BIDIRECTIONAL ASSOCIATION BETWEEN CORPORATE FINANCIAL PERFORMANCE AND ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PERFORMANCE

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Abstract

The growing emphasis on sustainability has positioned environmental, social, and governance (ESG) practices as a key driver for businesses seeking long-term value creation. While existing research has extensively analysed the impact of ESG performance (ESGP) on corporate financial performance (CFP), slack resource theory suggests that strong CFP can also enhance ESGP, indicating a two-way relationship (Miralles-Quirós et al., 2019). This study explores this bidirectional dynamic — specifically, the "CFP-ESGP-CFP" link — using a panel dataset of 304 firm-year observations from Indian companies listed on the Nifty100 ESG Index between 2018 and 2022. ESGP is assessed using ESG disclosure scores from the Bloomberg database, while CFP is evaluated through return on assets (ROA) as an accounting-based metric and Tobin's Q as a market-based measure. Applying correlation analysis and fixed-effect regression models, the findings reveal a positive relationship between CFP and ESGP for market-based measures. However, ESGP negatively affects CFP across both accounting and market metrics. These insights underscore the complex interplay between ESGP and financial outcomes, enriching the discourse on sustainable business practices (Debnath et al., 2024). A key limitation of this study is its focus on Indian firms within the Nifty100 ESG Index, suggesting opportunities for future research to expand into other geographic regions and market indices for broader applicability.

Keywords: Bidirectional Relationship, ESG Performance, ESGP, Financial Performance, Sustainability, Corporate Social Responsibility

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1. INTRODUCTION

Environmental, social, and governance (ESG) has become a pivotal aspect of corporate social responsibility (CSR), focusing on the ESG factors that influence a firm's performance (Miralles-Quirós et al., 2019). While CSR broadly addresses the responsibility of businesses toward societal well-being (Matten & Moon, 2008), ESG narrows its scope to three specific areas: 1) environmental responsibility, 2) social considerations, and 3) corporate governance. The term ESG gained prominence after the release of the United Nations Global Compact (2004). In recent years, the importance of ESG performance (ESGP) has grown significantly for both policymakers and investors (Cioli et al., 2023; Debnath et al., 2024; Nekhili et al., 2021; Tarmuji et al., 2016; Velte, 2017). Companies now view ESG as a crucial factor for gaining competitive advantage, improving operational efficiency, and managing reputation (Alotaibi & Al-Dubai, 2024; Alsayegh et al., 2020; Aouadi & Marsat, 2018; Buallay, 2019; Filbeck et al., 2019; Ghofar et al., 2024). For example, firms with strong ESGPs often receive more media attention and attract substantial investments (Liu & Hamori, 2020). In India, the Securities and Exchange Board of India (SEBI) (2015) has promoted greater ESG disclosure through Regulation 34(2)(f) of the Listing Obligations and Disclosure Requirements (LODR).

Despite the increasing relevance of ESG, there remains a gap in the literature regarding the bidirectional relationship between corporate financial performance (CFP) and ESGP. Existing studies primarily focus on how ESGP impacts financial performance but often neglect the reverse relationship — how financial performance can influence ESGP (Ahmed et al., 2021; Do & Kim, 2020; Landi & Sciarelli, 2019). Additionally, there is limited research on the Indian context, particularly using firm-level panel data from indices such as the Nifty100 ESG Index. This study aims to address this gap by examining the relationship between CFP and ESGP in Indian firms listed on the Nifty100 ESG Index. The theoretical foundation of this research is based on stakeholder theory and resource-based theory, which highlight the role of ESG initiatives in achieving sustainable performance and satisfying stakeholders. This framework positions ESG goals as essential for long-term corporate success, rather than being solely driven by financial motives (Alsayegh et al., 2020; Ruggiero & Cupertino, 2018). The study utilizes firm-level panel data from 2018 to 2022, comprising 304 firm-year observations, and employs fixed-effect regression models to analyze the bidirectional CFP-ESGP relationship. The findings contribute to a deeper understanding of ESG as a dynamic driver of corporate sustainability and offer practical insights for policymakers and investors. Given the growing focus on ESG in India, this study is highly relevant for stakeholders aiming to align financial performance with sustainable practices. Exploring the CFP-ESGP-CFP relationship addresses critical gaps in the literature and provides evidence to enhance corporate ESG strategies, ensuring competitiveness in a resource-constrained environment.

