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Study on Sustainable Financial Practices (ESG) and Their Impact on Organizational Performance

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ABSTRACT: This paper looks into the contributions of Sustainable Financial Practices through Environmental, Social and Governance (ESG) in organizational performance and sustainability. This paper analyses the impact of the implementation of ESG principles on investment decisions, stakeholder confidence and firm's expansion and development. The study adopted a mixed methodology, it combines a qualitative analysis based on secondary sources of literature, and the survey method on 52 respondents with a structured questionnaire survey. The study reviews stakeholders views on ESG concepts, level of awareness on the concepts, and the obstacles that face organizations in implementation processes. This study shows that ESG principles lead to positive outcomes for financial stability, corporate image and risk management. Finally, it recognizes the need of strategic implementation of ESG for sustainable development, and provides business and policymakers with practical guidelines.

KEYWORDS: ESG, Sustainable Finance, Corporate Governance, Environmental Responsibility, Social Impact, Organizational Performance, Stakeholder Trust

I. INTRODUCTION

A significant element of contemporary business strategy is to adopt the principles of sustainable financial management, particularly with increased consideration of Environmental, Social and Governance (ESG) considerations. ESG principles aim to help organizations to make ethically driven, profitable investment decisions. Over the past decade ESG considerations have gained ground from being an 'ethical and responsible' consideration adopted by a niche investor audience, to a widely accepted financial concept and increasingly incorporated within organizational strategy throughout the world. In the recent period of history corporations have adopted principles associated with ESG to respond to a changing climate, social inequalities and ethical practices. Stakeholders, as well as individual investors, have begun to look to invest with companies they believe will operate in a responsible and sustainable way. Adoption of ESG guidelines can improve corporate brand image, manage risk and can ensure a profitable and sustainable future for any organization. As a result regulatory authorities throughout the world have begun to introduce stricter guidelines on how and what corporate bodies disclose to the public. This research will examine how ESG-based financial approaches have impact on organizational performance as well as perceptions of key stakeholders. It will look at the difficulties organizations may encounter in adopting sustainable finance strategies. With 52 respondents, including students, professionals and investors,

II. LITERATURE REVIEW

- Timo Busch, & Alexander Bassen (2015) Meta-analysis on ESG and corporate financial performance.
- Robert G. Eccles, Ioannis Ioannou, & George Serafeim (2014) Longitudinal study on high vs. Low sustainability firms.
- United Nations Principles for Responsible Investment (Framework; widely referenced, 2023) Not one single paper but institutional framework that influences ESG investment.
- World Bank (Reports; data emphasized around 2021) Reports on sustainable finance and green bonds. Organisation for Economic Co-operation and Development (OECD Guidelines; continually updating, widely referenced framework) Corporate governance principles.

Research Objectives

This study aims to:



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1. Investigate respondents' level of knowledge and awareness of ESG factors.
2. Analyses the role of ESG practices on organizational financial performance and trust
3. To establish and determine relative weight of each of the ESG factors.

III. RESEARCH METHODOLOGY

Research Design

This study is based on the principles of a mixed method research, combining quantitative analysis of the responses to a survey and qualitative interpretation of respondents' answers.

Data Collection

The questionnaire which consists of 24 questions has been divided into various categories; such as demographic data, understanding of ESG, environmental practices, social responsibility and governance and investment trends, collected via a Google Form. Academic journals related to ESG and sustainable finance

Sample Size= 52 participants.

Sampling Method

Stratified random sampling was used so that all the different categories (demographic and professional) would be represented.

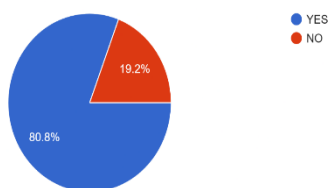
Data Analysis

The data obtained was a mixture of quantitative and qualitative, thus it was analyzed using both descriptive statistics (frequency distributions, percentage analysis, graphs using Google forms analysis) for the quantitative and thematical analysis of the qualitative data to find patterns.

