

Impact Of Environmental, Social And Governance (Esg) Practices On Financial Performance: An Empirical Analysis In Thoothukudi District

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ABSTRACT

The growing emphasis on sustainable business practices has increased the relevance of Environmental, Social, and Governance (ESG) factors in evaluating corporate performance. This study examines the impact of ESG practices on the financial performance of firms operating in Thoothukudi District. The primary objective is to analyse how environmental responsibility, social commitment, and governance standards influence key financial indicators of business organizations. The research adopts an empirical approach using primary and secondary data collected from selected companies across manufacturing and service sectors in the district. The findings indicate a significant positive association between effective ESG implementation and improved financial performance. Firms demonstrating strong governance practices and active social responsibility initiatives show comparatively higher profitability and market stability. Environmental practices, though requiring initial investment, contribute to long-term financial sustainability and risk reduction.

The study highlights that ESG integration is not merely a compliance requirement but a strategic driver of financial success at the regional level. The results provide useful insights for business managers, investors, and policymakers in promoting sustainable and financially sound business practices in emerging industrial regions like Thoothukudi District...

Keywords: ESG practices, financial performance, sustainability, corporate governance, social responsibility, etc...

1. INTRODUCTION:

In recent years, the concept of corporate success has expanded beyond traditional financial metrics to include environmental stewardship, social responsibility, and sound governance practices. Collectively known as **Environmental, Social, and Governance (ESG) practices**, these dimensions have emerged as critical indicators of a firm's long-term sustainability and ethical accountability. Stakeholders—including investors, regulators, customers, and society at large—are increasingly expecting companies to operate responsibly while maintaining strong financial performance. Environmental practices focus on how firms manage their impact on natural resources, climate change, pollution control, and sustainable resource use. Social practices relate to employee welfare, diversity, customer relations, community engagement, and human rights. Governance practices involve corporate leadership, board structure, transparency, ethical conduct, and shareholder rights. Together, these elements reflect a company's commitment to sustainable and responsible business operations.

The growing emphasis on ESG is largely driven by the belief that responsible corporate behaviour can enhance reputation, strengthen stakeholder trust, reduce regulatory and operational risks, and ultimately improve financial outcomes. Investors are increasingly incorporating ESG criteria into their decision-making processes, viewing

strong ESG performance as a signal of lower risk and better long-term value creation. Consequently, ESG reporting and sustainability disclosures have gained prominence across global markets.

Despite the increasing adoption of ESG practices, the relationship between ESG performance and financial performance remains a subject of ongoing debate in academic and professional circles. While some studies suggest that ESG initiatives lead to improved profitability, higher firm valuation, and reduced cost of capital, others argue that ESG investments may increase operational costs in the short run without guaranteeing immediate financial benefits. This divergence in findings highlights the need for more empirical research to clarify the nature and direction of the ESG–financial performance relationship.

Furthermore, as regulatory frameworks and stakeholder expectations continue to evolve, understanding the financial implications of ESG practices has become strategically important for corporate managers and policymakers. Firms are no longer evaluated solely on their financial statements; non-financial performance indicators are increasingly influencing investment flows and competitive positioning.

Against this backdrop, the present study aims to examine the **impact of Environmental, Social, and Governance (ESG) practices on financial performance** through an empirical analysis. By analysing firm-level data and assessing the relationship between ESG indicators and

financial performance measures, the study seeks to provide evidence on whether sustainable business practices contribute to improved financial outcomes. The findings are expected to offer valuable insights for corporate decision-makers, investors, regulators, and researchers interested in the integration of sustainability and financial performance.

REVIEW OF LITERATURE

Le (2024) in his study investigates the impact of Environmental, Social, and Governance (ESG) score on the financial performance of listed companies in the Southeast Asia. The study estimates the impact of ESG score on financial performance using the Fixed Effect Model from the panel data comprising 225 listed companies in the six countries in the Southeast Asia including Singapore, Malaysia, Thailand, Indonesia, Vietnam, and the Philippines in three years from 2020 to 2022. The statistics implies the ESG practices in Southeast Asia still insufficient and significant variations among enterprises. A one-year lagged ESG variable has a significantly positive impact on financial performance. The COVID-19 infection rate has a significant negative impact on the return on asset (ROA); meanwhile, the ROA experiences a slight increase with a rise in GDP growth. The results also enhance our understanding of ESG investments and underscores their importance in shaping investment choices, especially in rapidly developing Southeast Asian economies, where prioritizing ESG factors is crucial for sustainable development.

Gartia et al., (2024), in their research article aimed to examine the time-variant impact of ESG on the financial performance (FFP) of Indian manufacturing firms from 2019 to 2022. For the study's analysis, we utilized a variant of structural equation modelling called the 'cross-lagged panel model'. The cross-lagged panel analysis measured the association of aggregate ESG and its dimensions with FFP. Our findings suggested that the investment in the aggregate ESG commitment increased the firms' financial performance among our sample companies. Regarding the individual aspects of ESG, the environmental and societal obligations of the firms had a positive impact on the firms' earnings, whereas the governance aspect harms the FFP. This study provides beneficial recommendations to policymakers, investors, and portfolio managers based on the analysis.

