# Firm Performance in India : Does Sustainability Reporting Matter?

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## Abstract

**Purpose : The current study intended to explore the relationship between sustainability reporting practices and firms' financial, operational, and market-oriented performance. It also aimed to understand whether the quality of sustainable reporting positively influenced firm performance.**

**Methodology : We used Indian firm-level data to analyze the effect of sustainability reporting on firm performance. Using dynamic panel data models and panel quantile regression, we developed three models to examine the relationship between sustainability reporting and firm performance. We have used 7,000 data points from 100 different companies over 7 years, from 2017 to 2023. Data were analyzed using STATA software.**

**Findings : The results demonstrated a significant positive relationship between sustainability reporting, quality of sustainability reporting, and firm performance according to the financial, operational, and market-oriented performance models. Since the return on assets is an accounting-oriented metric that indicates a company's short-run financial performance, we assumed that there was a positive relationship between sustainability reporting and the short-term performance of firms.**

**Practical Implications : Since customers and investors at large are now moving toward sustainable companies and investments, an effort on the part of companies to disclose their sustainability efforts had a positive effect on their return on assets, return on equity, and Tobin's *Q*.**

**Originality : Our results indicated that sustainability reporting positively impacted the accounting, operational, and market-oriented performance matrices of listed companies.**

***Keywords :*** **sustainability reporting, firm performance, dynamic panel data, panel quantile regression, Tobin's *Q***

**JEL Classification Codes : G30, G300, G390**

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Everything under the purview of "sustainability" seeks prime significance today. Policymakers continuously insist on implementing sustainability practices in organizations to ensure they are on the right path toward achieving sustainable development goals seamlessly. According to Girón et al. (2021),

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sustainability reporting involves the measurement, disclosure, and accountability of corporate performance in accomplishing sustainability development goals for both internal and external stakeholders. Dincer et al. (2023) argued that sustainability reporting is essential to ensure that organizations operate accountably and transparently. Customers, investors, and other stakeholders view a company's sustainability reporting as a sign of its legitimacy and confidence. According to Shetty and Ashalatha (2022), companies face increasing pressure and a moral obligation to comply with voluntary disclosure as stakeholders demand greater transparency in both financial and non-financial reporting. Their study revealed that only 425 out of the million listed companies in India filed their sustainability reports with GRI in compliance with the frameworks.

Stakeholder demands for comprehensive reporting of business operations have made sustainability reports essential. Companies now recognize that producing reports that showcase their social and environmental contributions also improves overall performance (Şahin & Çankaya, 2020). This increased demand from stakeholders has underscored the significance of meeting the responsibility of companies toward the triple bottom line, which encompasses economic, social, and environmental aspects, and effectively communicating these efforts through a sustainability report (Laskar, 2019). Hongming et al. (2020) argued that the impact of sustainable financial reporting on a company's financial performance has attracted significant attention in the business sector in recent years. Past studies have shown mixed results regarding the relationship between sustainability reporting and firm performance. Pham et al. (2021) showed a positive relationship between corporate sustainability practices and the financial performance of listed companies in Sweden. Similarly, Gupta and Gupta (2020) studied the effect of environmental sustainability on four dimensions of firm performance, and it was identified that environmental sustainability has a strong influence on all four dimensions, namely, social, economic, environmental, and institutional performance. While studying the impact of sustainability reporting on firm performance in India, Garg (2015) identified that the sustainability practices of firms have a negative effect on firm performance in the short run, while such practices have a positive effect in the long run. Contrary to this, studies by Buallay et al. (2017) revealed that the operational and financial performance of listed companies on the Saudi Stock Exchange is not significantly impacted by the implementation of corporate governance practices. Jha and Rangarajan (2020) explored the relationship between corporate sustainability performance and corporate financial performance and identified a negative association between the two.

## Theoretical Framework

The prominent theory relating to a firm's non-financial reporting is the legitimacy theory, as outlined by Mousa and Hassan (2015), and the stakeholder theory. Both theories emphasize the importance of creating positive relationships with the stakeholders and aligning with societal expectations for gaining long-term legitimacy and success. The legitimacy theory has been widely used in previous studies on sustainability disclosure. This theory takes into account the company's desire to conduct its business in a way that aligns with the interests of society (Aguguom & Ajayi, 2020). This theory further states that a business that prioritizes community engagement, community growth, and environmental protection enjoys the added advantage of retaining customers (Saeed et al., 2025). In the study of measuring corporate social performance, Le et al. (2019) opined that organizations disclose information to the public to establish their legitimacy toward society. According to Islam (2017), legitimacy theory holds that the survival of an organization depends on market strength and social expectations; hence, understanding the broader concerns of the public is essential for the organization's survival.

Stakeholder theory is an organizational management theory that posits that the organization must aim to protect the interests of various stakeholders to benefit them. Stakeholder theory eminence can be observed in various fields, such as business ethics, strategic management, marketing, accounting, and finance (Mahajan et al., 2023). Establishing enduring relationships with stakeholders is the foundation for attaining a sustainable

competitive advantage (Freeman et al., 2021). Many scholars view stakeholder theory as a constantly evolving framework that expands through the collaborative efforts of researchers from different fields (Fares et al., 2021). Thus, stakeholder theory plays a significant role in sustainability reporting.

