Nexus Between Sustainability Reporting and Financial Performance: Evidence from the Indian Banking Sector

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Abstract: Businesses all over the world have moved quickly to incorporate the idea of sustainability reporting into their operations in response to the demand from stakeholders for increased openness on environmental, social, and governance (ESG) issues.This study aims to evaluate the link between environmental, social, and governance factors (ESG) and the operational performance (Return on Assets) & financial performance (Return on Equity) of banks. This research looks at the BSE 500 banks over the course of five years (2017-2022). Disclosure of environmental, social, and governance (ESG) factors is the independent variable, whereas performance indicators are the dependent variables (return on assets & return on equity). The conclusions that are obtained from the descriptive and correlation analysis illustrate that environmental, social, and governance factors have a major beneficial influence on performance. However, when taken into account one at a time, ESG disclosures have different relationships with one another. The results of this research might be incorporated into a workable model that financial institutions all around the globe could use to concentrate on the role that environmental, social, and governance (ESG) transparency plays in performance.

Keywords: *Banks, Indian Banks, Sustainability reporting, ESG disclosure*

1. Introduction

Over the course of history, the focus of decision-makers and various other stakeholders has shifted, but for the time being, it has been fixed on a global agenda. It is imperative that they be made aware that their focus and attention have been irrevocably shifted away from it. One of the specific items on the agenda for the stakeholders is called “sustainability.” Establishing and maintaining reliable connections with various stakeholders is critical for businesses looking to gain a competitive advantage (Rahi et al., 2022). It can be rightly believed that “ESG” is the appropriate response to the questions related to achieving “sustainability”.

In addition to its three-dimensional (E, S, and G) criteria, the ESG agenda also encompasses a wide range of other considerations. ESG, as opposed to CSR, places more emphasis on an organization’s ability to develop and maintain long-term value in a world that is undergoing fast change, as well as the possibilities and dangers that come along with all of these changes.

The intricate ESG agenda is at the centre of today’s mainstream investment criteria, the attention of the business world, and the interest of a wide variety of industries, authorities, and all stakeholders.

In order to provide a definition of ESG, in addition to a significant amount of labour, some concentrated thought is going to be required.

It’s possible to think of ESG as a catch-all concept that incorporates all the many facets of environmental, social, and governance concerns. This is one interpretation of the phrase.

If an online search is done, there won’t be a definition that is accepted by the majority of people. Investing with an emphasis on environmental, social, and governance factors is known by a variety of titles, each of which may mean something different to different individuals.For example, “socially responsible investing,” “sustainable investing,” and “responsible investment” are some examples of phrases that are frequently used in this context

(Agency for Investments and Competitiveness, 2014). These three are sometimes distinguished from one another, but the distinctions are inconsistent.

The Environmental parameters consider the environmental impact and psychological sustainability of a company's operations. According to Social considerations, a corporation must manage its relationships with its stakeholders and generate value for them. The phrase "Governance Criteria" applies to a company's administration and leadership ideas, methods, and internal controls, along with shareholders' rights. (Egorova et al., 2021) The ESG concept has an impact on both investing operations and financial markets. In the contemporary economy, making socially or ecologically responsible investments has become more common. The contemporary economy has a tendency, and one of those trends is an increase in investor interest. Investor interest in ESG-compliant companies has grown because of these companies' greater sustainability, resources for long-term growth, and operational optimization efforts. Furthermore, several studies back up the assertion that companies with high ESG ratings do better financially.

(Khemir et al., 2019) Companies are increasingly disclosing environmental, social, and governance (ESG) data in emerging markets in addition to financial reporting.

Investing with an emphasis on environmental, social, and governance factors is known by a variety of titles, each of which may mean something different to different individuals. (CFI Team, 2022).

The "financial performance" of a firm is indicative of, or is intended to represent, what has transpired in the company's primary business throughout the course of a specific time period. They are an in-depth study of the position that a firm holds in a variety of areas, including assets, liabilities, equity, costs, revenue, and overall profitability. In other words, financial statements are a snapshot of a company's financial health. It is evaluated using a wide number of distinct equations that belong to business, and these formulae make it possible for users to generate precise information about the potential effectiveness of a company. Users on the internal network of the firm evaluate the company's overall health as well as its standing in the industry by looking at a variety of benchmarks, including the company's financial performance. The purpose of doing an analysis of a business's financial performance is to provide information that is beneficial to external users. These users are interested in learning about potential investment opportunities and determining whether or not the company is of any service to them. An examination of the company's financial statements is required to be completed before any calculations can be made on certain financial indicators that characterise the company's overall performance. (CFI Team, 2022).

