© May 2025 | IJIRT | Volume 11 Issue 12 | ISSN: 2349-6002

Role of Sustainable Accounting in Corporate Financial Performance-Impact of Environment Social and Governance (ESG) disclosures on profitability and market value in South West Khasi Hills District, Mawkyrwat

Ms. Kresphulin Wahlang
Assistant Professor, Economics Department, Sngap Syiem College, Mawkyrwat

***Abstract*—Sustainable accounting has become a critical component of corporate financial performance as businesses face increasing pressure to integrate Environmental, Social and Governance (ESG) factors into their reporting frameworks. This study examines the impact of ESG disclosures on corporate profitability and market value, exploring how transparent sustainability reporting influences investor confidence, financial performance and competitive advantage. Using a combination of financial data analysis and case studies, the research highlights the corelation between ESG disclosure levels and key financial indicators such as return on assets (ROA), return on equity (ROE) and stock market performance. The findings suggest that companies with strong ESG reporting tend to experience higher profitability, lower risk exposure and enhanced investor trust, leading to better market valuation. However, challenges such as the lack of standardized reporting frameworks and the costs of ESG compliance remain significant barriers to widespread adoption. The study concludes that integrating sustainable accounting into corporate financial strategies not only enhances long-term economic sustainability but also positions businesses for growth in an increasingly responsible investment landscape.**

I. INTRODUCTION

In recent years, sustainable accounting has emerged as a crucial aspect of corporate financial management, driven by the increasing emphasis on Environmental, Social and Governance (ESG) factors. Traditional accounting primarily focuses on financial metrics such as revenue, expenses and profitability. However, sustainable accounting integrates non-financial elements that assess a company's long-term impact on the environment, society and ethical governance. This shift is a response to growing regulatory requirements, stakeholder expectations and investor demands for transparency in corporate sustainability practices. The role of ESG disclosures in corporate financial performance has gained significant attention as companies are increasingly evaluated based on their sustainability efforts. Investors, consumers and regulatory bodies now consider ESG factors when making decisions, recognising that businesses committed to sustainability often demonstrate stronger risk management, operational efficiency, and long-term profitability. However, sustainable accounting integrates non-financial elements that assess a company's long-term impact on the environment, society and ethical governance. This shift is a response to growing regulatory requirements, stakeholder expectations, and investor demands for transparency in corporate sustainability practices

The role of ESG disclosures in corporate financial performance has gained significant attention as companies are increasingly evaluated based on their sustainability efforts. Investors, consumers and regulatory bodies now consider ESG factors when making decisions, recognising that businesses committed to sustainability often demonstrate stronger risk management, operational efficiency and long-term profitability. In spite of growing importance, integrating ESG disclosures into financial reporting presents several challenges. Many businesses struggle with the lack of standardized reporting frameworks, high compliance costs and difficulties in measuring intangible benefits. Nonetheless, firms that effectively incorporate sustainable accounting practices are more likely to achieve competitive advantages, attract responsible investors and maintain long-term financial stability.

This study explores the relationship between ESG disclosures and corporate financial performance analysing how sustainable accounting impacts profitability and market value. By examining case studies and financial data, the research aims to provide insights into the benefits, challenges and future implications of ESG reporting in the corporate world. The findings will contribute to a deeper understanding of sustainable accounting's role in shaping modern business strategies and financial success.

II. STATEMENT OF THE PROBLEM

As businesses face increasing pressure from investors, consumers and regulatory bodies to operate sustainability, the role of sustainable accounting has become more significant. Traditional financial reporting often fails to capture the long-term environmental, social and governance (ESG) impacts of corporate activities, leading to a gap in assessing a company's true financial health and sustainability.

One of the key concerns is whether ESG disclosures positively impact corporate financial performance, including profitability and market value. While some studies suggest that companies with strong ESG performance attract more investors, reduce operational risks and achieve higher stock valuations, others argue that the cost of implementing sustainability measures may outweigh the financial benefits in the short term. This inconsistency raises important questions about the actual financial implications of sustainable accounting.

Additionally, the lack of standardized ESG reporting frameworks creates difficulties in comparing corporate sustainability performance across industries and regions. Many firms struggle with measuring and disclosing non-financial data, leading to inconsistencies and limited reliability in sustainability reports. This lack of uniformity makes it challenging for investors and stakeholders to assess the financial impact of ESG factors accurately.
Furthermore, there is still limited empirical evidence on how ESG disclosures influence key financial metrics such as return on assets, return on equity and stock market performance. Businesses require clearer insights into whether investing in sustainability initiatives translates into financial success or merely fulfils compliance obligations.

