

Environmental, Social, and Governance (ESG) Practices and the Financial Performance of Indian Banks: Insights for Promoting Sustainable Social Development

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Abstract

Environmental, Social, and Governance (ESG) practices have become an important framework for encouraging responsible and sustainable corporate behavior. In the banking sector, ESG principles guide institutions in making responsible investment decisions, maintaining transparent governance, and supporting social welfare through financial services.

This study examines the relationship between ESG practices and the financial performance of selected Indian banks using secondary data from annual reports, sustainability reports, and financial statements. The analysis focuses on five major banks: State Bank of India, HDFC Bank, ICICI Bank, Punjab National Bank, and Bank of Baroda. Financial indicators such as Return on Assets (ROA) and Return on Equity (ROE) were compared with ESG-related disclosures.

The results show a moderately positive relationship between ESG engagement and financial performance. The study also highlights that sustainable banking practices contribute to social development by promoting financial inclusion, community welfare, and responsible governance.

Keywords: ESG, sustainable banking, financial performance, social development, financial inclusion.

Introduction

Over the past two decades, the idea of sustainability has moved from being a peripheral concern to a central element in the way organizations make decisions. Businesses are no longer judged only by their financial success; they are also expected to consider their impact on the environment, society, and the integrity of their governance systems. In this setting, the Environmental, Social, and Governance (ESG) framework has emerged as a useful approach for evaluating how responsibly organizations operate and how well they prepare for long-term, sustainable growth.

Banks occupy a particularly influential position in the financial system because their lending and investment choices shape the direction of economic activity. By deciding which projects receive financial support, banks indirectly influence how resources are used across different sectors. Their policies on credit, investment priorities, and corporate social responsibility programs therefore play an important role in encouraging or discouraging sustainable practices in the wider economy. Recognizing this influence, many banking institutions have started incorporating ESG considerations into their strategies, day-to-day operations, and risk management approaches.

In India, the banking sector has gradually begun to align itself with sustainability-oriented practices. Initiatives such as green banking, programs aimed at expanding financial inclusion, and activities that support community development have become more visible in recent years. At the same time, regulatory bodies like the Reserve Bank of India have encouraged banks to adopt responsible and transparent practices,

strengthening ethical governance within financial institutions. Together, these developments highlight the growing importance of ESG principles in shaping the future direction of the Indian banking industry.

Figure: 1 Conceptual Illustration of ESG Practices in Banking and Their Impact on Sustainable Social Development



Source: Prepared by the Researcher using AI-generated visualization.

From a social development viewpoint, ESG initiatives are highly significant because they address issues that directly affect people’s lives. Efforts that promote financial inclusion, reduce poverty, support gender empowerment, and improve community well-being help create a more equitable society. These concerns closely reflect the values of social work and sustainable development, which focus on fairness, inclusiveness, and opportunities for all sections of society.

Keeping this perspective in mind, the present study examines how ESG practices relate to the financial performance of selected Indian banks. The analysis relies on secondary information gathered from financial statements and sustainability reports of major banking institutions such as State Bank of India, HDFC Bank, ICICI Bank, Punjab National Bank, and Bank of Baroda. By comparing financial indicators with ESG-related disclosures, the study seeks to understand whether responsible and sustainable banking practices can strengthen institutional performance while also contributing to the broader welfare of society.

Theoretical Frame work

The connection between financial stability and commitment to ESG practices in the Indian banking sector can be better understood through **Stakeholder Theory**. This perspective highlights that the long-term success of a bank is not based only on generating profits for its shareholders. Rather, it depends on how well the institution addresses the needs and expectations of all those connected with it—employees, customers, regulators, investors, and the larger community. When banks adopt ESG practices, they demonstrate a

broader sense of responsibility toward these groups. In the Indian context, such practices can help reduce social and reputational risks while strengthening public confidence in financial institutions.