Data Interpretation and Analysis

Figure 1: Q1 – Awareness of ESG Concept (n=52)

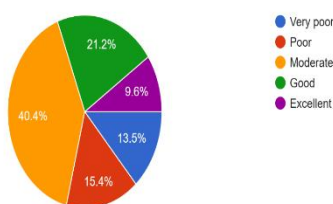
Q1. Sir/mam, please indicate whether you are aware of the concept of ESG (Environmental, Social, and Governance)?
52 responses



It has been noted from the above chart that 80.8 % of despondent expressed that they were aware of the concept of ESG while 19.2 % did not.

Figure 2: Q2 – ESG Understanding Level (Alternative View) (n=52)

Q2. Sir, please rate your level of understanding of ESG principles.
52 responses



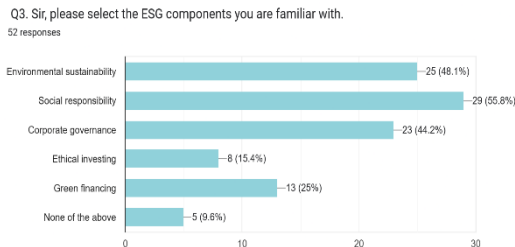
Despite this widespread familiarity, the self-assessment of self-rated understanding of ESG concepts paints a less consistent portrait, with a significant number of survey participants placing themselves at the intermediate levels. This suggests that while there may be common recognition of ESG jargon, this recognition does not necessarily correlate to comprehensive understanding of how it translates to financial decisions.



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Figure 3: Q3 – ESG Components Respondents are Familiar With (n=52)



Of the three main ESG pillars Environmental was most recognized, I believe this was mainly due to media focus on the topic of climate change/ carbon emissions. Social and Governance were only recognized by slightly less of the population and indicates the need for greater education in order to establish understanding in these areas of ESG..

Figure 4: Q6 – Frequency of Considering Environmental Impact in Investment Decisions (n=52)

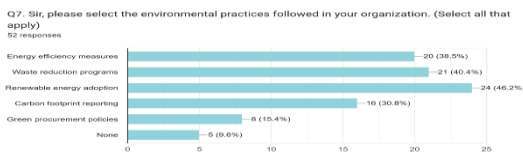


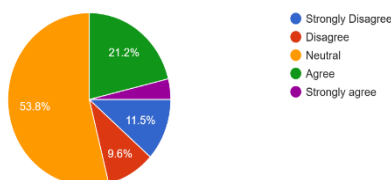
Figure 11: Q7 – Environmental Practices Followed in Organizations (n=52)

Different types of practices are identified among the organizations, and the list ranges from practices in energy efficiency to environmental impacts (waste reduction program or footprint monitoring). However, there are significant differences in terms of

implementation frequency and extensiveness of practices: there is a great variation in integrating the environmental aspect across organizations in our sample.

Figure 5: Q8 – Preference for Investing in Environmentally Responsible Companies (n=52)

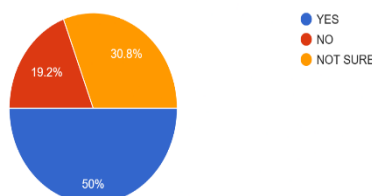
Q8. Sir, please indicate your agreement with the statement: "I prefer investing in environmentally responsible companies." 52 responses



A clear majority felt it desirable to invest in companies which are socially and environmentally conscious, suggesting that a company's environmental standing is emerging as an important factor in the investment decision making process. This trend will create incentives for companies to progress towards their environmental goals..

Figure 6: Q10 – Influence of Environmental Risks in Long-Term financial planning (n=52)

Q10. indicate whether environmental risks influence your long-term financial planning 52 responses



Environmental risks are increasingly becoming significant in long-term financial planning. This section of data indicates that there is an increased tendency for respondents to include scenarios for environmental risks in their strategic financial planning indicating a broad shift towards incorporating climate risk into financial models.

