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"ESG Commitment and Its Effect on Corporate Investment Decisions: An Empirical Study of Indian Listed Companies"

Research Proposal

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Abstract

This study examines how firms' Environmental, Social, and Governance (ESG) commitments influence corporate investment decisions among Indian listed companies. Using firm-level panel data across major Indian exchanges, the research investigates whether higher ESG commitments are associated with (a) changes in aggregate investment rates, (b) differences in the composition of investment (capex vs. R&D vs. M&A), and (c) differential effects across industries and ownership types. The project employs panel econometric techniques (fixed effects, system GMM, and difference-in-differences where applicable) and multiple robustness checks to identify causal relationships and provide policy-relevant conclusions for managers, investors, and regulators.

Introduction and Background

Corporate investment decisions—capital expenditures, R&D spending, and strategic acquisitions—shape firms' long-term competitiveness and economic growth. Simultaneously, ESG considerations have surged in importance for investors, regulators, and managers. For emerging markets such as India, where regulatory reforms and investor attention to sustainability are growing, understanding how ESG commitments affect firms’ investment choices is important for policymaking and corporate strategy. This study asks: do ESG commitments complement, substitute for, or crowd out traditional corporate investments? And do these relationships vary by firm size, industry, and ownership (state vs. private vs. promoter-controlled)?

Literature Review

ESG and financial performance: Prior work shows mixed findings—some studies find positive associations between ESG performance and firm value or cost of capital; others show no effect or trade-offs.

ESG and investments: The literature provides three possible channels:(1) Complementarity ESG leads to better stakeholder relations, lower risk, and hence more investment; (2) Substitution—resources allocated to ESG reduce funds available for physical investment; (3)Signalling and risk management - ESG commitments alter investment timing and quality.

Emerging markets evidence: Limited and mixed, with institutional contexts (regulation, enforcement, investor activism) strongly moderating effects.

This study fills gaps by providing firm-level causal evidence from India, differentiating investment types, and investigating heterogeneity by industry and ownership.

Research Gap and Contribution

1. Contextual gap : India is underrepresented in ESG–investment studies despite rapid policy changes (e.g., CSR rules, enhanced reporting). This study adds India-specific empirical evidence.

2. Mechanism gap : Existing research often focuses on aggregate investment; this study distinguishes capex, R&D, and acquisitions to reveal mechanism-specific effects.

3. Identification & robustness: By using panel methods, GMM, and natural experiments (e.g., regulatory shocks, mandatory disclosures), the study aims for stronger causal inference than cross-sectional correlational work.

Research Objectives

1. To measure the relationship between firm-level ESG commitment and corporate investment intensity among Indian listed companies.
2. To analyze how ESG commitment affects the composition of investment (capex, R&D, and M&A).
3. To identify heterogeneous effects across industry sectors, firm size, profitability, and ownership types.
4. To test potential mechanisms (cost of capital channel, stakeholder pressure, regulatory compliance, and resource reallocation).

Conceptual Framework

ESG commitment may affect investment decisions through three main channels:

1. Financial channel: Improved ESG reduces cost of capital → more investment.
2. Resource-allocation channel: ESG activities consume managerial attention and funds → potential crowding-out of other investments.
3. Strategic channel: ESG as part of long-term strategy → reallocation within investment types (toward sustainable capex and R&D).

Data and Sample

Population & sample frame: Non-financial firms listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) over a chosen period (suggested: 2010–2024 or 2015–2024). Exclude financial firms because their balance-sheet structure differs.

Data sources:

ESG scores and component scores: Refinitiv, Bloomberg ESG, MSCI, CDP disclosures, or Indian ESG providers (e.g., CRISIL ESG), depending on data access. (If proprietary ESG data are unavailable, consider using constructed proxies — CSR spending disclosures (mandatory under Indian Companies Act), sustainability reports, and textual measures via annual reports.) Financial and accounting variables: CMIE Prowess, Capitaline, BSE/NSE filings, Compustat Global (if available), or company annual reports. Macroeconomic & industry data: RBI, Ministry of Corporate Affairs (MCA), and industry classification codes from CMIE/SEBI. Sample size & period: Aim for balanced/unbalanced panel including all firms with complete data over the sample period; expected hundreds to a thousand+ firm-year observations depending on ESG data coverage.

Empirical Strategy

1. Baseline OLS with firm & year fixed effects to control for time-invariant unobserved heterogeneity: Estimate equation with clustered standard errors at firm level.

2. Dynamic panel methods (System GMM) to address potential endogeneity from lagged investment and reverse causality (investment could affect ESG). Use lagged instruments for ESG and controls where appropriate. Carefully check instrument validity (Hansen test) and absence of second-order autocorrelation (Arellano-Bond test).

3. Difference-in-differences (DiD) or event-study frameworks where natural experiments exist (e.g., regulatory changes, mandatory CSR provisions, or adoption of mandatory/non-mandatory ESG

disclosures). Compare treated firms (e.g., adopting mandatory reporting or experiencing a regulatory shock) with control firms.

4. Instrumental Variables (IV) if a valid external instrument is available (e.g., regional intensity of ESG activism, proximity to NGOs, or staggered introduction of disclosure requirements across sectors). Use two-stage least squares and test instrument validity.

5. Heterogeneity & subsample analysis: By industry (polluting vs non-polluting), by ownership type, by firm size, and by access to capital markets (public vs private firms, if applicable).

6. Robustness checks: Alternative variable definitions, winsorizing, excluding outliers, placebo tests, and falsification exercises.

Timeline

Months 0–2: Literature review refinement, finalize data sources and variable definitions.
Months 2–6: Data collection and cleaning (financials, ESG scores, firm metadata).
Months 6–9: Preliminary descriptive analysis, correlations, and baseline regressions.
Months 9–12: Advanced econometric analysis (GMM, DiD, IV), robustness checks.
Months 12–15: Interpretation, write-up of results, policy implications.
Months 15–18: Final revisions, prepare paper for submission, and present at seminars/conferences.

Conclusion

This proposed research aims to contribute to the growing body of knowledge at the intersection of corporate sustainability and financial decision-making, focusing on the Indian context. By empirically examining how ESG commitment influences the investment behavior of listed firms, the study seeks to uncover whether sustainability-oriented strategies serve as a complement to or a substitute for traditional capital investments. The findings are expected to shed light on the mechanisms through which ESG initiatives affect firms' financial allocation, investment structure, and long-term strategic choices. From a theoretical standpoint, the study will enrich the literature on corporate finance and ESG by providing evidence from an emerging market where institutional frameworks and regulatory pressures differ significantly from developed economies. Methodologically, by applying robust econometric techniques such as System GMM and Difference-in-Differences models, the research will attempt to mitigate endogeneity and offer credible causal insights.

Practically, the results will have important implications for corporate managers, policymakers, and investors. If ESG commitment is found to enhance investment activity and efficiency, it would strengthen the case for integrating sustainability into corporate strategy and justify policy incentives that promote ESG disclosure and compliance. Conversely, if ESG engagement is shown to crowd out productive investment, it would highlight the need for more balanced frameworks that allow firms to pursue sustainability goals without sacrificing growth and innovation.

In conclusion, this study aspires to bridge the gap between ESG theory and corporate investment practice within India's evolving financial landscape. By providing empirical evidence and policy-relevant insights, it aims to guide firms, investors, and regulators toward achieving both sustainable development and long-term value creation.