Recently, ESG performance has been assessed across multiple sectors and disciplines, such as banking, IT services, artificial intelligence, and many more. Singh, Dutta et al. (2024) conducted a bibliometric analysis on sustainability reporting, highlighting significant contributions, emerging trends, and the global landscape of sustainability reporting, while Singh, Shrivastav et al. (2024) examined sustainable financing and banking performance through bibliometric analysis to understand the trends and collaboration opportunities in sustainable banking. Both studies revealed a significant growth in sustainability reporting and pinpointed the need for a comprehensive study of the area, particularly focusing on the importance of adopting sustainable practices among firms in developing countries. Nogueira et al. (2023) explored the effect of adopting sustainable practices on the overall performance of companies using meta-regression analysis. The results revealed that if firms focus on adopting environmental sustainability practices in their operations, they can create a positive impact on their performance. Aligning to this, Buallay (2019) examined the association of sustainability reporting on the operational, financial, and market performance of banks in Europe.

Furthermore, the effect of environmental sustainability reporting on the value of firms in Saudi Arabia was put into the study by Ammer et al. (2020). The results revealed a positive and significant impact of environmental sustainability practices on the firm value. Charumathi and Ramesh (2017) opined that in recent times, there has been a huge shift in the way companies exhibit their performance in their annual reports. Besides mere financial reporting, companies have started incorporating sustainable initiatives based on a triple-bottom-line approach to showcase their activities to the stakeholders. Joshi and Joshi (2024) studied the relationship between a firm's cash holdings and its ESG performance using panel data analysis of 98 Indian firms listed on the NSE from 2017 to 2022, revealing a positive association between cash holdings and overall ESG scores, concluding that firms with strong cash reserves could effectively allocate resources to ESG initiatives. Gupta et al. (2022) attempted to figure out the impact of ESG performance on market measures of risk of Indian consumer goods companies, showing that ESG performance reduced the risk of Indian consumer goods companies and helped in improving shareholders' wealth. Santhi et al. (2024) reviewed the link between ESG practices and the corporate financial performance of selected companies in information technology (IT) and IT-enabled services (ITeS) firms in India. The study reported that ESG showed a unidirectional causal relationship with Tobin's *Q*, ESG to net worth, and ESG to return on sales, as well as a bidirectional association with social and governance. Mohapatra et al. (2024) examined the impact of AI on ESG performance by analyzing 253 publicly listed Indian companies from 2016 to 2023, revealing a positive influence.

Alam and Tariq (2023) attempted to understand corporate sustainability practices and their impact on firm performance in the context of Pakistan. Employing regression analysis, the study concluded that the sustainability disclosures made by the companies can create an impact on the market-based financial performance. Mondal and Sahu (2023) examined whether undertaking green initiatives and green practices by firms resulted in improving firm performance in India. Dincer et al. (2023) explored the effect of sustainability reporting on firm performance using the pooled ordinary least square (OLS) method for panel data regression. Rahman et al. (2023) examined the effect of ESG on firm performance using ROA, and Tobin's *Q*. Xiao et al. (2018) concluded that firms in countries with higher levels of sustainability performance generally found it more difficult to capitalize on corporate sustainability performance. This result helped explain the mixed findings in the literature review. The study proposed that sustainability management can be a source of competitive advantage for firms located in emerging and developing countries. In a cross-country sample of companies from developed and emerging countries, Dayal et al. (2024) examined the relationship between a company's ESG scores, its accounting and market performance, and risk. The study exhibited a non-linear relationship between ESG scores and corporate performance, indicating

that even though the sustainable initiatives at the beginning had a negative impact, they showed a positive long-term impact on the company's performance.

Considering 254 non-financial listed companies of BRICS countries, Dwibedi et al. (2025) evaluated the impact of ESG disclosure scores on financial performance as measured by return on asset and return on equity, as well as market performance, measured by Tobin's *Q*. The result exhibited a positive impact of ESG disclosure score on financial performance and a negative impact on the market performance of firms among the BRICS nations. Uwuigbe et al. (2018) found that the market price per share of the sample firms had a considerable negative impact on sustainability reporting, whereas sustainability reporting had a significant positive influence on the revenue generation of firms.

The sustainability studies in developing economies account for only 21% of all the published articles (Amui et al., 2017). Corporate sustainability research in these developing economies should focus on the socioeconomic realities of the contexts (Wang et al., 2016). Consequently, researchers have studied this association mostly in developed countries like the United States, Germany, France, and the United Kingdom (Laskar, 2019). In the context of Indian companies, sustainability reporting is still new (Laskar, 2019). Along with Malaysia and Japan, India has emerged as one of the top Asian nations for corporate social responsibility reporting, according to KPMG (2018). A comprehensive review of available literature evidenced that the research output in this area of research remains inconclusive. Therefore, to address this research gap, we aimed to find out the effect of sustainability reporting on the financial, operational, and market performance of companies listed in NSE India.

