

Research Article

Impact of ESG Reporting on Perceived Financial Performance of Indian Firms: Evidence from Indian Retail Investors

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Abstract: Environmental, Social and Governance (ESG) reporting has become an important non-financial disclosure mechanism for firms operating in modern capital markets. In India, the growing relevance of structured sustainability disclosures has increased the importance of ESG information for investors. However, the relationship between ESG reporting and financial performance remains debated, particularly from the perspective of retail investors. This study addresses Objective 2 of the broader research by examining the impact of ESG reporting on perceived financial performance of Indian firms. Using survey data collected from 633 Indian retail investors, ESG reporting is measured through environmental, social and governance disclosure dimensions, while financial performance is measured through investor perceptions regarding profitability, valuation, risk reduction, long-term stability and overall financial performance. The study proposes a regression-based model suitable for Excel Data Analysis Tool. Preliminary analysis indicates that ESG reporting has a positive and statistically significant impact on perceived financial performance. The simple regression model shows that ESG reporting explains approximately 28.8% variation in perceived financial performance. A further dimension-wise regression indicates that governance disclosure has the strongest influence, followed by social disclosure, while environmental disclosure shows a weaker independent effect. The findings suggest that retail investors perceive ESG reporting as financially relevant, especially when it reflects governance quality, transparency and long-term stability.

Keywords: ESG Reporting, Financial Performance, Retail Investors, Environmental Disclosure, Social Disclosure, Governance Disclosure.

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INTRODUCTION

ESG reporting has become a significant part of corporate communication and investment analysis. Earlier, investors mainly depended on financial indicators such as profitability, earnings, market valuation, liquidity and risk. However, the growing focus on sustainability, corporate accountability and responsible investment has increased the relevance of non-financial disclosures. ESG reporting allows firms to communicate their environmental practices, social responsibility and governance standards to investors and other stakeholders.

In India, ESG reporting has gained importance due to rising investor awareness, regulatory developments and the growing participation of retail investors in equity markets. Retail investors are increasingly exposed to information related to sustainability, governance, ethical conduct and long-term business responsibility. However, it remains important to understand whether such ESG information is perceived as financially relevant by investors.

LITERATURE REVIEW

The relationship between Environmental, Social and Governance (ESG) reporting and financial performance has received increasing attention in sustainable finance literature. ESG reporting enables firms to disclose non-financial information

related to environmental responsibility, social commitment and governance quality (Avramov et al., 2022). These disclosures are considered useful for investors because they provide additional insights into a firm's risk management, transparency, stakeholder orientation and long-term sustainability (Banerjee & David, 2024).

Prior studies suggest that ESG reporting may positively influence financial performance by improving corporate reputation, reducing regulatory risk, strengthening governance mechanisms and enhancing stakeholder confidence (Beloskar & Rao, 2022). Firms with better environmental practices may benefit from resource efficiency, lower compliance risk and improved operational performance. Social disclosures related to employee welfare, customer responsibility, diversity and community engagement may improve brand image and stakeholder loyalty (Berg et al., 2022). Governance disclosures, including board independence, audit quality, transparency and ethical conduct, may reduce agency problems and improve investor confidence.

However, the literature also presents mixed findings. Some studies report a positive association between ESG performance and financial indicators such as ROA, ROE, EPS, Tobin's Q and market valuation, while others find weak or insignificant relationships (Chen & Xie, 2022). One reason for this inconsistency is that ESG benefits may not appear immediately in short-term financial results. ESG initiatives often require initial investment, and their impact may be realised gradually through reputation building, risk reduction and long-term stability (D'Hondt et al., 2021).

In the Indian context, ESG reporting has become more relevant due to regulatory developments such as Business Responsibility and Sustainability Reporting (Dalal & Thaker, 2019). Yet, the financial relevance of ESG reporting remains underexplored, especially from the perspective of retail investors. Retail investors may perceive ESG-reporting firms as more transparent, responsible and financially stable. However, their perception may differ across ESG dimensions. Governance disclosure may have a stronger impact because investors directly associate transparency, accountability and ethical conduct with financial strength. Social and environmental disclosures may also influence perceived financial performance, but their effect may depend on investor awareness and understanding (Friede et al., 2015).

Thus, existing literature supports the need to examine whether ESG reporting significantly influences perceived financial performance. This study addresses that gap by analysing the impact of environmental, social and governance disclosures on perceived financial performance using regression analysis through Excel.

