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Does ESG Performance Enhance Financial Outcomes? Empirical Evidence from Indian FMCG Sector

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ABSTRACT

This study aims to evaluate the current status of Environmental, Social, and Governance (ESG) performance within the Indian Fast-Moving Consumer Goods (FMCG) sector and to empirically investigate the impact of both aggregated and disaggregated ESG dimensions on firms' financial performance (FP). The research adopts a cross-sectional analytical framework based on secondary data from a sample of 80 Indian FMCG companies for the financial year 2024–25. ESG performance indicators were sourced from the Credit Rating Information Services of India Limited (CRISIL), while data pertaining to financial performance metrics were obtained from annual reports of the concerned companies. Descriptive statistics were utilized to assess the current ESG landscape in this sector. To examine the relationship between ESG and FP, Ordinary Least Squares (OLS) regression models were employed, with ESG (overall and individual dimensions) as independent variables and financial performance, proxied by Return on Net Worth (RONW), as dependent variables. The findings reveal that among the three ESG pillars, the Indian FMCG sector places the greatest emphasis on governance, followed by social and environmental considerations, where the environmental dimension receives the least attention. The regression analysis shows that RONW is significantly and positively influenced by environmental and governance performance, as well as overall ESG scores. However, the social dimension exhibits an insignificant impact on both financial performance indicators. These results suggest a partial integration of ESG principles, with firms deriving more tangible financial benefits from governance and environmental initiatives than from social initiatives. This study contributes to the growing ESG-finance literature by offering fresh insights into the Indian FMCG sector-an under-explored domain in emerging economies. It highlights the different effects of disaggregated ESG dimensions on firm performance and provides actionable implications for managers, investors, and policymakers seeking to align sustainability efforts with financial objectives.

Keywords: ESG Performance, Financial Performance, CRISIL, FMCG Sector
JEL Classification: G30, G32, M14, Q56

1. INTRODUCTION

The growing global emphasis on corporate sustainability has redefined the parameters of business success, prompting organizations across sectors to embrace Environmental, Social, and Governance (ESG) frameworks as part of their core operational and strategic decision-making (Eccles et al., 2014; Friede et al., 2015; Debnath et al., 2025). While traditionally associated with ethical and reputational concerns, ESG considerations have increasingly been linked to financial performance (Clark et al., 2015; Khan et al., 2016; Kanoo et al., 2025). This paradigm shift has been driven by heightened stakeholder awareness, regulatory push, investor activism, and the global pursuit of the United Nations Sustainable Development Goals (SDGs) (United Nations, 2015; Global Reporting Initiative, 2021; Debnath and Kanoo, 2022).

Among the various sectors influenced by this trend, the Fast-Moving Consumer Goods (FMCG) sector holds a unique position due to its direct consumer interface, extensive supply chains, and resource-intensive operations (Sarkar and Searcy, 2016; Deloitte, 2022). In India, the FMCG sector is one of the largest contributors to the economy, valued at over USD 100 billion and employing millions directly and indirectly (IBEF, 2023). However, the sector's operational scale brings with it significant environmental and social responsibilities, including carbon emissions, plastic usage, labor welfare, and ethical sourcing (PwC India, 2022; Sharma and Singh, 2020; Kanoo et al., 2025). As such, assessing the ESG performance of firms in this sector and its consequent impact on financial metrics has become imperative. Empirical research on the ESG-financial performance nexus has generally shown positive associations (Debnath et al., 2024c; Debnath et al., 2025). Friede et al., (2015), in a meta-analysis of over 2,000 studies, concluded that approximately 90% of the research found a non-negative relation between ESG and corporate financial performance (CFP), with the majority indicating positive correlations. Similarly, Whelan et al. (2021) argue that superior ESG performers enjoy lower capital costs, higher operational efficiency, and better stock market performance. However, these studies have largely focused on developed economies, particularly North America and Western Europe, where institutional mechanisms supporting ESG adoption are well-established (Fernando et al., 2017; Krüger, 2015). In contrast, emerging markets like India offer a different institutional context, marked by less stringent enforcement, evolving disclosure standards, and varied stakeholder pressures (Narwal and Pathneja, 2016; Singh and Chatterjee, 2019; Debnath et al., 2024b).

