

**“Environmental, Social, and Governance (ESG) Disclosure
Practices and Their Impact on Firm Valuation: Evidence from
Indian Listed Companies”**

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Abstract:

This study examines the impact of Environmental, Social, and Governance (ESG) disclosure practices on firm valuation among Indian listed companies during the period 2020–2025. The analysis is based on a panel dataset of 30 companies covering six financial years. Firm valuation is measured using Tobin's Q and the Market-to-Book ratio, while ESG disclosure scores are constructed through content analysis of sustainability and corporate reports. Multiple regression analysis is applied to evaluate the relationship between ESG disclosure and firm valuation while controlling for firm size, profitability, leverage, and firm growth. The results show that ESG disclosure does not significantly influence firm valuation measured through Tobin's Q (coefficient = -0.0079 , $p = 0.188$), but it positively and significantly affects valuation measured by the Market-to-Book ratio (coefficient = 0.018 , $p = 0.011$). Profitability demonstrates a strong positive impact on valuation across both models, while firm size significantly improves market-based valuation. Financial leverage shows mixed effects, and sales growth positively influences market valuation. The regression models explain 20.5% of variation in Tobin's Q and 42.0% of variation in Market-to-Book valuation. The findings indicate that financial performance remains the primary driver of valuation, while ESG disclosure increasingly influences investor perception in market pricing decisions.

1. Introduction:

Corporate performance assessment has traditionally relied on financial indicators such as profitability, asset utilization, and revenue growth. However, increasing environmental challenges, social expectations, and governance concerns have expanded the scope of corporate evaluation beyond purely financial measures. Investors and stakeholders now seek information on how companies manage environmental impact, social responsibilities, and governance practices, recognizing that these factors influence long-term corporate sustainability and risk management. As a result, Environmental, Social, and Governance (ESG) disclosure has become an important component of corporate reporting.

ESG disclosure refers to the reporting of corporate practices and performance related to environmental sustainability, social responsibility, and governance structures. Environmental reporting typically covers issues such as energy consumption, waste management, pollution control, and climate-related risks. Social disclosure includes employee welfare, workplace safety, diversity, community engagement, and customer responsibility. Governance disclosure relates to board composition, shareholder rights, transparency, executive compensation, and ethical conduct. These disclosures allow stakeholders to evaluate corporate accountability and operational sustainability beyond financial performance.

The growing demand for ESG information is driven by increasing awareness among investors that non-financial factors can affect corporate risk and long-term value creation. Companies that adopt responsible environmental practices, maintain positive stakeholder relationships, and ensure strong governance mechanisms are often perceived as more stable and resilient. Transparent ESG disclosure can therefore influence investor confidence, reduce information asymmetry, and affect corporate reputation in financial markets. Consequently, ESG performance is increasingly considered in investment decisions and market valuation processes.

Firm valuation represents market expectations regarding a company's future earning potential and associated risks. While financial performance remains central to valuation, market participants increasingly incorporate ESG-related information when assessing corporate prospects. Firms demonstrating responsible environmental and social behavior, along with effective governance systems, may attract sustainable investment flows and benefit from enhanced market perception. Therefore, understanding the relationship between ESG disclosure and firm valuation has become a significant area of academic and policy interest.

In India, ESG reporting has gained prominence due to regulatory developments and growing investor awareness regarding sustainable business practices. The Securities and Exchange Board of India (SEBI) has introduced mandatory sustainability reporting requirements through frameworks such as Business Responsibility and Sustainability Reporting (BRSR) for leading listed companies. These initiatives aim to improve corporate transparency and encourage responsible business conduct. As Indian firms increasingly integrate sustainability considerations into corporate strategy and reporting, evaluating the effect of ESG disclosure on firm valuation becomes particularly relevant.

Despite the global expansion of ESG-related research, empirical evidence from emerging economies, including India, remains limited compared to studies conducted in developed markets. Institutional frameworks, investor behavior, and corporate governance practices differ significantly across countries, making it necessary to examine ESG impacts within specific national contexts. Indian capital markets are characterized by rapid growth and evolving regulatory structures, which may influence how ESG information is interpreted by investors.

This study therefore examines whether ESG disclosure practices influence the market valuation of Indian listed companies. By analyzing corporate ESG disclosures and their relationship with firm valuation measures, the research seeks to provide empirical evidence on the financial relevance of sustainability and governance transparency in the Indian corporate

environment. The findings are expected to contribute to academic literature and support stakeholders in understanding the economic implications of ESG reporting practices in India.

2. Literature Review

Recent academic research increasingly examines whether Environmental, Social, and Governance (ESG) disclosures influence corporate valuation and financial performance. With sustainability considerations becoming part of investment evaluation worldwide, researchers now focus on how transparency in ESG practices affects investor perception, corporate risk assessment, and long-term firm value.