This paper offers a detailed exploration of the two-way relationship between CFP and ESGP. The structure of this paper is as follows. Section 2 surveys existing literature, analysing the link between CFP and ESGP while developing the study's hypotheses. Section 3 describes the research design and analytical methods employed. Section 4 presents the empirical findings. Section 5 interprets their significance. The final Section 6 addresses study limitations, suggests areas for further research and summarizes the main conclusions.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The words corporate social responsibility/CSR and environmental, social, and governance/ESG are frequently used interchangeably in the literature. Carroll (1979) divided CSR spending into these three categories. Neoclassical researchers are credited with developing the fundamental argument about the connection between ESG and CFP, which is commonly known as the trade-off hypothesis (Friedman, 1970; Vance, 1975; Wright & Ferris, 1997). These academics maintained that maximizing financial gains for shareholders is a company's top social duty and that funding "ESG initiatives" needlessly raises operating expenses, which lowers profitability. On the other hand, proponents of stakeholder theory (Freeman, 1984; Jones, 1995) asserted that other stakeholders, besides business owners, are as important to a company's success since they allow for more advantageous contracting that promotes stability and growth (Fatemi & Fooladi, 2013). Strong performance across a range of ESG dimensions can therefore have wider ramifications from a strategic management standpoint than just being seen as an expense, limitation, or altruistic gesture (Waddock & Graves, 1997).

The slack resource argument, on the other hand, contends that better CFP results in better ESGP rather than the other way around (Waddock & Graves, 1997). Improved financial performance enables businesses to devote more funds to socially conscious endeavors, including fostering better employee relationships, giving back to the community, and tackling environmental issues (Preston & O'Bannon, 1997). Waddock and Graves (1997) have postulated the possibility of a reciprocal relationship, in which ESG influences CFP and CFP affects ESG at the same time. This idea is known as the positive/negative synergy hypothesis.

This study contends that the interaction between "ESG and CFP constructs" must be taken into consideration if such a reciprocal link is there. Many of the older research, however, failed to consider this factor, which calls into doubt the validity of their conclusions. For example, Flammer (2014), Siegel and Vitaliano (2007), Surroca et al. (2010), and Zhao (2018) did not take into account the potential for a concurrent correlation between ESG and CFP when analyzing the causative relationship. Recent studies (Anderson et al., 2014; Chollet & Sandwidi, 2018; Kang et al., 2016) have found a reciprocal relationship between corporate social conduct and firm performance in order to overcome this restriction. To establish the validity of the positive/negative synergy theory as a conceptual framework, Nakamura (2015) examined the mutual relationship between a company's environmental and social performance and its overall performance. However, despite these advancements, research exploring the bidirectional link between ESG factors and a firm's financial performance remains limited, particularly in emerging economies such as India.

A study by Behl et al. (2022), focusing specifically on India's energy sector, found no reciprocal connection between ESG practices and corporate value. In contrast, Lin et al. (2019) investigated the two-way relationship between ESG scores and CFP, concluding that stronger ESG engagement tends to correlate with improved financial outcomes. However, their research also indicated that higher ESG involvement does not always guarantee better financial results. A key limitation of Lin et al.'s (2019) study was its exclusive reliance on overall ESG scores and accounting-based performance measures. The present study addresses this gap by incorporating both market-based and accounting-based performance indicators. By doing so, it aims to overcome the constraints of prior research and explore the bidirectional relationship within the context of Indian firms listed on the Nifty100 ESG Index. Based on this foundation, the following hypotheses are proposed for empirical testing:

H1: Accounting performance (return on assets, ROA) leads to improved environmental, social, and governance performance of the company.

H2: Market performance (Tobin's Q) leads to improved environmental, social, and governance performance of the company.

