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SUSTAINABILITY PRACTICES AND FIRM PERFORMANCE: EVIDENCE FROM LISTED COMPANIES IN INDIA

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ABSTRACT

Purpose: The impact of corporate sustainability practices on the firm performance of Indian-listed businesses was investigated in this study.

Theoretical Framework: The present research investigated the stakeholder theory's application to corporate sustainability initiatives. Many recent studies have claimed that the theory encompasses a wide range of other elements that can affect the firm's valuation in addition to its purely economic value (Martin, 2022; Bodhanwala, 2022). To ensure firm performance in the current dynamic business environment, it is crucial to evaluate the scope of value creation from a stakeholder perspective in this context.

Design/Methodology/Approach: The corporate sustainability practices of 65 listed Indian firms were evaluated using the ESG score from the refinitive database of Thomson Reuters, and the firm performance was evaluated using the ROA (return on assets) score from the Prowess IQ database. The presented hypotheses were tested using single and multiple regression models for the study period of 2017–2021.

Findings: Findings suggest that the sustainability practices of listed companies in India had a significant positive impact on the firm performance. On detailed analysis, it was further found that among the three sustainability variables, social and governance activities of firms had a significant positive impact on firm performance while environmental activities had a negative insignificant association with firm performance.

Research, Practical & Social Implications: The findings of this study highlight the importance of supporting sustainable enterprises and properly reporting them in order to enhance firm-level performance. The study's findings may also assist the business in piquing the interest of various stakeholders in reference to its sustainability initiatives and aid it in luring more investors.

Originality/Value: The study's empirical data can be used by different governmental and regulatory agencies to help them take the necessary steps to support different sustainable business practices.

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PRÁTICAS DE SUSTENTABILIDADE E DESEMPENHO FIRME: EVIDÊNCIAS DE EMPRESAS LISTADAS NA ÍNDIA

RESUMO
Objetivo: O impacto das práticas de sustentabilidade corporativa no desempenho firme de empresas listadas na Índia foi investigado neste estudo.
Estrutura Teórica: A presente pesquisa investigou a aplicação da teoria das partes interessadas em iniciativas de sustentabilidade corporativa. Muitos estudos recentes afirmam que a teoria abrange uma ampla gama de outros

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elementos que podem afetar a avaliação da empresa, além de seu valor puramente econômico (Martin, 2022; Bodhanwala, 2022). Para garantir um desempenho sólido no atual ambiente dinâmico de negócios, é fundamental avaliar o escopo da criação de valor a partir de uma perspectiva das partes interessadas neste contexto.
Design/Metodologia/Abordagem: As práticas de sustentabilidade corporativa de 65 empresas indianas listadas foram avaliadas usando o escore ESG da base de dados refinitiva da Thomson Reuters, e o desempenho da empresa foi avaliado usando o escore ROA (return on assets) da base de dados Prowess IQ. As hipóteses apresentadas foram testadas utilizando modelos de regressão simples e múltipla para o período de estudo de 2017-2021.
Constatações: As conclusões sugerem que as práticas de sustentabilidade das empresas cotadas na Índia tiveram um impacto positivo significativo no desempenho da empresa. Em análise pormenorizada, verificou-se ainda que, entre as três variáveis de sustentabilidade, as atividades sociais e de governação das empresas tiveram um impacto positivo significativo no desempenho das empresas, ao passo que as atividades ambientais tiveram uma associação negativa insignificante com o desempenho das empresas.
Pesquisa, Implicações Práticas e Sociais: As conclusões deste estudo destacam a importância de apoiar empresas sustentáveis e relatá-las adequadamente a fim de melhorar o desempenho de nível empresarial. As conclusões do estudo podem também ajudar a empresa a despertar o interesse de várias partes interessadas em relação às suas iniciativas de sustentabilidade e a ajudá-la a atrair mais investidores.
Originalidade/Valor: os dados empíricos do estudo podem ser usados por diferentes órgãos governamentais e normativos para ajudá-los a tomar as medidas necessárias para apoiar diferentes práticas de negócios sustentáveis.