The following sections comprise this research: Following the introduction in Section 1, this research is broken into four more sections. The second section contains the literature review. The research design and methodology are described in Section 3, where BSE 500 banks served as the sample and descriptive statistics and correlations were applied to the data. The fourth section includes descriptive statistics and a correlation analysis. Section 5 contains the conclusion, suggestions, and future directions for research.

2. Literature review and research objectives

The results of earlier studies on the connection between ESG and Corporate Financial Performance (CFP) are found to be conflicting. The subject has sparked fiery discussions among scholars and researchers, although the literature to date is ambiguous. Positive, negative, and neutral relationships between two constructs are typical perspectives.

ESG is typically the refined and defined future of CSR, maybe a more developed and specified one.

(Carroll, 2016)The history and present of CSR are both strong. Whether you refer to it as the "four-part Pyramid of CSR," "corporate citizenship," "stakeholder management," "business ethics," "creating shared value," "conscious capitalism," or any other socially conscious moniker, the future of CSR is bright and sustainable.

The definition of "ESG investment" is elusive. It's an umbrella phrase, broadly speaking, that refers to an investment approach that places an emphasis on a company's governance structure or the environmental or social implications of the firm's goods or operations. (Max Schanzenbach et al., 2020) Given that ESG is a huge term, also referred to as an umbrella phrase, examples that come under E, S and G factors are numerous. Different researchers consider different factors as a part of E, S and G which brings in a need to develop our own index every time or a common measure that can benefit everyone universally.

To coordinate, develop, and participate in the integration of ESG data into conventional investing processes, (Jemel-Fornetty et al., 2011) looked at the role of new initiatives. According to the study's findings, various players have created many initiatives to encourage the incorporation of ESG concerns. The efforts promote and strengthen three institutional arrangements, symbolic, and proscriptive offer means for the dominant social belief to potentially change and adapt to integrate ESG information.

(Jayathilake, 2019) conducted a thorough examination of the literature to analyse the many aspects of green finance, the bank's involvement in it, and how it affects corporate governance in the banking industry. This examination covers several aspects of green finance, a general overview of the bank's involvement, and how it affects corporate governance in the banking industry. The study demonstrates that using green finance has a substantial impact on banking governance in addition to strengthening the sustainable economy.

The continuous agenda of the ESG intensified after the SDGs came into play. (Muhmad & Muhamad, 2021) investigated which sustainability practices have an influence on the financial performance of businesses in the pre-and post-SDG adoption eras, the most prevalent sustainability component present in this study, and the adoption of sustainability measures throughout this time frame. And in a thorough assessment of the literature, most of the research (96%) found a link between sustainability practices and financial success, notably in the years after the adoption of the SDGs.

The following table lists some of the pertinent research:

No.	Purpose	Process	Outcome	Reference
1	In Financial Investment sector, investigated how such new initiatives help to change traditional investment methods and incorporate ESG data into invested firms' long-term shareholder value.	Both exploratory research and descriptive statistics were employed in this study. Developed an analytical framework using institutional theory and the convention method, and then investigated a selection of different projects using this framework.	This analysis found various ESG integration activities by players. The projects promote coercive, mimetic, and normative institutional strategies that might transform the current communal belief to include ESG information. These measures may change stock value and investing beliefs, but it's unclear.	(Jemel-Fornetty et al., 2011)
2	Analyze the most important sustainability dimension featured in this study, learn about the sustainability initiatives implemented after the SDGs were approved, To ascertain how sustainable business practises affect a company's financial performance both before and after the SDGs are adopted	A systematic review focuses on the procedures for locating, choosing, organising, and evaluating data from the reviewed research from ISI and Scopus databases that offered statistics primarily from rich nations, although some were also from underdeveloped nations.	96% of the research we analysed found a link between sustainability practises and financial performance, especially in the years after the adoption of the SDGs.	(Muhmad & Muhamad, 2021)
3	This study's goal is to determine whether the financial industry (four significant Nigerian banks. The study used the CBN's Financial Sector Sustainability Principles to examine if sustainability and Nigeria's financial sector performance were related in any way and to suggest relevant policy approaches.	Secondary panel data was collected from bank financial statements and subjected to panel unit root tests, descriptive statistics, panel least square, and co-integration statistical techniques at the 5% level of significance. ROE, CSR to PBT ratio, and ROA were formerly utilised (ROA).	The results showed that, in the short run, but not in the long run, exogenous factors (SUST) had a considerable impact on endogenous variables (ROA, ROE).	(Osadume & Okene, 2021)