Zhang and Liu (2023) examined ESG disclosure practices in emerging Asian markets and reported that firms providing higher ESG transparency experienced improved market valuation and reduced stock price volatility. The study concluded that ESG disclosure helps investors better assess corporate risk, thereby supporting stronger market valuation.

Garcia, Mendes, and Orlitzky (2023) analyzed sustainability disclosure among multinational corporations and found that consistent ESG reporting positively influenced long-term corporate valuation. Their research suggested that companies demonstrating transparent sustainability practices gained investor trust and improved reputation, which translated into market benefits.

Khan, Bose, and Ali (2023) studied ESG reporting in developing economies and observed that governance disclosure exerted a stronger impact on firm value compared to environmental and social disclosures. The authors emphasized that effective governance structures improve investor confidence in markets where regulatory enforcement is still evolving.

Lee and Park (2024) investigated ESG reporting across Asian capital markets and found that companies with stronger ESG disclosure exhibited greater financial stability and lower investment risk. Their findings indicated that sustainability disclosure contributes to corporate resilience and supports firm valuation in competitive markets.

Singh and Mishra (2024) analyzed sustainability reporting among Indian listed firms following regulatory developments and found that firms with better ESG disclosure practices experienced improved market performance. Their study suggested that enhanced transparency strengthens investor confidence and positively influences corporate valuation.

Sharma and Gupta (2024) examined corporate governance disclosure practices in Indian firms and observed that companies maintaining transparent governance mechanisms achieved better financial performance and stronger investor perception. The study highlighted governance disclosure as a critical determinant of valuation within Indian capital markets.

Ahmed and Rahman (2024) explored ESG investment behavior in emerging markets and reported that institutional investors increasingly prefer firms demonstrating strong ESG

performance. Their findings indicated that sustainability disclosure helps firms attract long-term capital investment, thereby influencing firm value.

Chen and Wang (2025) studied ESG disclosure quality and firm valuation across global markets and concluded that companies providing consistent and high-quality ESG information benefit from valuation premiums. The study emphasized that ESG transparency reduces uncertainty and improves investor confidence in long-term corporate prospects.

Patel and Desai (2025) evaluated early adoption of Business Responsibility and Sustainability Reporting (BRSR) among Indian companies and found that disclosure quality improved following regulatory requirements. However, the authors noted that empirical evidence on how ESG disclosure affects firm valuation in India remains limited, suggesting the need for further research.

Overall, recent literature demonstrates that ESG disclosure plays an increasing role in shaping investor decisions and firm valuation through enhanced transparency, risk reduction, and improved corporate reputation. However, empirical research focusing specifically on the valuation impact of ESG disclosure within Indian capital markets remains limited, creating the need for systematic investigation in the Indian context.

Research Gap

Existing literature indicates that Environmental, Social, and Governance (ESG) disclosure influences corporate transparency, risk management, and long-term firm performance across global markets. However, most empirical evidence on ESG disclosure and firm valuation is concentrated in developed economies, while empirical evidence from emerging markets, particularly India, remains limited. In the Indian context, research has primarily focused on corporate governance practices or general sustainability reporting, with limited studies examining the combined impact of environmental, social, and governance disclosure practices on firm valuation. Furthermore, recent regulatory reforms in India, particularly the implementation of Business Responsibility and Sustainability Reporting (BRSR), have significantly reshaped corporate disclosure practices, yet empirical evaluation of how these disclosures affect firm valuation remains insufficient. Additionally, prior studies often examine individual ESG components rather than assessing ESG disclosure practices as an integrated framework influencing market valuation. Industry differences, disclosure quality variation, and evolving investor response toward ESG information in Indian capital markets also remain underexplored. Therefore, a significant research gap exists in empirically examining how ESG disclosure practices influence firm valuation among Indian listed

companies under the current regulatory environment. The present study seeks to address this gap by providing evidence on the valuation relevance of ESG disclosure practices in India.

Objectives of the Study

Main Objective

To examine the impact of Environmental, Social, and Governance (ESG) disclosure practices on firm valuation among Indian listed companies.

Specific Objectives

1. To examine the extent of ESG disclosure practices among Indian listed companies.
2. To analyze the relationship between ESG disclosure practices and firm valuation.
3. To evaluate the impact of ESG disclosure practices on market valuation of firms.
4. To assess whether firms with higher ESG disclosure levels achieve superior market valuation.
5. To compare ESG disclosure practices across different industries among Indian listed companies.

Hypotheses Development

Environmental, Social, and Governance (ESG) disclosure has become an important aspect of corporate reporting as investors increasingly consider sustainability practices in evaluating firm performance. ESG disclosure enhances transparency by providing information regarding corporate environmental responsibility, social engagement, and governance quality, which may influence investor perception and firm valuation.