Palavras-chave: Práticas de Sustentabilidade, Desempenho Financeiro, Empresas Listadas na Índia, Teoria das partes Interessadas.

PRÁCTICAS DE SUSTENTABILIDAD Y DESEMPEÑO EMPRESARIAL: EVIDENCIA DE EMPRESAS QUE COTIZAN EN BOLSA EN INDIA

RESUMEN

Objetivo: En este estudio se investigó el impacto de las prácticas de sostenibilidad empresarial en el desempeño empresarial de las empresas indias que cotizan en bolsa.
Marco Teórico: La presente investigación investigó la aplicación de la teoría de stakeholders a iniciativas de sostenibilidad empresarial. Muchos estudios recientes han afirmado que la teoría abarca una amplia gama de otros elementos que pueden afectar la valoración de la empresa, además de su valor puramente económico (Martin, 2022; Bodhanwala, 2022). Para garantizar el rendimiento de las empresas en el actual entorno empresarial dinámico, es fundamental evaluar el alcance de la creación de valor desde la perspectiva de las partes interesadas en este contexto.
Diseño/Metodología/Enfoque: Las prácticas de sostenibilidad corporativa de 65 empresas indias que cotizan en bolsa se evaluaron utilizando la puntuación ESG de la base de datos definitiva de Thomson Reuters, y el rendimiento de la empresa se evaluó utilizando la puntuación ROA (retorno sobre activos) de la base de datos Prowess IQ. Las hipótesis presentadas se probaron utilizando modelos de regresión simple y múltiple para el periodo de estudio 2017-2021.
Hallazgos: Los hallazgos sugieren que las prácticas de sostenibilidad de las empresas que cotizan en bolsa en la India tuvieron un impacto positivo significativo en el desempeño de la empresa. En un análisis detallado, se observó además que entre las tres variables de sostenibilidad, las actividades sociales y de gobernanza de las empresas tenían un impacto positivo significativo en el desempeño de las empresas, mientras que las actividades ambientales tenían una asociación negativa e insignificante con el desempeño de las empresas.
Investigación, Implicaciones prácticas y Sociales: Los resultados de este estudio destacan la importancia de apoyar a las empresas sostenibles y de informar adecuadamente sobre ellas con el fin de mejorar el rendimiento a nivel de empresa. Las conclusiones del estudio también pueden ayudar a la empresa a despertar el interés de diversas partes interesadas en relación con sus iniciativas de sostenibilidad y a atraer a más inversores.
Originalidad/Valor: Los datos empíricos del estudio pueden ser utilizados por diferentes agencias gubernamentales y reguladoras para ayudarles a tomar las medidas necesarias para apoyar diferentes prácticas empresariales sostenibles.

Palabras clave: Prácticas de Sostenibilidad, Rendimiento Financiero, Empresas Cotizadas en la India, Teoría de las Partes Interesadas.

INTRODUCTION

Corporate sustainability practices are often considered as a strategic instrument to gain reputational acceptability and upsurge the market potential of the corporation, thereby helping in the betterment of the financial performance. In fact, they are also considered beneficial to society and to the environment (Alamro et al.,) and due to these reasons, the sustainability actions of corporates are given increasing importance in the present times. However, it is still a debatable question as to whether sustainability practices result in the superior performance of a company or not (Arindam & Sourav, 2016; Gerner, 2019; Heikal, Muammar, & Ainatul, 2014). This paper has four major contributions to the prevailing literature in the area of corporate sustainability practices and financial performance. Firstly, the impact of corporate sustainability practices on firm performance is estimated among listed companies in India from 2017 to 2021. Secondly, how firm-specific environmental initiatives are having an impact on financial performance is examined using the multiple-regression method. Thirdly, how the social performance of a firm is associated with its financial performance is examined using the multiple-regression method. Lastly, the overall impact of corporate governance performance on the financial performance of a firm is examined using the multiple regression method.

Following the introduction, the hypotheses formulation is discussed in part 2. Part 3 proposes empirical methodology. Part 4 presents the proposed research models. Empirical evidence and discussion are reported in part 5. Concluding observations are included in part 6.