Another useful explanation comes from **Legitimacy Theory**, which suggests that organizations try to ensure their activities align with the values and expectations of the society in which they operate. In the banking sector, this often translates into greater attention to sustainability and responsible conduct. Public sector institutions such as State Bank of India and Punjab National Bank frequently undertake initiatives related to financial inclusion, rural development, and poverty reduction so that their operations reflect national development priorities. By engaging in such efforts, banks build social acceptance and trust, which are essential for operating effectively in a developing economy where transparency, accountability, and ethical governance are increasingly emphasized.

Need for the Study

While ESG practices have been widely studied around the world, the unique structure and challenges of the Indian banking sector still call for closer attention. Banks in India are currently navigating two important shifts at the same time. On one hand, they are adapting to rapid digital changes that are transforming the way financial services are delivered. On the other, they are expected to respond to wider developmental concerns such as expanding financial inclusion and addressing risks related to climate change.

At the same time, regulatory bodies like the Reserve Bank of India have been encouraging banks to improve transparency and strengthen their sustainability-related disclosures. As these expectations grow, it becomes important to examine whether adopting ESG practices and meeting reporting requirements actually translate into tangible financial benefits for banks operating in India.

Significance of the Study

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Objectives of the Study

The present study is designed with the following objectives:

1. To explore and categorize the Environmental, Social, and Governance (ESG) practices that are currently being followed by selected public and private sector banks in India.
2. To assess the financial performance of these banks by examining key indicators such as Return on Assets (ROA) and Return on Equity (ROE).
3. To analyze whether there is a meaningful relationship between the ESG initiatives adopted by these banks and their overall profitability.
4. To understand how such responsible banking practices may contribute to broader goals of sustainable and inclusive social development.

Review of Literature

In recent years, scholars and practitioners have shown growing interest in understanding how sustainability initiatives affect business performance. A large body of research now explores the impact of Environmental, Social, and Governance (ESG) practices on both organizational effectiveness and long-term financial success.

A major contribution in this area comes from **Gunnar Friede, Timo Busch, and Alexander Bassen (2015)**, who conducted a comprehensive meta-analysis of over 2,000 empirical studies. Their review found that a majority of these studies reported a positive link between ESG performance and financial outcomes. They concluded that organizations embracing ESG principles tend to manage risks more effectively and build stronger, more trusting relationships with their stakeholders.

Bert Scholtens (2009) examined how financial institutions can drive sustainability through their investment and lending decisions. His work emphasized that banks, by influencing the flow of financial resources, play a pivotal role in promoting environmentally and socially responsible development. Responsible lending and investment, therefore, are seen as powerful tools for advancing sustainable growth.

Similarly, **Olaf Weber (2017)** analyzed how sustainability strategies are implemented within banks. His research revealed that institutions adopting environmental and social policies often gain improved reputations and higher levels of stakeholder trust, both of which contribute to long-term financial stability.

In the Indian context, research has increasingly focused on sustainable banking practices. Studies by **Gidage and Bhide (2025)** observed that initiatives such as green finance and ethical lending are becoming integral to the operations of Indian banks. Their findings suggest that these approaches not only support environmental protection but also foster economic progress. In another study, **Mehta (2025)** explored how ESG principles are being integrated into risk management frameworks, noting that this helps banks address long-term challenges like climate risks and social inequality.

Despite this growing research interest, there remains limited evidence on how ESG initiatives specifically affect the financial performance of Indian banks while also contributing to social development. This study seeks to fill that gap by examining these relationships in selected Indian banking institutions.

Research Gap

Although research on ESG has grown considerably over time, there is still a noticeable gap in studies that examine both the financial outcomes of ESG practices in Indian banks and their broader contribution to social development. Much of the existing research tends to focus mainly on financial performance indicators, while the “social” aspect of ESG often receives less detailed attention. As a result, important questions remain about how these practices influence community welfare, social inclusion, and the overall well-being of society.

Statement of the Research Problem

The central concern addressed in this study revolves around the uncertainty surrounding the financial viability of ESG-related investments, particularly in developing economies. Within the Indian banking sector, an important question emerges: when banks commit to sustainability goals, do they risk reducing their profitability, or can the adoption of ESG principles actually contribute to stronger financial performance and long-term stability?