4	To investigate how sustainability reporting affects construction businesses' financial performance. (Australia)	This paper first examines institutional investors' perceptions of publicly traded construction companies' non-financial reporting on climate change, environmental management, environmental efficiency, health and safety, human capital, conduct, stakeholder engagement, and governance using a cross-sectional research design. An empirical research on how posting non-financial reporting and ESG ratings affect a company's financial performance follows. This study examined the two factors' connection. Many financial ratios are used to assess a company's finances.	According to the findings of the study, the majority of the publicly listed construction businesses that were investigated have inadequate reporting standards. Even though there is little correlation between financial performance and ESG scores, construction companies that publish non-financial reports outperform those that do not in a number of chosen financial ratios. This is the case despite the fact that there is no direct causal relationship between the two.	(Siew et al., 2013)
5	To investigate the connection between the top 500 Indian companies' corporate sustainability performance (CSP) and corporate firm performance (CFP).	CSP aspects have been considered in aggregate and disaggregate environmental, social, and governance performance. CFP evaluations have employed accounting- and market-based parameters. The Granger causality test and multiple regression for panel data have assessed the CSP-CFP connection's bidirectional causation and strength. Sectoral trend analysis is provided for ESI and non-ESI firms in several industries.	There is not an association between CSP and CFP, according to the findings of the study. Variables in either direction and that, for Indian enterprises overall, the CSP-CFP linkage is mostly unimportant. CSP and CFP are found to have some unfavourable associations at the individual level. In both situations, this connection has a negative influence on the CSP-CFP coupling, which prevents Indian enterprises from reaping the rewards of investments made for sustainability in terms of financial success.	(Jha & Rangarajan, 2020)
6	This study's goal is to investigate how sustainability (also known as environmental, social, and governance, or ESG) policies affect the Nordic banking sector's financial performance (FP).	Data was collected from 39 Nordic financial institutions covering 152 company years (2015-2019) and 4 countries (Sweden, Denmark, Finland, and Norway). Thomson Reuters Eikon data was used to compile July 2020 ESG and FP indicators. This quantitative study employs the generalised method of moments as well as regression.	Static and dynamic estimators showed that sustainable practises affect FP positively and negatively. The authors found poor association between FP and ESG practises (return on invested capital, return on equity and earnings per share). Good governance and high ROI were linked by the writers.	(Rahi et al., 2022)
7	To investigate how, in the Indian context, corporate social	For a period of 10 years, secondary data for 28 Indian commercial banks listed on the Bombay Stock Exchange	CSR improves Indian institutions' financial success. The study's	(Maqbool & Zameer, 2018)

	responsibility and financial success relate.	(BSE) have been gathered, and a panel regression model has been used.	conclusions help managers change their corporate perspective from profit-oriented to socially responsible and integrate CSR with strategic goals.	
8	look for a connection between business financial performance and environmental, social, and governance (ESG) standards (CFP)	takes all available primary and secondary data from earlier academic review studies and extracts it. By doing vote count and meta analysis, the study synthesises the results of nearly 2200 distinct investigations.	The findings demonstrate how objectively sound the business case for ESG investment is. Nearly 90% of research discover a positive relationship between ESG and CFP. More significantly, the vast majority of research present optimistic results. We emphasise that the beneficial ESG effect on CFP appears consistent throughout time. When separating for portfolio and nonportfolio studies, geographic areas, and emerging asset classes for ESG investment such emerging markets, corporate bonds, and green real estate, promising findings are discovered.	(Friede et al., 2015)
9	to look at how ESG variables affect the success of information technology (IT) businesses.	By developing a valuation model analyses how IT businesses rank in terms of ESG factors compared to other industries, highlighting the main advantages and disadvantages of each ESG component.	IT companies are not the leaders in ESG ratings. They can promote such practices and turn into better performance	(Egorova et al., 2021)

(Buallay, 2019) Developing an environmental, social, and governance (ESG) strategy inside a corporation results in the incurring of certain costs. These costs are intended to be compensated by positive performance benefits, stable revenue, and lower investor returns.. The company can also reduce its risk and become more effective. ESG practises might be viewed as part of the goodwill (Buallay, 2019). Thus, positive goodwill would lead to the development of excellent relationships with shareholders, resulting in increased wealth. As a result, a high Return on Assets. According to the research, sustainability adoption can lead to an expansion and profitability for enterprises, resulting in improved financial performance.