RESEARCH OBJECTIVE

To examine the impact of ESG reporting dimensions, namely environmental disclosure, social disclosure and governance disclosure, on the perceived financial performance of Indian firms from the perspective of Indian retail investors.

Main Hypothesis

H0: ESG reporting dimensions do not have a significant impact on the perceived financial performance of Indian firms from the perspective of Indian retail investors.

H1: ESG reporting dimensions have a significant impact on the perceived financial performance of Indian firms from the perspective of Indian retail investors.

Dimension-wise Hypotheses

Environmental Disclosure

H01: Environmental disclosure has no significant impact on the perceived financial performance of Indian firms.

H11: Environmental disclosure has a significant positive impact on the perceived financial performance of Indian firms.

Social Disclosure

H02: Social disclosure has no significant impact on the perceived financial performance of Indian firms.

H12: Social disclosure has a significant positive impact on the perceived financial performance of Indian firms.

Governance Disclosure

H03: Governance disclosure has no significant impact on the perceived financial performance of Indian firms.

H13: Governance disclosure has a significant positive impact on the perceived financial performance of Indian firms.

Regression-Based Hypothesis

For the regression model;

$$FP_i = \beta_0 + \beta_1 ENV_i + \beta_2 SOC_i + \beta_3 GOV_i + \epsilon_i$$

H0: $\beta_1 = \beta_2 = \beta_3 = 0$ ESG reporting dimensions have no significant effect on perceived financial performance.

H1: At least one β coefficient is not equal to zero.

At least one ESG reporting dimension significantly affects perceived financial performance.

For directional testing:

H1a: $\beta_1 > 0$

Environmental disclosure positively impacts perceived financial performance.

H1b: $\beta_2 > 0$

Social disclosure positively impacts perceived financial performance.

H1c: $\beta_3 > 0$

Governance disclosure positively impacts perceived financial performance.

Conceptual Basis

ESG reporting may influence financial performance through several mechanisms. Environmental disclosure may indicate efficient resource use, lower regulatory exposure and better sustainability preparedness. Social disclosure may reflect stronger stakeholder relationships, employee welfare, community responsibility and customer trust. Governance disclosure may signal transparency, accountability, board effectiveness, ethical conduct and better risk management (Mulchandani et al., 2022).

From an investor perspective, ESG reporting may create the perception that a firm is more stable, responsible and financially sustainable. Strong ESG disclosure may therefore be associated with better perceived profitability, improved market valuation, lower risk, long-term stability and stronger financial performance.

RESEARCH MODEL

For Objective 2, the proposed regression model is (Sharma et al., 2020);

Environmental Disclosure	→	
Social Disclosure	→	Perceived Financial Performance
Governance Disclosure	→	

Model 1: Simple Regression Model

ESG Reporting Quality → Perceived Financial Performance

Model 2: Multiple Regression Model

Environmental Disclosure

Social Disclosure

Governance Disclosure

Perceived Financial Performance

DESCRIPTIVE ANALYSIS

Demographic Profile of Respondents

Environmental Disclosure	→	
Social Disclosure	→	Perceived Financial Performance
Governance Disclosure	→	

Descriptive Analysis of Key Study Variables

Construct	N	Mean	Median	Mode	Std. Deviation	Variance	Minimum	Maximum	Range	Skewness	Kurtosis	CV	Interpretation
Environmental Disclosure	63	4.006	4.00	4.00	0.749	0.560	2.000	5.000	3.000	-0.601	0.077	0.187	High
Social Disclosure	63	3.961	4.00	4.33	0.703	0.494	2.000	5.000	3.000	-0.500	-0.013	0.177	High
Governance Disclosure	63	4.262	4.33	4.67	0.623	0.388	2.000	5.000	3.000	-0.942	1.069	0.146	High