According to Scherer and Palazzo's (2007) legitimacy theory, a company's stakeholders grant it the right to operate through a social compact that needs to be continuously reaffirmed. According to this viewpoint, a company's ESG initiatives play a critical role in creating a moral basis for this underlying social contract. Nonetheless, businesses have limited funding, which needs to be distributed wisely across different investment endeavors (Ahmed et al., 2021). The one-way impact of investments in ESG-related activities on CFP has been generally acknowledged by empirical investigations. But research on the "doing well by doing good" theory is still conflicting and unclear (Kruger, 2015; Margolis & Walsh, 2003). There are conflicting findings from several studies that show both positive and negative associations between CFP and ESGP (Yang et al., 2024). For example, some scholars have found that environmental performance and CFP are positively correlated (Zhou et al., 2022; King & Lenox, 2002; Lee et al., 2016; Park, 2023; Stanwick & Stanwick, 1998), while others have found that CFP is negatively impacted by CSR dimensions like society, environment, and employment practices (Alotaibi & Al-Dubai, 2024; Brammer et al., 2006). Furthermore, investments in long-term value-maximizing initiatives may be hampered by surplus cash held in working capital accounts (Akbar et al., 2022).

Yang et al. (2019) examined the relationship between CSR performance and the financial performance of Chinese pharmaceutical companies in the Chinese environment and came to the conclusion that a company's CFP is positively impacted by its complete CSR rating. CSR policies also have a favorable impact on accounting-based performance measures, according to Wu and Shen (2013). Through panel-based regression, Zhao et al. (2018) investigated this link in China's energy and power generation sector and confirmed that improved ESGP had a positive stimulant effect on CFP. These results motivate companies to fund governance, social, and environmental projects. More recent research has confirmed that ESGP has a favorable effect on financial results. Using the causal steps technique and the Sobel-Goodman and Bootstrap tests, Zheng et al. (2022) discovered that financial performance is enhanced by ESGP. Additionally, Rossi et al. (2021) emphasized how CSR policies improve a company's financial performance. The simulation study was utilized by Fatemi et al. (2015) to show how CSR increases corporate value. Quantile regression was also used by Wang et al. (2015) to find positive impacts of CSR and brand equity on business performance. According to Wang and Sarkis' (2017) analysis of the top 500 green United States (U.S.) companies' overall ESG scores, CSR governance improves financial results by boosting CSR performance. Achim et al. (2016) examined companies listed on the Bucharest Stock Exchange (BVB) from the standpoint of corporate governance and discovered a positive relationship between market value and the caliber of corporate governance. Esteban-Sanchez et al. (2017) observed that while product responsibility and society aspects have no positive impact on CFP, better scores in corporate governance and employee dimensions do in the banking industry.

There is agreement that ESG-related investments affect business financial performance, despite different definitions and analytical techniques in previous studies (Nelling & Webb, 2009; Peloza & Papania, 2008; Surroca et al., 2010; Xie et al., 2019; Yu et al., 2018). Because they invest more in the environment than their male counterparts, female business executives, for example, are viewed as better corporate citizens (Jiang & Akbar, 2018). Nonetheless, there are expenses associated with being a responsible corporate entity because businesses need to actively cultivate and preserve their social reputation, which can have intangible advantages. It is difficult for stakeholders to evaluate the long-term value of ESG efforts because they also come with observable costs (Broadstock et al., 2020).

However, other research suggests that company performance and ESGP are negatively correlated. Although their use of linear regressions raises questions regarding endogeneity, Garcia et al. (2017) looked at businesses in the BRICS nations and discovered a negative correlation between profitability and environmental performance. Additionally, Jain et al. (2017) found a negative correlation between CFP and ESG scores. In their study of Romanian businesses, Achim and Borlea (2014) discovered that while environmental investments have a beneficial effect on market metrics like total quality (TQ), they also increase internal financial pressure and lower overall financial performance.