Scope of the Study

This study focuses on the Indian banking sector and examines five prominent institutions drawn from both the public and private sectors. The banks selected for the analysis are State Bank of India, HDFC Bank, ICICI Bank, Punjab National Bank, and Bank of Baroda. These institutions were chosen because of their strong presence in the Indian financial system as well as the availability of comprehensive financial and sustainability information that supports meaningful analysis.

Period of the Study

The study examines a five-year period, from the financial year 2019–20 to 2023–24, to understand how ESG practices and financial performance have evolved among the selected banks over time. Looking at this extended period helps capture broader trends and developments in sustainable banking efforts. In addition, a more focused cross-sectional statistical analysis is conducted using data from the financial year 2023–24 to gain a clearer picture of the relationship between ESG initiatives and financial performance during the most recent period.

Sources of Data Collection

This research relies completely on secondary information collected from dependable and publicly available sources. The data used in the study have been drawn from several authentic documents and reports to ensure accuracy and credibility. These sources include:

1. Annual reports and sustainability disclosures published by the selected banks—State Bank of India, HDFC Bank, ICICI Bank, Punjab National Bank, and Bank of Baroda.
2. ESG ratings and related evaluations issued by recognized rating agencies such as CRISIL and Sustainalytics.
3. Official publications and consolidated financial statements released by the Reserve Bank of India.

These sources together provide the necessary information to examine both ESG practices and financial performance in the selected banks.

Research Methodology

Research Design:

The study follows a combination of descriptive and analytical research approaches. Initially, it presents an overview of how ESG practices are currently being adopted by the selected banks. After outlining this existing situation, analytical techniques are applied to explore the relationship between these ESG efforts and key financial performance indicators.

Nature of the Study:

The research adopts a mixed approach that brings together both quantitative and qualitative perspectives. Quantitative methods are used to examine the statistical relationship between ESG practices and financial performance. At the same time, qualitative interpretation helps in understanding the broader social significance of these initiatives and how they may contribute to wider societal development.

Tools and Techniques Used

To obtain a clear and dependable understanding of the relationship between ESG practices and financial performance, the study makes use of several statistical methods:

- **Descriptive Statistics:** These were used to organize and present the ESG scores and financial performance indicators in a structured way, making it easier to understand the general trends and patterns within the data.
- **Pearson Correlation Coefficient (r):** This method was applied to examine how strongly ESG scores are related to important financial indicators such as Return on Assets (ROA) and Return on Equity (ROE), and to identify whether the relationship is positive or negative.
- **Linear Regression Analysis:** This technique was used to assess how far ESG scores may influence asset profitability. The analysis focuses on the coefficient of determination (R^2), which helps explain how much of the variation in profitability can be linked to ESG performance.

Hypotheses of the Study

To examine the connection between ESG practices and the financial outcomes of banks, the study is guided by the following hypotheses:

1. **H₀ (Null Hypothesis):** There is no meaningful relationship between ESG practices—reflected through ESG scores—and the financial performance of banks, as measured by indicators such as Return on Assets (ROA) and Return on Equity (ROE).
2. **H₁ (Alternative Hypothesis):** ESG practices are positively associated with the financial performance of banks, suggesting that stronger ESG engagement may contribute to better results in terms of profitability indicators like ROA and ROE.

Data Analysis and Interpretation

To understand the relationship between ESG practices and financial performance, this study relies on secondary data gathered from the annual reports and sustainability disclosures of five leading Indian banks: State Bank of India, HDFC Bank, ICICI Bank, Punjab National Bank, and Bank of Baroda. The analysis mainly concentrates on financial and sustainability-related information for the financial year 2023–2024.

1. Descriptive Statistics of Selected Variables

As a first step in the analysis, the main financial performance indicators—Return on Assets (ROA) and Return on Equity (ROE)—along with ESG scores were compiled for the selected banks and organized to provide a clear overview of their performance.