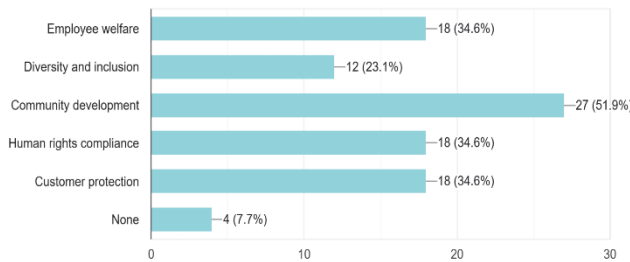


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Figure 7: Q12 - What Social Factors are included when making financial decision making?

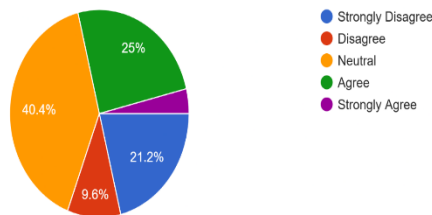
Q12. select the social factors considered in your financial decisions. (Select all that apply)
52 responses



(n=52) The most frequently mentioned social factors, on which financial decision makers base their investment decisions are employee well-being, community development and ethical labour practices. The results suggest that the social aspect of investment is slowly being measured and included in investment calculations beyond simple charity.

Figure 8: Q13 – Agreement: Social Responsibility Improves Financial Performance (n=52)

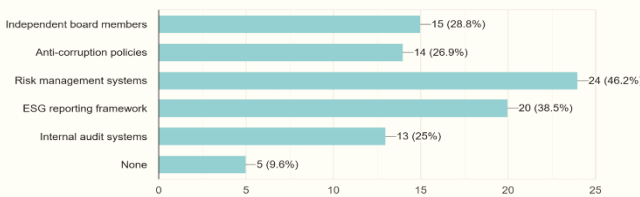
Q13. Sir, please indicate your level of agreement with the statement: "Social responsibility improves financial performance"
52 responses



Most respondents also agreed or strongly agreed that social responsibility improves financial results. This view corresponds with existing literature arguing that corporations with a firm social orientation achieve greater employee commitment, employee retention, and brand loyalty, as well as less risk of regulation..

Figure 9: Q17 – Governance Mechanisms Implemented in Organizations (n=52)

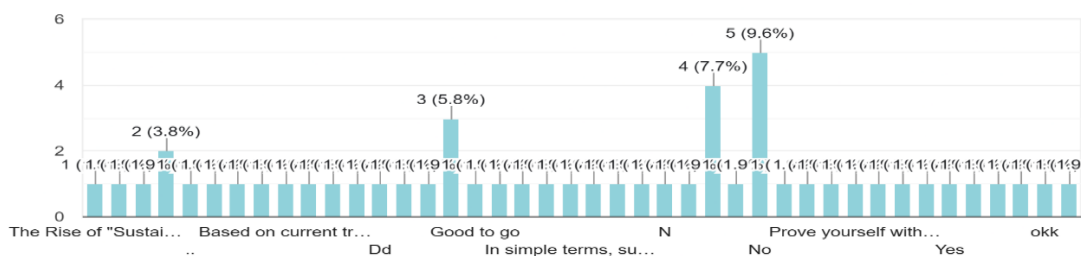
Q17. select the governance mechanisms implemented in your organization.
52 responses



The main governance mechanisms mentioned by the respondents are the independence of the board, audit committees, protection of whistleblowers and anticorruption policies. The presence of all these governance mechanisms reflects the increasing institutionalization of good governance practices but the extent of their implementation may vary from one company to another.

Q24. please share your views on the future of sustainable finance in your sector.

52 responses





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Forward-looking numbers seem promising; the bulk of respondents see their commitment to investing based on ESG criteria as likely to increase in the future, and more specifically moderately-to very likely. Overall, respondents perceive sustainable finance as trending favorably. They believe it will become more prominent as a consequence of tighter regulation, increasing demands from stakeholders and tangible economic advantages from ESG integration.

Numerical Summary of Survey Responses

Below in Table 1, is the full numerical summary of all 24 questions used in the survey to our 52 participants. In the table below, it shows the actual response given and how many participants chose this answer along with the percentage..