Friede et al. (2015) did a thorough systematic literature analysis and came to the conclusion that there is a well-established relationship between ESGP and CFP, with approximately 90% of research indicating a non-negative connection that is primarily positive. The majority of ESG activities and CFP have a positive link, according to a recent international study (Xie et al., 2019). The research's hypothesis, which is in line with stakeholder theory, is based on the previous debate.

H3: Environmental, social, and governance performance leads to improved accounting performance (ROA) of the company.

H4: Environmental, social, and governance performance leads to improved market performance (Tobin's Q) of the company.

This study's conceptual framework explores the dynamic relationship between CFP and ESGP, supported by stakeholder theory, resource-based theory, legitimacy theory, and slack resource theory. Together, these theories offer a robust basis for analyzing the two-way link between financial outcomes and sustainability initiatives among Indian companies listed on the Nifty100 ESG Index. Stakeholder theory emphasizes that businesses should address the needs of diverse stakeholders, such as investors, employees, customers, and regulators, rather than focusing exclusively on shareholder profits. According to this perspective, strong ESGP strengthens long-term value by building trust, mitigating risks, and ensuring adherence to regulations. ESG-related efforts, including environmental conservation measures, fair labor policies, and transparent governance structures, can improve corporate reputation and financial resilience. As a result, firms with robust ESG practices may achieve better financial performance by attracting investor confidence, lowering capital costs, and optimizing operational efficiency.

The resource-based theory highlights that companies with robust financial health can dedicate more resources to ESG initiatives, strengthening their sustainability performance. This idea is supported by the slack resource theory, which posits that firms with strong financial performance have surplus resources to invest in socially responsible activities. Enhanced financial stability enables organizations to fund ESG-related projects, including green innovation, employee welfare programs, and governance improvements, creating a virtuous cycle where financial strength drives ESGP, which then further enhances financial outcomes. Additionally, legitimacy theory reinforces this perspective by underscoring that businesses function within a social framework where maintaining legitimacy is essential for long-term viability. Firms that actively engage in ESG practices build a positive reputation, gain regulatory approval, and secure their social license to operate. Regulatory measures, such as SEBI's ESG reporting mandates, further encourage companies to adopt transparent sustainability disclosures.

To empirically validate this bidirectional relationship, this study employs panel data from 2018 to 2022, comprising 304 firm-year observations. The research incorporates both accounting-based (ROA) and market-based (Tobin's Q) measures of CFP to provide a comprehensive analysis. Fixed-effect regression models are used to assess the causal linkages, addressing potential endogeneity concerns. By integrating these theoretical perspectives, this study contributes to the growing literature on ESG and CFP, particularly in the Indian context, where sustainability concerns are gaining prominence. The findings will offer practical insights for investors, policymakers, and corporate managers, helping them align financial strategies with sustainability goals to ensure competitive advantage and long-term corporate success.

3. RESEARCH METHODOLOGY

This section describes the research methodology, including the study design, sampling approach, data gathering techniques, variable measurement, and analytical models employed to examine the bidirectional link between CFP and ESGP.

3.1. Research design

The research adopts an analytical approach, analyzing firm-level panel data from 2018 to 2022 to assess the link between CFP and ESGP. A fixed-effects regression model is used, chosen after conducting the Hausman test. To strengthen reliability, the model accounts for heteroscedasticity and autocorrelation by integrating robust standard errors. Furthermore, lagged variables are incorporated to better determine the causal relationship between the studied variables over time.

3.2. Population and sample selection

The study focuses on companies included in the Nifty100 ESG Index as of March 29, 2023. This index tracks the performance of companies weighted by their free-float market capitalization and ESG scores, which are used to rank them. Financial institutions, banks, and firms with missing data were omitted, resulting in a final sample of 304 firm-year observations for analysis.

Table 1. Sample selection

Sample selection	*2018*	*2019*	*2020*	*2021*	*2022*
Nifty100 ESG Index companies in the database	89	89	89	89	89
Financial and banking companies	23	23	23	23	23
Missing data companies	4	3	3	7	9
Final sample	62	63	63	59	57

Source: Authors' elaboration.