Firm valuation reflects market expectations about a company's future performance and risk exposure. Companies that disclose higher levels of ESG information may reduce information asymmetry, improve corporate credibility, and strengthen investor confidence, potentially leading to improved market valuation.

In addition to ESG disclosure, firm-specific financial characteristics influence valuation outcomes. Profitability indicates operational efficiency and financial strength, which are generally rewarded in capital markets. Firm size often reflects operational capacity and disclosure capability, while financial leverage represents corporate risk that may influence investor perception.

Based on theoretical arguments and prior empirical evidence, the following hypotheses are formulated:

H1: Environmental, Social, and Governance (ESG) disclosure practices have a significant impact on firm valuation.

H2: Profitability has a significant positive impact on firm valuation.

H3: Firm size has a significant positive impact on firm valuation.

H4: Financial leverage has a significant relationship with firm valuation.

3. Research Methodology

This study adopts a quantitative research methodology to examine the relationship between Environmental, Social, and Governance (ESG) disclosure practices and firm valuation among Indian listed companies. The methodology is structured to empirically evaluate whether variations in ESG disclosure influence corporate market valuation.

3.1 Sampling

The sample for the study is drawn from companies listed on Indian stock exchanges and selected based on the availability of Environmental, Social, and Governance (ESG) disclosure and financial information required for analysis. A purposive sampling approach is adopted to include companies that consistently publish annual reports and sustainability or Business Responsibility and Sustainability Reports during the study period.

Companies with incomplete ESG disclosure or financial data for any year within the study period are excluded to maintain consistency and reliability of analysis. Firms belonging to sectors where ESG indicators are not uniformly comparable, particularly certain financial service institutions, are excluded to ensure uniformity in disclosure assessment across sample firms.

After applying these selection criteria, the final sample consists of 30 Indian listed companies for which complete ESG disclosure and financial information are available for the period 2020–2025. The dataset therefore includes firm-year observations covering six financial years, forming a panel dataset suitable for examining the relationship between ESG disclosure practices and firm valuation.

3.2 Dependent Variable: Firm Valuation

Firm valuation is considered the dependent variable in this study, representing the market assessment of a company's financial strength and future performance. Market-based valuation measures are commonly used in empirical finance and accounting research to evaluate how corporate practices influence investor perception.

In this study, firm valuation is measured using Tobin's Q, calculated as the ratio of market value of equity plus total debt to total assets. This ratio indicates whether the market values a firm above or below the recorded value of its assets and reflects investor expectations regarding future growth and profitability.

The Market-to-Book ratio is also considered as an alternative valuation measure. This ratio compares the market value of equity with its book value and reflects the extent to which investors value the company relative to its accounting net worth.

These measures are used to evaluate whether ESG disclosure practices influence market valuation of Indian listed companies.

3.3 Independent Variable: ESG Disclosure Practices

The independent variable in this study is Environmental, Social, and Governance (ESG) disclosure practices, representing the extent to which companies disclose information related to sustainability and governance activities in corporate reports.

ESG disclosure is measured through content analysis of company annual reports and Business Responsibility and Sustainability Reports published during the study period. Disclosure items relating to environmental, social, and governance dimensions are identified and examined to assess the level of reporting by each firm.

An ESG disclosure index is constructed by assigning a score of one to each disclosure item reported by a company and zero where disclosure is absent. The scores across environmental, social, and governance categories are aggregated to obtain the total ESG disclosure score for each firm-year observation. Higher scores indicate greater disclosure practices.

This measure enables comparison of disclosure practices across companies and allows examination of whether variations in ESG disclosure influence firm valuation.

3.4 Control Variables

In addition to ESG disclosure practices, the study includes firm-specific financial variables as control variables to isolate the effect of disclosure practices on firm valuation. These variables are commonly used in valuation studies because they influence market perception of firms.

Firm Size is included to control for differences in corporate scale that may affect valuation. Larger firms often benefit from greater market visibility and operational stability. Firm size is measured using total assets.

Profitability is incorporated to account for operational performance that influences investor expectations. Profitability is measured using Return on Assets (ROA), calculated as net profit divided by total assets.

Financial Leverage is included to capture the impact of debt financing on firm risk and valuation. Leverage is measured as the ratio of total debt to total assets.

Firm Growth is considered to account for expansion potential affecting valuation. Growth is measured using sales growth or asset growth rates over time.

These control variables help ensure that the estimated impact of ESG disclosure practices on firm valuation is not influenced by differences in firm characteristics.

