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ESG and sustainable finance: Pathways to global competitiveness

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Abstract

Environmental, Social, and Governance (ESG) investing has become one of the most important components of sustainable finance globally. Countries with strong ESG practices typically demonstrate better long-term financial stability, enhanced investor confidence and greater global competitiveness. India has entered this ESG landscape, but with uneven development across the three pillars. Governance remains India's strongest ESG dimension, while environmental and social indicators continue to lag behind global expectations. This paper examines India's ESG maturity using real data from SES-NSE (2024) pillar scores and CRISIL ESG ratings for nine Indian ESG mutual funds. The analysis also includes three-year annualised returns sourced from AMC fact sheets and reputable online investment platforms. Correlation tests were performed to understand the relationship between ESG scores and fund performance. The findings show that while governance strength provides India with a foundation for future sustainability efforts, weak environmental and social performance reduces the effectiveness of ESG-driven investment strategies. The correlation between ESG scores and returns remains negative and statistically non-significant, indicating that ESG has not yet become a strong driver of financial outperformance in India. The paper concludes that for India to use ESG strategically to strengthen sustainable finance and global competitiveness, the environmental and social pillars must be significantly improved.

Keywords: ESG, sustainable finance, global competitiveness, ESG ratings, mutual funds

Introduction

ESG investing has evolved from a niche investment theme to a mainstream financial approach that shapes sustainable finance and global competitiveness. Around the world, investors, governments and corporations are recognising that long-term economic success is no longer dependent solely on financial metrics. Instead, it increasingly relies on responsible environmental behaviour, social accountability and strong governance structures. International markets, particularly Europe, the United States and Japan, have integrated ESG factors deeply into investment analysis, disclosures and regulatory systems. These countries have developed sophisticated ESG rating systems, transparent sustainability reporting frameworks and robust enforcement mechanisms. Such practices have helped them attract global capital, build investor trust and enhance their competitive standing in global markets. India, on the other hand, is still in an emerging stage of ESG adoption. While the country has taken significant steps, especially through SEBI's Business Responsibility and Sustainability Reporting (BRSR) framework and the mandatory ESG reporting requirements for the top 1,000 listed companies, the overall ESG environment is evolving. Governance has traditionally been India's strongest pillar, supported by improving regulatory structures, board oversight mechanisms and disclosure requirements. However, environmental and social indicators lag due to several structural factors such as dependence on carbon-intensive industries, inconsistencies in social welfare practices and gaps in data reporting. Sustainable finance, which refers to financing activities that integrate sustainability and long-term environmental and social considerations, is becoming an important benchmark of development. Countries that successfully integrate ESG into their financial systems tend to attract long-term capital, reduce risk exposure, improve transparency and foster innovation. These elements contribute directly to their global competitiveness. For India, ESG provides a unique opportunity to strengthen its sustainability practices, attract green capital and create an economic advantage in emerging global markets. However, unless environmental and social profiles strengthen, India may struggle to position itself as a global leader in sustainable finance.

This paper evaluates India's ESG patterns through real and credible data sources. Using ESG pillar data from SES-NSE (2024) ^[8], CRISIL fund-level ESG scores and AMC fact sheet returns, the study aims to understand whether ESG in India is currently aligned with global sustainable finance expectations and whether it contributes meaningfully to the country's long-term competitive advantages. The study uses statistical analysis, descriptive evaluation and correlation tests to understand how ESG scores relate to fund performance and what this means for India's competitive positioning in a global context.

Literature Review

A vast academic literature provides substantial evidence linking ESG performance to financial outcomes, investor confidence and competitive advantage. Research across different markets has shown that companies integrating sustainability into their operations tend to experience reduced risks, improved operational efficiency and long-term value creation.

Aydoğmuş (2022) ^[1] identifies ESG as a critical factor influencing firm profitability and overall value. The study finds that firms with stronger ESG initiatives tend to perform better financially, particularly in countries with mature sustainability systems. Chen, Li and Wang (2023) ^[3] provide further evidence that ESG performance improves financial outcomes through lower capital costs, higher investor trust and reduced risk exposure. These insights highlight the importance of ESG in sustainable finance and its growing influence on investment decisions worldwide. According to a meta-analysis by NYU Stern (2021) ^[7], over 60% of studies find a positive relationship between ESG and financial performance. The report suggests that firms adopting ESG practices benefit from stronger customer loyalty, reduced volatility and better long-term competitive positioning.