Within India, the regulatory landscape has started evolving to support ESG integration. The Securities and Exchange Board of India (SEBI) introduced the Business Responsibility and Sustainability Reporting (BRSR) framework, mandating the top 1,000 listed companies to disclose ESG metrics in a structured format (SEBI, 2021; Debnath and Kanoo, 2022). Furthermore, rating agencies such as CRISIL and CARE have developed ESG rating mechanisms to assist investors in gauging firm-level sustainability (CRISIL, 2023). Despite these developments, empirical analyses on how ESG factors contribute to financial performance in specific Indian sectors, such as FMCG, remain limited (Kansal et al., 2014; Mukherjee and Ghosh, 2020; Debnath et al., 2024a).

Moreover, most extant studies treat ESG as a composite construct, potentially masking the differential impact of its three distinct dimensions-Environmental, Social, and Governance on firm performance (Cheng et al., 2014; Fatemi et al., 2018; Debnath et al., 2024b). Recent scholarship has called for a more nuanced, disaggregated analysis to capture the specific contributions of each ESG pillar (Bouslah et al., 2013). For example, environmental performance has been linked to cost reductions through energy efficiency and waste management (Ambec and Lanoie, 2008), while good governance is often associated with reduced agency costs and better decision-making (Gompers et al., 2003). The social dimension, though increasingly emphasized in corporate discourse, often yields mixed results in financial terms due to challenges in quantification and delayed benefits (Margolis et al., 2009).

In the Indian FMCG sector, anecdotal evidence suggests a disproportionate focus on governance practices driven largely by regulatory compliance and investor expectations while environmental and social initiatives often receive less strategic attention (KPMG, 2022; EY India, 2023). This imbalance necessitates a systematic investigation into which ESG dimensions are truly value-enhancing from a financial standpoint. Moreover, there is a need to examine whether ESG practices in this sector are merely symbolic or are substantively integrated into business operations (Saini and Singhania, 2022; Bhattacharyya and Sinha, 2020). The concept of sustainability in corporate strategy has evolved significantly over the past two decades, transitioning from peripheral corporate social responsibility (CSR) activities to becoming an essential component of long-term value creation. Central to this evolution is the Environmental, Social, and Governance (ESG) framework, which offers a structured lens through which corporate practices are evaluated beyond traditional financial measures (Eccles and Klimenko, 2019; Ioannou and Serafeim, 2015). ESG indicators are now considered by investors, regulators, and other stakeholders as proxies for non-financial risk management and long-term organizational resilience (Kotsantonis et al., 2016). Increasingly, ESG performance is viewed not only as a measure of ethical behavior but as a determinant of competitive advantage and profitability (Porter and Kramer, 2011; Khan et al., 2016).

The academic underpinnings of the ESG-financial performance (FP) relationship are closely aligned with stakeholder theory (Freeman, 1984), which posits that firms maximizing value for a broad range of stakeholders including employees, customers, suppliers, communities, and shareholders are more likely to succeed in the long run. Complementarily, legitimacy theory suggests that firms adopt ESG strategies to gain social acceptance and maintain legitimacy within the societal system in which they operate (Suchman, 1995). These theoretical lenses underscore the strategic importance of ESG in firm performance, beyond mere compliance or philanthropic activity (Donaldson and Preston, 1995). Despite the extensive literature linking ESG to firm value, a majority of empirical studies are situated in Western institutional contexts where regulatory frameworks, investor activism, and corporate governance standards are relatively mature (Friede et al., 2015; Clark et al., 2015). In contrast, the ESG–FP relationship in emerging markets such as India remains under-explored and potentially non-linear, shaped by unique institutional voids, regulatory asymmetries, and socio-economic diversity (Khanna and Palepu, 2010; Jamali and Karam, 2018). This divergence necessitates contextual studies that capture the local institutional dynamics, industry characteristics, and stakeholder expectations influencing ESG practices.