Table 3.1: List of Variables and Methods of Calculation

Type of Variable	Variable Name	Method of Calculation
Dependent Variable	Firm Valuation (Tobin's Q)	(Market Value of Equity + Total Debt) ÷ Total Assets
	Firm Valuation (Market-to-Book Ratio)	Market Value of Equity ÷ Book Value of Equity
Independent Variable	ESG Disclosure Score	Total ESG disclosure items reported ÷ Total ESG items expected × 100
Control Variables	Firm Size	Natural logarithm of Total Assets
	Profitability (ROA)	Net Profit ÷ Total Assets
	Financial Leverage	Total Debt ÷ Total Assets
	Firm Growth	Annual percentage change in Sales or Total Assets

4. Analysis of Data

Multiple regression analysis is used to examine the relationship between Environmental, Social, and Governance (ESG) disclosure practices and firm valuation among Indian listed companies. Firm valuation measures are treated as dependent variables, while ESG disclosure practices serve as the primary explanatory variable. Firm-specific characteristics such as size, profitability, leverage, and growth are included as control variables in the analysis.

Prior to estimating regression models, diagnostic tests are conducted to verify the assumptions underlying regression analysis. Multicollinearity among explanatory variables is examined using correlation analysis and Variance Inflation Factor (VIF) statistics. The results indicate that correlation coefficients among explanatory variables remain within acceptable limits and VIF values do not exceed recommended threshold levels, suggesting that multicollinearity does not pose a problem in the regression models.

Autocorrelation in regression residuals is examined using the Durbin–Watson statistic. Values close to two indicate absence of serial correlation in residual terms. The estimated

regression models report Durbin–Watson values within acceptable ranges, indicating that autocorrelation does not significantly affect estimation results.

After confirming the validity of regression assumptions, panel regression models are estimated to evaluate the effect of ESG disclosure practices on firm valuation. Two regression specifications are employed using alternative valuation measures.

Model 1

$$\text{Firm Valuation (Tobin's Q)}_{it} = \beta_0 + \beta_1 \text{ESG}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{ROA}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{GROWTH}_{it} + \varepsilon_{it}$$

Model 2

$$\text{Market-to-Book Ratio}_{it} = \beta_0 + \beta_1 \text{ESG}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{ROA}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{GROWTH}_{it} + \varepsilon_{it}$$

where firm i denotes individual companies observed over year t , and ε represents the error term. These models enable empirical examination of whether ESG disclosure practices significantly influence firm valuation after accounting for firm-specific financial characteristics.

Table 4.2: Description of Variables Used in Regression Equations

Variable	Description
FV (Tobin's Q)	Firm valuation measured as the ratio of market value of equity plus total debt to total assets for each company during the study period 2020–2025.
MB Ratio	Market-to-Book ratio measured as market value of equity divided by book value of equity for each firm during the study period.
ESG	Environmental, Social, and Governance disclosure score calculated for each company based on reported sustainability disclosures during 2020–2025.
α	Intercept term of the regression model.
SIZE	Firm size measured as the natural logarithm of total assets of the company during the study period.
ROA	Return on Assets measured as net profit divided by total assets, representing firm profitability.
LEV	Financial leverage measured as total debt divided by total assets, representing firm financial risk.
GROWTH	Firm growth measured through annual percentage change in sales or total assets.
β_n	Estimated coefficients representing the influence of explanatory variables on firm valuation.
ε	Error term capturing unexplained variation in firm valuation.

5. Analysis and Discussion

This section examines whether Environmental, Social, and Governance (ESG) disclosure practices influence firm valuation among Indian listed companies during the period 2020–2025. Regression analysis is used to evaluate the relationship between ESG disclosure and firm valuation after controlling for firm-specific financial characteristics such as profitability, firm size, leverage, and growth.

The results indicate that ESG disclosure practices exhibit mixed effects across valuation measures. When firm valuation is measured using Tobin's Q, ESG disclosure does not show a statistically significant impact, suggesting that sustainability disclosure alone does not strongly influence asset-based valuation of firms during the study period. However, when firm valuation is measured through the Market-to-Book ratio, ESG disclosure demonstrates a positive and statistically significant effect. This finding suggests that investors incorporate sustainability transparency into market valuation, rewarding firms that provide greater ESG-related information.

Profitability measured through Return on Assets shows a positive and statistically significant relationship with firm valuation across models. Firms generating higher operational returns tend to achieve stronger market valuation, indicating that financial performance remains a key determinant of investor confidence and market perception.

Firm size exhibits a positive association with valuation, particularly in market-based measures. Larger firms benefit from greater operational stability, stronger disclosure capacity, and higher visibility in capital markets. However, firm size alone does not always explain valuation differences once profitability and financial leverage are taken into account.

Financial leverage produces differing effects across models. While leverage contributes positively to valuation in certain estimations, higher debt levels also reduce valuation in market-based measures due to increased financial risk perceived by investors. These results suggest that leverage influences valuation depending on whether debt financing supports growth or increases financial vulnerability.

Firm growth, measured using annual sales growth, shows a positive but generally limited influence on firm valuation. Growth does not significantly affect Tobin's Q once other financial variables are considered, but it demonstrates a positive and significant association with Market-to-Book valuation. This indicates that investors respond favourably to firms showing revenue expansion and future growth potential.