Key Metric	Visual (out of 100%)	% Score	n / 52
ESG Awareness (Yes)		82.7%	43
ESG Important in Decisions		82.7%	43
Prefer Env. Responsible Co.		80.8%	42
Social Resp. Improves Perf.		84.6%	44
Strong Governance Reduces Risk		88.5%	46
Positive Future of ESG Finance		84.6%	44
Likely to Increase ESG Invest.		80.8%	42
ESG has Significant Impact		88.5%	46

IV. RESULTS AND FINDINGS

The analysis of survey data yields the following key findings:

ESG Awareness and Knowledge Gap

Most of respondents are familiar with the ESG concept. However, there is a knowledge gap between "being familiar with" and "understands thoroughly from practice". Environment component is better understood, and governance components are poorer known. Formal trainings are still infrequent so that there are capacity constraints.

Positive ESG-Performance Correlation

Overall, the finding is that the perception of the ESG-performance relationship is very positive. Most of the organizations attribute good performance to ESG adoption, linking it to financial stability, trust of stakeholders, risk management and growth. This perception is reinforced by the literature already presented.

Environmental Integration in Financial Planning

In environmental awareness: companies' investment decisions are influenced by environmental factors, where respondents strongly favour the "environmentally aware companies". In addition, environmental risks are being understood as important to long-term financial planning. Nevertheless, how often and systematically environmental risk is evaluated varies from company to company.

Social Responsibility as a Financial Driver

Most view social responsibility as a financial performance booster. Employee welfare, community involvement, and responsible supply chains are the social elements that are most often included in financial decisions. While the practice of selecting suppliers based on social performance criteria is emerging and increasing, it has yet to be widely adopted.

Governance as a Risk Mitigation Tool

Effective governance processes are widely considered to be tools that control financial risk. A firm with a clear policy regarding corporate governance and frequent reviews of ESG risks at the management level, for example, are seen as better equipped to manage financial uncertainty. The most used governance mechanism controls are independent directors, Audit Committee and Anti- Corruption procedures.



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Growing ESG Investment Intent

At present, however, participation in ESG investing (e.g. Green bonds, ESG funds) is low although future investment plans look promising. Increased regulation, managing reputation and sincere belief in sustainability are the key drivers to promote the uptake of ESG, which hints at the converging financial and moral drivers.

Key Implementation Challenges

- Inadequate knowledge and training for professional practitioners and investors on ESG.
- High costs of investment to implement sustainability finance.
- Lack of standard measurement and reporting mechanism on ESG performance.
- Insufficient knowledge on the financial materiality of social and governance issues.
- Lack of ESG investment products that can be readily traded by the retail investors..

V. CONCLUSION

This paper concludes that SFIs under ESG are becoming indispensable in today's business practice. The results from the survey administered to 52 respondents help corroborate with emerging literature on stakeholder's knowledge of, and positive attitudes towards implementing ESG is in line with their organizations' financial performances, stakeholders' trust and the sustainability of their organizations.

There are three pillars under ESG that form a value proposition: environmental performance helps effectively manage climate risks, efficiently use resources and the financial implications of its effective practice can lead to cost savings; social performance strengthens stakeholders' relations and builds up good organizational branding, while good governance can mitigate agency cost and reduce financial risk. Together they form an integrated foundation for a sustainable competitive advantage.

Nevertheless, the effective practice of ESG still poses some challenges, for example the gap in the required expertise and training, problem of standardization and high implementation cost create hindrance in implementation particularly for small and medium size enterprises (SMEs) and in emerging markets. However, collaborative effort of firms, regulatory bodies, learning institutions and financial intermediaries will overcome these challenges in time.

In conclusion, the future of SFIs is quite bright, as rising investor demand for ESG-certified firms, favorable regulation and awareness on environmental impacts and social risk is a good push towards sustainability in corporate finance. The firm that took initiative will be triumphant in today's era where sustainability, transparency and sound governance will earn high premium.

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