The Indian corporate sector, particularly in the wake of the Companies Act 2013 and SEBI's BRSR guidelines, is witnessing a gradual but definitive shift toward sustainability and non-financial disclosures (SEBI, 2021; Ministry of Corporate Affairs, 2013). Yet, ESG integration remains uneven across industries, with varying levels of commitment, capability, and transparency. Among the key sectors impacted by this transition, the FMCG industry occupies a strategic role. As one of the fastest-growing and consumer-facing sectors, the Indian FMCG industry is both a contributor to and a mitigator of environmental and social externalities (IBEF, 2023; Deloitte, 2022). FMCG companies are confronted with multifaceted ESG challenges ranging from environmental degradation caused by packaging waste and resource overutilization, to social issues such as supply chain labor practices, and governance-related concerns like product mislabeling or tax evasion (Sarkar and Searcy, 2016; Sharma and Singh, 2020). These firms also face intense scrutiny from environmentally conscious consumers, activist investors, and regulatory bodies, amplifying the reputational and operational risks associated with ESG failures (KPMG, 2022). At the same time, the sector's scale offers significant opportunities for ESG-led value creation, including cost savings from energy-efficient operations, improved brand loyalty, and access to green financing instruments (EY India, 2023; UNCTAD, 2021).

While global consumer goods giants like Unilever and Nestle have demonstrated successful integration of ESG principles into business strategy, their Indian counterparts often struggle to balance short-term financial targets with long-term sustainability commitments (Bhattacharyya and Sinha, 2020; PwC India, 2022). There remains a critical research gap in understanding how Indian FMCG firms are navigating this transition, and whether their ESG efforts translate into improved financial outcomes. Further complicating this analysis is the composite nature of ESG, which can obscure the distinct effects of each dimension. Prior studies have highlighted that environmental and governance initiatives often have clearer financial payoffs through cost efficiencies and improved investor confidence while the social dimension's impact remains ambiguous or delayed (Fatemi et al., 2018). This calls for a disaggregated analysis to ascertain which ESG dimensions are most influential in driving firm performance in the Indian context.

In this light, the current study adopts a focused, empirical approach to assess ESG performance in the Indian FMCG sector. By drawing data from 80 firms for the financial year 2024–25, this research examines the relationship between ESG performance (both overall and by dimension) and financial outcomes, proxied by Return on Net Worth (RONW). The study contributes to the literature in several ways: first, by offering sector-specific insights from an emerging market; second, by adopting a disaggregated ESG approach; and third, by linking ESG to concrete financial metrics relevant to managers and investors alike.

Preliminary results indicate that governance and environmental performance significantly enhance RONW, while the social dimension has an insignificant effect. These findings align with those of (Khan et al., 2016; Debnath and Kanoo, 2023), who demonstrated that material ESG investments yield higher financial returns, particularly when aligned with stakeholder expectations. Furthermore, the results suggest that while firms in this sector may derive tangible financial benefits from better governance and environmental stewardship, the financial impact of social initiatives remains elusive, perhaps due to their longer gestation period or weak measurement standards (Ioannou and Serafeim, 2015; Mahoney and Roberts, 2007).

The remainder of the paper is structured as follows: Section 2 reviews the relevant theoretical frameworks and empirical literature that inform the study. Section 3 describes the research design, data sources, and methodology. Section 4 presents the empirical findings and analysis. Section 5 discusses the implications of the results for different stakeholders. Finally, Section 6 concludes with key takeaways, limitations, and directions for future research.

2. LITERATURE REVIEW

The relationship between Environmental, Social, and Governance (ESG) performance and financial outcomes has emerged as a critical area of inquiry in corporate finance and sustainability research. Numerous global studies have established a positive linkage between strong ESG practices and improved financial performance (Friede et al., 2015; Clark et al., 2015), suggesting that firms integrating ESG into their core operations are likely to outperform their peers due to enhanced risk management, better access to capital, and improved stakeholder relationships (Eccles et al., 2014). The meta-analysis by Friede et al., (2015), covering over 2,000 empirical studies, found that approximately 90% reported a non-negative relationship between ESG and corporate financial performance (CFP), with a significant portion indicating a positive association.