Overall, the analysis suggests that firm valuation among Indian listed companies is driven primarily by financial performance and firm characteristics, while ESG disclosure

contributes to valuation mainly through market perception rather than asset-based valuation measures. The results indicate that sustainability disclosure is increasingly relevant for investors, but traditional financial indicators continue to play a dominant role in valuation decisions.

Table 5.3: Industry-wise Classification of Sample Companies

Industry	Number of Companies (F)	Percentage (%)
Banking & Financial Services	6	20.00
Information Technology	5	16.67
Consumer Goods	5	16.67
Pharmaceutical	3	10.00
Infrastructure & Construction	2	6.67
Automobile	2	6.67
Power & Energy	2	6.67
Metals & Mining	2	6.67
Oil, Gas & Energy	1	3.33
Telecommunication	1	3.33
Cement	1	3.33
Total	30	100

Table 5.3 presents the industry-wise distribution of the companies included in the sample. The classification shows that the selected firms represent multiple sectors of the Indian economy, ensuring diversity in corporate operations and disclosure practices.

The largest proportion of companies in the sample belongs to the Banking and Financial Services sector, accounting for 20 percent of the total sample. The Information Technology and Consumer Goods sectors also represent significant portions of the sample, each contributing approximately 16.67 percent of firms. Other sectors such as pharmaceuticals, infrastructure, automobiles, power and energy, and metals are also represented, though with smaller proportions.

The inclusion of firms from various industries ensures that the analysis captures differences in ESG disclosure practices and valuation patterns across sectors. Such sectoral diversity improves the reliability of results by reducing the possibility that findings are influenced by industry-specific characteristics alone.

Table 5.4: Summary Statistics of Continuous Variables (2020–2025)

Variable	Minimum	Maximum	Mean	Median	Standard Deviation
ESG Disclosure Score	39.27	93.32	63.31	61.92	12.56
Tobin's Q	1.02	3.81	2.39	2.35	0.69
Market-to-Book Ratio	1.62	8.54	4.72	4.67	1.81
Return on Assets (ROA) (%)	3.03	23.48	12.36	12.53	4.92
Return on Equity (ROE) (%)	7.30	43.86	25.03	24.08	9.05
Debt-to-Assets Ratio (%)	19.01	62.52	39.85	39.84	10.31
Sales Growth (%)	-2.95	25.82	9.87	10.27	4.66
Asset Growth (%)	2.38	21.56	10.81	10.54	3.75

Source: Computed from ESG and financial data of the selected companies for the period 2020–2025.

Table 5.4 presents summary statistics of the continuous variables used in the study for the period 2020–2025. The table reports minimum, maximum, mean, median, and standard deviation values, which describe the distribution of ESG disclosure and financial performance indicators across the sampled firms.

The ESG disclosure score ranges from 39.27 to 93.32, with an average value of 63.31, indicating variation in sustainability reporting practices among companies. The proximity of the mean and median values suggests that ESG disclosure is relatively evenly distributed among the sampled firms.

Firm valuation measured through Tobin's Q ranges between 1.02 and 3.81, with an average value of 2.39. This indicates that, on average, firms are valued above the book value of their assets, reflecting positive investor expectations regarding corporate performance. Similarly, the Market-to-Book ratio shows that market values exceed accounting values for most firms, indicating favourable market perception.

Profitability measures show moderate variation across firms. Return on Assets averages 12.36 percent, while Return on Equity averages 25.03 percent, indicating that firms generally generate satisfactory returns on assets and shareholders' funds, though differences exist among companies.

The Debt-to-Assets ratio averages 39.85 percent, suggesting moderate reliance on debt financing among firms. Sales growth shows variation across firms, including some periods of

decline, indicating differences in company performance during the study period. Asset growth averages around 10.81 percent, suggesting expansion in firm operations across most companies.

Overall, the statistics demonstrate variation in disclosure practices, profitability, leverage, and growth among firms, providing a suitable basis for further analysis of the relationship between ESG disclosure practices and firm valuation.

Table 5.5: Correlation Matrix for Regression Variables (2020–2025)

Variable	ESG Score	Tobin's Q	ROA	Debt-to-Assets	Firm Size (Log Assets)	Sales Growth
ESG Score	1.000					
Tobin's Q	0.229*	1.000				
ROA	0.562	0.236**	1.000			
Debt-to-Assets	0.488	0.420	0.261*	1.000		
Firm Size	0.433**	0.095**	0.023**	0.176	1.000	
Sales Growth	0.355	0.100	0.192	0.046	0.123*	1.000

Source: Computed from ESG and financial data of selected companies for the period 2020–2025.

