

## ESG and Financial Performance: A Comparative Study of Public and Private Sector Banks in India

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### ABSTRACT

*Environmental, Social, and Governance (ESG) practices have become very relevant in recent years as predictors of sustainable corporate performance in the banking industry. This research paper seeks to compare and contrast the effects of ESG practices on the financial performance of both the public and private sector banks in India. It is based on a systematic literature review (SLR) methodology that is based on secondary data and is based on a PRISMA framework to select and analyse relevant studies. All the selected articles underwent a review to comprehend the association between the ESG variables and the financial performance outcomes like Return on Assets (ROA), Return on Equity (ROE), and profitability. The results indicate that the overall effect of ESG practices on financial performance is positive, although, private sector banks show better results because of effective governance, increased transparency, and strategic integration of ESG. On the other hand, the performance of the public sector banks is more socially oriented with quite average financial results. The paper highlights the significance of adopting ESG in order to attain sustainable growth and competitive edge.*

**Keywords:** ESG Practices, Financial Performance, Public Sector Banks, Private Sector Banks, Sustainability Reporting and Corporate Governance.

### Introduction

ESG practices have become vital corporate sustainability and financial performance determinants in recent years. As the world becomes more environmentally conscious, socially aware and accountable of their companies, organizations are finding that they are under increased pressure to become responsible business enterprises. Banking, especially, has an important role to play in facilitating sustainable development because of its role in the allocation of capitals and financial intermediation. Consequently, ESG integration has emerged as one of the strategic priorities of the financial institutions in the global context. ESG is not limited to financial metrics and other non-financial factors that affect long-term performance of the organization are considered. Environmental dimension deals with the efficiency of resources, climate change, and green financing whereas social dimension is concerned with corporate social responsibility (CSR), stakeholder interaction, and community development. Governance, on the other hand, relates to transparency, ethical practices, and effective management structures. All these dimensions will result in better risk management, reputation and sustainable value creation. The current literature offers a lot of evidence in the linkage between the ESG practice and financial performance. Indicatively, Ameer and Othman (2011) observed that companies that have effective sustainability practices are likely to perform better than their counterparts in terms of finances. Equally, Cavaco and Crifo (2014) contended that ESG activities supplement financial performance as it enhances

operational efficiency and trust among stakeholders. Concerning the banking sector, Bihari and Pradhan (2011) pointed out that CSR projects have a positive impact on financial performance, which means that socially responsible actions can be used to improve profitability. The adoption of ESG in the Indian context has been gaining momentum because of regulatory needs and growing awareness of stakeholders. Chelawat and Trivedi (2016) proved that the ESG performance is strongly related to the value of firms, although the study by Maji and Lohia (2022) revealed a positive correlation between the ESG score and financial performance. Moreover, Mishra and Sant (2023) highlighted that ESG disclosure enhances transparency and investor trust in Indian banks. These results imply that ESG practices are gradually forming part of the strategy of financial institutions in the emerging economies. Nevertheless, although the evidence base that backs the positive ESG-financial performance relationship is on the rise, there are studies that provide mixed or inconclusive findings. The authors of Gao et al. (2023) claimed that the effects of ESG depend on the lifecycle stage of a company, and Scholtens (2008) and Ullmann (1985) emphasized that the relationship is complicated because of the limited methodology used. These discrepancies suggest that the current research should be revised to grasp the dynamics of ESG implementation and its financial consequences in more detail. Considering this context, the current review paper will be attempting to perform systematic analysis of the available literature on ESG practices and financial performance and specifically in the banking industry. The research draws on the secondary data provided by peer-reviewed articles and follows a systematic method to determine the major trends, theoretical approaches, and gaps in the research. The paper aims to offer an understanding of the role of ESG in improving financial performance and contribute to the increasingly popular area of discussion on sustainable banking practices by synthesizing previous research.

## **Methodology**

### **Research Design**

This paper assumes a comparative research design in terms of a systematic literature review (SLR) methodology that relies on secondary data to examine the association between Environmental, Social and Governance (ESG) practices and financial performance in both the public and privately-owned sector banks in India. The comparative design allows identifying the difference and similarities between ESG adoption, disclosure and financial performance of the two types of banks. The research is both descriptive and analytical in character as it aims to synthesize the existing empirical and conceptual studies.