Concluding from above literature and theories, our research questions are formulated as:

RQ1. Does E, S, G, ESG factors have positive impact on financial performance (ROE)?

RQ2. Exists a correlation between environmental, social, and governance (ESG) aspects and operational performance (ROA)?

3. Research methodology

3.1 Study population, sample and resources of data

The results of the study are dependent on the sample that was chosen, which consists of 1080 observations obtained from 29 listed banks on the BSE 500 over the period of five years beginning in 2018 and ending in 2022. The data that were obtained from the Bloomberg database were utilised in this investigation.

The increasing importance of non-manufacturing sectors, such as banks, to the overall state of the global economy is at the heart of the current topic of discussion (Gaur & Merchant, n.d.). The banks that were included in the sample were chosen based on the data that was available throughout the years 2018-2022.

3.2 The study variables

In order to analyse the element that could not be controlled, the sustainability report, we utilised three different disclosure indicators (environmental disclosure, corporate social disclosure and corporate governance disclosure) (de Villiers et al., 2017). For assessing Banks' financial performance and operational performance Return on Equity and Return on Assets have been measured.

At the end of the research paper, there is an appendix that contains all of the above-mentioned data from the Bloomberg database.

4. Descriptive statistics and Correlation

4.1 Descriptive Statistics

In this section, in order to present an overview of the factors that were researched, we utilised descriptive statistics, which may be found in the next section. As a result, we begin by displaying the variables' mean, as well as their maximum, minimum, and standard deviation. In addition to skewness, which measures the absence of symmetry, and kurtosis, which determines whether the data have heavy tails or light tails in comparison to a normal distribution, both of these measures are included.

	N	Minimum	Maximum	Mean		Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
ENVIRON_DISCLOSURE_SCORE	94	0	55	10.84	1.417	13.737	188.706	1.328	.249	.820	.493
GOVNCE_DISCLOSURE_SCORE	94	31	92	69.13	1.809	17.540	307.653	-.571	.249	-.941	.493
SOCIAL_DISCLOSURE_SCORE	94	9	59	24.12	1.053	10.206	104.159	1.218	.249	2.335	.493
ESG_DISCLOSURE_SCORE	94	16	67	34.74	1.209	11.718	137.322	.671	.249	-.039	.493
RETURN_COM_EQY	131	-68	23	.32	1.504	17.213	296.277	-1.745	.212	3.038	.420
RETURN_ON_ASSET	131	-5	4	.29	.124	1.414	2.000	-1.112	.212	2.471	.420
Valid N (listwise)	92										

Table 1.

The results of the descriptive analysis show that the mean governance disclosure score has the highest mean value, followed by the mean social disclosure score, and the mean environmental disclosure score has the lowest mean value across banks. This suggests that most banks actively pushed for the roles and processes of corporate governance to be shown in their reports, which led to better performance.

It seems that the most variation may be found in the governance disclosure, which is then followed by the environmental and social disclosure. According to the study that is presented, disclosure regarding environmental and social factors is skewed to the right, but disclosure regarding governance factors is slanted to the left. The overall ESG disclosure skewness appears to have a balanced distribution, as is found.

4.2 Correlation

(Jain Riya & Chetty Priya, 2019) Correlation is a statistical metric used to determine the strength of a link between two or more variables or factors. Below, table 2. shows correlation between ROE and E, S, G and ESG scores whereas table 3. shows correlation between ROA and E, S, G and ESG scores.