3.3. Data sources and variables

The study uses secondary data obtained from the Bloomberg database. Financial variables and control variables were extracted along with ESG disclosure scores. The CFP is proxied by *ROA* and *Tobin's Q*, while ESGP is represented by *ESG*. Control variables include firm size (*SIZE*), financial leverage (*LEV*), and industry dummies (*INDS*).

Table 2. Selection of variables and measurement

Variables	*Measurement*	*Explanation*	*Cited articles*
CFP	*ROA*	Net income / Total assets	Garcia et al. (2017), Ruggiero and Cupertino (2018), Chelawat and Trivedi (2016), Velte (2017), Dalal and Thaker (2019), and Kumar and Dua (2020).
	Tobin's Q	Market value of equity / Book value of equity	
ESGP	*ESG*	ESG scores disclosures	Ruggiero and Cupertino (2018), Garcia et al. (2017), and Sharma et al. (2020).
Control variables			
Firm size	*SIZE*	Log of total assets	Landi and Sciarelli (2019), Paltrinieri and Allegrini (2020), Singh et al. (2022), Miralles-Quirós et al. (2019), and Garcia et al. (2017)
Financial leverage	*LEV*	Net debt to shareholders' equity ratio	Landi and Sciarelli (2019), Paltrinieri and Allegrini (2020), Singh et al. (2022), and Miralles-Quirós et al. (2019).
Industry dummies	*INDS*	The sector dummies obtain a value of 1 for the firm's sector and 0, otherwise	Landi and Sciarelli (2019), Paltrinieri and Allegrini (2020), Singh et al. (2022), Garcia et al. (2017), and Miralles-Quirós et al. (2019).

Source: Authors' elaboration.

3.4. Statistical model and procedure

The analysis employs fixed-effect regression to examine panel data, with models specifically addressing potential econometric issues like multicollinearity, heteroscedasticity, autocorrelation, stationarity, and normality to strengthen the reliability of the results. The Hausman test validated the suitability of the fixed-effect approach. To account for delayed effects, the study incorporates one-year lagged variables.

Two models are constructed:

• Model 1 investigates how CFP at time t affects ESGP at time $t + 1$.

• Model 2 assesses the reverse relationship, analyzing the effect of ESGP at time t on CFP at time $t + 1$.

This approach ensures a robust examination of the bidirectional relationship between financial and sustainability performance over time.

Empirical model

$$Y_{it} + 1 = \beta_0 + \beta_a X_{it} + \beta_s C_{it} + \varepsilon_{it} \quad (1)$$

where, in Model 1, Y_{it} represents ESGP, while in Model 2, it denotes CFP. Conversely, X_{it} stands for CFP in Model 1 and ESGP in Model 2. The term C_{it} refers to a set of control variables for firm i at time t, while ε_{it} represents the error term in each model. The subscript t indicates the time period, and i corresponds to the cross-sectional units (firms). This formulation ensures clarity in distinguishing the dependent and independent variables across the two models.

Figure 1. Flow of models

Source: Authors' compilation.

4. RESULTS

4.1. Descriptive statistics

The analysis of the relationship between CFP-ESGP-CFP is presented through descriptive statistics, a correlation matrix, and fixed effects regression.

Table 3. Descriptive statistics

Variables	*Obs.*	*Mean*	*Std. dev.*	*Min*	*Max*
ESG	318	49.902	11.373	22.36	76.98
ROA	329	10.848	13.223	-74.98	95.18
Tobin's Q	324	12.04	34.683	.37	566.62
LEV	328	63.421	580.594	-182.98	10186.44
SIZE	330	9.140e+1	1.850e+1	1.351e+1	1.714e+1

Source: Authors' elaboration using STATA-14.

Table 4. Correlation matrix

Variables	*ESG*	*ROA*	*Tobin's Q*	*LEV*	*SIZE*
ESG	1.000				
ROA	-0.116	1.000			
Tobin's Q	-0.208*	0.026	1.000		
LEV	-0.072	-0.134*	0.049	1.000	
SIZE	0.417*	-0.292*	-0.190*	0.077	1.000
VIF	1.273	1.352	1.248	1.086	1.548

*Note: VIF — variance inflation factors. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.*
Source: Authors' elaboration using STATA-14.