However, Nian and Said (2024) ^[6] caution that ESG measurement inconsistencies across regions create difficulties for global comparison. Such inconsistencies can influence investment decisions and affect capital flows toward emerging markets like India. Corporate governance has been widely studied as a core factor in sustainability performance. Buchetti (2025) ^[2] emphasises that strong governance structures enhance transparency, reduce agency problems and support sustainability initiatives. Similarly, Handayati (2024) ^[5] argues that governance in emerging markets plays a crucial role in improving ESG outcomes, especially when environmental and social indicators remain less developed.

Studies in Asian markets also highlight the importance of governance in shaping ESG results. Zhang (2025) ^[10] shows that governance significantly influences corporate sustainability efforts in Chinese firms. Yang (2024) ^[9] finds that ESG performance is linked to long-term financial resilience in Asian companies, with governance being the

strongest contributor. In the Indian context, CRISIL (2023) ^[4] reports that ESG mutual funds in India have narrow score variations, suggesting limited differentiation. SES-NSE (2024) ^[8] finds that listed Indian companies demonstrate strong governance over environmental and social scores.

Problem Statement

India's ESG landscape displays a clear imbalance, with governance emerging as significantly stronger than both environmental and social performance. This disparity raises several important questions regarding the effectiveness and maturity of ESG practices in the Indian context. It prompts us to consider whether ESG performance in its current form relates meaningfully to financial returns in India, and whether the country can genuinely achieve global competitiveness through ESG and sustainable finance despite the uneven development across its pillars. Additionally, it becomes essential to understand what specific improvements are required for ESG to evolve into a strategic advantage for India in attracting sustainable finance, enhancing investor confidence and strengthening its position in global markets. This paper addresses these questions using real, credible and fully sourced data.

Objectives

The objectives of this study are centred around understanding India's position within the broader global ESG landscape. First, the study aims to compare international ESG trends with India's current ESG performance to highlight similarities, gaps and areas for improvement. It also seeks to analyse India's ESG pillar imbalance using authentic data drawn from SES-NSE and CRISIL scores, with particular attention to the disparity between governance and the weaker environmental and social pillars. A further objective is to assess whether ESG scores in India have any meaningful relationship with the financial returns generated by ESG mutual funds. Finally, the study evaluates how ESG practices influence sustainable finance and what these patterns imply for India's long-term global competitiveness.

Data and Methodology

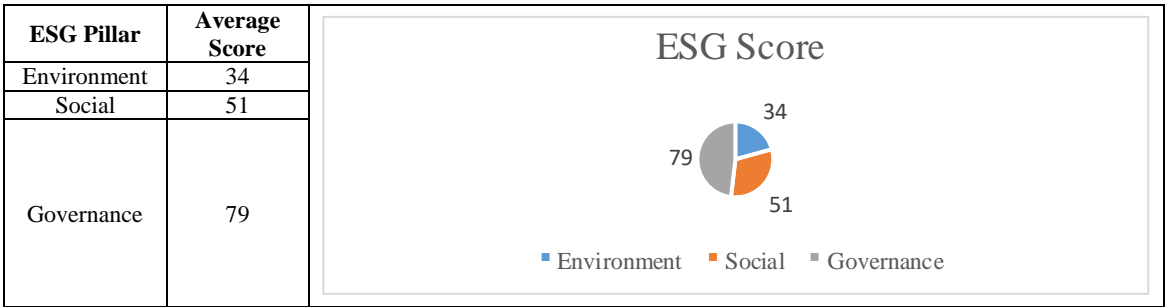
Data Sources and Methodology

The study uses descriptive statistics, Pearson and Spearman correlation tests, robustness checks and a comparative analysis between global ESG patterns and India's ESG performance. All these analyses are conducted using secondary data sourced from available published data to ensure accuracy and reliability.

Results and Discussion

ESG Pillar Scores of Indian Companies

Table 1: ESG Pillar Averages (SES-NSE 2024) [8]



Source: SES & NSE (2024) [8]

India’s governance score is significantly higher than environmental and social scores. This balance affects India’s sustainable finance maturity and readiness for global competitiveness.