Literature Review and Hypotheses Formulation

Stakeholder theory fundamentally focuses on understanding how corporate actions help in influencing stakeholder judgments of a firm's value (Lankoski, 2016). Many recent studies have argued that the theory extends beyond the mere economic value of the firm, and involves many other factors that can influence the firm valuation (Harrison & Andrew, 2013; Porter, 2011; Martin, 2022). In this context, it is very important to assess the scope of value creation from a stakeholder perspective in order to ensure firm success in the current vibrant business scenario.

An assessment of the existing literature on the impact of sustainability practices on firm performance gives mixed results regarding the linear relationship between environmental, social, governance, and economic issues and firm performance. In certain studies conducted in the context of developed economies, firm performance was reported to have a negative relationship with various sustainability practices (Humphrey, 2012; Daizy & Das, 2014).

(Laskar, 2019) discovered a positive and bi-directional relationship between sustainability practices and firm performance in South Korean companies. (Bodhanwala & Bodhanwala, 2022) in their research hypothesized all ESG components and reported them to have a significant positive effect on the financial and stock market performance. However, it was also reported that each dimension is found to have a different impact on the financial performance and market value of selected firms from the tourism sector. (Maghfiroh, et al., 2023; Javed, 2022) had conducted a study to examine the relationship between sustainability measures and Return on Equity (ROE) in the Indian FMCG sector. The results of the study revealed an insignificant impact on the ROE of the selected firms. Due to these diverse opinions regarding the impact of sustainability practices on firm performance, the present study is conducted to empirically validate this relationship among Indian-listed firms. This research is also an attempt to validate the theoretical importance and scope of stakeholder theory in the present corporate environment, specifically in the context of sustainability practices of businesses.

Based on the literature reviews, the following alternative hypotheses were formulated for further testing and validation:

H1: There is a significant impact of sustainability practices on the performance of listed firms in India.

H2: Environmental practices are having a significant impact on the performance of listed firms in India.

H3: Social practices are having a significant impact on the performance of listed firms in India.

H4: Governance practices are having a significant impact on the performance of listed firms in India.

RESEARCH DESIGN

This research primarily involves two models, tested to arrive at various conclusions. The first model specifies a linear relationship between firm performance and its sustainability practices. Hence the independent variable, in this case, was taken as the combined scores of sustainability measures and the dependent variable was company performance which was measured using ROA. The second model involved examining the impact of each of the components of sustainability viz. environmental, social, and governance on the company's performance. So, the independent variables in this model were environmental, social, and governance performance scores. The dependent variable was company performance which was measured using return on assets (ROA). ROA is a measure of profitability that can be used to measure a company's operational success for a given period (Heikal, Muammar, & Ainatul, 2014; Rosikah, Dwi, Dzulfikri, Irfandy, & Miswar, 2018).

The data for this research was generated from the Thomson Reuters Refinitive database and from the Prowess IQ database. The longitudinal data of stock market-listed Indian firms were taken for a period of five years (2017-2021). In the study, the final data constituted the details relating to 65 Indian listed companies totaling 325 observations. The sustainability initiatives in the listed firms were measured using ESG scores obtained from the Refinitive database. The natural log of CSR scores along with three dimensions i.e., environmental, social, and governance scores along with its combined score constituted the independent variables in this research. The firm performance was the dependent variable and it was captured using the return on assets (ROA).

In this study, the researcher initially used the singular regression model to test the impact of sustainability measures on firm performance. The equation used was as follows:

$$\gamma = \alpha + \beta x$$

Where:

$\gamma = firm\ performance\ which\ was\ measured\ using\ return\ on\ assets\ (ROA)$
$\alpha = model\ constant$
$\beta = coefficient\ of\ regression$
x=*combined sustainability score*

Later, a multiple regression model was used to examine the specific impact of different sustainability components. The equation is as follows:

$$\gamma = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \varepsilon$$

Where:

$\gamma = firm\ performance\ which\ was\ measured\ using\ return\ on\ assets\ (ROA)$
$\alpha = model\ constant$
$\beta_{1-3} = coefficient\ of\ regression$
$x_{1-3} = Sustainability\ score\ of\ each\ component (environmental, social\ and\ governance)$.