Thus, this study aims to analyse the impact of ESG disclosures on corporate profitability and market value, addressing the gap between sustainability reporting and financial performance. It seeks to determine whether integrating ESG factors into to financial performance. It seeks to determine whether integrating ESG factors into financial reporting is merely a compliance requirement or a strategic advantage for long-term corporate growth and investor confidence.

Objectives of the Study

1. To examine the relationship between ESG disclosures and corporate profitability.
2. To evaluate the challenges and barriers to ESG integration in financial reporting
3. To assess investor and stakeholder perceptions of ESG disclosures
4. To provide recommendations for improving sustainable accounting practices.

Research Objectives

1. How do ESG disclosures influence corporate profitability?
2. What is the relationship between ESG reporting and market value, including stock price performance?
3. What are the major challenges businesses face in integrating ESG factors into financial reporting?
4. How do investors and stakeholders perceive ESG disclosures in financial decision-making?
5. What strategies can businesses adopt to improve the effectiveness of ESG disclosures and reporting?

III. LITERATURE REVIEW

Sustainable accounting integrates environmental, social and governance factors into financial reporting to provide a holistic view of a company's performance beyond traditional financial metrics. Burritt & Schaltegger (2010), stated sustainable accounting enables organizations to assess the long-term impact of their operations on society and the environment while ensuring financial stability. It aligns corporate objectives with sustainability goals, thereby improving business resilience. Friede, Bush and Bassen (2015), conducted a meta- analysis of over 2,000 empirical studies and found a positive correlation between ESG factors and financial performance. They concluded that businesses prioritizing sustainability tend to have higher returns on assets (ROA) and return on equity (ROE) due to increased operational efficiency, cost savings and risk mitigation.

Cheng, loannou and Serafein (2014), stated that companies investing in sustainability may face higher compliance costs, but in the long run, ESG friendly businesses experience better financial returns through enhanced brand loyalty and regulatory advantages. Giese et al. (2019), show that market responses to ESG disclosures vary by industry and region. In sectors with strong environmental regulations, ESG reporting has a greater impact on stock performance compared to industries with less regulatory scrutiny.

KPMG (2020), highlighted inconsistencies in global ESG reporting standards, such as GRI (Global Reporting Initiative) and the IFRS Sustainability Disclosure Standards. This creates difficulties in comparing ESG performance across industries.
Additionally, some businesses engage in "greenwashing"-misleading sustainability claims- to improve their ESG ratings without actual sustainable practices (Kim & Lyon,2015). This reduces the credibility of ESG disclosures and makes it harder for investors to assess genuine sustainability efforts.

Eccles, loannou and Serafeim (2014 indicated that stakeholders, particularly investors, prefer companies with strong ESG commitments, as they are seen as less risky and more future-oriented. Customers and employees also favour companies that demonstrate social responsibility, leading to higher consumer trust and employee satisfaction. To maximize the financial benefits of ESG reporting, researchers suggest improving data transparency, adopting globally recognised frameworks, and integrating ESG into core business strategies. (Stubbs & Higgins,2018).

IV. METHODOLOGY

This study employs a mixed-methods approach, incorporating both qualitative and quantitative research methods to analyse the impact of sustainable accounting and ESG disclosures on corporate financial performance. The methodology is designed to evaluate how ESG reporting influences profitability, market value and investor perceptions.

Research Design

A descriptive and analytical research design is used to assess the relationship between ESG disclosures and corporate financial performance. The study examines financial data, ESG reports and stakeholder perceptions to provide a comprehensive understanding of the impact of sustainable accounting.

Data Collection

Primary Data:
Surveys and Questionnaires: Structured questionnaires are distributed to corporate executives, financial analysts, and investors to gather insights on the role of ESG disclosures in decision-making and financial performance.

Secondary Data:
Financial Reports: Annual reports of selected companies are analysed to examine financial indicators such as ROA, ROE, net profit margins and stock price movements.
ESG Reports: Sustainability reports from corporate disclosures and databases such as the Global Reporting initiative, Sustainability Accounting Standards Board, and the IFRS Sustainability Standards are reviewed.
Stock Market Performance: Data from stock exchanges and financial databases (e.g., Bloomberg, Reuters) are used to analyse the correlation between ESG rankings and market value.

Sampling Method
Sample Selection: The study focuses on publicly listed companies across various industries with established ESG reporting practices.
Sampling Technique: A purposive sampling method is applied to select companies that actively disclose ESG metrics and have historical financial data available.

V. MAJOR FINDINGS

The study reveals several key insights regarding the impact of sustainable accounting and ESG disclosures on corporate financial performance. The findings are based on both quantitative financial data analysis and qualitative stakeholder insights from surveys and interviews.

