environmental, social, and governance (ESG) principles reflect a significant transformation. The present study concludes that the incorporation of ESG practices not only brings the companies in line with ethical standards but also acts as a strategic approach to boost financial performance, attract investors and promote long-term sustainability. Therefore, the embracement of ESG initiatives in today's fast-changing business environment has positioned the country well to compete globally, where "sustainability and responsible practices are becoming increasingly important." Despite so many initiatives undertaken by companies while tackling environmental issues, participation towards impactful social programs, and strengthening governance policies, there are still numerous challenges. Sharma et.al. (2025) concluded that the implementation of standardized ESG reporting is essential in India to address such challenges and promote wider ESG adoption in Indian corporations. Organisation must recognise the role of AI in developing their knowledge about these parameters (Mittal et al., 2023). Policymakers of Indian companies also play a significant role in driving this change through focused strategies and initiatives. Moreover, investment in the growth of technology and data infrastructure remains crucial. Businesses in India can create a stronger and more sustainable economy for the future through the collaboration and adoption of sustainable business practices.

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