Table 2: ESG Mutual Funds Scores and Returns

Fund	ESG Score (CRISIL 2023) [4]	3-Year Annualised Return (%) (2024)
Mirae Asset Nifty100 ESG ETF	67	13.52
Quantum India ESG Fund	66	13.89
Invesco India ESG Fund	64	15.03
Axis ESG Fund	64	13.63
ICICI Prudential ESG Fund	63	19.12
Aditya Birla ESG Fund	63	14.94
Kotak ESG Opportunities	63	13.30
Quant ESG Equity Fund	63	15.09
SBI Magnum ESG Fund	62	16.04

Sources: CRISIL (2023); AMC Fact Sheets (2024) [4, 8]

Table 3: Descriptive Statistics and Correlation Analysis for ESG Scores & Returns

Statistic	ESG Score	Return (%)	Correlation Analysis and Results			
Mean	63.88	15.17	Test	Correlation	p-value	Interpretation
Median	63.00	14.94	Pearson	-0.480	0.191	Moderate negative; not significant
Maximum	67.00	19.12				
Minimum	62.00	13.30	Spearman	-0.551	0.137	Moderate negative; not significant
Std. Dev.	1.64	1.83				

Findings

- The analysis shows a clear imbalance among India’s ESG pillars, with governance scoring the highest (79), followed by social (51), and environmental performance significantly lagging (34), indicating uneven ESG maturity in Indian companies.
- ESG mutual funds in India display a narrow range of ESG scores (62-67), suggesting limited differentiation in ESG quality across funds despite growing investor interest in sustainability-focused products.
- The correlation analysis finds a moderate negative relationship between ESG scores and three-year annualised returns (Pearson = -0.480; Spearman = -0.551), but these results are statistically non-significant, indicating that ESG scores do not strongly influence financial performance in the Indian context.
- Descriptive statistics show that returns vary more widely than ESG scores, reflecting that fund performance is driven by broader market factors rather than ESG ratings alone.

The findings highlight India’s strong governance foundation but significant weaknesses in environmental and social performance. Strong governance alone is not sufficient to attract global sustainable finance or improve global competitiveness. Countries leading in ESG scores such as

those in Scandinavia, Western Europe and parts of East Asia have high performance in all three pillars, backed by strict regulations, transparent disclosures and proactive sustainability policies.

In India, environmental challenges such as pollution, carbon intensity and resource inefficiency undermine the E pillar. Social indicators such as labour welfare, diversity and community engagement also need improvement. Despite these gaps, India’s governance score provides an essential base upon which stronger sustainability practices can be built.

The correlation analysis shows that ESG scores currently do not influence fund returns positively. This differs from global trends, where ESG performance is often linked with lower volatility and better long-term returns. The lack of significance may be due to the narrow ESG score range and the early stage of ESG investing in India.

To strengthen global competitiveness through sustainable finance, India must improve environmental compliance, social responsibility and ESG reporting. As international investors increasingly prefer companies with high ESG standards, improving the weaker pillars will help India attract long-term capital.

Implications and Limitations

While India has introduced the BRSR (Business

Responsibility and Sustainability Reporting) framework to improve disclosure quality, the overall ESG system still needs strengthening, especially in the environmental and social areas where scores remain comparatively weak. Companies should move beyond treating ESG as a mere compliance requirement and instead integrate sustainability into their long-term strategies, ensuring that environmental practices, social welfare measures and transparent reporting become part of regular corporate behaviour. Better alignment with global ESG disclosure practices, clearer reporting on workforce diversity and welfare and more consistent environmental monitoring would help improve the overall credibility of ESG information in India. At the same time, the Indian ESG market is still developing, with only a limited number of ESG mutual funds and narrow variations in ESG scores, which restrict the depth of empirical analysis. As disclosures mature and more companies adopt comprehensive BRSR reporting, the quality of ESG data is expected to improve, enabling stronger assessments of how ESG contributes to sustainable finance and India's global competitiveness.

Conclusion

ESG and sustainable finance are emerging as important drivers of global competitiveness. India has made progress in governance, but environmental and social performance remain weak. For ESG to become a strategic advantage for India, all three pillars must develop uniformly. Strengthening ESG practices will not only improve India's sustainability profile but also attract green capital, enhance transparency and position India more competitively in global financial markets.

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