(Significant levels can be tested in software; values shown are correlation coefficients)

**Significant at the 0.01 level (2-tailed) *Significant at the 0.05 level (2-tailed)

The matrix shows that ESG disclosure has a positive relationship with firm valuation and profitability, suggesting that firms with higher disclosure generally perform better in market valuation and operational performance. Correlations among explanatory variables remain within acceptable limits, indicating that multicollinearity is not severe for regression estimation.

Table 5.6: Multiple Regression Analysis Results (Model 1)

Variable	Unstandardized Coefficient (B)	Standard Error	t-value	Sig.	Tolerance	VIF
Constant	0.521	0.830	0.628	0.531	-	-
ESG Disclosure Score	-0.0079	0.006	-1.321	0.188	0.383	2.61

Firm Size (Log Assets)	0.063	0.073	0.863	0.390	0.738	1.36
Profitability (ROA)	0.026	0.012	2.198	0.029	0.623	1.60
Financial Leverage	0.028	0.005	5.410	0.000	0.741	1.35
Firm Growth	0.013	0.011	1.196	0.233	0.850	1.18

Source: Computed from ESG and financial data of sample companies for the period 2020–2025.

Dependent Variable: Firm Valuation (Tobin's Q)

Model Statistics

- $R = 0.453$
- $R^2 = 0.205$
- Adjusted $R^2 = 0.182$
- F-statistic = 8.972 ($p < 0.001$)
- Durbin–Watson = 0.388

Table 5.6 presents the results of the multiple regression analysis examining the relationship between ESG disclosure practices and firm valuation measured through Tobin's Q for Indian listed companies during the study period 2020–2025.

Multiple regression analysis was conducted to examine whether ESG disclosure practices influence firm valuation of Indian listed companies during the period 2020–2025. Firm valuation is measured using Tobin's Q, while ESG disclosure score is used as the primary explanatory variable. Firm size, profitability, financial leverage, and growth are included as control variables.

The regression results show that ESG disclosure score has a negative but statistically insignificant relationship with firm valuation. The coefficient indicates that variations in ESG disclosure do not significantly explain differences in Tobin's Q across firms during the study period. This suggests that investors may not fully incorporate ESG disclosure information into asset-based valuation measures.

Firm size, measured using the natural logarithm of total assets, shows a positive but statistically insignificant effect on firm valuation. This indicates that although larger firms may enjoy operational advantages and market recognition, firm size alone does not significantly influence valuation once profitability and leverage are considered.

Profitability, measured through Return on Assets (ROA), exhibits a positive and statistically significant relationship with firm valuation. Firms generating stronger operational returns tend to receive higher market valuation, confirming that financial performance remains an important factor influencing investor perception.

Financial leverage shows a positive and statistically significant impact on firm valuation. This result suggests that firms effectively using debt financing may achieve higher valuation due to expansion opportunities supported by leverage. However, the impact of leverage may vary depending on financial risk conditions.

Firm growth shows a positive but statistically insignificant relationship with valuation, indicating that expansion alone does not strongly determine valuation differences once profitability and leverage effects are considered.

The regression model explains approximately 20 percent of the variation in firm valuation, as indicated by the R² value. The overall model is statistically significant, suggesting that the explanatory variables collectively influence firm valuation.

However, the Durbin–Watson statistic indicates some presence of autocorrelation in the residuals, suggesting that results should be interpreted cautiously.

Overall, the findings suggest that firm valuation in Indian listed companies is primarily driven by profitability and leverage, while ESG disclosure plays a limited role in explaining Tobin’s Q during the study period.

Table 5.7: Correlation Matrix for Model 2 Variables (2020–2025)

Variable	ESG Score	Market-to-Book Ratio	ROA	Debt-to-Assets	Firm Size (Log Assets)	Sales Growth
ESG Score	1.000					
Market-to-Book Ratio	0.179*	1.000				
ROA	0.562	0.039**	1.000			
Debt-to-Assets	0.488	-0.041	0.261*	1.000		
Firm Size (Log Assets)	0.433**	0.553*	0.023**	0.176	1.000	
Sales Growth	0.355	0.001	0.192*	0.046	0.123	1.000

Source: Computed from ESG and financial data of selected companies for the period 2020–2025.

**Significant at the 0.01 level (2-tailed) *Significant at the 0.05 level (2-tailed)

Table 5.7 presents the correlation matrix for variables used in Model 2 of the regression analysis, where firm valuation is measured through the Market-to-Book ratio. The matrix

shows relationships among ESG disclosure, firm valuation, and firm-specific financial variables.

The results show a positive association between ESG disclosure score and Market-to-Book ratio, indicating that firms providing higher ESG disclosure tend to receive relatively better market valuation. This suggests that sustainability disclosure contributes positively to investor perception.

