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ESG Influence on Return on Equity: Evidence from Indian Firms

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Abstract: This study investigates how ESG scores and each individual pillars of ESG, Environmental, Social, and Governance performance scores influence financial performance among Indian firms. Comprising 293 companies listed on the BSE 500 index for a 13-year period (2010 to 2022), we use a fixed-effects regression approach to connect each ESG pillar, as well as the overall ESG score, to Return on Equity (RoE). While the combined ESG score shows a positive relationship with RoE, this association is not statistically significant. Breaking things down, only the Environmental score stands out, with a significant positive effect ($\beta = 0.13$, $p < 0.05$). This suggests that efforts like improving energy efficiency and controlling emissions can boost shareholder returns. In contrast, Social and Governance scores do not seem to have a clear financial impact over the period studied. Thus, results point to an uneven influence of the different ESG pillars in an emerging market like India, and underscore why investors and corporate planners should go deep into the individual pillar when shaping their strategies.

Keywords: ESG, ESG Pillars, Return on Equity, Indian Firms, Sustainability and Profit

JEL Classification Number: G32, M14, and Q56

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