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# A Study on Influence of ESG Practices on Firm Valuation

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**ABSTRACT:** Environmental, Social, and Governance (ESG) practices have emerged as critical determinants of corporate sustainability and firm valuation in the modern business environment. With increasing awareness among investors and stakeholders, ESG factors are now considered alongside traditional financial metrics in evaluating a firm's long-term performance and risk profile. This study examines the impact of ESG factors on firm valuation using primary data collected from 100 respondents through a structured questionnaire.

The research employs descriptive statistics, correlation analysis, and regression techniques to assess the relationship between ESG practices and firm value. The findings reveal that ESG practices significantly influence firm valuation, with environmental factors demonstrating the strongest and statistically significant impact. This suggests that initiatives related to environmental sustainability, such as resource efficiency and pollution control, play a crucial role in enhancing firm value. While social and governance factors are recognized as important by respondents, they do not exhibit statistically significant effects in this study, indicating that their influence may be indirect or dependent on other variables.

Furthermore, the study highlights the growing importance of ESG considerations in shaping investment decisions and corporate strategies, particularly in emerging markets like India where ESG adoption is still evolving. The results emphasize the need for companies to integrate ESG practices into their core operations to improve transparency, build investor confidence, and achieve sustainable growth.

Overall, this research contributes to the existing body of literature by providing empirical evidence on the relationship between ESG practices and firm valuation. It also offers practical insights for managers, policymakers, and investors by underscoring the importance of environmental sustainability and responsible business practices in enhancing corporate value.

**KEYWORDS:** ESG, Firm Valuation, Sustainability, Investor Perception, Corporate Governance

## I. INTRODUCTION

In recent years, Environmental, Social, and Governance (ESG) practices have gained significant attention as key drivers of corporate sustainability and long-term value creation. The growing awareness of climate change, social responsibility, and ethical governance has led investors, regulators, and stakeholders to increasingly emphasize ESG considerations in business decision-making. Investors are no longer solely focused on financial returns; instead, they are incorporating non-financial factors such as environmental responsibility, social impact, and governance transparency into their investment strategies.

Traditional firm valuation methods primarily relied on financial indicators such as revenue, profitability, and market capitalization. However, these approaches often overlooked the broader risks and opportunities associated with sustainability and ethical practices. Modern valuation frameworks now integrate ESG factors, recognizing their influence on risk management, corporate reputation, operational efficiency, and investor confidence. Companies with strong ESG performance are often perceived as more resilient, better managed, and capable of sustaining long-term growth.

Furthermore, regulatory bodies and global initiatives such as the United Nations Sustainable Development Goals (SDGs) and ESG reporting standards have encouraged firms to adopt sustainable practices and improve transparency.

As a result, ESG has evolved from a voluntary initiative to a strategic necessity for organizations aiming to remain competitive in the global market.

This study aims to examine how ESG practices influence firm valuation, particularly in the context of emerging markets. It seeks to understand investor perceptions and evaluate the relative importance of environmental, social, and governance factors in shaping firm value.

## II. LITERATURE REVIEW

Previous studies highlight mixed findings regarding the relationship between ESG practices and firm valuation. Aydoğmuş (2022) found a positive relationship between ESG performance and firm value, suggesting that companies with higher ESG scores tend to achieve better financial outcomes. Similarly, Postiglione (2024) emphasized the role of ESG in reducing the cost of capital, as investors perceive ESG-compliant firms as less risky.

Bani-Khaled et al. (2025) noted that ESG practices enhance corporate reputation, stakeholder trust, and long-term performance. These benefits contribute to improved market valuation and investor confidence. Additionally, several studies have highlighted that ESG disclosure improves transparency, which further strengthens investor trust and reduces information asymmetry.

However, some researchers argue that ESG investments may increase operational costs, particularly in the short term, without immediate financial returns. This creates a debate regarding whether ESG practices truly enhance firm value or simply reflect ethical and regulatory compliance. Moreover, the impact of individual ESG components—environmental, social, and governance—varies across industries and regions.

This study addresses these inconsistencies by focusing on investor perception and primary data analysis. By examining how individuals perceive ESG practices and their influence on firm valuation, the research provides practical insights into the evolving role of sustainability in financial decision-making.