### **Data Source**

The paper is based purely on the secondary data obtained due to the presence of the given set of peer-reviewed journal articles and academic publications. A list of 26 studies was initially identified, which included ESG practices, CSR activities, corporate governance, sustainability reporting, and financial performance both globally and in India.

Based on them, the shortlisting of studies that were directly related to the banking industry and the ESG-financial performance relationship was made. Using inclusion and exclusion criteria, 18 potential studies were selected to analyse in detail. Such studies involve the research of the Indian public sector banks, the private sector banks and international comparisons of banks.

### **Search Strategy**

The dataset used was searched systematically to extract studies of relevance. Though references were pre-selected, all articles were screened meticulously in regard to their relevance to the research objective. The keywords ESG performance, financial performance, corporate social responsibility, sustainability reporting, corporate governance, and banking sector were used to select. The studies that discussed these topics in the title, abstract or the body of the study were given high priority to be included. This methodology made sure that only pertinent and useful studies were taken into account.

### **Study Variables**

The study discusses three types of variables, namely, independent, dependent, and comparative. The independent variables comprise ESG performance, CSR activities, and sustainability reporting, demonstrating environmental responsibility, social commitment, and governance practices of banks. Financial performance is the dependent variable, where indicators of financial performance include Return on Assets (ROA), Return on Equity (ROE), profitability, and market value. These indicators determine the effectiveness and financial well-being of banks. The type of bank (public or

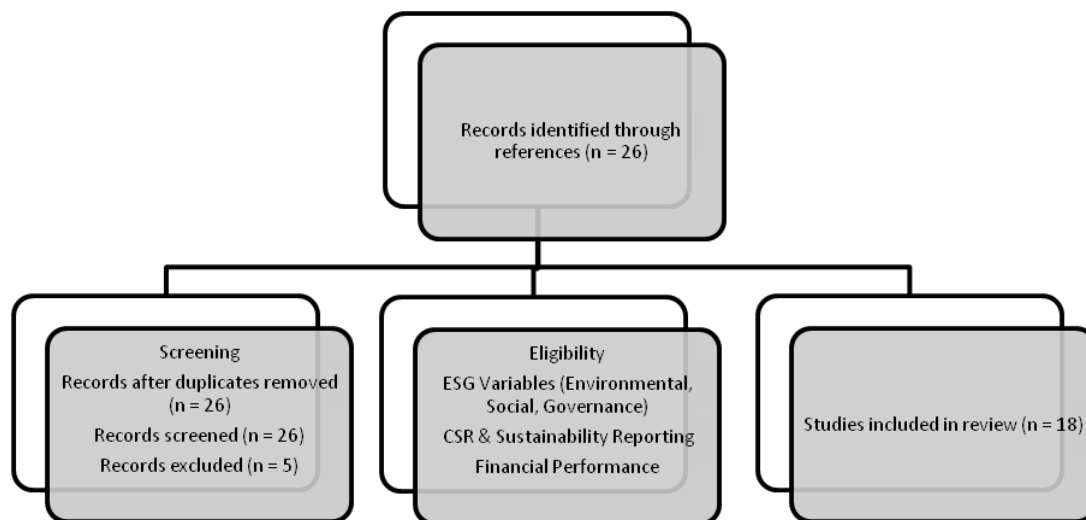
private sector) is the comparative variable that allows the researcher to analyze the differences in the ESG adoption and its effect on the financial performance of these two banking groups.

### Inclusion and Exclusion Criteria

Certain inclusion and exclusion criteria were used to make sure that all were consistent and relevant. The inclusion criteria were that the studies had to deal with ESG, CSR, sustainability practices, and financial performance, especially in the banking or financial industry. Peer-reviewed journal articles and other scholarly publications were taken into account only in the English language. Conversely, articles that were not directly related to ESG or financial performance, duplicates and articles that lacked clear methodology were eliminated. This filtering action assisted in narrowing down the set of data and preserving the quality of the review.