The average ESG scores in the sample are around 50, suggesting that companies are responding positively to ESG initiatives. Among the sample companies, the average *Tobin's Q* (12.04) is higher than the average *ROA* (10.85) (see Table 3). Table 4 shows the pair-wise correlation among the variables, with values below 0.70 in the correlation matrix confirming the absence of multicollinearity issues in the data. Additionally, the VIFs in the data are all below 1.55, further indicating that multicollinearity is unlikely to affect the results. Both performance measures used in the study, *Tobin's Q* and *ROA*, exhibit a negative correlation with *ESG*. Notably, *Tobin's Q* significantly influences

ESG in the opposite direction, which warrants further investigation. Furthermore, the control variable *SIZE* shows a significant positive correlation with *ESG*, whereas *LEV* demonstrates a negative correlation with ESG in the companies.

4.2. Regression analysis

The fixed-effect regression analysis is carried out to examine the impact of CFP on ESGP in Table 5 and ESGP on CFP in Table 6, for the sample firms.

Table 5. Regression results for the impact of CFP on ESGP

Variables	*ESG*	*ESG*
	(1)	*(2)*
ROA	-0.018	
	(0.049)	
Tobin's Q		0.18***
		(0.034)
LEV	0.0001	-0.01***
	(0.0003)	(0.002)
SIZE	7.641***	7.028***
	(1.769)	(1.397)
Constant	-150.818***	-136.353***
	(46.676)	(36.854)
Observations	254	253
R-squared	0.909	0.923
Adj. R-squared	0.875	0.894
F-statistic	7.872	33.75
INDS	Yes	Yes

*Note: Robust standard errors are in parentheses. *** p < 0.01, ** p < 0.05, * p < 0.1.*
Source: Authors' elaboration using STATA-14.

Table 5 depicts the significant value of the f-statistics that confirm the statistical significance of both models. The results show that *ROA* and *Tobin's Q* are going in opposite directions. *ROA* has a negative but insignificant effect on ESGP, but *Tobin's Q* has a significant and positive effect on ESGP at 1% (approx.) significance. In addition, *LEV* also has a positive but negligible relationship with *ESG*, however, *SIZE* is positively related to ESGP.

Table 6. Regression results for the impact of ESGP on CFP

Variables	*ROA*	*Tobin's Q*
	(1)	*(2)*
ESG	-0.099	-0.037
	(0.181)	(0.473)
LEV	-0.001	0.018
	(0.001)	(0.058)
SIZE	9.439	9.333
	(7.121)	(11.131)
Constant	-232.744	-232.108
	(181.345)	(277.079)
Observations	256	255
R-squared	0.66	0.651
Adj. R-squared	0.539	0.59
F-statistic	0.971	0.522
INDS	Yes	Yes

*Note: Robust standard errors are in parentheses. ***p < 0.01, ** p < 0.05, * p < 0.1.*
Source: Authors' elaboration using STATA-14.

Table 6 depicts the significant value of the f-statistics" that confirm the statistical significance of both models. The ESG disclosure scores explain more than 53% variation in accounting measure (*ROA*) and 59% in market measure (*Tobin's Q*) of CFP, and the results show that *ESG* has a negative impact on both *ROA* as well as *Tobin's Q,* even though it's insignificant. Furthermore, the impact of *ESG* on *ROA* is stronger than on our market-based measure of CFP, *Tobin's Q.* In addition, *LEV* also has a negative relationship with *ROA*, however, *SIZE* is positively related to both *ROA* and *Tobin's Q.* The results indicate that an increased *ESG* will lead to lower performance.