At the micro-level, the disaggregation of ESG into its individual pillars has yielded mixed findings. For instance, Fatemi et al., (2015) argue that governance quality exerts the most immediate and measurable impact on firm value, as it directly influences investor confidence and operational oversight. Similarly, Eccles and Klimenko, (2019) emphasize that environmental performance through carbon efficiency, resource optimization, and regulatory compliance can reduce cost structures and mitigate future liabilities, thereby boosting profitability. In contrast, the social dimension, which encompasses labor relations, human rights, and community engagement, often demonstrates weaker or delayed effects on financial metrics (Grewal et al., 2016). The underlying reasons may include measurement difficulties, time lags in reputational gains, and the indirect nature of social returns (Lozano, 2015).

The theoretical rationale for the ESG–FP nexus is grounded in stakeholder theory (Freeman, 1984) and resource-based views of the firm (Barney, 1991). Firms that proactively address environmental risks, promote social equity, and uphold strong governance are believed to gain sustained competitive advantages, such as brand loyalty, talent retention, and investor trust (Porter and Kramer, 2011; Orlitzky et al., 2003). These capabilities, in turn, enhance long-term financial viability. Empirical support for this theoretical framework is provided by Khan et al., (2016), who show that firms excelling in material ESG issues relevant to their industry significantly outperform those that do not.

Despite this progress, the literature has a discernible bias toward developed economies, particularly the United States and Europe, where institutional environments, regulatory mechanisms, and investor activism are well-developed (Ioannou and Serafeim, 2015; Kotsantonis et al., 2016). In contrast, studies examining ESG impacts in emerging markets, including India, remain sparse and contextually underdeveloped. The institutional voids in such economies characterized by regulatory inconsistencies, limited enforcement, and stakeholder fragmentation may significantly mediate ESG outcomes (Khanna and Palepu, 2010; Jamali and Karam, 2018). For instance, Luo and Tang, (2016) find that ESG initiatives in emerging markets often lack strategic alignment and are driven more by compliance than value creation.

In the Indian context, extant research presents a mixed picture. Nair and Bhattacharyya, (2019) report a positive relationship between ESG scores and stock performance among BSE-listed firms, suggesting growing investor sensitivity to sustainability disclosures. Similarly, Kumar and Firoz, (2021) observe that governance and environmental factors positively affect financial outcomes, particularly in capital-intensive sectors. However, Jitmaneeroj (2022) and Sharma and Singh, (2020) highlight that ESG implementation in India remains fragmented, with firms selectively focusing on governance while underinvesting in environmental and social initiatives. These findings align with those of Boubaker et al., (2020), who argue that in institutional environments with weak enforcement, firms may engage in symbolic ESG disclosure rather than substantive action.

Sector-specific analyses are even more limited. The fast-moving consumer goods (FMCG) sector, while critical to India's economy, is underrepresented in ESG literature. This is concerning given the sector's extensive environmental footprint, widespread labor dependence, and exposure to public scrutiny (Sarkar and Searcy, 2016; Deloitte, 2022). While multinational players such as Hindustan Unilever have demonstrated structured ESG integration, many domestic FMCG firms continue to face challenges related to data transparency, sustainability capacity building, and stakeholder engagement (Bhattacharyya and Sinha, 2020; EY India, 2023). The Indian Brand Equity Foundation (IBEF, 2023) notes that while consumer awareness of sustainability is rising, corporate responses remain reactive and inconsistent across the sector.

Moreover, limited research dissects how the individual ESG components influence financial outcomes in the FMCG context. For instance, environmental innovations such as biodegradable packaging or sustainable sourcing may offer cost reductions and brand differentiation, but few studies empirically validate these benefits (UNCTAD, 2021). Governance factors, including board diversity and audit transparency, are likely to enhance investor perception, yet their financial implications in the FMCG sector remain underexplored. The social dimension despite its relevance to labour-intensive supply chains continues to be marginalized in both practice and academic inquiry (Lozano, 2015; KPMG, 2022).