1. ESG disclosures positively influence profitability: Companies with strong ESG disclosures demonstrate higher profitability,

reflected in improved Return on Assets (ROA) and Return on Equity (ROE). Sustainable business practices lead to cost savings, better resource efficiency and improved risk management, which contribute to long-term financial gains. However, some firms experience short-term financial burdens due to the initial investment required for ESG compliance.

2. ESG Reporting Enhances Market Value: The study finds that firms with high ESG ratings have higher market valuations and more stable stock prices. Investors perceive transparent ESG reporting as a sign of corporate resilience and risk mitigation, leading to increased investment in sustainable companies. In contrast, companies with poor ESG disclosures or greenwashing practices experience negative investor sentiment, affecting their stock performance.
3. Challenges in ESG Integration: Businesses face several challenges in implementing ESG reporting, including:
   - Lack of standardized ESG frameworks, making it difficult for investors to compare disclosures.
   - High costs of ESG implementations, particularly for small and medium-sized enterprises (SMEs)
   - Regulatory uncertainty and stakeholder scepticism, which create hesitation in ESG adoption.
4. Investors and Stakeholders Favor ESG Transparency: The study highlighted that investors consumers and employers prefer companies with strong ESG commitments. Sustainable business practices contribute to higher brand loyalty, employee satisfaction and corporate reputation. However, some investors remain sceptical about whether ESG initiatives directly translate into higher financial returns.
5. Need for Standardized ESG Reporting: One of the most significant findings is the lack of global standardization in ESG reporting, leading to inconsistencies in corporate sustainability disclosures. Businesses require clearer regulatory guidelines, improved data transparency and harmonized ESG frameworks to maximize the benefits of sustainable accounting.
6. Majority of respondents stated that investors consider ESG disclosures essential in their investment decisions. Transparency in corporate governance, environmental impact and social responsibility positively influenced investor confidence.

VI. SUGGESTIONS

1. Encourage ESG adoption among local enterprises: Businesses in the South West Khasi Hills District should be encouraged to adopt Environmental, Social and Governance (ESG) disclosure practices to improve transparency, attract investors and align with Global standards. This can be facilitated through training, awareness programs and government incentives.
2. Capacity Building and Training: Companies and cooperatives in the region should receive training on sustainable accounting practices, ESG reporting formats and how to link these disclosures to their financial performance.
3. Integration into financial reporting: Sustainable accounting should be formally integrated into the financial reporting process of local firms. This includes measuring environmental impact (such as carbon footprints and waste management), social contributions (such as community engagement and labour practices), and governance standards (like board diversity and ethics)
4. Policy support and local government involvement: The local administration and district planning bodies should create policies that reward businesses adopting sustainable practices, such as tax incentives or priority in public procurement.
5. Capacity building and training: Cooperatives and businesses in the region should receive training on sustainable accounting practices, ESG reporting formats and how to ink these disclosures to their financial performance.
6. Policy support and local government involvement: The local administration and district planning bodies should create policies that reward businesses adopting sustainable practices, such as tax incentives, subsidies or priority in public procurement.
7. Awareness campaigns for stakeholders: Organizing seminars and public awareness drives will help stakeholders- including consumers, investors and policymakers-understand the long-term value of ESG disclosures and demand higher accountability.
8. Monitoring and evaluating mechanism: A district-level body or partnership with academic

institutions can be established to regularly monitor the quality and businesses do not engage in superficial or “greenwashed” reporting.
9. Promotion of green investments: Financial institutions operating in the district can offer green bonds or sustainability-linked loans to businesses and cooperatives societies that demonstrate responsible ESG performance.

REFERENCES

[1] Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organisational processes and performance. *Management Science, 60(*11), 2835-2857. https://doi.org/10.1287/mnsc.2014.1984
[2] Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment, 5(4), 210-233.
[3] Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. *The Accounting Review, 91*(6), 1697-1724. https://doi.org/10.2308/accr-51383.
[4] Fatemi, A., Glaum, M., & Kaiser, S. (2018). ESG performance and firm value: The moderating role of disclosure. *Global Finance Journal,* 38, 45-64. https://doi.org/10.1016/j.gfj.2017.03.001.
[5] Kruger, P. (2015). Corporate goodness and shareholder wealth. *Journal of Financial Economics, 115(*5), 304-329. https://doi.org/10.1016/j.jfineco.2014.09.008.
[6] Lokuwaduge, C.S.D.S, & Heenetigala, K. (2017). Integrating environmental, social and governance (ESG) disclosure for a sustainable development: An Australian study. *Business Strategy and the Environment, 26*(4), 438-450. https://doi.org/10.1002/bse.1927.