

Do ESG practices impact banks' performance? An empirical Analysis from the Indian Banking Industry

Dr. Ramesh Prasad

**Department of Commerce and Management, St. Xavier's University
Kolkata; E-mail: ramesh.prasad@sxuk.edu.in**

Abstract

The Present study enquire into the impact of ESG initiatives on Indian banks' performance with respect to market performance (Market Capitalization, Market Value Added) and operational performance (Return on Assets). This study employs three regression models on a dataset of 28 Indian banks (considering both public and private sectors), for the period of 2021-22. The dependent variables of the respective model include Market Capitalization (MC), Market Value Added (MVA), and Return on Assets (ROA). The ESG performance score, considered as a proxy for ESG practices, indicates an independent variable for which the data is extracted from the Refinitive database. Additionally, this study incorporates three control variables specific to banks, including the capital adequacy ratio, assets quality, and liquid assets. This study reveals mixed and inconclusive results regarding the connection between ESG practices and bank performance. Indian banks are compensated by deterioration (negative impact) in operational performance owing to the adoption of ESG practices. In contrast, adopting ESG practices leads to strengthening (significant positive impact) market performance. The preliminary findings of this study highlight that Indian banks have not wholeheartedly incorporated the ESG agenda. Indian banks are at the initial stage regarding adopting ESG practices since there is no standardized Indian guideline to embrace the ESG agenda, particularly for the Indian banking industry. So far as novelty is concerned, this pilot study is a modest first attempt to evaluate the ESG practices' impact on banking performance in the Indian framework. This type of research in the Indian scenario has not yet been empirically investigated to date. This study contributes noteworthy inputs for academicians, practitioners, policymakers, banking regulators, investors, and other stakeholders in the context of dynamic of sustainability behaviour of Indian banks.

Keywords: *ESG performance score, MVA, Market capitalization, Indian banks, ROA*

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