## Objectives

- To analyze the effect of sustainability reporting practices on the financial performance of firms in India.
- To study the impact of sustainability reporting on the operational performance of firms in India.
- To study the impact of sustainability reporting practices on market-oriented firm performance in India.
- To analyze the impact of sustainability reporting quality on firm performance in India.

## Hypotheses

- **H01 :** Firms adopting ESG reporting practices do not enjoy better financial performance.
- **Ha1 :** Firms adopting ESG reporting practices enjoy better financial performance.
- **H02 :** Firms adopting ESG reporting practices do not enjoy better operational performance.
- **Ha2 :** Firms adopting ESG reporting practices enjoy better operational performance.
- **H03 :** Firms adopting ESG reporting practices do not enjoy better market performance.
- **Ha3 :** Firms adopting ESG reporting practices enjoy better market performance.
- **H04 :** Firms with higher sustainable reporting indexes do not enjoy better financial, operational, and market performance.
- **Ha4 :** Firms with higher sustainable reporting indexes enjoy better financial, operational, and market performance.

↳ **H05 :** Quality of sustainable reporting does not positively influence a firm's financial, operational, and market performance.

↳ **Ha5 :** Quality of sustainable reporting positively influences a firm's financial, operational, and market performance.

## Research Methodology

We have used Indian firm-level data to analyze the effect of sustainability reporting on firm performance. A descriptive research design was used for the current study as it intends to describe the relationship between sustainability reporting practices and firm performance. Variables identified for the proposed study include firm performance indicators and indicators for sustainability reporting practices. A three-dimensional approach was used to measure firm performance in this study, wherein firm performance is divided into financial performance, operational performance, and market performance. The firm's financial performance is proxied using return on asset, the proxy for operational performance is the return on equity, and Tobin's *Q* is taken as an indicator of the firm's market performance. According to research on sustainability reporting, financial institutions' social conduct is most frequently assessed by looking at how much information they disclose about different sustainability indicators in non-financial reporting, such as training and development, health care, and community development initiatives (Adams & Frost, 2008; Belal, 2008; Frost et al., 2005; Kopnina, 2017; Murthy, 2008; Raman, 2006).

Based on information disclosed regarding environmental, health and safety, and social sustainability indicators, a sustainability reporting index was created. A content analysis procedure-based scoring methodology is used to quantify data as measured by different items, such as social, health and safety, and environmental indicators. It is predicated on an unweighted methodology in which no group is given any preference. A code of "0" is assigned for withholding pertinent information, and "1" is assigned for divulging information. Ehsan et al. (2018) and Malik and Kanwal (2018) also employed comparable techniques. Next, the sustainability reporting index was determined to be SusRep_Ind = (Envr_ind + Soc_ind + Gover_ind)/Exp_SR_Ind. The control variables used in this study are financial leverage and firm size. The variables and their measures are summarized in Table 1.

**Table 1.** ***Variables and their Measures***

| Variables | Nature of Variable | Proxy | Measure |
|---|---|---|---|
| *Envir_Rep* | Independent variable | Environmental indicators available in the annual report | No. of environmental indicators |
| *Soci_Rep* | Independent variable | Social indicators available in the annual report | No. of social indicators |
| *Goven_Rep* | Independent variable | Whether governance disclosure made in the annual report | No. of governance indicators |
| *SustRep_In* | Independent variable | Sustainability reporting index | (Environmental indicators + Social indicators + Governance indicators)/ Expected No. of Sustainability reporting Indicators |
| *SustRep_Qual* | Independent variable | Number of ESG indicators present in the annual report | Number of ESG indicators |
| *Return_ Asse* | Dependent variable | Return on Assets | Net income/Average total assets |
| *Return_Eq* | Dependent variable | Return on Equity | Net income/Shareholder's equity |

| | | | |
|---|---|---|---|
| *Tobins_Q* | Dependent variable | Tobin's *Q* | Market Value/Total assets |
| *Finan_Lev* | Control variable | Financial Leverage | Total debt/Shareholder's equity |
| *Firm_Size* | Control variable | Firm Size | Total sales |

The study gathered data from the annual financial reports of listed companies in NSE India and also from the CMIE Prowess Database. Data analysis was performed using dynamic panel data analysis as well as panel quantile regression.