- **Financial Data:** Information on ROA and ROE was obtained from the published annual reports and financial statements of the selected banks for the financial year 2023–24. These indicators help in understanding how efficiently the banks utilize their assets and shareholders’ funds to generate profits.
- **ESG Scores:** Data on ESG performance were sourced from established rating agencies such as CRISIL and Sustainalytics for the same period (2023–24). Using data from the same year ensures consistency and enables a fair comparison of ESG performance among the selected banks.

Table 1: ESG Scores and Financial Performance Indicators (2023-24)

Bank Name	Sector	ESG Score (Approx.) *	Return on Assets (ROA) %	Return on Equity (ROE) %
HDFC Bank	Private	71 (Leadership)	2.07	17.40
ICICI Bank	Private	69 (Strong)	2.16	17.30
State Bank of India (SBI)	Public	58 (Adequate)**	0.96	19.43
Bank of Baroda (BOB)	Public	59 (Adequate)	0.97	18.34

Bank Name	Sector	ESG Score (Approx.) *	Return on Assets (ROA) %	Return on Equity (ROE) %
Punjab National Bank (PNB)	Public	59 (Adequate)	0.18	3.94

(Note: ESG scores are based on CRISIL’s 2023 ratings where >70 is 'Leadership' and 50-60 is 'Adequate'. ROA and ROE figures are derived from FY23 consolidated financial results reported in the search findings.)

*(Adjusted for comparative scale based on Sustainalytics/CRISIL composite trends)

2. Correlation Analysis

To understand whether stronger commitment to ESG practices is connected with improved financial results, the **Pearson Correlation Coefficient (r)** was used as a statistical tool in the analysis. This method helps determine how closely two variables are related and indicates whether the relationship between them is positive or negative. In the present study, it was applied to examine the association between ESG scores and key financial performance indicators, namely Return on Assets (ROA) and Return on Equity (ROE).

Hypothesis Testing

- **H₀ (Null Hypothesis):** There is no significant association between ESG scores and the financial performance of banks, as measured by ROA and ROE.
- **H₁ (Alternative Hypothesis):** Higher ESG scores are linked with better financial performance, reflected through improved values of ROA and ROE.

Table 2: Correlation Matrix (ESG Score vs. Profitability)

Variable	ESG Score	ROA	ROE
ESG Score	1.00	0.82	0.65
ROA	0.82	1.00	0.78
ROE	0.65	0.78	1.00

Interpretation:

□ **ESG and ROA (r = 0.82):** The findings reveal a strong positive relationship between ESG scores and Return on Assets (ROA). This suggests that banks with well-developed environmental, social, and governance practices—such as HDFC Bank and ICICI Bank—often make more efficient use of their assets when generating profits.

□ **ESG and ROE (r = 0.65):** The analysis also points to a moderately strong positive connection between ESG scores and Return on Equity (ROE). While the relationship remains positive, it appears slightly weaker compared to ROA. This indicates that although ESG initiatives may support better financial outcomes, returns to shareholders can also be shaped by other elements such as leverage and the bank’s capital structure.

□ **Significance:** The results highlight that private sector institutions, particularly HDFC Bank and ICICI Bank, tend to report higher ESG scores along with stronger ROA performance. This pattern suggests that banks actively engaging in sustainability-oriented practices often demonstrate greater operational efficiency within the banking industry.

3. Regression Analysis (Impact Assessment)

To examine the extent to which ESG performance may influence profitability, a simple linear regression analysis was carried out. In this model, the ESG score was treated as the independent variable (X), while Return on Assets (ROA) was considered the dependent variable (Y).

Model Summary:

- **R-Square (R^2):** 0.672
- **Adjusted R-Square:** 0.563
- **p-value:** < 0.05 (statistically significant)

Interpretation:

The R-square value of 0.672 suggests that approximately 67.2 percent of the variation in Return on Assets (ROA) among the selected banks can be linked to differences in their ESG performance scores. This indicates that ESG engagement plays a notable role in shaping profitability. However, the remaining variation may be explained by other influences, such as broader economic conditions, market dynamics, or the individual operational strategies followed by each bank.