### PRISMA Flow Process

Systematic documentation of the study selection process was done using PRISMA (Preferred Reporting Items (Fig.1), Systematic Reviews and Meta-Analyses). At the beginning, 26 studies were found based on the given references. At the screening level, a review of all the studies was done according to the titles and abstracts, which led to the elimination of five studies that were not directly related. Thereafter, 21 articles were evaluated based on their eligibility by examining their full-texts. At this point, three studies were eliminated because of the inadequacy of data, or irrelevancy to the banking industry. Lastly, 18 studies were incorporated in the systematic review. This systematic procedure guarantees transparency, replicability and methodological rigor.



**Fig. 1: PRISMA flow process for ESG and Financial Performance**

### Data Extraction and Analysis

Extracting data was done manually, by studying each of the selected studies. Details like the names of the authors, the year of publication, circumstances of the research, the methodology, major variables and significant findings were noted. The obtained data was analysed thematically, whereby studies were classified by themes which included ESG and financial performance, CSR practices in banking, sustainability reporting, and corporate governance. This thematic analysis allowed cross-studying and finding the consistent results and contrasting ones.

### Reliability and Validity

In order to be reliable and valid, only peer reviewed and credible academic sources were used in the review. The application of PRISMA framework increases the transparency and uniformity of the study selection procedure. Also, the fact that the studies involving various geographical areas are

included enhances the generalizability of the findings. The validity of the conclusions made can also be attested by the consistency of the results obtained in various studies.

## Results and Discussion

### • Overview of Selected Studies

The results of the systematic literature review reveal that there is a rather positive correlation between Environmental, Social, and Governance (ESG) practices and financial performance in the banking sector. As seen in **Table 1**, the majority of research, such as Ameer and Othman (2011), Chelawat and Trivedi (2016), and Maji and Lohia (2022) reveal that successful ESG integration boosts profitability, firm value, and financial stability in general. To a great extent, this positive relationship is explained by enhanced risk management, efficiency in operations, and heightened trust of stakeholders.

The ESG uptake is growing in the Indian context, as research like Mishra and Sant (2023) has noted the significance of disclosure and transparency in enhancing investor confidence. Moreover, corporate governance is a key factor that affects the ESG-performance connection, as Farooq et al. (2021) and Rodriguez-Fernandez (2015) suggest.

Not every study, however, has similar findings. According to research by Gao et al. (2023), Scholtens (2008), and Ullmann (1985), the ESG-financial performance relationship can be different according to the lifecycle of firms, methodological variations, and the context.

On the whole, discussion indicates that although ESG practices are beneficial to the long-term financial results, their influence depends on their successful implementation, the quality of governance, and the dynamics of particular sectors, especially in the emerging markets such as India.

**Table 1: Summary of Reviewed Studies**

Author(s) & Year	Context	Focus Area	Key Findings
Ameer & Othman (2011)	Global	Sustainability	Positive impact on financial performance
Cavaco & Crifo (2014)	Europe	CSR	Complementary relationship
Chelawat & Trivedi (2016)	India	ESG	Positive effect on firm value
Maji & Lohia (2022)	India	ESG	Positive association
Mishra & Sant (2023)	India	ESG Disclosure	Improved transparency and performance
Bihari & Pradhan (2011)	India	CSR in Banks	Positive financial outcomes
Kumar & Prakash (2018)	India	Sustainable Banking	Enhances performance
Ching et al. (2017)	Brazil	Reporting	Positive financial impact
Farooq et al. (2021)	Pakistan	Governance	Improves performance
Gao et al. (2023)	Global	ESG Lifecycle	Mixed results
Laskar (2018)	Asia	Sustainability Reporting	Positive relationship with performance
Rodriguez-Fernandez (2015)	Europe	Governance	Governance improves ESG-financial link
Scholtens (2008)	Global	CSR	Weak/indirect relationship
Ullmann (1985)	USA	Social Performance	Inconclusive relationship
Surroca et al. (2009)	Global	CSR	Mediated by intangible resources
Rahi et al. (2021)	Nordic	Sustainability	Positive influence
Shaikh (2022)	Global	ESG	Positive association
Habib & Mourad (2023)	USA	ESG (COVID context)	Positive but context-dependent

### • ESG and Financial Performance Relationship

The review of literature chosen shows that there is a positive association between ESG practices and financial performance mostly. According to studies like Ameer and Othman (2011) and Cavaco and Crifo (2014), sustainability initiatives lead to better profitability through better operational efficiency and stakeholder trust. In the same way, Chelawat and Trivedi (2016) and Maji and Lohia (2022) affirm the claim that the performance of the ESG in the Indian context is an important factor in firm value.