Therefore, by empirically assessing the relationship between ESG performance-both aggregate and disaggregated and financial performance in the Indian FMCG sector, this study fills a significant gap. By using a detailed approach to ESG analysis and providing context-specific insights from an emerging market, it adds to the body of current knowledge. By doing this, it offers practical recommendations for business managers, legislators, and investors involved in India's vibrant consumer goods industry, while also adding to the continuing discussions on ESG materiality, measurement, and financial relevance. More specifically, this study aims to:

1. To assess the current status of ESG performance including environmental, social, and governance dimensions among firms in the Indian FMCG sector.
2. To examine the impact of overall ESG performance on the financial performance (FP) of Indian FMCG firms.
3. To analyze the individual (disaggregated) impact of environmental, social, and governance components on financial performance (FP).
4. To identify which ESG dimensions environmental, social, or governance most significantly influence financial outcomes in the Indian FMCG industry.

2.1. Hypotheses of the study

Drawing on the literature and contextual evidence, the following hypotheses are proposed:

- H_{1A}: There is positive relationship between ENV performance and Return on Net Worth (RONW)
- H_{1B}: There is positive relationship between SOC performance and Return on Net Worth (RONW)
- H_{1C}: There is positive relationship between GOV performance and Return on Net Worth (RONW)

Table 1: Operational definition of variable

Variable name	Variable type	Variable description	Supporting literature	Data source
Return on Net Worth (RONW)	Dependent Variable	Net Income/Shareholder's Equity	Kanoo et al., (2025); Debnath et al., (2025)	Annual Report
Overall ESG (ESGP)	Independent variable	ESG Score computed by CRISIL	Kanoo et al., (2025); Debnath et al., (2025)	CRISIL
ENV Performance (ENVP)	Independent variable	ENV Score computed by CRISIL	Kanoo et al., (2025); Debnath et al., (2025)	CRISIL
SOC Performance (SOCP)	Independent variable	SOC Score computed by CRISIL	Kanoo et al., (2025); Debnath et al., (2025)	CRISIL
GOV performance (GOVP)	Independent variable	GOV Score computed by CRISIL	Kanoo et al., (2025); Debnath et al., (2025)	CRISIL
Log Size (LnSize)	Control variable	The log value of total assets of the company.	Kanoo et al., (2025); Debnath et al., (2025)	Annual Report
Current Ratio (CR)	Control variable	Measures Companies' liquidity (Current Asset/Current Liabilities)	Debnath et al., (2025)	Annual Report
Debt Equity Ratio (D/E Ratio)	Control variable	Measures Companies Leverage (Total Liabilities/Shareholders Equity)	Kanoo et al., (2025); Debnath et al., (2025)	Annual Report

Source: Authors compilations

- H_2: There is positive relationship between overall ESG performance and Return on Net Worth (RONW).

3. DATA AND METHODOLOGY

3.1. Data Source and Sample Size

To achieve the core objective of analysing the impact of ESG performance i.e. both overall and across its environmental, social, and governance dimensions on the financial performance of firms in the FMCG sector, secondary data was collected from credible and publicly available sources. ESG scores, including the individual Environmental (ENV), Social (SOC), and Governance (GOV) scores, were sourced from CRISIL's ESG disclosures. Financial performance data, specifically Return on Net Worth (RONW), was obtained from the annual reports of the corresponding companies for the relevant period. CRISIL's comprehensive ESG dataset encompasses 1,050 companies operating across 65 distinct sectors. However, to maintain sectoral focus and ensure homogeneity in operational dynamics, the present study limits its scope to companies classified under the FMCG and consumer durables category. This refined selection resulted in a final sample of 80 firms, reflecting a representative cross-section of the ESG and financial performance spectrum within the FMCG sector in India.

3.2. Variables Used in the Study

The study employs both dependent and independent variables to establish the ESG-financial performance nexus. The dependent variable is Return on Net Worth (RONW), used as a proxy for firm-level financial performance. The key independent variables include the Overall ESG Score and the three constituent dimensions: Environmental Score (ENV), Social Score (SOC), and Governance Score (GOV).