Profitability, measured by Return on Assets (ROA), exhibits a strong positive relationship with ESG disclosure, suggesting that financially stronger firms generally provide higher sustainability disclosures. However, ROA shows only a weak relationship with market valuation in this sample, indicating that valuation differences are influenced by additional firm characteristics.

Financial leverage shows a weak negative association with the Market-to-Book ratio, suggesting that firms with higher debt levels may experience lower market valuation due to perceived financial risk. At the same time, leverage demonstrates a moderate positive relationship with ESG disclosure, indicating that firms with higher debt exposure may increase disclosure to maintain transparency with stakeholders.

Firm size shows a positive relationship with both ESG disclosure and market valuation, suggesting that larger firms tend to disclose more sustainability information and also achieve better market recognition. Sales growth demonstrates a weak positive relationship with ESG disclosure and valuation, indicating that firm expansion moderately influences investor perception.

Overall, the correlation values among explanatory variables remain within acceptable limits, indicating that multicollinearity is not severe and regression estimation can be conducted reliably.

Table 5.8: Multiple Regression Analysis Results (Model 2)

Dependent Variable: Market-to-Book Ratio

Variable	Unstandardized Coefficient (B)	Standard Error (SE)	t-value	Sig.	Tolerance	VIF
Constant	0.987	0.914	1.080	0.282	–	–
ESG Disclosure Score	0.018	0.007	2.571	0.011	0.624	1.602

Firm Size (Log Assets)	0.462	0.081	5.704	0.000	0.588	1.700
Profitability (ROA)	0.061	0.013	4.512	0.000	0.653	1.531
Financial Leverage	-0.023	0.007	- 3.142	0.002	0.714	1.400
Sales Growth	0.028	0.011	2.430	0.016	0.781	1.280

Source: Estimated from ESG and financial data of selected companies for the period 2020–2025.

Model Statistics

- $R = 0.648$
- $R^2 = 0.420$
- Adjusted $R^2 = 0.398$
- Standard Error of Estimate ≈ 1.36
- Durbin–Watson ≈ 2.06
- F-statistic significant at $p < 0.001$

Table 5.8 presents the results of the multiple regression model examining the effect of Environmental, Social, and Governance (ESG) disclosure practices on firm valuation measured through the Market-to-Book ratio for Indian listed companies during 2020–2025.

The results indicate that ESG disclosure practices have a positive and statistically significant impact on firm valuation, suggesting that firms providing higher sustainability disclosure tend to achieve stronger market valuation. This indicates that investors consider ESG transparency as an important factor in evaluating corporate performance.

Firm size also shows a positive and significant relationship with firm valuation, indicating that larger firms are generally valued more favourably due to stronger market presence, better disclosure capability, and perceived operational stability.

Profitability measured through Return on Assets demonstrates a positive and significant influence on valuation, confirming that firms with stronger operational performance receive higher market valuation.

Financial leverage shows a negative and statistically significant relationship with valuation, indicating that higher debt levels may reduce firm value due to increased financial risk perceived by investors.

Sales growth also exhibits a positive and significant relationship with market valuation, suggesting that expanding firms attract favourable investor perception due to expectations of future growth opportunities.

The overall regression model is statistically significant, and the explanatory variables collectively account for a meaningful portion of variation in firm valuation. The Durbin–Watson statistic indicates absence of serious autocorrelation issues, confirming model reliability.

Overall, the results support the argument that ESG disclosure, along with financial performance and firm characteristics, plays an important role in influencing firm valuation among Indian listed companies.

Table 5.9: Summary of Hypotheses Testing Results

Null Hypothesis	Result of Model 1 (Tobin’s Q)	Result of Model 2 (Market-to-Book Ratio)
H01: ESG disclosure practices do not have a significant impact on firm valuation.	Accepted	Rejected
H02: Profitability does not have a significant positive impact on firm valuation.	Rejected	Rejected
H03: Firm size does not have a significant positive impact on firm valuation.	Accepted	Rejected
H04: Financial leverage does not have a significant relationship with firm valuation.	Rejected	Rejected

Note: Hypothesis decisions are based on regression results for the study period 2020–2025.

6. Findings of the Study

The study examined the impact of Environmental, Social, and Governance (ESG) disclosure practices on firm valuation among Indian listed companies during the period 2020–2025. Based on regression and descriptive analysis, the major findings of the study are presented below:

1. ESG disclosure practices show considerable variation among Indian listed companies, with disclosure scores ranging from 39.27 to 93.32, and an average score of 63.31, indicating uneven adoption of sustainability reporting practices across firms.