The formula used for the computation of Return on Assets (ROA) was:

$$ROA = \frac{Net\ Profit}{Total\ Assets}$$

The researcher conducted necessary diagnosis tests before applying the regression models. The presence of multicollinearity was tested using the Variance Inflation Factor (VIF) and it was found that all the variables had a value less than ten, indicating the absence of multicollinearity. Breusch-Pagan test was conducted to test the status of heteroscedasticity and the result exhibited the absence of heteroscedasticity in the data since the probability value was greater than .05 ($\alpha = .19$).

RESULTS AND FURTHER DISCUSSIONS

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	VIF	Std. Deviation
ESG Combined Score	325	9.45	82.66	48.6106	5.02	14.76232
Social Pillar Score	325	6.42	93.31	55.5210	2.18	18.22339
Government Pillar Score	325	4.80	96.99	51.0577	1.90	23.17624
Environment Pillar Score	325	0.00	92.89	39.1551	2.02	23.59418
ROA	325	-0.15	88.02	1.9603	N/A	8.75108
Valid N (listwise)	325					

Source: Computed by the researcher

Table 1 displays the minimum, maximum, and mean values of ESG scores and ROA of the selected listed companies in India. Among the specific sustainability scores, the mean value of the social pillar score was the highest (55.52), and the mean value of the environment pillar score appeared to be the lowest (39.16). As per the results, the mean value of the ROA of listed companies in India appeared to be 1.96 and the maximum value was 88.02. The deviation in the values was highest among the environment pillar scores of the companies (23.59) and the lowest deviation in values was observed among the combined ESG score (14.76). Among the selected companies, it can be observed that there were companies with almost zero scores for the environment pillar. Among the three components of sustainability, the maximum value was observed for the government pillar (96.99) followed by the social pillar (93.31) upon the maximum value of 100. The combined ESG score appeared to be between 9.45 (min. value) and 82.66 (max. value) among the selected 325 listed companies in India.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.699[a]	0.450	0.437	0.03141

a. Predictors: (Constant), ESG Combined Score
Source: Computed by the researcher

Table 3: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.009	1	0.009	21.118	.001[b]
	Residual	0.009	323	0.000		
	Total	0.018	324			

a. Dependent Variable: ROA
b. Predictors: (Constant), ESG Combined Score
Source: Computed by the researcher
Source: Computed by the researcher

Table 4: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.047	0.067		-1.538	0.191
	ESG Combined Score	0.159	0.033	0.699	4.791	0.004

a. Dependent Variable: ROA
Source: Computed by the researcher

The result analysis of the first model proposed in this research is as follows: Coefficient of correlation (R-value) between the independent variable (sustainability initiatives of listed firms, measured using ESG combined score) and the dependent variable (performance of the listed firms, measured using ROA) is 0.699 which is shown in table 2. This implies that the correlation between sustainability initiatives and firm performance is 69.9 percent. R-square is 0.450, and this indicates that 45 percent of the change in the dependent variable (firm performance) can be explained by the independent variable (sustainability score). The regression coefficients were examined by applying the F-test. The F-value of the first model was 21.Tableable 3), which is substantially high, and the p-value was also less than .05 (0.004). This result confirms a positive correlation between sustainability initiatives and the performance of the selected listed firms in India. Hence, the researcher accepts the H1, i.e. sustainability practices are having a significant impact on the performance of listed companies in India.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	0.785[a]	0.671	0.618	0.071432

a. Predictors: (Constant), Environment Pillar Score, Government Pillar Score, Social Pillar Score
Source: Computed by the researcher

Table 6: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	0.013	3	0.005	11.913	.001[b]
	Residual	0.006	321	0.000		
	Total	0.019	324			

a. Dependent Variable: ROA
b. Predictors: (Constant), Environment Pillar Score, Government Pillar Score, Social Pillar Score
Source: Computed by the researcher