Panel data analysis with fixed and random effects will not provide accurate results when the data set is more dynamic, as in the case of sustainability reporting, sustainable reporting quality, and firm performance. Hence, we have used dynamic panel data models to explore the relationship between these variables. Moreover, dynamic panel models are more powerful in addressing endogeneity issues. Arellano and Bond (1991) proposed the estimation of dynamic panel data models using the generalized method of moments (GMM). According to Blundell and Bond (1998), values from the current and previous periods will have a high correlation when the number of periods is not high and the dependent variable is present for a long time. They extended the GMM (1991) estimator by incorporating a system with level variables and their differenced series. However, the Sargan test and the Arellano and Bond (1991) test are used to determine whether system GMM and GMM (1991) are correctly specified. We have used GMM 1991, GMM 1998, and panel quantile regression models to test the relationship between the variables. Data were captured over seven years, from the year 2017 to 2023, for 100 NSE-listed companies in India, resulting in 700 observations for this study. We have used the following three different GMM 1991 and GMM 1998 models to establish the link between the variables.

$$Retur_Asse = \beta 0 + \beta 1\ Envir_Rep_{it} + \beta 2\ Soci_Rep_{it} + \beta 3\ Govern_Rep_{it} + \beta 4\ SustRep_In_{it} + \beta 5\ SusRep_Qual_{it} + \beta 6\ Finan_Lev_{it} + \beta 7\ Firm_Size_{it} + e_{it} \quad (1)$$

$$Retur_Eq = \beta 0 + \beta 1\ Envir_Rep_{it} + \beta 2\ Soci_Rep_{it} + \beta 3\ Govern_Rep_{it} + \beta 4\ SustRep_In_{it} + \beta 5\ SusRep_Qual_{it} + \beta 6\ Finan_Lev_{it} + \beta 7\ Firm_Size_{it} + e_{it} \quad (2)$$

$$Tobins_Q = \beta 0 + \beta 1\ Envr_ind_{it} + \beta 2\ Soc_ind_{it} + \beta 3\ Gover_ind_{it} + \beta 4\ Sr_Index_{it} + \beta 5\ Sr_Qual_{it} + \beta 6\ FL_{it} + \beta 7\ FS_{it} + e_{it} \quad (3)$$

Where, *Retur_Asse* = return on asset, *Retur_Eq* = return on equity, *Tobins_Q* = Tobin's *Q*, *Envir_Rep* = environmental reporting, *Soci_Rep* = social reporting, *Govern_Rep* = governance reporting, *SustRep_In* = sustainability reporting index, *SusRep_Qual*= quality of sustainability reporting, *Finan_Lev* = financial leverage, *Firm_Size* = firm size, $e_{it}$ = error term.

The quantile regression model was first introduced by Koenker and Bassett (1978) as a straightforward least squares regression technique that only yields summary point estimates that describe the average impact of the independent variables on the average dependent variables. This emphasis on the average effect might obscure the real connections and underlying effects. Interestingly, quantile regression shows the dependent variable's whole conditional distribution, whereas conventional regression concentrates on the mean/median (in the context of the normality assumption). On the Pooled panel data models, quantile regression may, however, be biased in favor of endogeneity or fail to capture the fixed/random effect. Powell (2022) proposed an estimator based on the nonadditive functional form used for estimation in our paper to address such issues that arise in panel quantile regressions. To better present the panel quantile regression models, we have used the following formula for the 25th, 50th, and 75th quantiles.

$$Y_{it} = \alpha_{qit} + \beta_{q,1}\ Envir_Rep_{it} + \beta_{q,2}\ Soci_Rep_{it} + \beta_{q,3}\ Govern_Rep_{it} + \beta_{q,4}\ SustRep_In_{it} + \beta_{q,5}\ SusRep_Qual_{it} + \beta_{q,6}\ Finan_Lev_{it} + Firm_Size + e_{qit} \quad (4)$$

where, $Y_{it}$ takes value Retur_Asse, Retur_Eq. Tobin's, and "$q$" represent the quantiles, $e_{qit}$ is the error term across quantiles.

## Analysis and Results

Before explaining the model estimation results, we have presented the descriptive statistics and the correlation matrix. It serves two purposes: First, it clarifies the data composition and the data set's structure. Second, it permits us to investigate any potential problems with endogeneity and collinearity.

Table 2 shows the results of descriptive statistics. The average value of return on asset is 5.331, with a standard deviation of 7.382. Yet the average value of return on equity is 2.412, and the standard deviation is 200.335. The market performance indicator Tobin's $Q$ shows an average score of 2.557. Environmental reporting, the first dimension of sustainability reporting, outlines an average value of 3.531 and 0.811 as its standard deviation. Similarly, social reporting and governance reporting results in average scores of 3.659 and 3.648, respectively, with standard deviations of 0.719 and 0.703. The variable sustainability reporting index shows an average value of 0.903 with a standard deviation of 0.2157, a minimum score of 0, and a maximum score of 1. The quality of

**Table 2.** ***Descriptive Statistics***

| Variables | Obs. | Mean | Std. Dev. | Min. | Max. |
|---|---|---|---|---|---|
| *Return_ Asse* | 700 | 5.331 | 7.382 | 48.798 | 60.227 |
| *Return_Eq* | 700 | 2.412 | 200.335 | –5258.700 | 103.056 |
| *Tobins_Q* | 700 | 2.557 | 4.608 | 0.000 | 53.178 |
| *Envir_Rep* | 700 | 3.531 | 0.811 | 0.000 | 4.000 |
| *Soci_Rep* | 700 | 3.659 | 0.719 | 0.000 | 4.000 |
| *Goven_Rep* | 700 | 3.648 | 0.703 | 0.000 | 4.000 |
| *SustRep_In* | 700 | 0.903 | 0.157 | 0.000 | 1.000 |
| *SustRep_Qual* | 700 | 10.838 | 1.882 | 0.000 | 12.000 |
| *Finan_Lev* | 700 | 1.606 | 8.980 | 5.676 | 213.242 |
| *Firm_Size* | 700 | 33943.360 | 84430.230 | 6542.519 | 933073.300 |