Nonetheless, the correlation is not exactly always the same. Gao et al. (2023) contend that ESG impact is more pronounced at various points in the lifecycle of a firm, whereas Scholtens (2008) points out that the connection can be weak or indirect at some times. These results show that the benefits of ESG are not usually achieved instantly but in the long-term.

• **Comparative Analysis: Public vs Private Sector Banks**

The study shows comparing ESG practices and their influence on financial performance of both the public and the private sector banks in India (Table.2). The review suggests that there is a significant difference in how they are approached and their results.

Social goals of the public sector banks are mainly financial inclusion and community development. Although such initiatives have a substantial effect on societal welfare, their direct effect on the financial performance is moderate. By contrast, banks in the private sector are more strategic in their approach to ESG, as they are focused on governance, efficiency and profitability.

**Table 2: Comparative ESG Performance**

Aspect	Public Sector Banks	Private Sector Banks
ESG Focus	Social responsibility	Governance and efficiency
CSR Activities	Welfare-oriented	Strategic
ESG Disclosure	Moderate	High
Financial Outcomes	Moderate	Strong

• **ESG Disclosure and Reporting**

Literature highlights that the disclosure of ESG plays a significant role in improving financial performance. Sustainability reporting enhances investor confidence and lowers the information asymmetry (Table.3). Researchers like Ching et al. (2017) and Laskar (2018) show that good financial performance is linked to high-quality ESG reporting.

The Indian banking industry has a higher level of ESG disclosure in the private banks as opposed to the public sector banks. Mishra and Sant (2023) point out that improved disclosure practices result in improved transparency and financial performance.

**Table 3: ESG Disclosure Comparison**

Indicator	Public Sector Banks	Private Sector Banks
Reporting Quality	Basic	Advanced
Transparency	Moderate	High
Investor Confidence	Moderate	High

• **Role of Corporate Governance**

The concept of corporate governance is recognized to be a very important aspect of effectiveness of ESG practices. Well established governance structures enhance accountability, decrease agency conflicts and increase financial performance. Farooq et al. (2021) and Rodriguez-Fernandez (2015) note that governance is a mediating factor in ESG-financial performance relationship.

Banks in the private sector have more effective governance structures that allow the integration of ESG practices better. Though stable, public-sector banks tend to experience bureaucratic issues that restrict the effectiveness of governance.

• **Thematic Synthesis**

The key themes emerging from the literature are summarized below:

**Table 4: Thematic Insights**

Theme	Key Insight
ESG & Financial Performance	Generally positive relationship
CSR in Banking	Enhances social and financial outcomes
ESG Disclosure	Improves transparency and trust
Governance	Strengthens performance
Mixed Evidence	Context-dependent relationship

The results of this systematic literature review suggest the importance of ESG practices as key determinants of financial performance in the banking industry is gaining momentum (Table.4). ESG programs help in enhancing better reputation, engagement with stakeholders and risk management, thus improving profitability in the long-term.

The influence of ESG is however different in the public and the private sector banks. Their strategic approach, effective governance and increased transparency are of more benefit to the private sector banks. Although the banks of the public sector have social implications, they struggle with the translation of ESG activities into good performance.

On the whole, the paper emphasizes the need to incorporate ESG in business strategies to attain sustainable growth and competitive edge.

### Conclusion

Overall, this study shows that Environmental, Social, and Governance (ESG) practices are very important in determining the financial performance of banks. The results show that ESG adoption is mostly positively correlated with financial results including profitability, ROA and ROE. The degree of this influence is however different between the public and the private sector banks in India. The banks in the private sector show improved financial performance given the effective governance, strategic integration of ESG, and increased transparency in disclosure practices. By contrast, the public sector banks are more socially oriented, investing in the development of the society yet attaining rather average financial profits. This paper finds that sustainable growth will not be attained without effective implementation of ESG, which is backed up by good governance and transparency in reporting. Further initiatives must be made to enhance ESG models and disclosure procedures, especially among banks in the public sector to improve financial and social performance.

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