ENHANCING FINANCIAL PERFORMANCE THROUGH SUSTAINABLE DISCLOSURE PRACTICES: MODERATING ROLE OF CORPORATE GOVERNANCE IN INDIAN LISTED FIRMS

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ABSTRACT

In today's dynamic business landscape, the integration of Sustainability Disclosure and Corporate Governance has emerged as a crucial factor for organizations striving for long-term success. This study investigates the interplay between Sustainability Disclosure practices, Corporate Governance mechanisms, and Financial Performance in Indian listed firms. Drawing upon a comprehensive sample of 187 non-financial companies across diverse sectors, including Automobiles, FMCG, Oil & Gas, Infrastructure and IT, data from 2017 to 2021 has been analyzed using the Panel data analysis. The findings underscore a positive and significant association between Sustainability Disclosure (ESG) and Financial Performance, indicating that companies actively engaging in ESG initiatives tend to achieve superior financial outcomes. Moreover, specific Board Characteristics exhibit a moderating effect on the relationship between Sustainability Practices and Financial Performance. These results highlight the pivotal role of robust Corporate Governance frameworks in facilitating effective sustainability practices and driving financial success. This research has significant implications for managers, practitioners, regulators, and policymakers, emphasizing the value of aligning sustainability with Corporate Governance to foster long-term prosperity and stakeholder engagement.

Keywords: Sustainability Disclosure, ESG, Board Characteristics, Financial Performance, Panel Data Regression

INTRODUCTION

In today's rapidly evolving business landscape, the integration of Sustainability Disclosure and Corporate Governance has emerged as an essential and interconnected component for organizations aiming to achieve long-term success. Sustainability Disclosure entails the transparent reporting of environmental, social, and governance (ESG) practices, reflecting an organization's commitment to responsible business conduct. Simultaneously, corporate governance defines the framework through which companies are directed, controlled,

and held accountable. The close relationship between Corporate Governance and Sustainability Disclosure has significant implications for stakeholder trust, financial performance, and overall organizational reputation. Corporate governance practices are crucial in facilitating the effective implementation and disclosure of sustainability initiatives, ultimately leading to improved financial outcomes. "Over the past two years, ESG integration has grown by 69 percent, amounting to $17.5 trillion in assets is reported by Global Sustainable Investment Review (GSIR) 2018 in their published report." This increase demonstrates how essential environmental, social, and governance (ESG) considerations are to asset managers and investors when making investment decisions (Islam and Deegan, 2008; Mangala and Isha, 2019; Monfardini et al., 2013). Therefore, integrating sustainability disclosure into corporate governance practices allows companies to align their goals with the interests of diverse stakeholders, extending beyond traditional shareholder-centric approaches (Siew et al., 2013). By embracing sustainability principles, organizations can effectively address social and environmental concerns while creating long-term value for all stakeholders, including employees, customers, communities, and the natural environment (Chouaibi et al. 2021; Royal et al., 2023). The literature consistently supports the notion that sustainability performance is a crucial factor influencing financial performance, emphasizing the significance of this relationship in various studies which is the focus of this study (Mishra and Suar, 2010; Lu et al., 2014; Marti et al., 2015; Hussain et al., 2018) but with this, studies suggest that corporate governance plays a crucial role as a moderating factor in the relationship between sustainability initiatives and firm performance in financial aspects (Al-Naser et al., 2021) and by establishing robust governance structures and mechanisms, organizations can enhance transparency, accountability, and ethical decision-making in their sustainability practices reporting. Well-governed boards of directors, for instance, are responsible for overseeing and guiding sustainability strategies, setting targets, and monitoring performance (Newson and Deegan, 2002; Gao et al., 2005; Brammer and Pavelin, 2008; Said et al., 2009; Hahn and Kuhnen, 2013).