**Table 3.** ***Correlation Between Variables***

| | *Return _ Asse* | *Return _Eq* | *Tobins _Q* | *Envir _Rep* | *Soci _Rep* | *Goven _Rep* | *SustRep _Index* | *SustRep _Qual* | *Finan _Lev* | *Firm _Size* |
|---|---|---|---|---|---|---|---|---|---|---|
| *Return_ Asse* | 1.00 | | | | | | | | | |
| *Return_Eq* | 0.250 | 1.000 | | | | | | | | |
| *Tobins_Q* | 0.150 | 0.080 | 1.000 | | | | | | | |
| *Envir_Rep* | 0.060 | 0.190 | 0.230 | 1.00 | | | | | | |
| *Soci_Rep* | 0.310 | 0.110 | 0.290 | 0.050 | 1.00 | | | | | |
| *Goven_Rep* | 0.350 | 0.290 | 0.110 | 0.230 | 0.090 | 1.000 | | | | |
| *SustRep_Index* | 0.170 | 0.250 | 0.310 | 0.04 | 0.080 | 0.240 | 1.000 | | | |
| *SustRep_Qual* | 0.223 | 0.423 | 0.521 | 0.469 | 0.517 | 0.459 | 0.216 | 1.000 | | |
| *Finan_Lev* | 0.543 | 0.267 | 0.274 | 0.183 | 0.431 | 0.054 | 0.096 | 0.621 | 1.000 | |
| *Firm_Size* | 0.365 | 0.076 | 0.149 | 0.114 | 0.063 | 0.431 | 0.225 | 0.058 | 0.096 | 1.000 |

sustainability reporting shows an average value of 10.838, which is closer to the maximum value of the indicator, which is 12, which signifies that the companies listed on the National Stock Exchange of India are considering the quality aspects of sustainability reporting as well. The control variables, financial leverage and firm size, show average values of 1.606 and 33943.360, respectively. Table 3 shows the correlation matrix explaining the relationship between the independent variables.

The results reveal that the relationships between the independent variables are well below the threshold of 0.50, and, therefore, it is concluded that there is no collinearity between the independent variables, and they are suitable for further analysis. Table 4 presents the results of GMM estimation methods and the panel quantile regression used for analyzing the link between return on assets, sustainability reporting practices, and quality of sustainability reporting in firms.

The independent variables are found to be significant in predicting firm performance as per the Wald test result for the dynamic panel models. Therefore, there is no need to eliminate any of the independent variables from the model estimation; instead, we can think about figuring out how sustainability reporting, quality of sustainability reporting, and firm performance are related. It is also implied that the individual indicators of sustainability reporting are predictive of the financial, operational, as well as market performance of the companies. The Sargan test results support this as well. As a result, we can rule out the instrument validity null hypothesis and the limitations that followed from using the dynamic estimators of GMM (1991) and GMM system (1998). The results of the second-order autocorrelation test show that the null hypothesis could not be ruled out, confirming the absence of second-order autocorrelation. This suggests that the dynamic estimators of the GMM (1991) and GMM System (1998) are reliable in elucidating the relationship that the model envisions (Krishnankutty et al., 2023).

The results in Table 4 demonstrate that while the quality of sustainability reporting and sustainability reporting

**Table 4.** ***Results of Financial Performance and Sustainability Reporting***

| Variables | Dynamic Panel | | Panel Quantile Regression | | |
|---|---|---|---|---|---|
| | GMM1991 | GMM1998 | 0.25 | 0.50 | 0.75 |
| L. *Return_Asse* | 0.07552* | 0.04073** | | | |
| | (0.07843) | (14.5209) | | | |
| L2. *Return_Asse* | 0.02574** | 0.07902* | | | |
| | (0.54682) | (7.75185) | | | |
| *Envir_Rep* | 0.02249** | 0.09390* | 0.01765** | 0.00000*** | 0.00000*** |
| | (0.79270) | (5.87960) | (0.30488) | (0.43654) | (0.76379) |
| *Soci_Rep* | 0.00422*** | 0.04127** | 0.06785* | 0.07648* | 0.06852* |
| | (0.84042) | (0.54689) | (0.33186) | (0.47516) | (0.83137) |
| *Goven_Rep* | 0.0055*** | 0.00163*** | 0.05184* | 0.05330* | 0.03737** |
| | (0.06429) | (1.64326) | (0.31925) | (0.45711) | (0.79978) |
| *SustRep_In* | 0.03593** | 0.06843* | 0.06723* | 0.00600*** | 0.00000*** |
| | (0.71195) | (2.54921) | (0.48490) | (0.69429) | (1.21475) |
| *SustRep_Qual* | 0.06919* | 0.01947** | 0.00158*** | 0.00843*** | 0.04629** |
| | (0.53104) | (4.69257) | (2.36914) | (2.42761) | (4.27658) |
| *Leverage* | 0.94500 | 0.95569 | 0.00200*** | 0.95500 | 0.52300 |
| | (0.02062) | (2.34e–06) | (0.01904) | (0.02726) | (0.04770) |
| *Firm_Size* | 0.75834 | 0.36284 | 0.01625 | 0.87964 | 0.34103 |

