IMPACT OF ESG DISCLOSURES ON THE FINANCIAL DECISIONS OF FIRMS- EMPIRICAL EVIDENCE FROM EMERGING NATIONS

NEHA MALIK

DEPARTMENT OF MANAGEMENT STUDIES

INDIAN INSTITUTE OF TECHNOLOGY DELHI

JULY 2025

IMPACT OF ESG DISCLOSURES ON THE FINANCIAL DECISIONS OF FIRMS- EMPIRICAL EVIDENCE FROM EMERGING NATIONS

by

NEHA MALIK

Department of Management Studies

Submitted

in fulfilment of the requirements of the degree of Doctor of Philosophy

to the

Indian Institute of Technology Delhi

July 2025

CERTIFICATE

The thesis titled, "**Impact of ESG disclosures on the financial decisions of firms- Empirical evidence from emerging nations**", being submitted by **Ms. Neha Malik** to the Indian Institute of Technology Delhi, for the award of the degree of **Doctor of Philosophy** is a record of bonafide research work carried out by her. She has worked under my guidance and supervision and has fulfilled all the requirements for the submission of this thesis, which has attained the standard required for a Ph.D. degree at this institute. The results present in this thesis have not been submitted elsewhere for the award of any degree or diploma.

(Dr. Smita Kashiramka)

Professor

Department of Management Studies

Indian Institute of Technology Delhi

New Delhi

ACKNOWLEDGEMENTS

This thesis is the culmination of an incredible journey at the Department of Management Studies (DMS), Indian Institute of Technology, Delhi. Over the course of my Ph.D. journey, I have been fortunate to receive immense support, guidance, and encouragement from many individuals. This thesis would not have been possible without their invaluable contributions, and I take this opportunity to express my heartfelt gratitude to each one of them for making my doctoral dream a reality.

At the very outset, I bow in gratitude to the almighty, whose blessings have guided me through every challenge and triumph of this journey. It is only by his grace that I was blessed with the opportunity to pursue my Ph.D. at this prestigious institution. He has been by my side through every success and setback, reinforcing my faith and giving me strength. Through every hurdle, I have drawn strength from the wisdom of Lord Krishna:

"Karmanye vadhikaraste, Ma phaleshu kadachana." (You have the right to perform your duty, but never to its fruits.) – Bhagavad Gita 2.47

This verse has been a guiding principle, reminding me to stay dedicated to my work.

I express my deepest gratitude and thanks to my respected supervisor Dr. Smita Kashiramka, whose unwavering support, patience, and encouragement have been instrumental in shaping this thesis. She has provided me with the academic freedom to explore my research interests while consistently offering invaluable insights that refined my work. Her belief in my abilities, even during moments of self-doubt, has been a source of motivation. Her mentorship has not only helped me grow as a researcher but has also instilled in me the values of perseverance and intellectual curiosity, which I will carry forward in my professional and personal life.

I am also profoundly grateful to my Student Research Committee (SRC) members: Chairperson – Prof. (Dr.) Shveta Singh (Department of Management Studies, IIT Delhi), External expert- Prof. (Dr.) S. Dharmaraja (Department of Mathematics, IIT Delhi) and Internal expert – Prof. (Dr.) Amlendu Kumar Dubey (Department of Management Studies, IIT Delhi). Their valuable insights, constructive feedback, and expert guidance have been instrumental in refining this study. Their critical observations have strengthened the depth and rigor of my research. I am thankful to numerous faculty members of DMS for always being approachable.

I am deeply honoured and sincerely grateful for the financial support provided by the University Grants Commission (UGC) and IIT Delhi, which enabled me to pursue my research, attend workshops, and present my work at national and international conferences. Their support has been instrumental in broadening my academic horizons and facilitating meaningful scholarly contributions. I extend my heartfelt appreciation to the administrative staff of DMS, IIT Delhi, particularly Mr. Alok Malik, Mr. Parikshit, and Mr. Amit, as well as the PG Section and Accounts Section for their prompt assistance and unwavering support. Their efforts have ensured a seamless academic experience, allowing me to focus on my research. I am also grateful to the librarians and staff of the IIT Delhi library, whose dedication and commitment to providing unparalleled resources significantly enriched my research. A special note of appreciation goes to all the individuals working behind the scenes, whose tireless efforts ensured that I could seamlessly conduct a significant portion of my research online during the pandemic. Their commitment to maintaining research continuity in challenging times is truly commendable. I sincerely thank the editors and reviewers of our manuscripts for their thoughtful comments and invaluable feedback, which have played a crucial role in broadening the perspective of this thesis. Their constructive insights have not only strengthened my research but also deepened my understanding of the subject.

