

ESG Risk Rating and Corporate Performance – An Empirical Analysis on Indian Listed Companies

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Abstract:

The growing emphasis on ESG (Environmental, Social and Governance) reporting among the corporates in India, has paved way for many academic researches. Corporate sustainability initiatives have led to many sustainable investments, which has affiliated risks and the same would impact on corporate performance. Companies adopt a well-structured risk management framework to manage their financial and statutory risks. Enterprise risk management (ERM) which aggregates different risks of a business at a firm level is employed as a strategic tool to manage and mitigate risks. But research and scholarly work on risk related to ESG investments is still in a nascent stage and are still not addressed adequately by the industry and investors. On these grounds, the present study tries to examine the relationship between the ESG risk scores and corporate financial performance metrics. The sample used in this research are listed companies on National Stock Exchange and the data collected through secondary sources are analysed as to how exposure to environmental, social, and governance risks influences both accounting-based and market-based measures of performance. The findings provide evidence on how High ESG risk scores negatively impact profitability and valuation. On the contrary, it proves how better ESG risk management contributes to better corporate performance. The results offer important insights for managers, regulators, and investors regarding the strategic role of ESG risk management in enhancing firm resilience and competitive advantage.

Keywords:

Sustainability, ESG reporting, ESG scores, ESG risk rating, Risk management, Corporate performance, Financial performance, Firm value.