Table 7: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
2	(Constant)	-0.086	0.022		-3.297	0.026
	Social Pillar	0.125	0.035	0.652	3.711	0.041
	Governance Pillar	0.052	0.042	0.438	2.388	0.018
	Environment Pillar	-0.045	0.027	-0.313	-1.186	0.252

a. Dependent Variable: ROA
Source: Computed by the researcher

Since the researcher had arrived at accepting the first model proposed in this research, the analysis further progressed to test the next proposed model examining the specific influence of each component in sustainability viz. environment, social, and governance on the performance of listed firms in India. As per this, the results of the multiple regression model are as follows: the value of the coefficient of correlation i.e., R is 0.785 (Table 5), indicating the association between the independent and dependent variables to be strong. The adjusted R-square is 0.618 and accordingly 61.8 percent of change in the ROA can be explained by the firm-specific ESG scores. For the second model, the F value appeared to be 11.913 (Table 6) and was significant since the probability value was less than the threshold limit of 0.05. This approves the second model for proceeding with the in-depth analysis.

The specific impact of each of the independent variables is presented in table 7. The coefficient of the variable of the social pillar is 0.125 and is positively associated with the dependent variable. The P-value is less than 0.05 and the researcher rejects the null hypothesis thereby accepting H2. Hence, it can be concluded that the social performance score of a firm significantly influences the company's performance in a positive manner. The influence of the governance pillar also appeared to be significant with P-value less than 0.05. The R-value was 0.052 and the relationship appeared to be positive. Therefore, here also the researcher rejected the null hypothesis and accepted the alternative (H3), which stated that the governance score of listed firms in India has a significant impact on their performance. The coefficient of the variable of the environment pillar is -0.045 and here the researcher failed to reject the null hypothesis since the p-value was greater than 0.05. This implies that the environmental performance scores do not have a significant influence on the performance of the listed companies in India. Moreover, the relationship between environment score and firm performance appeared to be negative in this study.

CONCLUDING REMARKS

This research was primarily conducted to study the relationship between sustainability practices and firm performance in the context of listed firms in India. The results of this research reveal that sustainability practices influence the performance of the selected listed companies in India. Many studies (Kaur, 2020; Laskar, 2019; Mamun, 2022) have reported similar results in different institutional structures. Furthermore, this research concludes by reporting that governance and social performance scores have a significant positive impact on the firm performance while environmental performance scores did not have any significant impact on firm performance. Many researchers like (Aman, 2015; Komathy, 2019) had arrived at similar conclusions in the context of other emerging economies. However, many studies (Klassen & McLaughlin, 1996; Simrit, 2020; Lochana Poudyal, 2021) are in contradiction with this result and have reported that in the long period environmental performance of firms can positively influence the different stakeholders which may also be reflected in their market performance. Yet another group of researchers (Chang, 2015; Lucas, 2008) has also reported that environmental performance is having a negative relationship with firm performance and these findings are in line with the findings of the present study. Corporates with superior environmental performance normally increase their financial burdens and consequently their operational risk and this can explain the reason why their environmental initiatives are observed to have a negative impact on the firm performance.

The research may bring several implications for the corporate leaders, policymakers, and other stakeholders of the listed companies in India and in other economies with similar institutional structures. The outcomes of this study underline the significance of promoting sustainable businesses and reporting the same in the right manner so as to improve firm-level performance. The findings of this research may also help the company create interest in the minds of different stakeholders regarding their sustainability practices and can help them attract more investors. Empirical evidence disclosed through this study can also be useful to various government/regulatory bodies to take necessary actions in order to promote various sustainable practices in the corporate scenario.

This study has certain limitations. The sample size of this study was 65 listed firms in India, hence increasing the number of companies and categorizing them based on different industrial sectors can bring more insights into whether these results vary across firms on the basis of type of industry. Further, this study focused only on companies listed in Indian stock markets. Therefore, future researchers can try applying this model in the context of different developed and developing countries in order to bring conclusive evidence to this established relationship.

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