| | | | | | |
|---|---|---|---|---|---|
| | (9.35e–06) | (1.20856) | (2.07e–06) | (2.96e–06) | (5.17e–06) |
| Wald chi$^2$ | 21.61*** | 378.63*** | | | |
| Sargan test | 153.702 | 136.13517 | | | |
| AB Test Order 1 | –4.8563*** | –3.8418 *** | | | |
| AB Test Order 2 | 1.1764 | 0.7629 | | | |
| Observations | 7000 | 7000 | 7000 | 7000 | 7000 |
| No. of companies | 100 | 100 | 100 | 100 | 100 |

***Notes.*** 1. The independent variables are used in their first difference form. 2. The Wald test and The Sargan test are based on Chi-square distribution. 3. Standard errors are given in parentheses. 4. *** denotes $p < 0.01$, ** denotes $p < 0.05$, *denotes $p < 0.1$.

**Table 5.** ***Results of Operational Performance and Sustainability Reporting***

| **Variables** | **Dynamic Panel** | | **Panel Quantile Regression** | | |
|---|---|---|---|---|---|
| | **GMM1991** | **GMM1998** | **0.25** | **0.50** | **0.75** |
| L. *Return_Eq* | 0.081* | 0.0000*** | | | |
| | (0.11437) | (0.04937) | | | |
| L2. *Return_Eq* | 0.723 | 0.0000*** | | | |
| | (0.08256) | (0.04537) | | | |
| *Envir_Rep* | 0.0163** | 0.0000*** | 0.04729** | 0.0000*** | 0.0082*** |
| | (1.07779) | (1.14790) | (1.30e–06) | (0.38565) | (0.79391) |
| *Soc_Rep* | 0.0045*** | 0.03481** | 0.05872** | 0.0004*** | 0.08175* |
| | (1.34e–06) | (2.37845) | (0.36813) | (0.46261) | (0.952320) |
| *Gover_Rep* | 0.0040*** | 0.0000*** | 0.08749** | 0.05832** | 0.0563* |
| | (1.14541) | (1.20520) | (2.31705) | (0.42515) | (0.56358) |
| *SustRep_In* | 0.0085*** | 0.0000*** | 0.00639*** | 0.03219** | 0.0000*** |
| | (2.14e–06) | (4.08851) | (1.90742) | (3.70e–06) | (2.10173) |
| *SustRep_Qual* | 0.0420** | 0.0070*** | 0.018497** | 0.00218** | 0.0600** |
| | (0.69779) | (0.75118) | (3.28e–06) | (2.21e–06) | (0.054822) |
| *Leverage* | 0.9710 | 0.931 | 0.00000*** | 0.2580 | 0.9210 |
| | (0.02381) | (0.02589) | (1.01e–06) | (2.86e–06) | (0.52069) |
| Firm_Size | 0.5310 | 0.561 | 0.00654*** | 0.9060 | 0.1785 |
| | (0.00010) | (0.00012) | (1.0062180) | (0.02662) | (5.89e–06) |
| Wald chi$^2$ | 18.39** | 62.43*** | | | |
| Sargan test | 143.007 | 316.7126 | | | |
| AB Test Order 1 | –2.3506*** | –1.8184 *** | | | |
| AB Test Order 2 | 2.4692 | 0.5693 | | | |
| Observations | 7000 | 7000 | 7000 | 7000 | 7000 |
| No. of companies | 100 | 100 | 100 | 100 | 100 |

***Notes.*** 1. The independent variables are used in their first difference form. 2. The Wald test and The Sargan test are based on Chi-square distribution. 3. Standard errors are given in parentheses. 4. *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$.

are significant in predicting the firm's financial performance across all the models, financial leverage and firm size are not. Hence, the hypotheses Ha1, Ha4, and Ha5 stand accepted. Our second model is the operational performance model, where we tried to assess the impact of sustainability reporting, the quality of sustainability reporting, and the operational performance of the firm. The results are displayed in Table 5.

The Wald test result for this model shows that sustainable reporting practice and the quality of sustainable reporting have a major impact on the return on equity of these firms. Thus, it follows that the operational performance of a firm, as demonstrated by the return on equity across companies, can be described by sustainability reporting as well as the quality of sustainability reporting. Our findings are consistent with those of Dincer et al. (2023), and the Sargan test result confirms the same. We decided to accept the possibility of second-order autocorrelation in this instance. Therefore, we question whether the GMM findings are reliable enough to account for the correlation.