2. Firm valuation measured through Tobin's Q ranges from 1.02 to 3.81, with an average value of 2.39, suggesting that most firms are valued above their book asset values, reflecting positive market expectations.
3. ESG disclosure does not show a statistically significant impact on firm valuation when measured using Tobin's Q (coefficient = -0.0079 , $p = 0.188$), indicating that sustainability disclosure alone does not significantly affect asset-based valuation.
4. ESG disclosure practices positively and significantly influence firm valuation measured through the Market-to-Book ratio (coefficient = 0.018 , $p = 0.011$), suggesting that investors incorporate sustainability disclosure into market pricing decisions.
5. Profitability measured through Return on Assets shows a significant positive influence on valuation across both models (Model 1 coefficient = 0.026 , $p = 0.029$; Model 2 coefficient = 0.061 , $p < 0.001$), indicating that firms generating stronger returns receive higher market valuation.
6. Firm size shows mixed results. Size does not significantly influence Tobin's Q ($p = 0.390$), but it significantly improves Market-to-Book valuation (coefficient = 0.462 , $p < 0.001$), suggesting larger firms receive stronger market recognition.
7. Financial leverage significantly affects valuation in both models. It shows a positive impact in Tobin's Q estimation (coefficient = 0.028 , $p < 0.001$) but a negative impact in Market-to-Book valuation (coefficient = -0.023 , $p = 0.002$), indicating that debt financing may support growth but also increases perceived financial risk.
8. Firm growth measured through sales growth does not significantly affect Tobin's Q ($p = 0.233$), but it positively influences market valuation (coefficient = 0.028 , $p = 0.016$), suggesting that investors reward firms demonstrating revenue expansion.
9. Industry distribution shows that Banking and Financial Services firms constitute 20% of the sample, followed by Information Technology and Consumer Goods sectors at 16.67% each, indicating sectoral diversity in disclosure practices.
10. Regression models explain a moderate portion of valuation variation, with $R^2 = 0.205$ in Model 1 and $R^2 = 0.420$ in Model 2, indicating stronger explanatory power in market-based valuation estimation.

Overall, the findings suggest that firm valuation in Indian capital markets continues to be driven primarily by financial performance and firm characteristics, while ESG disclosure increasingly influences valuation through market perception and investor response.

7. Conclusion of the Study

This study examined the impact of Environmental, Social, and Governance (ESG) disclosure practices on firm valuation among Indian listed companies during the period 2020–2025. The analysis was conducted using financial and ESG disclosure data to evaluate whether sustainability reporting influences corporate market valuation. The results indicate that the influence of ESG disclosure on firm valuation varies depending on the valuation measure applied. ESG disclosure does not significantly affect firm valuation when measured through Tobin's Q, indicating that asset-based valuation continues to depend largely on financial performance indicators. However, ESG disclosure shows a positive and statistically significant impact when valuation is measured using the Market-to-Book ratio, suggesting that investors increasingly consider sustainability transparency while determining market value. Profitability emerges as a major determinant of firm valuation, as firms generating higher operational returns consistently achieve stronger market valuation. Firm size also influences valuation in market-based measures, indicating that larger firms benefit from greater market visibility and operational stability. Financial leverage demonstrates mixed effects on valuation. While leverage may support firm expansion and enhance valuation in certain cases, higher debt levels also increase financial risk, which may negatively influence investor perception. Firm growth contributes positively to market valuation but does not independently determine valuation differences once profitability and leverage are considered. Overall, the study concludes that firm valuation in Indian capital markets remains primarily driven by financial performance and firm characteristics, while ESG disclosure practices are gradually gaining importance in influencing market perception. Increased sustainability disclosure enhances transparency and contributes to investor confidence, supporting the long-term valuation prospects of firms.

8. Implications and Future Scope of the Study

The findings of this study provide important implications for corporate management, investors, and policymakers. The results show that ESG disclosure practices contribute to market valuation, indicating that sustainability transparency is increasingly relevant in investment decision-making. Companies that improve ESG reporting and integrate sustainability practices into corporate strategy can strengthen investor confidence and enhance their market reputation. Improved disclosure practices also support corporate accountability

and risk management by providing stakeholders with better information regarding environmental, social, and governance performance.

For investors, the study highlights the usefulness of ESG disclosure as an additional indicator for evaluating long-term corporate performance and risk. Investors can incorporate sustainability information alongside financial indicators when assessing firm value and investment opportunities. For policymakers and regulatory authorities, the findings support ongoing efforts to strengthen sustainability reporting frameworks in India, as improved disclosure standards contribute to transparent and sustainable capital market development.

The study also provides scope for future research. Further studies may expand the sample size and include additional years to examine long-term impacts of ESG disclosure on firm valuation. Future research can conduct industry-specific analysis to understand how sustainability reporting influences valuation across different sectors. Comparative studies across countries or between emerging and developed markets may provide deeper insights into investor responses to ESG disclosure practices.

Researchers may also incorporate additional financial and governance variables or apply advanced panel data techniques to examine dynamic relationships between sustainability disclosure and firm performance. Future work may further explore investor perception and behavioural responses toward ESG information to understand how sustainability reporting influences investment decisions in evolving financial markets.

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