The ESG scores used in the analysis are developed by CRISIL based on a structured, sector-specific, and materiality-driven framework. CRISIL's ESG assessment incorporates over 300 data points across 33 ESG sub-parameters, aligning with global reporting standards such as GRI, SASB, and TCFD. The scores are based on publicly disclosed information, regulatory filings, and sustainability reports. Each dimension is evaluated individually and then aggregated using a weighted scoring model that reflects the materiality of ESG factors in the given industry. This makes CRISIL's ESG ratings a robust and reliable source for empirical ESG analysis.

3.3. Statistical Techniques Used in the Study

To analyse the ESG status within the selected sector, the study begins with descriptive statistics, which provide a snapshot of the central tendencies and variability of ESG performance among FMCG firms. This preliminary analysis aids in understanding the distribution and comparative strength of individual ESG dimensions. To investigate the impact of ESG performance on financial outcomes, the study employs Ordinary Least Squares (OLS) regression analysis. This method enables quantification of the relationship between ESG scores (both overall and dimensional) and financial performance (RONW), controlling for linear effects. The OLS model was selected due to its suitability for cross-sectional data and its effectiveness in estimating the influence of independent variables on a continuous dependent variable. This empirical approach allows for both aggregate-level insights and granular assessments across ESG sub-dimensions, thus providing a comprehensive view of ESG-financial performance linkages within the FMCG sector (Table 1).

4. RESULTS AND DISCUSSIONS

The descriptive statistics presented in Table 2 reveal key patterns across ESG dimensions and financial indicators, offering insights aligned with established ESG theories and recent literature. Governance emerges as the most consistent dimension, supporting institutional theory which suggests firms conform to regulatory norms and shareholder expectations to maintain legitimacy (DiMaggio and Powell, 1983; Suchman, 1995). In contrast, greater variability in environmental and social scores reflects differential strategic priorities influenced by stakeholder salience, consistent with stakeholder theory (Freeman, 1984). The unbalanced emphasis across ESG pillars reinforces prior findings that Indian firms tend to focus more on governance while environmental and social practices remain relatively underdeveloped (Kansal et al., 2014; Maji et al., 2023). Variability in profitability and leverage indicators indicates heterogeneity in firm-level financial structure and performance, suggesting that the ESG–financial performance relationship is contingent on internal capabilities and contextual factors, in line with the resource-based view (Barney, 1991) and supported by empirical evidence highlighting firm-specific moderating effects (Fatemi et al., 2018). The relatively stable firm size distribution suggests limited reporting bias, echoing observations that larger firms are more likely to adopt consistent ESG disclosure practices due to reputational concerns and regulatory exposure (Kolk and Pinkse, 2008). These findings collectively support arguments for a disaggregated approach to ESG analysis, as the financial implications of environmental, social, and governance practices vary significantly (Khan et al., 2016; Lins et al., 2017).

The correlation matrix presented in Table 3 reveals significant interrelationships among ESG dimensions and between ESG indicators and financial variables, aligning with theoretical and empirical literature. A strong positive association is observed among the environmental, social, and governance pillars, indicating a complementary relationship in ESG adoption, which supports stakeholder theory and the notion that firms engaging in one aspect of sustainability are likely to adopt others as part of a

Table 2: Descriptive statistics

Variable	Mean	Standard deviation	CV	Minimum	Maximum
ENV	41.68	6.85	0.16	24.00	58.00
SOC	51.50	6.99	0.14	31.00	64.00
GOV	68.35	3.66	0.05	60.00	76.00
ESG	54.86	4.08	0.07	43.00	64.00
RONW	16.79	18.34	1.09	-12.98	117.71
CR	2.29	2.39	1.04	-0.61	20.27
D/E Ratio	0.33	1.39	4.21	0.00	12.43
LnSize	7.89	1.17	0.15	5.8715	11.3774