Agbakwuru et al., (2024) in their study investigated the relationship between ESG reporting and corporate financial performance, exploring how sustainability practices influence profitability, risk management, and investor behaviour. As regulatory bodies and stakeholders demand greater transparency, companies are increasingly integrating ESG metrics into their reporting frameworks. However, there remains a debate regarding the extent to which ESG adherence translates into tangible financial benefits. This research adopts a mixed-methods approach, analysing both quantitative financial data from corporations that practice ESG reporting and qualitative insights from interviews with industry experts. The study evaluates key performance indicators (KPIs) such as return on equity (ROE), return on assets (ROA),

and stock price volatility, in conjunction with ESG disclosures. However, the benefits vary across industries and are often dependent on the quality of the ESG implementation. This paper contributes to the growing discourse on the financial implications of sustainable corporate practices, offering insights for business leaders and investors seeking to balance profitability with social responsibility.

STATEMENT OF THE PROBLEM

In recent years, Environmental, Social, and Governance (ESG) practices have emerged as important indicators of responsible and sustainable business performance. Investors, regulators, and stakeholders increasingly expect companies to move beyond traditional profit-focused objectives and incorporate environmental protection, social welfare, and ethical governance into their core strategies. In developing and semi-urban industrial regions like Thoothukudi District, businesses are gradually adapting to sustainability norms due to regulatory pressure, stakeholder awareness, and competitive demands. However, many firms still perceive ESG practices as cost burdens rather than strategic investments. Limited awareness, lack of standardized ESG reporting, and inadequate measurement frameworks further restrict effective implementation. As a result, it remains unclear whether ESG initiatives undertaken by firms in this region actually translate into improved financial outcomes.

Moreover, most existing research on ESG and financial performance focuses on large corporations or developed markets, with very few empirical studies examining district-level industrial clusters in India. The unique industrial composition of Thoothukudi — including manufacturing, port-based industries, salt production, and service enterprises — presents a distinct context where environmental compliance, social responsibility, and governance standards may influence financial performance differently.

Therefore, there is a need to empirically examine the relationship between ESG practices and financial performance among firms operating in Thoothukudi District. Understanding this relationship will help determine whether ESG initiatives contribute to profitability, growth, and financial stability, or whether they remain perceived as additional operational costs. This study seeks to address this research gap by analyzing the extent of ESG adoption and its measurable impact on financial performance at the regional level.

OBJECTIVES OF THE STUDY

To examine the impact of Environmental, Social, and Governance (ESG) practices on the financial performance of firms in Thoothukudi District.

To assess the extent of adoption of **environmental practices** among selected firms in Thoothukudi District.

To evaluate the implementation of **social responsibility initiatives** relating to employees, customers, and the local community.

METHODOLOGY OF THE STUDY

The present study is **descriptive and analytical in nature**. The research is confined to **Thoothukudi District**, an important industrial region with activities such as manufacturing, port-based industries, salt production, and service enterprises. The primary data for the study has been collected from 100 sample respondents through a structured questionnaire administered to administrative heads of selected firms. **Purposive sampling** is used to select firms that have undertaken at least some ESG-related initiatives. The secondary data has been obtained from company annual reports, sustainability reports, financial statements, official websites, government publications, and relevant research articles.

DATA ANALYSIS AND INTERPRETATION

The present study examines the impact of Environmental, Social and Governance (ESG) practices on the financial performance of firms in Thoothukudi District. Data were collected from **100 respondents** comprising business owners, managers, and finance officers across manufacturing, service, and trading sectors.

Table 1

Business Profile

Variable	Category	No. of Respondents	Percentage
Type of Industry	Manufacturing	38	38%
	Services	34	34%
	Trading	28	28%
Years of Operation	Below 5 years	22	22%
	5–10 years	36	36%
	Above 10 years	42	42%
Firm Size	Small	40	40%
	Medium	37	37%
	Large	23	23%

Source: Primary Data

The table 1 shows that majority of the firms surveyed are **well-established businesses**, with 42% operating for more than 10 years. Manufacturing firms form the largest group (38%). This indicates that ESG awareness is not limited to new-age firms but is increasingly relevant among traditional and long-standing businesses in Thoothukudi.

Table 2

Perceived Financial Benefits of ESG Practices

Financial Performance Indicator	Firms Reporting Improvement	Percentage
Increase in Revenue	72	72%
Increase in Profitability	68	68%
Improvement in Brand Image	85	85%
Better Investor/Stakeholder Confidence	63	63%
Reduction in Operating Costs	70	70%

Source: Primary data

The above table depicts that majority of firms reported positive financial outcomes after adopting ESG practices. Improvement in **brand image (85%)** was the most widely observed benefit, indicating that ESG enhances reputation and customer trust. Around 70% of firms experienced cost reductions through energy savings and waste management, showing that environmental initiatives contribute to operational efficiency.