I feel incredibly fortunate to have academic colleagues—but more than that, friends—who have been my pillars of support throughout this journey. Radhika, Tusharika, Mayank, Ashita, and Geetanjali, your unwavering encouragement, endless support, and shared moments of joy and struggle have made this journey truly special. The extraordinary bond we share and the countless memories we have created together will forever hold a cherished place in my heart. I am also beyond grateful for the support of my seniors, whose mentorship and kindness created a welcoming and intellectually stimulating environment. Dr. Juhi Gupta, Dr. Yukti Bajaj, Priyam, Akanksha, and Neha Gupta, your guidance and constant willingness to help have been invaluable to me, making my time at IIT Delhi all the more enriching. Additionally, I extend my heartfelt gratitude to Mohit Verma (Indian Institute of Management, Sambalpur) and Sukanya Wadhwa (Indian Institute of Management, Lucknow) for their generous assistance in data collection and statistical analysis. This journey would not have been the same without each of you, and I will always be grateful for your presence in my life.

Throughout my doctoral journey, the unwavering love and faith of my family have been my greatest source of strength and comfort. Their constant support has given me the resilience to persevere through challenges, making this achievement possible. I dedicate this work to my lifelong mentor—my mother, Rashmi Malik. She has not only nourished me with food and prayers but has also been my guiding light, a pillar of faith, and my best friend who has walked beside me at every step. Her strength, sacrifices, and unconditional love have shaped me into who I am today. I am forever indebted to my father, Sandeep Malik, for believing in me, especially during the toughest days. His unwavering faith in my potential and his constant encouragement have taught me to keep moving forward and to find joy in life despite its difficulties. I feel incredibly fortunate to have my brother, Chintan Malik, by my side. From ensuring I had food during late-night study sessions to helping me with data cleaning, his patience and perseverance have been a constant source of motivation. His determination in life

has inspired me to stay focused and keep pushing forward, no matter how challenging the journey. I also hold deep gratitude for my late grandfather, Ved Brat Malik, and my grandmother, Chandar Kanta Malik, whose unwavering belief in me has been a source of strength and inspiration throughout my life. Finally, this thesis would not have been a reality without the endless support of Nikhil. He listened patiently to my frustrations, encouraged me during my lowest points, and celebrated every milestone with me. His timely words of reassurance, even when I didn't appreciate them in the moment, were invaluable. To my family, this achievement is as much yours as it is mine.

There are far more people than I can possibly mention who have played a crucial role in this journey, and to each of them, I extend my heartfelt gratitude. My family, teachers, and closest friends have been my unwavering pillars of strength, guiding and supporting me long before I even embarked on this Ph.D. Their encouragement, wisdom, and belief in me have been instrumental in shaping both my academic and personal growth.

This Ph.D. journey has not only expanded my intellectual horizons but has also profoundly influenced my life beyond academia. It has been a transformative experience filled with challenges, learning, and growth. To everyone who has contributed in any way to the realization of this thesis—thank you! Your support and kindness will always hold a special place in my heart.

Neha Malik

ABSTRACT

In the evolving landscape of corporate responsibility, sustainability has emerged as a powerful driving force, captivating the attention of academia, industries, policymakers, and practitioners alike. Earlier, Corporate Social Responsibility (CSR) had been a major area of study in academic research. Recently, Environmental, social and governance (ESG) disclosures have emerged as a comprehensive framework that goes beyond social responsibility and incorporates important environmental and governance aspects. Since the adoption of Sustainable Development Goals (SDGs) by the United Nations (UN) and the Paris Agreement on climate change in 2015, there has been a surge of interest in non-financial performance, particularly corporate sustainability and the integration of ESG factors. Additionally, the growing global concern and public demand surrounding sustainability encourage firms to undertake sustainable initiatives. Therefore, there has been a significant increase in studies on ESG investigating different arenas, including its drivers, implementation and outcomes. The ultimate aim of researchers is to comprehend the impact of ESG disclosures on firms and society. Driven by the dynamic ESG environment, it has become imperative to investigate the impact of ESG disclosures on firms.

