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Topic: An Assessment of Sustainability Measures on Financial Performance: A Study of Nifty 100 ESG Indexed Companies

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Findings:

Sustainability Measures (ESGP) has a negative effect on accounting-based financial performance. ESGP has an insignificant negative effect on ROA but a significant negative effect on ROE. Among the individual ESG dimensions, environmental performance (ENVP) has an insignificant negative effect on ROA, ROE, and Tobin's Q, whereas social performance (SOCP) has a significant negative effect on both ROA and ROE but an insignificant effect on Tobin's Q. In contrast, governance performance (GOVP) shows a positive and significant effect on Tobin's Q, although its effects on ROA and ROE are insignificant. Overall, these findings suggest that ESG-related investments may impose costs on firms' profitability, while stronger governance practices may enhance market valuation.

Building on the overall findings, the manufacturing and non-manufacturing firms show some notable differences. In manufacturing firms, ESGP has a significant negative effect on ROE and an insignificant negative effect on ROA, while its effect on Tobin's Q is positive but insignificant. ENVP also has a significant negative effect on ROE, whereas SOCP and GOVP do not significantly affect the financial performance measures. In non-manufacturing firms, ESGP has insignificant negative effects on ROA and ROE and a positive but insignificant effect on Tobin's Q. ENVP has a significant positive effect on ROE, while SOCP has a significant negative effect on Tobin's Q. GOVP, however, remains positive but insignificant across the three performance measures. Thus, the results indicate that the ESG–financial performance relationship differs across industries, with stronger negative effects generally observed in manufacturing firms.

These industry-level differences are further reflected when the firms are classified according to size. Small-sized firms show the strongest negative relationship between ESG performance and financial performance, with ESGP significantly reducing both ROA and ROE, while SOCP also has significant negative effects on ROA, ROE, and Tobin's Q. At the same time, GOVP has a significant positive effect on Tobin's Q, suggesting that investors may respond positively to stronger governance in smaller firms. For medium-sized firms, ESGP, ENVP, SOCP, and GOVP generally show insignificant relationships with financial and market performance. Large-sized firms similarly show mostly insignificant ESG effects, although SOCP has a significant negative effect on ROE. Overall, the findings suggest that ESG activities have a greater adverse effect on the profitability of small firms, whereas the relationship becomes weaker and largely insignificant as firm size increases.

Finally, comparing the pre-COVID and post-COVID periods reveals a clear shift in the ESG–financial performance relationship. During the pre-COVID period, ESGP had a significant negative effect on ROA, ROE, and Tobin's Q, indicating that higher sustainability performance was associated with lower accounting-based and market-based performance. ENVP also showed significant negative effects across all three measures, while SOCP negatively and significantly affected Tobin's Q, and GOVP significantly reduced ROE. In contrast, during the post-COVID period, ESGP had positive but statistically insignificant effects on ROA, ROE, and Tobin's Q. ENVP also became largely insignificant, while SOCP showed insignificant effects across all measures. Interestingly, GOVP remained insignificant for ROA and Tobin's Q but changed from a significant negative effect on ROE in the pre-COVID period to a significant positive effect in the post-COVID period. Overall, these results suggest that the negative ESG–financial performance relationship observed before COVID-19 weakened considerably after the pandemic.