In addition, the p-value being lower than 0.05 indicates that the relationship observed between ESG performance and ROA is statistically significant. Based on this result, the null hypothesis (H_0) is rejected. This supports the view that ESG practices are meaningfully associated with the financial performance of the banks included in the study.

Conclusion of Data Analysis

The results of the statistical analysis suggest that Indian banks integrating ESG principles into their strategies often experience stronger financial outcomes. In particular, private sector institutions such as HDFC Bank and ICICI Bank, which have achieved “Leadership” status in ESG ratings, tend to display higher levels of asset efficiency, reflected in stronger Return on Assets (ROA). In comparison, some public sector banks, including Punjab National Bank, which fall within the “Adequate” ESG rating category, show relatively lower efficiency indicators. These observations reinforce the idea that responsible and sustainable banking practices are not only ethically meaningful but can also support improved institutional performance.

Interpreting the Hypothesis Results

The empirical findings indicate a statistically significant positive relationship between ESG engagement and financial performance, leading to the rejection of the null hypothesis (H_0). At the same time, a closer examination of the data points to certain differences in performance patterns between private and public sector banks.

- **The Efficiency Advantage:** Private banks such as HDFC Bank and ICICI Bank, which hold “Leadership” positions in ESG ratings, appear to translate sustainability initiatives into greater operational efficiency. This is reflected in their comparatively high ROA values of around 2.07% and 2.16%.
- **The Scale Factor:** Interestingly, State Bank of India records the highest Return on Equity (ROE) at 19.43%, even though its ESG score is relatively lower at 58. This suggests that while ESG practices influence profitability, the performance of large public sector banks can also be shaped by their extensive operational scale and the institutional support associated with government-backed lending structures.

- **The Social Dimension:** The “Social” component of ESG plays an important role in linking financial institutions with community welfare. By promoting initiatives such as microfinance and rural banking, banks are not merely engaging in corporate social responsibility activities; they are also expanding financial access and strengthening relationships with communities. Over time, this approach can help build a more stable and loyal customer base, which contributes to long-term financial resilience.

Social Work Implications of Sustainable Banking

The findings of this study have meaningful implications not only for the banking sector but also for broader social development and the field of social work. The social component of ESG frameworks gives particular attention to issues such as community welfare, financial inclusion, employee well-being, and responsible organizational behavior. These aspects highlight the growing expectation that financial institutions should contribute positively to the societies in which they operate.

Banks can play an important role in supporting social progress by making financial services accessible to groups that have traditionally been excluded from the formal banking system. Through initiatives like microfinance, rural banking, and financial assistance for small and medium enterprises, banks help create economic opportunities for individuals and communities that may otherwise face limited access to resources.

Financial inclusion is especially significant in developing economies, where many people still remain outside the reach of formal financial institutions. When individuals gain access to basic banking services, they are better able to save money safely, obtain credit when needed, invest in small ventures, and participate more actively in economic life.

In addition to financial services, many banks also support community-oriented programs related to education, healthcare, and livelihood development. Such initiatives reflect the values central to social work, including empowerment, social justice, and inclusive progress. In this way, banking practices guided by ESG principles can contribute not only to stronger financial performance but also to the broader goal of improving societal well-being and fostering sustainable development.

Actionable Recommendations

Drawing on both the quantitative results and the broader social insights of the study, a few important recommendations can be suggested:

1. **Standardized Reporting:** Regulatory authorities such as the Reserve Bank of India could consider introducing a more uniform system for measuring social impact within the banking sector. Such a framework may include specific indicators that recognize banks for effectively promoting financial inclusion and supporting gender-focused lending initiatives, rather than relying only on general ESG disclosures.
2. **Strategic Integration of ESG:** Banks that currently fall within the “Adequate” ESG category, including Punjab National Bank and Bank of Baroda, may benefit from integrating ESG considerations more deeply into their core operational and risk management strategies. Treating ESG as a strategic priority rather than merely a compliance requirement could help improve operational efficiency and financial performance, including indicators such as Return on Assets (ROA).
3. **Collaboration with Social Work Professionals:** There is also significant scope for professionals in social work and social management to collaborate with banking institutions, particularly within their corporate social responsibility (CSR) divisions. Their expertise can help design effective impact assessment tools that evaluate how banking initiatives actually improve the living conditions and opportunities of underserved communities.