Previous researches have increasingly recognized the interdependence among corporate governance, sustainability disclosure and financial performance, examining how governance mechanisms and sustainability practices influence the subsequent financial outcomes. Specifically, the direct impact of governance characteristics, such as board composition, diversity, independence, and leadership structure has been explored on the firm performance and the effectiveness of Sustainability Disclosure (Chapple and Moon, 2005; Reverte, 2009; Esa et al., 2012; Ntim and Soobaroyen, 2013; Mahmood et al., 2018; Suman and Kumar, 2020; Hooda, 2021). Therefore, a paucity of empirical studies exists that specifically explore the moderating effect of corporate governance, particularly in terms of board characteristics, on the connection betwixt sustainability performance and financial performance. Thus, this research highlights the crucial role of corporate governance in influencing the association between sustainability and financial performance. It emphasizes that organizations with strong governance frameworks are better equipped to integrate sustainability practices, leading to enhanced financial performance as Investors, regulators, policymakers and other stakeholders are now placing greater value on companies that demonstrate strong corporate governance practices aligned with sustainability objectives legitimacy (Haniffa and Cooke, 2005; Hahn and Kuhnen, 2013; Nawaiseh, 2015). Therefore, by effectively aligning governance structures with sustainability goals, companies can achieve sustainable financial success while addressing environmental and social concerns (Kumar et al., 2015; Ongsakul et al., 2020).

In conclusion, the integration of Sustainability Disclosure, Corporate Governance, and financial performance emerges as a vital and interdependent trio for organizations striving for long-term success in the dynamic business landscape of today. These components work in tandem to enhance transparency, accountability, and sustainable

practices, ultimately driving improved financial outcomes. Thus, this paper aims to explore and analyze the critical link amid the variables named Sustainability disclosure, Corporate Governance and firms' financial performance, highlighting how governance mechanisms and practices influence the effectiveness of sustainability disclosure and their impact on financial performance. The study aims to achieve the following objectives:

1. To examine the extent to which the adoption of Sustainability (ESG) Disclosure Practices and Board Characteristics relates to the Financial Performance of Indian listed firms.
2. To investigate the moderating effect of Board Characteristics, including board size, board independence, and CEO duality, on the relationship between ESG Disclosure and Financial Performance." "

PRIOR LITERATURE AND HYPOTHESES DEVELOPMENT

The prior literature on the relationship between ESG disclosure and financial performance has yielded mixed findings. Some studies have reported inconclusive or non-significant relationships, suggesting the need for further investigation.

Effects of Sustainability Disclosure on Financial Performance

In recent times, the association between dimensions of Sustainability disclosure practices (Environmental, Social, and Governance or ESG) and financial performance of the firm has garnered increasing attention from researchers, reflecting the growing recognition of the significance of ESG factors in the business landscape. The rise of ESG disclosure can be attributed to rising societal expectations, regulatory pressures, and a deeper understanding of the potential benefits it brings, extending beyond financial performance. However, despite the growing interest in the relationship between ESG disclosure practices and a firm's financial performance, there are still significant theoretical and empirical gaps that warrant further investigation and analysis. These gaps pertain to understanding the precise impact and mechanisms through which ESG disclosure influences financial performance, highlighting the need for more comprehensive research in this area. ESG disclosure practices are grounded in the stakeholder theory, which posits that companies should consider the interests of various stakeholders, including the environment, society, and governance aspects. By voluntarily disclosing ESG information, companies demonstrate their commitment to sustainable practices, which can positively influence financial performance.

Empirical research on the impact of ESG disclosure on financial performance has shown mixed results. Several studies have revealed a favorable link between ESG disclosure and firm performance in the financial aspects (Chouaibi and Chouaibi, 2021). These findings suggest that firms engaging in robust ESG disclosure practices are more likely to attract socially responsible investors and enjoy reputational benefits, which can lead to improved financial performance.