Source: Author's compilation

Table 3: Correlation matrix

Variable	ENV	SOC	GOV	ESG	RONW	CR	D/E Ratio	LnSize
ENV	1.0000							
SOC	0.3240*	1.0000						
GOV	0.2527*	0.2772*	1.0000					
ESG	0.8110*	0.7131*	0.6158*	1.0000				
RONW	0.3032*	0.2198	0.2714*	0.3659*	1.0000			
CR	−0.1220	−0.0599	−0.2093	−0.1728	−0.0394	1.0000		
D/E Ratio	−0.0753	−0.1548	0.0824	−0.0885	−0.0432	−0.0833	1.0000	
LnSize	0.4978*	0.1823	0.2524*	0.4739*	0.1380	−0.2534*	−0.0794	1.0000

Source: Author's Compilation. *Indicate significance at 5% level

holistic strategy (Freeman, 1984; Khan et al., 2016). The strong alignment of the composite ESG score with its subcomponents confirms its integrative nature and reflects consistent sustainability efforts across firms, reinforcing legitimacy theory where firms strategically align disclosures to maintain societal acceptance (Suchman, 1995). A significant positive relationship between ESG and firm profitability suggests that socially responsible practices may enhance firm value, resonating with resource-based theory which posits that ESG capabilities can be leveraged as strategic assets (Barney, 1991; Fatemi et al., 2018). However, weak or negative correlations between ESG and liquidity or leverage variables imply that while ESG adoption may drive long-term value, it does not necessarily correspond with short-term financial flexibility. The significant positive correlation between firm size and ESG performance aligns with existing studies showing that larger firms, owing to greater visibility and regulatory scrutiny, are more likely to invest in and report ESG practices (Kolk and Pinkse, 2008; Lins et al., 2017). These patterns underscore the multifaceted and context-dependent nature of ESG performance and its financial implications, reaffirming the need for dimension-specific analysis and consideration of firm characteristics in ESG research.

The regression results presented in Table 4 indicate that among the three ESG dimensions, only environmental and governance performance have a statistically significant and positive influence on firm profitability, as measured by return on net worth, while the social dimension remains insignificant. This pattern supports the notion advanced by Khan et al., (2016) and Fatemi et al., (2018) that not all ESG components contribute equally to financial performance and that environmental and governance factors are more likely to be material. The significance of environmental performance affirms stakeholder and legitimacy theories, wherein firms respond to growing environmental concerns and institutional pressures to maintain credibility and build long-term value (Freeman, 1984; Suchman, 1995). The positive effect of governance performance resonates with institutional theory, which posits that firms adopt strong governance practices to align with regulatory norms and investor expectations (DiMaggio and Powell, 1983). The social dimension's lack of significance may reflect difficulties in quantifying its immediate financial impact or variations in stakeholder expectations across industries, as noted by Lins et al., (2017). The overall explanatory power of the model remains modest, reinforcing the argument that ESG impacts are complex and often mediated by firm-specific, sectoral, and contextual factors (Barney, 1991; Kolk and Pinkse, 2008). These findings underscore the importance of disaggregated ESG analysis and highlight that environmental and governance strategies can

Table 4: Regression result showing the impact of ESG performance on return on net worth

Variables	RONW	
	Coefficient	t-stat
ENV	0.061**	1.90
SOL	0.458	0.75
GOV	0.089*	1.77
CR	0.877	−0.14
D/E ratio	0.138	0.27
LnSize	0.703	−0.38
Constant	0.030	−2.22
F-stat	2.04	
R-squared	0.1437	
Adj. R-squared	0.0733	

Source: Author's compilation. *,**, and ***Indicate significance at 1%, 5% and 10%, respectively

Table 5: Regression result showing the impact of overall ESG on Return on Net Worth

Variables	RONW	
	Coefficient	t-stat
ESG	0.002**	3.17
CR	0.887	0.14
D/E Ratio	0.920	−1.01
LnSize	0.733	−0.34
Constant	0.009**	−2.67
F-stat	2.95	
R-squared	0.1359	
Adj. R-squared	0.0898	

Source: Author's Compilation. *,**, and ***Indicate significance at 1%, 5% and 10%, respectively

be leveraged as strategic resources to enhance firm value, while social investments may yield more long-term or intangible benefits.