In this backdrop, the present study intends to investigate the impact of ESG disclosures on the three key financial decisions of firms across 16 emerging markets from 2015 to 2022. . The final sample comprises of approximately 9981 firm-year observations from 16 emerging nations over the period 2015 to 2022. First, the study investigates the impact of environment, social and governance (ESG) disclosures on firm-level investment efficiency in emerging markets. Second, the study examines the impact of sustainable practices proxied by environment, social and governance (ESG) disclosures on accounting-based and market-based leverage ratios. Finally, the study empirically explores the relationship between sustainability

disclosure by firms and their dividend decisions. Additionally, it explores the moderating effects of financial reporting quality (FRQ) and financial constraints (FC) on the said relationships. Further, robustness tests are conducted using alternative measures of dependent variables, alternative sample and alternative time-periods. Firm-level data is retrieved from Bloomberg® and data for macroeconomic variables is retrieved from World Development Indicators (WDI).

Pooled ordinary least squares (POLS), two-stage least squares (2SLS) and a two-step system generalised methods of moments (GMM) have been applied. The GMM estimator not only accounts for the dynamic nature of panel data but also corrects for endogeneity, serial correlation, and heteroscedasticity. Additionally, panel logit estimation has been used when dealing with the binary dependent variable (likelihood of payment of dividends), and panel tobit estimation has been employed when the dependent variable is subject to left-censoring (dividend payouts and dividend yield).

The findings indicate that firms with higher ESG scores exhibit higher investment efficiency, reducing underinvestment and curbing overinvestment. Additionally, firms with higher ESG scores have better access of total and long-term debt financing, while reducing the reliance on short-term debt financing. Finally, these firms have greater likelihood of paying dividends, higher dividend payouts and dividend growth in emerging market firms. This implies that ESG disclosures provide additional valuable information to all stakeholders including creditors and investors that reduces information asymmetry. Importantly, these results remain robust across various sensitivity analyses involving alternative measures, alternate sample, alternate time periods, and instrumental variable regression. Additionally, all the three individual dimensions of ESG positively and significantly impact investment efficiency, leverage ratios and dividends decisions of firms, with social or governance dimension showing the most substantial effect.

Finally, the positive association between ESG and financial decisions of firms is more pronounced for firms with lower financial reporting quality (FRQ) and those facing higher financial constraints (FC).

These findings hold implications for government authorities, managers, and investors, offering guidance for sustainable policy formulation, program implementation, and portfolio management. By examining and integrating corporate finance and sustainability, this study introduces ESG scores as a novel non-financial driver of financial decisions, thus marking the pioneering contribution to the ESG literature in emerging nations. This study alleviates concerns about the potential downsides and costs of sustainability initiatives and encourage strategic business innovations to harness opportunities associated with ESG. For firms, the findings underscore the value of enhanced non-financial reporting. Investors should consider ESG disclosures while making their investment decisions, as they have the potential to impact the financial decisions of a firm positively. Additionally, the study provides valuable guidance for regulators and policymakers in emerging markets, supporting the development of ESG policies tailored to local contexts. Regulators should make efforts to educate the stakeholders about the potential benefits of ESG reporting. The research also enriches theoretical perspectives on agency and stakeholder theory. Overall, this international study, conducted across diverse countries and a crisis period, offers broad policy implications for academia, managers and regulatory agencies and contributes to advancing knowledge in sustainability, corporate finance and capital structure.

सार

कॉर्पोरेट जिम्मेदारी के उभरते परिदृश्य में, स्थिरता एक शक्तिशाली प्रेरक शक्ति के रूप में उभरी है, जिसने शिक्षाविदों, उद्योगों, नीति निर्माताओं और व्यवसायियों का ध्यान समान रूप से आकर्षित किया है। इससे पहले, कॉर्पोरेट सामाजिक उत्तरदायित्व (CSR) अकादमिक शोध में अध्ययन का एक प्रमुख क्षेत्र था। हाल ही में, पर्यावरण, सामाजिक और शासन (ESG) प्रकटीकरण एक व्यापक ढांचे के रूप में उभरे हैं जो सामाजिक जिम्मेदारी से परे जाते हैं और महत्वपूर्ण पर्यावरणीय और शासन पहलुओं को शामिल करते हैं। संयुक्त राष्ट्र (UN) द्वारा सतत विकास लक्ष्यों (SDG) को अपनाने और 2015 में जलवायु परिवर्तन पर पेरिस समझौते के बाद से, गैर-वित्तीय प्रदर्शन, विशेष रूप से कॉर्पोरेट स्थिरता और ESG कारकों के एकीकरण में रुचि बढ़ी है। इसके अतिरिक्त, स्थिरता के बारे में बढ़ती वैश्विक चिंता और सार्वजनिक मांग फर्मों को स्थायी पहल करने के लिए प्रोत्साहित करती है। इसलिए, ESG पर विभिन्न क्षेत्रों की जांच करने वाले अध्ययनों में उल्लेखनीय वृद्धि हुई है, जिसमें इसके चालक, कार्यान्वयन और परिणाम शामिल हैं। शोधकर्ताओं का अंतिम उद्देश्य फर्मों और समाज पर ESG प्रकटीकरण के प्रभाव को समझना है। गतिशील ईएसजी परिवेश को देखते हुए, फर्मों पर ईएसजी प्रकटीकरण के प्रभाव की जांच करना अनिवार्य हो गया है।