However, other studies have reported inconclusive or non-significant relationships between ESG disclosure and financial performance (Kolk and Perego 2010; Ioannou and Serafeim 2015; Khan et al., 2021). These findings indicate that the relationship may be contingent upon various factors, such as industry characteristics, firm size, and geographical location.

The moderating effect of Board Characteristics on the Sustainability disclosure-firm's financial performance relationship has also received attention. Board Characteristics, including independence, diversity, and expertise, can influence a firm's commitment to ESG practices and the effectiveness of ESG disclosure. A board with diverse expertise and independence may better understand the importance of ESG issues and drive the integration of sustainability goals into the firm's strategic decision-making, ultimately enhancing financial performance.

To recapitulate, the available literature suggests that the adoption of ESG disclosure practices has the potential to positively impact a company's financial performance. However, this relationship is intricate and highly dependent on contextual factors. Additionally, the influence of board characteristics serves as an additional layer of moderation in shaping this relationship. Therefore, it is crucial for organizations aiming to leverage

sustainability practices effectively to comprehend the intricate interrelation amid Sustainability disclosure, financial performance, and board characteristics. By doing so, they can navigate this dynamic landscape and make informed decisions to drive sustainable success.

Financial performance necessitates addressing social and environmental issues while taking proactive steps and demonstrating tolerance for negative company data. Additionally, the adoption of consumer-oriented Environmental, Social, and Governance (ESG) practices can harness intangible attributes, such as reliability and consistency, leading to product differentiation and increased revenue generation (Boesso and Kumar, 2007). Consequently, ESG practices play a pivotal role in cost reduction and enhancing financial performance (Chen et al., 2000; Chau et al., 2010). These practices are underpinned by the theoretical framework of legitimacy theory. Based on the information presented, the subsequent hypothesis is posited:

Hypothesis 1 (H1): Sustainability (ESG) Disclosure Practices have a significant positive impact on the Financial Performance of Indian listed firms.

Sustainability (ESG) Disclosure and Financial Performance: The Moderating Effect of Corporate Governance (Board Characteristics)

The integration of sustainability goals into strategic decision-making processes driven by the board can result in improved financial performance. Organizations that proactively prioritize strong corporate governance and foster diverse and knowledgeable boards are better positioned to navigate the intricate relationship between ESG factors and financial outcomes, unlocking long-term value and sustainable growth. This is why the study specifically investigates the moderating effect of Corporate Governance on the Sustainability Disclosure practices and Firm’s Financial Performance relationship.

The Moderating effect of Board Size

The Board of Directors plays a vital role within the corporate governance framework, as evidenced by the finance literature's definition of corporate governance as the means by which financiers ensure a return on their investment in corporations (Allegrini and Greco, 2011). The board's significance within the corporate governance system cannot be overstated (Uwuigbe, 2011; Cormier et al., 2017). One key factor influencing the effectiveness of the board is its size (Belkhir, 2009). Larger boards can better address stakeholders' concerns due to their ability to balance competing demands. However, larger boards may also face increased agency problems and manipulation by the CEO. Despite this, larger boards can enhance efficiency through workload distribution (Achdi and Ameur, 2011; Jilani and Chouaibi, 2021). Literature suggests that larger boards reinforce the impact of ESG practices on financial performanceeffectively addressing ESG issues, providing enhanced tools for consulting and tracking, and benefiting from greater expertise and diversity, thereby positively influencing the reputation and image of companies. (Ntim and Soobaroyen, 2013; Jizi et al., 2014). Thus, the following hypothesis is proposed:

Hypothesis 2 (H2): Significant positive association exists between Board Size and Financial Performance of Indian listed firms.

Hypothesis 2a (H2a): Board Size positively moderates the relationship between ESG Disclosure and Financial Performance.