The regression results presented in Table 5 indicate a statistically significant positive relationship between overall ESG performance and return on net worth, suggesting that firms with stronger ESG practices tend to exhibit improved profitability. This finding aligns with the resource-based view, which posits that ESG competencies can serve as strategic assets, enhancing firm value by fostering innovation, risk mitigation, and stakeholder trust (Barney, 1991; Fatemi et al., 2018). It also supports stakeholder theory, as proactive ESG engagement may generate long-term financial benefits by addressing stakeholder interests and societal expectations (Freeman, 1984; Khan et al., 2016). The lack of significance for liquidity and leverage variables indicates that short-term financial positioning may not substantially influence the ESG–performance relationship, echoing previous studies that emphasize the long-term orientation of ESG impacts (Lins et al., 2017). Firm size also does not emerge as a significant predictor, challenging the commonly held view that larger firms benefit more from ESG investments due to economies of scale or reputational leverage (Kolk and Pinkse, 2008). The modest explanatory power of the model suggests that while ESG contributes positively to financial performance, other unobserved factors may also be at play, pointing to the complex and multifactorial nature of the ESG–financial performance nexus. These findings reinforce the legitimacy theory perspective, wherein firms strategically align ESG efforts not only for ethical alignment but also as a means to enhance performance and legitimacy within capital markets (Suchman, 1995).

5. CONCLUSION

The present study aimed to examine the impact of overall ESG performance and its individual dimensions - Environmental (ENV), Social (SOC), and Governance (GOV) on firm profitability, specifically measured by Return on Net Worth (RONW). Using secondary data, a 80 sample of firms belonging from FMCG sector was analyzed through descriptive statistics, correlation analysis, and multiple regression techniques. ESG scores were adopted as per CRISIL methodology, which integrates performance, disclosure, and readiness indicators across ESG dimensions. The regression models were employed to test both the aggregate effect of ESG and the individual contributions of ENV, SOC, and GOV on financial performance, controlling for variables such as current ratio, debt-to-equity ratio, and firm size (log of total assets).

The empirical analysis provides mixed support for the proposed hypotheses. . The first hypothesis (H1), relating to environmental performance, is supported, indicating that proactive environmental practices contribute to financial gains. The second hypothesis (H2), which anticipated a positive relationship between the social dimension and RONW, is not supported, suggesting that social efforts may not yield immediate financial returns. However, the third hypothesis (H3), concerning governance performance, is partially supported as governance demonstrated a positive and significant relationship with profitability at a weaker confidence level. The fourth hypothesis (H4), which posited a significant positive relationship between overall ESG score and RONW, is supported by the findings as ESG showed a statistically significant positive impact on profitability. These results reinforce the idea that not all ESG pillars equally influence firm performance and highlight the importance of disaggregated analysis.

The findings carry important policy implications for corporate strategists, regulators, and investors. For firms, the results suggest prioritizing environmental and governance initiatives as they are more likely to yield tangible financial returns in the short to medium term. Policymakers and regulatory bodies should promote standardized ESG disclosure practices, especially for the social dimension, to enhance transparency and comparability. Investors can use ESG data particularly environmental and governance metrics as effective tools for assessing firm resilience and long-term value creation. Encouraging comprehensive ESG integration in corporate decision-making could lead to improved sustainability outcomes while also enhancing financial performance.

Despite its contributions, this study has certain limitations that offer avenues for future research. The analysis is based on a single time-period cross-sectional dataset, which restricts the ability to capture dynamic ESG-performance relationships over time. Future studies could employ panel data to observe long-term trends and causality. The sample may not fully represent all sectors equally, limiting generalizability. Additionally, the ESG data was sourced from a single rating agency; incorporating ratings from multiple sources could enrich robustness. Further exploration is needed to understand the specific impact of the social dimension, possibly using sector-specific or qualitative approaches to capture intangible outcomes and stakeholder perceptions.

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