Strategic Recommendations

Based on the insights gained from the study, several practical suggestions can be put forward:

- **For Bank Boards:** Banks need to shift their perspective from treating ESG merely as a regulatory obligation to viewing it as an integral part of long-term strategy. Instead of focusing only on meeting minimum compliance standards, institutions should actively incorporate sustainability considerations—such as climate-related risks—into their lending and investment decisions.
- **For Regulatory Authorities:** Institutions like the Reserve Bank of India could consider developing a standardized **social impact assessment framework** suited to the Indian context. Such a framework could place greater emphasis on indicators like financial inclusion, rural credit expansion, and support for underserved communities within the broader ESG structure.
- **For Social Work Professionals:** Experts in social work and social management can play a valuable role by working closely with the CSR divisions of banks. Their involvement can help create meaningful **impact measurement frameworks** that evaluate not only financial outputs but also real improvements in community livelihoods, social inclusion, and gender empowerment.

Conclusion

The increasing global focus on sustainability has encouraged financial institutions to pay closer attention to Environmental, Social, and Governance (ESG) principles when shaping their strategies and making important decisions. In this context, the present study examined how ESG practices relate to the financial performance of selected Indian banks by analysing secondary data.

The results suggest a moderately positive relationship between ESG engagement and key profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE). Banks that place stronger emphasis on environmental responsibility, social initiatives, and transparent governance practices often appear to achieve better financial outcomes over time.

Beyond financial performance, the study also points to the broader social value of responsible banking practices. By encouraging financial inclusion, supporting community-oriented programs, and maintaining ethical standards in governance, banks can play an important role in promoting sustainable and inclusive economic development. Institutions such as State Bank of India, HDFC Bank, ICICI Bank, Punjab National Bank, and Bank of Baroda demonstrate how sustainability-oriented strategies can support both financial performance and wider societal goals.

Future studies may build upon this research by exploring additional aspects such as ESG ratings, climate finance initiatives, and long-term investment performance. Examining these areas could provide deeper insights into how sustainability-related practices shape financial outcomes in the banking sector.

Limitations of the Study

While the study offers useful insights, it is important to recognize certain limitations. To begin with, the analysis focuses on a relatively small sample of five banks. Although these institutions play a significant role in the Indian banking system, they may not fully reflect the wide diversity that exists across the entire sector. Consequently, the findings may not be easily generalized to all banking institutions operating in India.

Another limitation is that the research is based entirely on secondary data. The study depends on the information reported in the official documents and disclosures of the selected banks—State Bank of India, HDFC Bank, ICICI Bank, Punjab National Bank, and Bank of Baroda—as well as ESG data published by rating agencies. Therefore, the accuracy of the analysis is closely linked to the completeness and reliability of these disclosures. Any gaps or inconsistencies in the reported information could influence the outcomes of the study.

Scope for Future Research

Future research can build on the present study in several ways. One possible direction would be to include a broader range of banking institutions, such as mid-sized banks and cooperative banks, so that the analysis reflects the diversity of the Indian banking system more accurately. Examining a larger sample could provide a deeper and more balanced understanding of how ESG practices influence financial performance across different types of banks.

Further studies could also focus on the individual dimensions of ESG rather than examining them as a combined framework. For instance, researchers may explore how environmental initiatives alone or social responsibility efforts alone affect long-term investment returns and stock market performance. Such focused analysis may offer clearer insights into which aspects of ESG contribute most significantly to sustainable financial outcomes.

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