The Moderating effect of Board Independence

Board independence positively moderates the relationship between ESG practices and financial performance (Jizi et al., 2014). Independent directors bring diverse perspectives and long-term orientations, mitigating short-term focus and ensuring a stronger oversight and control mechanism. They prioritize shareholders' social interests and engagement with multiple stakeholders. This leads to improved management oversight, strategic sensitivity, and a balanced approach to short- and long-term priorities (Liao et al., 2019). Consequently, board independence plays a significant moderating role, reinforcing the positive impact of ESG practices on financial performance (Jo and Maretno, 2011). Thus, the following assumption is proposed based on the aforementioned:

Hypothesis 3 (H3): Significant positive association exists between Board Independence and Financial Performance of Indian listed firms.

Hypothesis 3a (H3a): Board Independence positively moderates the relationship between ESG Disclosure and Financial Performance.

The Moderating effect of CEO Duality

CEO duality moderates the relationship between ESG practices and financial performance. Holding both the CEO and chairman positions consolidates decision-making power, potentially undermining effective governance. Research provides mixed evidence on the association between CEO duality and financial performance (Hahn, 2013; Amran et al., 2014). However, CEO duality may lead to decisions that disregard the interests of a wider range of stakeholders, including sustainable practices like ESG. Empirical studies have documented a negative association between CEO duality and ESG practices (Romano et al., 2020). Thus, the moderating role of CEO-Chairperson common role in the relationship between ESG practices and financial performance is mixed and inconclusive. Thus, the following assumption is proposed based on the aforementioned:

Hypothesis 4 (H4): Significant association exists between CEO Duality and Financial Performance of Indian listed firms.

Hypothesis 4a (H4a): CEO Duality moderates the relationship between ESG Disclosure and Financial Performance.

RESEARCH DESIGN

Research design encompasses elements such as sample selection and data collection procedures, variable descriptions, regression models, and data analysis techniques as presented below.

Sampling and Collection of Data

The relationship betwixt ESG Disclosure and Financial Performance has been studied in this particular research, considering Corporate Governance mechanisms as moderating variable. It includes 187 non-financial companies from the NSE Nifty 500 index in sectors namely Automobiles, FMCG, Oil & Gas, Infrastructure, and IT. Data on Corporate Governance, Financial Performance, and ESG Disclosure were collected from the Prowess and Bloomberg databases for the period of 2017-2021.

Variables Description

Dependent Variable: "Financial Performance" measured by return on assets (ROA).

Independent Variable: "Sustainability Disclosure" measured by Environmental Social Governance Scores (ESG).

Moderating Variables: BZ, BIND AND DUAL

Board size (BZ) proportional to the number of board members.

Board Independence (BIND) dependent on the percentage of independent directors serving on the board.

CEO duality (DUAL): When CEO and Chairman roles are merged, the duality of functions variable is set to 1; otherwise, it's 0.

Control Variables: FZ AND LEV

Firm Size (FZ) proportional to total assets as a natural logarithm.

Leverage (LEV) total debt as a percentage of total assets."

Regression Model

The authors propose the following regression models represented by equations to analyze associations between the variables.

$$ROA_{i,t} = \beta_0 + \beta 1\ ESG_{i,t} + \beta_2 FZ_{i,t} + \beta_3 LEV_{i,t} + \beta 4 year\ fixed\ effect_{i,t} + \beta 5\ firm\ fixed\ effect_{i,t} + \varepsilon_{i,t} \quad (\text{Model 1})$$

$$ROA_{i,t} = \beta_0 + \beta 1\ ESG_{i,t} + \beta 2\ BZ_{i,t} + \beta 3\ ESG*BZ_{i,t} + \beta 4 LEV_{i,t} + \beta 5 FZ_{i,t} + \beta 6 year\ fixed\ effect_{i,t} + \beta 7\ firm\ fixed\ effect_{i,t} + \varepsilon_{i,t} \quad (\text{Model 2})$$

$$ROA_{i,t} = \beta_0 + \beta 1\ ESG_{i,t} + \beta 2 BIND_{i,t} + \beta 3\ ESG*BIND_{i,t} + + \beta 4 FZ_{i,t} + \beta 5 LEV_{i,t} + \beta 6 year\ fixed\ effect_{i,t} + \beta 7\ firm\ fixed\ effect_{i,t} + \varepsilon_{i,t} \quad (\text{Model 3})$$