इस पृष्ठभूमि में, वर्तमान अध्ययन का उद्देश्य 2015 से 2022 तक 16 उभरते बाजारों में फर्मों के तीन प्रमुख वित्तीय निर्णयों पर ESG प्रकटीकरण के प्रभाव की जांच करना है। अंतिम नमूने में 2015 से 2022 की अवधि में 16 उभरते देशों से लगभग 9981 फर्म-वर्ष अवलोकन शामिल हैं। सबसे पहले, अध्ययन उभरते बाजारों में फर्म-स्तरीय निवेश दक्षता पर पर्यावरण, सामाजिक और शासन (ESG) प्रकटीकरण के प्रभाव की जांच करता है। दूसरा, अध्ययन लेखांकन-आधारित और बाजार-आधारित उत्तोलन अनुपातों पर पर्यावरण, सामाजिक और शासन (ESG) प्रकटीकरण द्वारा प्रदर्शित संधारणीय प्रथाओं के प्रभाव की जांच करता है। अंत में, अध्ययन अनुभवजन्य रूप से फर्मों द्वारा संधारणीयता प्रकटीकरण

और उनके लाभांश निर्णयों के बीच संबंधों की खोज करता है। इसके अतिरिक्त, यह उक्त संबंधों पर वित्तीय रिपोर्टिंग गुणवत्ता (FRQ) और वित्तीय बाधाओं (FC) के मध्यस्थ प्रभावों की खोज करता है। इसके अलावा, आश्रित चर, वैकल्पिक नमूने और वैकल्पिक समय-अवधि के वैकल्पिक उपायों का उपयोग करके मजबूती परीक्षण किए जाते हैं। फर्म-स्तरीय डेटा ब्लूमबर्ग® से प्राप्त किया जाता है और मैक्रोइकॉनोमिक चर के लिए डेटा विश्व विकास संकेतक (WDI) से प्राप्त किया जाता है।

पूल्ड ऑर्डिनरी लीस्ट स्क्वेयर (POLS), टू-स्टेज लीस्ट स्क्वेयर (2SLS) और टू-स्टेप सिस्टम जनरलाइज्ड मेथड्स ऑफ मोमेंट (GMM) को लागू किया गया है। GMM अनुमानक न केवल पैनल डेटा की गतिशील प्रकृति को ध्यान में रखता है, बल्कि अंतर्जातता, क्रमिक सहसंबंध और विषमता के लिए भी सुधार करता है। इसके अतिरिक्त, बाइनरी आश्रित चर (लाभांश के भुगतान की संभावना) से निपटने के दौरान पैनल लॉगिट अनुमान का उपयोग किया गया है, और पैनल टोबिट अनुमान का उपयोग तब किया गया है जब आश्रित चर बाएं-सेंसरिंग (लाभांश भुगतान और लाभांश उपज) के अधीन है।

निष्कर्ष बताते हैं कि उच्च ESG स्कोर वाली फर्म उच्च निवेश दक्षता प्रदर्शित करती हैं, कम निवेश को कम करती हैं और अधिक निवेश पर अंकुश लगाती हैं। इसके अतिरिक्त, उच्च ESG स्कोर वाली फर्मों के पास कुल और दीर्घकालिक ऋण वित्तपोषण तक बेहतर पहुंच होती है, जबकि अल्पकालिक ऋण वित्तपोषण पर निर्भरता कम होती है। अंत में, इन फर्मों के पास उभरते बाजार फर्मों में लाभांश, उच्च लाभांश भुगतान और लाभांश वृद्धि का भुगतान करने की अधिक संभावना है। इसका मतलब है कि ESG प्रकटीकरण लेनदारों और निवेशकों सहित सभी हितधारकों को अतिरिक्त मूल्यवान जानकारी प्रदान करता है जो सूचना विषमता को कम करता है। महत्वपूर्ण रूप से, ये परिणाम वैकल्पिक उपायों, वैकल्पिक नमूना, वैकल्पिक समय अवधि और इंस्ट्रूमेंटल वैरिएबल रिग्रेशन से जुड़े विभिन्न संवेदनशीलता विश्लेषणों में मजबूत बने हुए हैं। इसके अतिरिक्त, ESG के सभी तीन अलग-अलग आयाम फर्मों की निवेश दक्षता, उत्तोलन अनुपात और लाभांश निर्णयों को सकारात्मक और महत्वपूर्ण रूप से प्रभावित