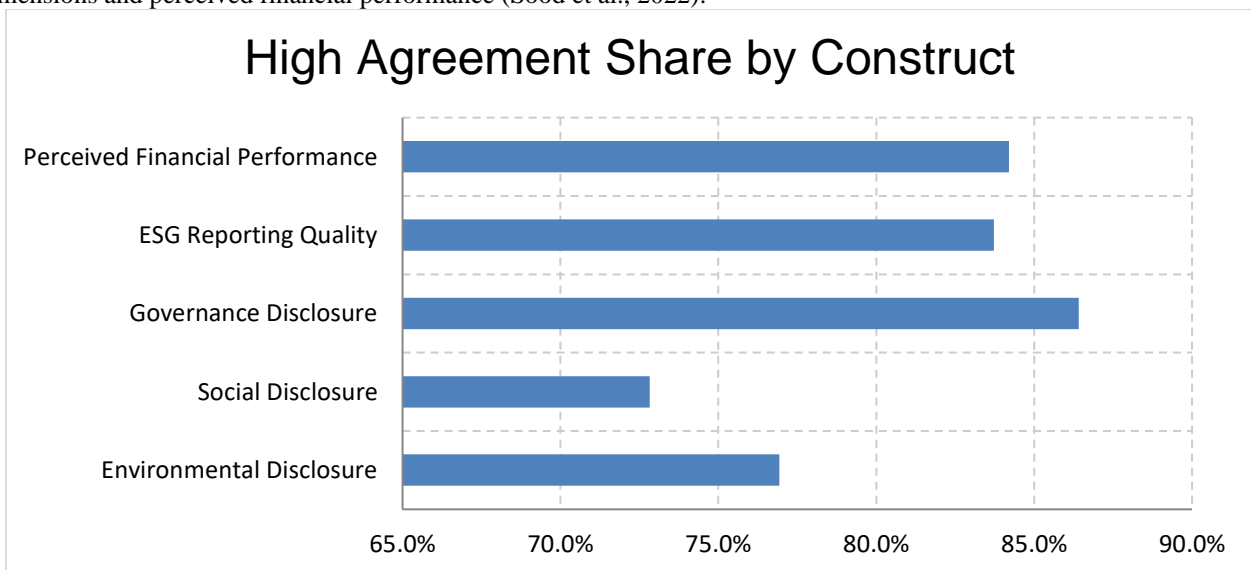
ESG Reporting Quality	633	4.076	4.111	4.333	0.602	0.363	2.000	5.000	3.000	-0.940	1.133	0.148	High
Perceived Financial Performance	633	4.101	4.200	4.600	0.585	0.342	2.600	5.000	2.400	-0.657	-0.392	0.143	High

Descriptive analysis was conducted to understand the general perception of Indian retail investors regarding ESG reporting and perceived financial performance. The mean value of overall ESG reporting quality was found to be 4.076, indicating a high level of agreement among respondents regarding the relevance of ESG disclosures. The mean score of perceived financial performance was 4.101, suggesting that respondents generally believe ESG-reporting firms are associated with better financial outcomes. Among ESG dimensions, governance disclosure recorded the strongest perception, followed by social and environmental disclosure. This indicates that retail investors attach considerable importance to transparency, accountability, ethical conduct, and governance quality while assessing the financial relevance of ESG reporting (Sinha Ray & Goel, 2023)

Correlation Analysis

Construct	Environmental Disclosure	Social Disclosure	Governance Disclosure	ESG Reporting Quality	Perceived Financial Performance
Environmental Disclosure	1.000	0.655	0.626	0.885	0.412
Social Disclosure	0.655	1.000	0.630	0.877	0.451
Governance Disclosure	0.626	0.630	1.000	0.849	0.555
ESG Reporting Quality	0.885	0.877	0.849	1.000	0.537
Perceived Financial Performance	0.412	0.451	0.555	0.537	1.000

Correlation analysis was performed to examine the preliminary association among ESG reporting dimensions and perceived financial performance. The results indicate a positive association between environmental, social and governance disclosure dimensions and perceived financial performance (Sood et al., 2022).



This suggests that respondents who perceive ESG reporting more favourably also tend to perceive stronger financial performance among ESG-reporting firms (Suresha et al., 2022)

REGRESSION EQUATIONS

Simple Regression Equation

To assess the overall impact of ESG reporting on financial performance:

$$FP_i = \beta_0 + \beta_1 ESGR_i + \epsilon_i$$

Where:

Symbol	Meaning
FP_i	Perceived financial performance score of respondent i
$ESGR_i$	ESG reporting quality score of respondent i
β_0	Intercept
β_1	Regression coefficient of ESG reporting
ϵ_i	Error term

Multiple Regression Equation To assess the separate effect of environmental, social and governance disclosure (Field, 2018):
 $FP_i = \beta_0 + \beta_1 ENV_i + \beta_2 SOC_i + \beta_3 GOV_i + \epsilon_i$

Simple Regression Result

Model	R Square	Adjusted R Square	F Value	Significance
ESG Reporting Quality → Financial Performance	0.288	0.287	255.78	p < 0.001

The R Square value of 0.288 indicates that ESG reporting quality explains approximately 28.8% variation in perceived financial performance. The model is statistically significant at p < 0.001. This suggests that ESG reporting has a positive and significant impact on perceived financial performance (Hair et al., 2022).