$$ROA_{i,t} = \beta_0 + \beta 1\ ESG_{i,t} + \beta 2 DUAL_{i,t} + \beta 3\ ESG*DUAL_{i,t} + + \beta 4 FZ_{i,t} + \beta 5 LEV_{i,t} + \beta 6 year\ fixed\ effect_{i,t} + \beta 7\ firm\ fixed\ effect_{i,t} + \varepsilon_{i,t} \quad (\text{Model 4})$$

DATA ANALYSIS AND FINDINGS

The techniques used in data analysis include descriptive statistics, correlation analysis, regression analysis, significance testing. To achieve the objectives of the study and investigate the relationship between the adoption of Sustainability (ESG) Disclosure Practices and Board Characteristics with the Financial Performance of Indian listed firms, Panel data Regression has been employed.

Descriptive statistics

Table 1 here provides summaries about the sample (187 firms and 935 observations) and about the observations that have been made. Table 1 presents the descriptive statistics pertaining to the variables under the study which reveals that the companies included in the sample exhibit a significant level of financial performance, as evidenced by a mean value of 0.168 for the "ROA" variable.

Table 1: Descriptive statistics

		Mean	SD	Min	Max
DV	ROA	0.168	0.181	-0.179	0.698
IDV	ESG	0.620	0.209	0.189	0.920
	BZ	8.216	2.524	4	18
	BIND	51.756	22.120	0	1
CV	FZ	21.714	3.478	2.4	27.235
	LEV	0.415	0.305	0.001	0.950
IDV	DUAL	Mean %= 92% for value 1		0	1

Note: DV= Dependent Variable, IDV= Independent variable and CV= Control Variable

Furthermore, the variable's low standard deviation of 0.181, in relation to the mean, suggests that financial results among the sample companies are not significantly different from one another. This indicates a strong overall financial performance among the firms. ESG value lies between 0.189 and 0.920 with an average value of 0.620, which implies ESG practices in Indian listed firms are evolving with varying levels of adoption and implementation. These results are consistent with those of Vo and Ngyyen (2014); Olsen and Zoubi (2017). The value of Board size varies between 4 to 18. Moreover, it is noteworthy that the average representation of independent directors in the analyzed firms stands at 51.756% and in addition, the result highlights that 92% of the analyzed firms have a CEO who is also the board chairman. Moreover, the average company size is 21.714 which suggests that the companies analyzed are of a moderate size, neither too small nor too large. Furthermore, on average, the firm leverage stands at approximately 41.5% This implies that these companies rely significantly on borrowed funds to finance their operations.

Correlation Matrix

Using Pearson coefficients, Table 2's correlation matrix examines the relationships between the independent variables.

Table 2: Correlation Matrix

Variables	ESG	BZ	BIND	DUAL	LEV	FZ
ESG	1.000					
BZ	0.129***	1.000				
BIND	0.278	0.139***	1.000***			
DUAL	0.269***	0.299**	0.223**	1.000		
LEV	0.125**	0.246*	0.038**	0.047**	1.000	
FZ	0.077	0.249	0.080*	0.178*	−0.099	1.000

Note: The presence of asterisks ***, **, and * signifies statistical significance at the 1%, 5%, and 10% levels, respectively.

The correlation analysis shows that multi-collinearity is not a major issue with this data set.

The correlations between the variables are all below 0.80 (Damodar and Porter, 2004), indicating a low level of intercorrelation. Additionally, it is noteworthy that all the Board Characteristics' variables exhibit significant positive correlations, suggesting a consistent and coherent relationship among these variables in the context of the study.