Thus, we chose to use panel quantile regression estimates. In all three quantiles, sustainable reporting practice has a positive effect on a firm's return on equity. We have estimated the coefficients using the quantile regression technique to obtain a better result. On return on equity, sustainable reporting has a positive and significant impact across quantiles. The system GMM shows a positive significance, and the results of GMM (1991) also confirm the findings of the system GMM. Sustainability reporting practices and the quality of such reporting positively impact a firm's operational performance. However, there is no significant correlation between financial leverage, firm size, and return on equity. Environmental reporting, social reporting, and governance reporting practices are positively and significantly contributing to the operational performance of firms. Hence, the hypotheses Ha2, Ha4, and Ha5 are accepted.

Additionally, an effort was made to comprehend how sustainability reporting practices and the quality of sustainability reports relate to firms' market performance, as indicated by Tobin's *Q*. Table 6 displays the outcome of the market performance model.

**Table 6.** ***Results of Market Performance and Sustainability Reporting***

| Variables | Dynamic Panel | | Panel Quantile Regression | | |
|---|---|---|---|---|---|
| | GMM1991 | GMM1998 | 0.25 | 0.50 | 0.75 |
| L. *Tobins_Q* | 0.0000*** | 0.0022*** | | | |
| | (0.05544) | (0.03929) | | | |
| L2. *Tobins_Q* | 0.0000*** | 0.0175** | | | |
| | (0.04851) | (0.03915) | | | |
| *Envir_Rep* | 0.0731* | 0.0392** | 0.0010*** | 0.0283** | 0.0037*** |
| | (0.72719) | (2.34203) | (1.06018) | (0.23657) | (0.41909) |
| *Soci_Rep* | 0.00966*** | 0.0491** | 0.0525* | 0.0477** | 0.0510* |
| | (0.79641) | (6.65949) | (0.80890) | (0.28378) | (0.50271) |
| *Goven_Rep* | 0.06251* | 0.0884* | 0.0279** | 0.0799* | 0.0425** |
| | (0.47221) | (1.28291) | (0.40445) | (0.26080) | (0.46201) |
| *SustRep_In* | 0.0853* | 0.0094*** | 0.0890* | 0.0000*** | 0.0010*** |
| | (0.01575) | (1.41e–06) | (1.16349) | (0.31489) | (3.58e–06) |
| *SustRep_Qual* | 0.0597* | 0.06037** | 0.0136** | 0.02733** | 0.0046*** |
| | (7.28e–06) | (0.00062) | (0.28e–06) | (1.45e–06) | (0.40442) |
| *Leverage* | 0.5974 | 0.9942 | 0.4347 | 0.6600 | 0.4349 |
| | (3.85e–06) | (0.34902) | (0.07320) | (1.76e–06) | (0.07340) |

| | | | | | |
|---|---|---|---|---|---|
| *Firm_Size* | 0.4370 | 0.4100 | 0.0280** | 0.5602 | 0.0284** |
| | (1.68097) | (4.55e–06) | (7.8e–06) | (0.87171) | (2.77462) |
| Wald $chi^2$ | 642.72*** | 104.43*** | | | |
| Sargan test | 184.78 | 304.16 | | | |
| AB Test Order 1 | –1.06*** | –3.38 *** | | | |
| AB Test Order 2 | 1.63 | 0.7620 | | | |
| Observations | 7000 | 7000 | 7000 | 7000 | 7000 |
| No. of companies | 100 | 100 | 100 | 100 | 100 |

***Notes.*** 1. The independent variables are used in their first difference form. 2. The Wald test and the Sargan test are based on the chi-square distribution. 3. Standard errors are given in parentheses. 4. *** denotes $p < 0.01$, ** denotes $p < 0.05$, * denotes $p < 0.1$.

The outcome validates that, in all the models, sustainability reporting practice has a positive effect on Tobin's *Q*. According to the findings of the GMM System (1998) and GMM (1991), sustainability reporting practice and the quality of sustainability reporting are both important predictors of firms' market performance across companies. According to the GMM estimates, as well as panel quantile regression estimates, environmental reporting, social reporting, governance reporting, and sustainability reporting index have a direct impact on Tobin's *Q* value of the respective firms, while financial leverage and firm size have no significant impact to report. We have performed panel quantile regression for the 25th, 50th, and 75th quantiles to guarantee the robustness of the results. Regarding sustainability reporting practices and the quality of sustainable reporting practices, the results of all the models are consistent and, hence, justifiable. Hence, the hypotheses Ha3, Ha4, and Ha5 are accepted.