5. DISCUSSION

This study employs a data set of the Nifty100 ESG Index for five years (2018–2022) to investigate the causal nexus between CFP-ESGP-CFP. The empirical investigation of the relationship between CFP-ESGP-CFP using a panel dataset of 304 firm-year observations based on Indian-listed firms is Consistent with the slack resource theory. Our study confirms the findings of Lin et al. (2019), who assessed the bidirectional association between ESGP scores and CFP and found that better financial performance leads to improved ESG engagement. While better ESG engagement does not necessarily lead to superior financial performance. Our study finds a positive CFP-ESGP relationship, but in respect of market measures only, while there is a negative ESGP-CFP relationship in respect of both accounting and market measures. However, this research study comes with certain limitations. Firstly, our measurement of ESGP relies on Bloomberg's ESG, it remains uncertain whether these scores comprehensively cover all ESG factors. To enhance the study, future research could incorporate reputational indices as a measure of non-financial performance, capturing intangible benefits derived from higher ESGP within the CFP-ESGP relationship framework. Secondly, our analysis is based on a limited number of companies listed on the Nifty100 ESG Index in India. Subsequent studies in this area could explore the CFP-ESGP relationship on a larger sample size. Additionally, our measurement of ESGP considers overall ESG scores. It might be valuable for future studies to examine separate scores for environment (E), social (S), and governance (G) factors. Furthermore, this study exclusively focuses on Indian firms. A valuable extension would involve conducting a cross-country comparative study, allowing for a comparison of results between developed and developing economies.

6. CONCLUSION

The relationship between CFP and ESGP has been widely studied, with mixed results observed across various research efforts (Margolis & Walsh, 2003; Lu et al., 2014; Yang et al., 2024). These inconsistent findings highlight the need for further empirical investigation to clarify the interaction between these two performance dimensions. While many studies argue that ESG activities can create a competitive advantage by enhancing corporate reputation (Porter et al., 2006; Porter et al., 2019), managers typically prioritize ESG initiatives only when they contribute to improved financial outcomes. This study adopts a distinct perspective by recognizing that firms must balance multiple performance objectives, with ESGP holding equal importance alongside financial metrics in managerial decision-making. Effective corporate management requires allocating limited financial resources across diverse investments to satisfy the expectations of all stakeholders, not just shareholders. The primary objective of this research is to explore how financial resource availability influences firms' ESGP and, conversely, how ESGP affects financial performance.

The findings reveal a positive relationship between CFP and ESGP when measured using market-based indicators, but a negative association emerges when accounting-based measures are considered. These results suggest that greater financial resources enhance a firm's flexibility, allowing it to develop strategies aligned with its current and future operational environment. Higher profitability increases financial adaptability, significantly shaping managerial choices. These insights are particularly valuable for academics seeking to evaluate the causality and impact of the CFP-ESGP relationship in emerging economies like India. Corporate leaders can also benefit from this research by understanding why higher financial performance, measured through ROA, does not necessarily lead to increased ESG engagement and why ESG investments may negatively influence financial outcomes. The study highlights additional factors that should be incorporated into similar analyses, offering guidance on whether firms should focus on specific ESG dimensions or an aggregate approach for sustainable investments. Investors relying on ESG scores can also use these findings to assess the financial implications of socially responsible investments in the Indian context.

Given the inconsistent findings on the CFP-ESGP relationship, this study sets the stage for future research to explore several critical areas. Sector-specific analyses could determine whether certain industries exhibit stronger ESG-financial performance linkages. Longitudinal studies with extended time frames may help assess whether ESG investments yield financial benefits over the long term. Additionally, future research could examine how corporate governance structures, regulatory policies, and firm-specific characteristics moderate the ESG-CFP relationship. A deeper understanding of these factors would enable businesses to refine their sustainability strategies while maintaining financial efficiency.

Despite its contributions, this study has limitations. The sample is confined to Indian firms listed on the Nifty100 ESG Index, which may not fully represent smaller companies or those in other markets. The reliance on secondary data also restricts the ability to capture managerial perspectives and strategic nuances in ESG decision-making. Future studies incorporating qualitative methods, such as executive interviews, could provide richer insights into how firms integrate ESG considerations into financial planning. Macroeconomic factors, including policy shifts and global sustainability trends, should also be incorporated into future models to strengthen the validity of findings. Addressing these limitations and expanding the scope of research will lead to a more comprehensive understanding of the ESG-CFP relationship, offering valuable insights for academics, corporate leaders, and investors.

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