Variance Inflation factor

Table 3: VIF Analysis

Variables	ESG	BZ	BIND	DUAL	LEV	FZ
VIF	2.79	5.98	3.12	5.13	1.19	1.31

Source: Author's Calculation

In order to assess the intercorrelations among all the explanatory variables, a variance inflation factors (VIF) analysis was performed on the data presented in Table 4.3 and no evidence of multicollinearity was found. The VIF values below 10 indicate the absence of multicollinearity, confirming the statistical soundness of the findings.

Panel Regression Analysis and Findings

In this research, the panel data regression method was applied to find the direct and moderating influence amid the variables. Table 4.1 and 4.2 presents the panel regression results obtained from panel data analysis with fixed effects. The table includes observations from all five years. In Table 4.1, 4.2 and 4.3, we present the results of estimating Models 1, 2, 3, and 4 to test Hypotheses 1, 2, 2a, 3, 3a, and 4a. The study's findings provide strong support for the research hypothesis, demonstrating a statistically significant positive relationship between the moderator variable and the dependent variable. Furthermore, control variables introduced in models exhibit statistical significance in explaining the phenomenon under study. The empirical results strongly support proposed advanced hypotheses.

Table 4.1: Panel Regression Analysis: Direct Effect

Dependent Variable: ROA				
Independent Variables	**Model 1**	**Model 2**	**Model**	**“Model 4**
Intercept	0.446 (1.29)	0.339 (0.000) ***	0.689(0.000) ***	0.498 (0.000) ***
ESG	0.293 (4.93) ***	0.004 (2.88) **	0.014 (2.13) **	0.050 (3.798) ***
BZ	-	0.002 (2.11) **	-	-
BIND	-	-	0.003 (1.85) **	-
DUAL	-	-	-	-0.446 (−1.98) **

Note: The presence of asterisks ***, **, and * signifies statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 4.2: Panel Regression Analysis: Moderating Effect

Dependent Variable: ROA				
Moderating Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
ESG* BZ	-	0.038 (3.51) ***	-	-
ESG* BIND	-	-	0.003 (1.89) **	-
ESG* DUAL	-	-	-	−0.698 (−2.39) **
Control Variables				
LEV	−0.029 (−0.35)	0.091 (0.039) **	0.129 (0.001) ***	0.032 (0.672)
FZ	−0.015 (−1.69)	0.049 (0.681)	−0.014 (−0.229)	−0.089 (−0.648)

Note: The presence of asterisks ***, **, and * signifies statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 4.3: Model Summary

Model	**No of Firms**	**Total Observations**	**FZ FIXED EFFECTS**	**YEAR FIXED EFFECTS**	**R2**	**F-statistic**
Model 1	187	935	FIXED	FIXED	0.393	5.39**
Model 2	187	935	FIXED	FIXED	0.512	6.68 **
Model 3	187	935	FIXED	FIXED	0.329	5.23 **
Model 4	187	935	FIXED	FIXED	0.359	5.59 **

Note: The presence of asterisks ***, **, and * signifies statistical significance at the 1%, 5%, and 10% levels, respectively.

Sustainability Disclosure and Financial Performance

The panel data regression analysis examines the relationship between financial performance (ROA) as the dependent variable is presented in Table 4.1. Model 1 serves to test the hypothesis (H_1) with the significant at a level lower than 1% and the results reveal that ESG practices account for 39.3% of the variability in financial performance means adopting ESG practices is associated with a substantial improvement in financial performance which implies that ESG practices contribute positively to financial performance.These findings corroborate the conclusions of Fatemi et al. (2017), Liu and Lee (2019) and Maqbool and Zameer (2018) and support the existing body of research that confirms a positive and significant association between sustainability disclosure (ESG) practices and

financial performance. Moreover, the results align with signal theory, suggesting that sustainability disclosure (ESG) practices are linked to financial performance (Birjandi and Hakemi, 2015). Furthermore, the model's significance is confirmed by Fisher's (F) statistic, which yields a significant value of 5.39 at a 5% level of significance, as indicated in Table 4.3.Additionally, the control variables, namely firm size and leverage in Model 1 were found to bestatistically insignificant andunrelated to the financial performance of the firm presented in Table 4.2.