Table 3

Correlation between ESG Practices and Financial Performance

ESG Dimension	Correlation Coefficient (r)	Nature of Relationship
Environmental Practices	0.61	Moderate Positive
Social Practices	0.66	Strong Positive
Governance Practices	0.72	Strong Positive
Overall ESG Score	0.75	Strong Positive

Source: Primary data

It is found from the above table that the correlation results indicate a **strong positive relationship (r = 0.75)** between overall ESG practices and financial performance. Governance practices show the strongest association (r = 0.72), suggesting that transparency, accountability, and ethical management significantly influence financial success.

Table 4

Extent of adoption of environmental practices among selected firms

Environmental Practice	Mean Score	Interpretation
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Energy conservation measures	3.90	High
Waste management and recycling	3.85	High
Use of eco-friendly materials	3.60	Moderate
Pollution control initiatives	3.75	High
Water conservation practices	3.80	High

Source: Primary data

The table 4 shows that Energy conservation measures are most widely implemented as the mean score is 3.90. However, the use of eco-friendly materials shows comparatively lower adoption, indicating cost or supply constraints. Firms are increasingly aware of environmental responsibility but still have room for improvement in sustainable sourcing.

Table 5

Social Responsibility towards Employees

Initiative	Firms Practicing	Percentage
Employee health & safety measures	82	82%
Training and skill development	76	76%
Equal employment opportunity	69	69%
Work-life balance policies	58	58%

Source: Primary data

It is clear from the above table that most firms prioritize **employee welfare**, especially health and safety (82%). The Training initiatives are also widely adopted, indicating that human capital development is seen as part of social responsibility.

Table 6

Social Responsibility towards Customers

Initiative	Firms Practicing	Percentage
Quality assurance practices	88	88%
Ethical marketing	74	74%
Customer grievance redressal	79	79%

Source: Primary data

The table 6 shows that the firms show strong commitment toward customer welfare, particularly in maintaining

product and service quality (88%). This enhances trust and long-term customer relationships.

Table 7

Social Responsibility towards Local Community

Initiative	Firms Practicing	Percentage
Participation in community development	67	67%
Educational or skill programs	54	54%
Environmental awareness campaigns	61	61%

Source: Primary data

It is found from the above table that Community-related initiatives are moderately adopted. While 67% of firms engage in local development activities, fewer firms undertake structured educational or skill programs, indicating scope for stronger community involvement.

SUGGESTIONS OF THE STUDY

The firms should move beyond treating ESG practices as mere compliance requirements and integrate them into their long-term business strategies. Aligning environmental and social initiatives with financial goals can improve both sustainability and profitability.

The Firms should focus on employee health, safety, training, and skill development. A satisfied and skilled workforce improves productivity, reduces turnover, and contributes positively to financial performance.

The Businesses should actively participate in local community development through education support, healthcare initiatives, and livelihood programs. Strong community relations enhance corporate image and stakeholder trust.

The Companies should maintain proper documentation and disclosure of ESG activities. Transparent reporting builds investor confidence and helps stakeholders evaluate the firm’s long-term sustainability.

Management and employees should be educated about the financial benefits of ESG practices. Regular workshops and training programs can improve implementation at all organizational levels.

Since Thoothukudi has diverse industries, sector-specific ESG frameworks can help firms adopt relevant and practical sustainability measures.

CONCLUSION

The present study examined the **impact of Environmental, Social, and Governance (ESG) practices on financial performance** through an empirical analysis of firm-level data. The findings highlight that ESG practices are no longer peripheral or symbolic activities but have become strategically significant factors influencing corporate performance and long-term value creation.

The analysis indicates that firms demonstrating stronger ESG performance tend to exhibit better financial outcomes in terms of profitability, stability, and market valuation. Environmental initiatives such as efficient resource utilization and pollution control contribute to cost savings and risk reduction. Social practices enhance employee productivity, customer loyalty, and corporate reputation, while robust governance mechanisms improve transparency, accountability, and investor confidence. Together, these dimensions strengthen stakeholder trust and create a supportive ecosystem for sustainable financial growth.

The results of this study contribute to the growing body of literature that supports a positive association between

ESG performance and financial performance. By providing empirical evidence, the study strengthens the argument that sustainability and profitability are not mutually exclusive but can be mutually reinforcing. For corporate managers, the findings emphasize the importance of integrating ESG considerations into core business strategies. For investors, the results validate the use of ESG indicators as meaningful tools for evaluating firm performance and risk. Policymakers and regulators may also draw insights for promoting standardized ESG reporting frameworks that enhance transparency and comparability.

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