Correlations

		RETURN_COM_EQY	ENVIRON_DISCLOSURE_SCORE	SOCIAL_DISCLOSURE_SCORE	GOVNCE_DISCLOSURE_SCORE	ESG_DISCLOSURE_SCORE
Pearson Correlation	RETURN_COM_EQY	1.000	.305	.121	.429	.367
	ENVIRON_DISCLOSURE_SCORE	.305	1.000	.813	.556	.902
	SOCIAL_DISCLOSURE_SCORE	.121	.813	1.000	.408	.811
	GOVNCE_DISCLOSURE_SCORE	.429	.556	.408	1.000	.831
	ESG_DISCLOSURE_SCORE	.367	.902	.811	.831	1.000
Sig. (1-tailed)	RETURN_COM_EQY	.	.002	.125	.000	.000
	ENVIRON_DISCLOSURE_SCORE	.002	.	.000	.000	.000
	SOCIAL_DISCLOSURE_SCORE	.125	.000	.	.000	.000
	GOVNCE_DISCLOSURE_SCORE	.000	.000	.000	.	.000
	ESG_DISCLOSURE_SCORE	.000	.000	.000	.000	.
N	RETURN_COM_EQY	92	92	92	92	92
	ENVIRON_DISCLOSURE_SCORE	92	92	92	92	92
	SOCIAL_DISCLOSURE_SCORE	92	92	92	92	92
	GOVNCE_DISCLOSURE_SCORE	92	92	92	92	92
	ESG_DISCLOSURE_SCORE	92	92	92	92	92

Table 2.

The correlation between ROE and Governance disclosure score is moderate positive followed by Environmental disclosure score that has weak positive correlation with ROE and Social disclosure score has very weak positive correlation with ROE. The overall ESG disclosure has weak positive correlation with ROE.

Correlations

		RETURN_ON_ASSET	ENVIRON_DISCLOSURE_SCORE	SOCIAL_DISCLOSURE_SCORE	GOVNCE_DISCLOSURE_SCORE	ESG_DISCLOSURE_SCORE
Pearson Correlation	RETURN_ON_ASSET	1.000	.287	.096	.413	.345
	ENVIRON_DISCLOSURE_SCORE	.287	1.000	.813	.556	.902
	SOCIAL_DISCLOSURE_SCORE	.096	.813	1.000	.408	.811
	GOVNCE_DISCLOSURE_SCORE	.413	.556	.408	1.000	.831
	ESG_DISCLOSURE_SCORE	.345	.902	.811	.831	1.000
Sig. (1-tailed)	RETURN_ON_ASSET	.	.003	.180	.000	.000
	ENVIRON_DISCLOSURE_SCORE	.003	.	.000	.000	.000
	SOCIAL_DISCLOSURE_SCORE	.180	.000	.	.000	.000
	GOVNCE_DISCLOSURE_SCORE	.000	.000	.000	.	.000
	ESG_DISCLOSURE_SCORE	.000	.000	.000	.000	.
N	RETURN_ON_ASSET	92	92	92	92	92
	ENVIRON_DISCLOSURE_SCORE	92	92	92	92	92
	SOCIAL_DISCLOSURE_SCORE	92	92	92	92	92
	GOVNCE_DISCLOSURE_SCORE	92	92	92	92	92
	ESG_DISCLOSURE_SCORE	92	92	92	92	92

Table 3.

ROA and Governance disclosure score have a moderately positive relationship. ESG disclosure score and ROA have a weakly positive relationship, and Social disclosure score and ROA have a very weakly positive relationship. The relationship between environmental disclosure and ROA is not very strong.

5. Conclusion, recommendations and future research

This study considers the level of Environment, Social and Governance disclosures, also, aggregated ESG disclosures in BSE 500 listed banks of India. The time series data used in the research are obtained from the Bloomberg database. A total of 1080 observations obtained from 29 listed banks on the BSE 500 over the period of five years beginning in 2018 and ending in 2022. The banks that were included in the sample were chosen based on the data that was available throughout the years 2018-2022. Hence a total of 552 observations were worked on from 23 banks. Remaining were ruled out because of unavailability of data.

The independent variables are E, S, G and ESG scores whereas dependent variables are ROA and ROE indicating operational and financial performance respectively.

According to the results of the descriptive study, the mean governance disclosure score has the highest mean value than the social disclosure score, and the environmental disclosure score across banks. The governance disclosure appears to have the highest variety. According to the study, disclosure on environmental and social variables is skewed to the right, whereas disclosure about governance factors is skewed to the left. As discovered, the overall ESG disclosure skewness appears to have a balanced distribution.

ROE and Governance disclosure score are slightly correlated, followed by Environmental and Social disclosure scores, which are weakly correlated. ESG disclosure somewhat boosts ROE. ROA is positively correlated with

Governance disclosure score, ESG disclosure score, and Social disclosure score. ROA and environmental disclosure are slightly beneficial.

The findings of this study might be turned into a practical model that banks all over the globe can use to focus on the role that ESG disclosure plays in performance.

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