Direct and Moderating Effect of "Board Characteristics on Financial Performance"

Board Size

Supporting the hypothesis 2 (H2), the outcomes demonstrate a significant and positive relationship between Board Size and Financial Performance, as evidenced in Table 4.1. Also, in the support of Hypothesis 2a (H_{2a}), Model 2, the results depict that the presence of Board Size positively moderates the relationship between ESG practices and financial performance is positively influenced by board size as shown in Table 4.2.Furthermore, the model's significance is confirmed by the obtained Fisher's (F) statistic, which shows a significant value of 6.68 at a 5% level of significance, as presented in Table 4.3. This statistical result reinforces the validity of the model, indicating that the included relationships and variables have a significant impact on the research findings. The evidence suggests that a larger board size has a positive and significant impact on financial performance rather than smaller one. Consequently, the proposal posits that a favorable connection between board size and sustainability disclosure practices results in enhanced financial performance for companies. These findings are consistent with previous studies conducted by Adams and Ferreira (2009), Isidro and Sobral (2017), and Rahman and Lambkin (2017), which have demonstrated that increased levels of corporate social responsibility disclosure, combined with a responsible and dedicated board of directors, can enhance a company's value and improve its financial performance. This indicates that organizations with greater board sizes are more likely to participate actively in ESG (Environmental, Social, and Governance) activities.

Board Independence

The study's findings not only suggest that board independence plays a moderating role in the relationship between ESG practices and financial performance, leading to a significant positive impact, but they also reveal a direct and significant positive impact of Independent Directors on Board on the performance of the firm in financial aspects. This supports the confirmation of the third hypotheses 3 (H_3) and H_{3a}, Model 3. Additionally, the model's significance is supported by the significant value of 5.23 obtained from Fisher's (F) statistic at a 5% level of significance, as indicated in Table 4.3. This finding reinforces the reliability of the model, suggesting that the examined relationships and variables have a meaningful and impactful influence on the research outcomes. This finding aligns with previous arguments presented by Donelly and Mark (2008) and Chouaibi *et al.* (2021). The study's outcomes suggest that a greater representation of independent directors on the board is positively related to their capability to make well-informed decisions concerning ESG disclosure. Also, the companies with a greater degree of board independence not only benefit from the positive effects of ESG practices but also experience improved financial performance due to the influence of independent decision-making and governance processes.

CEO Duality

The present study supports the Hypothesis 4 (H_4), which suggests that the segregation of responsibilities between the CEO and Chairman of the Board of Directors emerges as a pivotal factor significantly influencing performance of the firm in financial aspects, as evidenced by the compelling data presented in Table 4.1. The findings of the study further indicate that CEO duality exhibits a significant and adverse influence on the association between Independent and dependent variable, supporting hypothesis H_{4a} in Model 4 as shown in

Table 4.2. Moreover, the statistical significance of the model is established through Fisher's (F) statistic, which yields a notable value of 5.59 at a 5% level of significance, as observed in Table 4.3. This finding underscores the robustness of the model and suggests that the included relationships and variables have a meaningful impact on the research findings. The existence of CEO duality acts as a limiting factor for ESG practices, supported by a significant negative coefficient attributed to CEO duality (DUAL). Therefore, delineating the responsibilities of the CEO and chairman, enables boards to execute their supervisory responsibilities more effectively. Contrary to the arguments made by Brown and Forster (2013) and Vitolla *et al*. (2020) suggesting that companies with a single individual holding both executive and chairman roles perform better in terms of sustainability reporting, this study's findings, however, run counter to those suggestions. The study emphasizes the importance of separating the functions of the CEO and the chairman of the board for enhancing performance of the firm CEO-Chairman combination has a negative influence on ESG practices, underscoring the need for separation to facilitate effective monitoring and improve both ESG engagement and performance of the firm in financial aspects.