Coefficients of Simple Regression

Variable	Coefficient	t-value	Significance
Constant	1.976	14.719	p < 0.001
ESG Reporting Quality	0.521	15.993	p < 0.001

The coefficient of ESG reporting quality is positive and significant. This means that higher ESG reporting quality is associated with stronger perceived financial performance among Indian retail investors.

Multiple Regression Result

Model	R Square	Adjusted R Square	R	F Value	Significance
Environmental, Social and Governance Disclosure → Financial Performance	0.326	0.322		101.20	p < 0.001

Interpretation

The R Square value of 0.326 indicates that environmental, social and governance disclosure together explain approximately 32.6% variation in perceived financial performance. The model is statistically significant.

Coefficients of Multiple Regression

Variable	Coefficient	t-value	Significance	Interpretation
Constant	1.739	12.689	p < 0.001	Base value of perceived financial performance
Environmental Disclosure	0.033	0.901	p = 0.368	Positive but not statistically significant
Social Disclosure	0.125	3.217	p = 0.001	Positive and significant
Governance Disclosure	0.407	9.576	p < 0.001	Strongest positive predictor

The multiple regression results show that governance disclosure has the strongest impact on perceived financial performance. Social disclosure also has a positive and significant effect. Environmental disclosure shows a positive but statistically insignificant effect when social and governance disclosures are included in the model (Gujarati & Porter, 2009). This suggests that Indian retail investors may associate financial performance more strongly with governance-related ESG information, such as transparency, board practices, ethical conduct and investor confidence. Social disclosure also matters, but environmental disclosure may not independently influence perceived financial performance as strongly in this dataset.

DISCUSSION

The findings indicate that ESG reporting has a positive and significant impact on perceived financial performance. This supports the argument that retail investors view ESG reporting as more than a compliance activity. They associate strong ESG reporting with better profitability, improved valuation, lower risk, long-term stability and stronger overall financial performance.

The simple regression model confirms that overall ESG reporting quality is a significant predictor of perceived financial performance. This implies that when retail investors perceive ESG reporting to be stronger, they are more likely to believe that such firms perform better financially.

The multiple regression model provides deeper insight. Governance disclosure emerges as the strongest predictor of perceived financial performance. This is an important finding because governance is directly linked with transparency, ethical management, board accountability and investor protection. Retail investors may trust firms more when governance practices are clearly reported.

Social disclosure also has a significant positive effect. This suggests that investors associate social responsibility, CSR, ethical labour practices and stakeholder responsibility with better corporate reputation and financial stability.

Environmental disclosure, although positive, is not statistically significant in the multiple regression model. This does not mean environmental reporting is unimportant. Rather, it may suggest that Indian retail investors may not yet strongly connect environmental disclosure with financial performance, or that governance and social factors dominate their perception.

CONCLUSION

This paper examined the impact of ESG reporting on perceived financial performance. Based on 633 retail investor responses, the findings show that ESG reporting quality has a positive and statistically significant effect on perceived financial performance.

The simple regression model shows that ESG reporting explains 28.8% variation in perceived financial performance. The multiple regression model improves explanatory power to 32.6%, indicating that environmental, social and governance disclosures together provide a stronger explanation of perceived financial performance.

Among the ESG dimensions, governance disclosure has the strongest influence, followed by social disclosure. Environmental disclosure shows a positive but statistically insignificant effect in the combined model. These findings suggest that Indian retail investors attach greater financial relevance to governance transparency and social responsibility while evaluating firm performance.

The study concludes that ESG reporting can influence how retail investors perceive the financial strength of Indian firms. However, the effect is stronger when ESG reporting is credible, governance-oriented and linked with long-term financial stability. This supports the inclusion of financial performance as a key construct in the broader conceptual framework of ESG reporting and retail equity investment decisions.

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