## Discussion

Our research aims to explore whether sustainability reporting and the quality of sustainability reporting influence firm performance in the Indian context. We have used dynamic panel data estimates to examine the underlying relationships among the variables. Though other studies have used similar techniques in cross-sectional studies, this research used longitudinal data in an Indian context to unravel the relationships. We have designed sustainability reporting as a four-dimensional concept where we have used the ESG reporting and sustainability reporting index to explore the sustainability reporting practices in Indian companies. We have also used the quality of sustainability reporting as indicated by the number of parameters reported in each indicator. Moreover, to ensure the robustness of our sustainability reporting indicators, we have developed a sustainability reporting index and this indicator was used as an overall measure of sustainability reporting in our study. We have used three different indicators of firm performance: accounting-oriented performance, measured by the firm's return on assets; operational performance, indicated by the firm's return on equity; and market-oriented performance, as indicated by Tobin's *Q*. The outcome of the present study reveals that sustainability reporting has a significant positive impact on a firm's performance as indicated by its return on assets, return on equity, and Tobin's *Q*.

We used annual data from listed companies in the National Stock Exchange of India as our research sample, covering 100 companies over seven years, from 2017 to 2023, inclusive. Thus, we have used a total of 7,000 data points for the analysis, which is sufficient to represent the population. Our empirical results reveal that sustainability reporting has a significant and positive impact on a firm's long-term financial performance. This may be because firms can influence the sentiments of customers and investors if they emphasize sustainability reporting. This finding is consistent with Buallay (2020), Dincer et al. (2023), Pham et al. (2021), and Velte (2017). Our operational performance model reveals that ESG reporting, as well as the overall sustainability

reporting, as indicated by the sustainability reporting index, plays a significant role in enhancing the operational performance of the firm. This may be attributed to the understanding that when firms become more transparent in disclosing their sustainability practices, it generates a positive investor sentiment, which could enhance their return on equity over the long run. Bansal et al. (2021), Buallay (2020), and Dincer et al. (2023) also reported similar results in their studies.

Businesses that engage in sustainability reporting are aware that it helps them achieve a variety of financial performance goals while also assisting them in preserving and enhancing their brand image among stakeholders. Sustainability reporting has a significant positive effect on a firm's market performance in all the models in our work. This is because companies use sustainability reporting to legitimize their activities and influence the expectations of different stakeholders. This is because a business that is dedicated to transparent and sustainable reporting practices and maintaining the quality of sustainable reporting preserves operational, financial, and market performance by enhancing its reputation and winning over stakeholders' trust (Dincer et al., 2023). On the other hand, in Tobin's *Q* model, leverage has a positive impact, while the SR variable has a negligible effect. Our market performance model estimates conform to the results of Bansal et al. (2021), Dincer et al. (2023), and Haniffa and Hudaib (2006).

## Implications

The findings of this research have significant ramifications for practitioners who see sustainability reporting as the cornerstone of their company and researchers interested in delving deeper into the relationship between sustainability reporting and firm performance. Even though India is still lagging behind its Western counterparts, there is a growing awareness of the need to improve sustainability disclosure where traditional economic and financial reporting is integrated with ESG reporting. The significance of sustainability reporting in India is receiving significant attention due to the large volume of reporting and the country's status as an emerging market. This study could assist companies in boosting their engagement in more stringent sustainability reporting practices, given the role of sustainability reporting in enhancing firm performance. Policymakers and other authorities may find the outcome of this paper useful in defining effective frameworks that encourage better sustainability reporting. Additionally, this study may add to the expanding body of knowledge on sustainability reporting in developing nations.

## Conclusion

Inferences drawn from this research show that in line with the conclusions of numerous other studies (Pham et al., 2021; Thomas et al., 2021), sustainability reporting has a positive impact on accounting, operational, and market-oriented performance matrices of companies listed on the National Stock Exchange. Customers and investors place a high value on this beneficial effect over the long run. Furthermore, as customers and investors at large are now moving toward sustainable companies and investments, an effort on the part of companies to disclose their sustainability efforts will have a positive effect on return on assets, return on equity, and Tobin's *Q*. It is, therefore, advised that, in the Indian context, stakeholders including investors, shareholders, creditors, and debtors should be trained about sustainability reporting and its significance to the company and its stakeholders which will help them to make wiser investment decisions.

## Limitations of the Study and Scope for Further Research

The main goal of this study is to comprehend how sustainability reporting practices and the quality of such

practices affect firms' financial, operational, and marketing performance in the Indian context. Our results confirm the significant positive relationship between sustainability reporting practices, quality of sustainability reporting, and firm performance. This research is not free from limitations. First, we have explored the relationship between sustainability reporting practices and firm performance only in India. Future studies can look into this effect across countries. Second, we have considered only four parameters, each under ESG reporting dimensions in this study. Thus, we recommend the inclusion of additional parameters under each sustainability reporting dimension to get more comprehensive and generalizable results. To have a wider perspective, Finally, we advise future researchers to explore the relationships, using a more comprehensive and larger sample size or a comparison of two or more different markets.

## Authors' Contribution

Dr. Minimol M. C. conceived the idea and developed a quantitative design to carry out the panel data study. She was also involved in the data analysis and manuscript drafting process. Akhila K. V. performed the literature review, collected the data and was involved in the original manuscript writing. N. P. Kavya is involved in data collection, data analysis, and original manuscript writing. All three authors contributed to the revision of the manuscript as per the reviewer's comments.

## Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.

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