CONCLUSION

This research study aimed to examine the impact of Sustainability (ESG) practices on the financial performance of Indian listed companies. Additionally, the study sought to explore how Corporate Governance can moderate the relationship between Sustainability (ESG) practices and performance of the firm in financial aspects in Indian listed companiesaimed to contribute both theoretically and empirically, addressing an existing research gap. To ensure the credibility of the findings, the study relied on data from reliable sources such as the Prowess and Bloomberg databases and annual reports of the companies. After employing the appropriate technique for analysis, the study found a significant positive association between sustainability Disclosure (ESG) practices and the Financial Performance, which implies that actively, engaged companies in Sustainability (ESG) operations tend to achieve superior financial outcomes. This suggests that ESG practices have the potential to address market performance challenges and enhance investor valuation. This article makes a substantial contribution to the existing body of literature by highlighting the vital role of Board Characteristics in influencing the connection between ESG practices and financial performance. In this context, The study's results emphasize the importance of Corporate Governance in the decision-making processes and highlight their role in offering valuable information to investors and stakeholders by providing the support for Hypotheses related to the significant positive association between the Board Size & Financial Performance and Board Independence & Financial Performance. However, CEO Duality affects negatively the Financial Performance. The results validate that Board Characteristics exert a substantial influence in moderating the association between ESG practices and firm performance. This study provides empirical evidence supporting the notion that certain Board Characteristics can strengthen or weaken the link betwixt ESG practices and financial outcomes. By analyzing the data, it becomes evident that boards with specific characteristics, such as Board Size, independent members, and a strong focus on sustainability, have a propensity to augment the favorable effects of ESG practices on financial performance. This accentuates the importance of considering board composition and governance structures when assessing a company's commitment to responsible and sustainable business practices.

IMPLICATIONS OF THE STUDY

The revelations accompanied by valuable insights from this study have significant managerial implications. By highlighting the crucial role of Corporate Governance (Board Characteristics) in determining business valuation, this study empowers information users to make more informed assessments of future growth opportunities. Furthermore, it emphasizes the importance of aligning Board Characteristics with

sustainable practices, fostering a synergistic relationship between the two. These insights hold particular relevance for practitioners, notably CEOs and high-level corporate governance bodies, as they underscore the need to reshape boards of directors to prioritize ethical behavior and embrace ESG practices. The implications of this study extend to global regulators and policymakers, providing them with valuable insights to inform their decision-making processes. The results of this analysis urge regulatory bodies to contemplate endorsing and incentivizing the implementation of ethical and sustainable measures by companies. By recognizing the positive impact of such practices on business valuation, regulators can contribute to the advancement of responsible corporate behavior and societal well-being.

The study highlights the significance of Board Characteristics, particularly board size, in moderating the connection betwixt ESG practices and firm performance in financial aspects. Organizations should consider optimizing their board size to ensure effective governance and decision-making processes. A balanced board size can facilitate better information flow, deliberation, and monitoring, leading to improved integration of ESG practices and enhanced financial performance. By carefully evaluating and adjusting board size, companies can maximize the potential benefits of ESG practices and achieve sustainable value creation for both shareholders and stakeholders. In addition, firms should strive for a high level of board independence by ensuring a majority of independent directors on their boards. Independent directors bring objectivity and impartiality to the process for making choices and decision, fostering accountability and transparency in ESG-related initiatives. This, in turn, can positively impact the firm performance in financial aspects. The research also suggests that to enhance the relationship between ESG practices and financial performance, companies should carefully consider separating the roles of CEO and board chair, allowing for greater checks and balances, improved governance, and more effective oversight of ESG initiatives. Additionally, gathering data from alternative third-party platforms can further enrich the research in this field, ensuring a robust and diverse perspective on the subject matter.

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