करते हैं, जिसमें सामाजिक या शासन आयाम सबसे अधिक प्रभाव दिखाते हैं। अंत में, ESG और फर्मों के वित्तीय निर्णयों के बीच सकारात्मक संबंध कम वित्तीय रिपोर्टिंग गुणवत्ता (FRQ) वाली फर्मों और उच्च वित्तीय बाधाओं (FC) का सामना करने वाली फर्मों के लिए अधिक स्पष्ट है।

ये निष्कर्ष सरकारी अधिकारियों, प्रबंधकों और निवेशकों के लिए निहितार्थ रखते हैं, जो स्थायी नीति निर्माण, कार्यक्रम कार्यान्वयन और पोर्टफोलियो प्रबंधन के लिए मार्गदर्शन प्रदान करते हैं। कॉर्पोरेट वित्त और स्थिरता की जांच और एकीकरण करके, यह अध्ययन वित्तीय निर्णयों के एक नए गैर-वित्तीय चालक के रूप में ESG स्कोर पेश करता है, इस प्रकार उभरते देशों में ESG साहित्य में अग्रणी योगदान को चिह्नित करता है। यह अध्ययन स्थिरता पहलों के संभावित नुकसान और लागतों के बारे में चिंताओं को कम करता है और ESG से जुड़े अवसरों का दोहन करने के लिए रणनीतिक व्यावसायिक नवाचारों को प्रोत्साहित करता है। फर्मों के लिए, निष्कर्ष बढ़ी हुई गैर-वित्तीय रिपोर्टिंग के मूल्य को रेखांकित करते हैं। निवेशकों को अपने निवेश निर्णय लेते समय ESG प्रकटीकरण पर विचार करना चाहिए, क्योंकि उनमें फर्म के वित्तीय निर्णयों को सकारात्मक रूप से प्रभावित करने की क्षमता होती है। इसके अतिरिक्त, अध्ययन उभरते बाजारों में नियामकों और नीति निर्माताओं के लिए मूल्यवान मार्गदर्शन प्रदान करता है, जो स्थानीय संदर्भों के अनुरूप ESG नीतियों के विकास का समर्थन करता है। नियामकों को ESG रिपोर्टिंग के संभावित लाभों के बारे में हितधारकों को शिक्षित करने के प्रयास करने चाहिए। शोध एजेंसी और हितधारक सिद्धांत पर सैद्धांतिक दृष्टिकोण को भी समृद्ध करता है। कुल मिलाकर, विभिन्न देशों में संकट काल के दौरान किया गया यह अंतर्राष्ट्रीय अध्ययन शिक्षा जगत, प्रबंधकों और नियामक एजेंसियों के लिए व्यापक नीतिगत निहितार्थ प्रस्तुत करता है तथा स्थिरता, कॉर्पोरेट वित्त और पूंजी संरचना में ज्ञान को आगे बढ़ाने में योगदान देता है।

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

APPENDICES

Abbreviations

AR2	Second-order autocorrelation test
AUM	Assets under management
BRSR	Business Responsibility and Sustainability Reporting
COVID-19	Coronavirus disease 2019
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
EBIT	Earnings before interest and taxes
EM	Emerging markets
ENV	Environmental
ESG	Environmental, social and governance
FC	Financial constraints
FDI	Foreign direct investment
FRQ	Financial reporting quality
GAAP	Generally Accepted Accounting Principles
GDP	Gross domestic product
GICS	Global Industry Classification Standard
GMM	Generalised method of moments
GOV	Governance
GRI	Global Reporting Initiative
ICR	Interest coverage ratio
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IR	Integrated reporting

KPI	Key performance indicator
NDTS	Non-debt tax shields
NPV	Net present value
POLS	Pooled ordinary least squares
ROA	Return on assets
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals
SME	Small and medium-sized enterprise
SOC	Social
UN	United Nations
US	United States
VIF	Variance inflation factor
WDI	World Development Indicators
2SLS	Two-stage least squares