## III. RESEARCH OBJECTIVES

- To analyse the impact of ESG practices on firm valuation
- To examine investor perception towards ESG
- To evaluate the significance of environmental, social, and governance factors
- To identify which ESG component has the strongest influence on firm value
- To understand the role of ESG in shaping future investment trends

## IV. METHODOLOGY

The study adopts a quantitative research design based on primary data collected through a structured questionnaire. A total of 100 respondents participated in the survey, representing a diverse group of individuals with varying levels of awareness and experience in investment decision-making.The questionnaire consisted of multiple-choice and Likert-scale questions designed to capture respondents' perceptions of ESG practices and their impact on firm valuation. The data collected was coded and analyzed using statistical tools to ensure accuracy and reliability.

**Variables:**
- Independent Variables: Environmental, Social, Governance
- Dependent Variable: Firm Valuation

**Tools Used:**
- Descriptive Statistics to summarize respondent characteristics and trends
- Correlation Analysis to examine relationships between variables
- Regression Analysis to determine the impact of ESG factors on firm valuation

The use of these tools enables a comprehensive understanding of the relationship between ESG practices and firm value.

## V. DATA ANALYSIS AND RESULTS

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The findings of the study reveal significant insights into investor perception and the role of ESG practices in firm valuation:

- 68% of respondents are aware of ESG practices
- 70% agree that ESG influences investment decisions
- 72% believe ESG improves firm valuation

These results indicate a strong level of awareness and acceptance of ESG among respondents, highlighting its growing importance in investment decision-making.

**Regression Results:**

| Variable | Coefficient (β) | Standard Error | t-Statistic | p-value |
|---|---|---|---|---|
| Intercept | -2.000 | 0.362 | -5.525 | 0.000 |
| Environmental | 1.750 | 0.280 | 6.254 | 0.000 |
| Social | 0.000 | 0.288 | 0.000 | 1.000 |
| Governance | 0.000 | 0.111 | 0.000 | 1.000 |

- $R^2 = 0.826$ (indicating a strong explanatory power of the model)
- Environmental factor → Significant ($p < 0.05$)
- Social factor → Not significant
- Governance factor → Not significant

The regression analysis suggests that environmental factors have a statistically significant impact on firm valuation, while social and governance factors do not show significant effects in this study. This indicates that environmental sustainability plays a major role in influencing investor perception and firm value.

## VI. DISCUSSION

The results support key theoretical frameworks such as Stakeholder Theory and the Resource-Based View, which emphasize the importance of sustainable practices in creating long-term value. ESG practices contribute to improved stakeholder relationships, enhanced reputation, and better risk management, all of which positively influence firm valuation.The significant impact of environmental factors suggests that investors are particularly concerned about issues such as climate change, resource management, and environmental responsibility. This aligns with global trends where environmental sustainability is becoming a critical priority.However, the insignificant impact of social and governance factors suggests that their influence may be indirect or perception-based. It is possible that these factors contribute to firm value through long-term effects rather than immediate financial outcomes. Additionally, limited awareness or understanding of these components among respondents may have influenced the results.

## VII. CONCLUSION

The study concludes that ESG practices significantly influence firm valuation, with environmental factors having the strongest impact. The findings highlight the growing importance of sustainability in investment decisions and corporate strategy.As ESG continues to gain prominence, organizations must integrate sustainable practices into their core operations to enhance long-term value and competitiveness. Firms that prioritize ESG are likely to attract more investors, improve their reputation, and achieve sustainable growth.

## VIII. IMPLICATIONS

**Managerial:**

- Focus on environmental sustainability initiatives such as reducing carbon emissions and improving resource efficiency
- Enhance ESG disclosures to improve transparency and investor confidence

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- Integrate ESG into strategic decision-making processes

**Theoretical:**
- Supports stakeholder and legitimacy theories by demonstrating the importance of ESG in value creation
- Contributes to existing literature by providing empirical evidence based on primary data

## IX. LIMITATIONS AND FUTURE SCOPE

The study is limited by its sample size and reliance on perception-based data, which may not fully capture actual financial outcomes. Additionally, the findings may not be generalizable across all industries or regions.

Future research can expand the sample size, incorporate secondary financial data, and conduct industry-specific analysis to provide deeper insights. Longitudinal studies can also be conducted to examine the long-term impact of ESG practices on firm valuation.

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