

Sustainable Finance vs Traditional Investment: A Quantitative Analysis of Indian Stocks

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ABSTRACT

This study investigates whether ESG (Environmental, Social, and Governance) compliant companies outperform their Non-ESG counterparts in the Indian stock market in terms of returns, risk, and dividend performance. Using a sample of top 10 ESG and Non-ESG firms based on S&P Global ESG scores, we analyzed three years of financial data (2022–2024). Results show that while ESG firms offer more stable returns and higher dividends, Non-ESG firms outperform them significantly in return generation. The findings offer insights for investors balancing financial objectives with sustainability considerations.
Keywords: Sustainable investment, Traditional investment, ESG Companies, Non- ESG companies

INTRODUCTION

The global investment landscape is undergoing a notable transformation, with sustainability emerging as a central theme in portfolio decision-making. Investors, both institutional and individual, are increasingly looking beyond traditional financial metrics to assess a company's long-term viability. Environmental, Social, and Governance (ESG) criteria have become pivotal in evaluating investment opportunities, reflecting a growing consensus that companies adhering to responsible practices are not only ethically commendable but also financially prudent in the long run. ESG investing represents a paradigm shift—one that integrates non-financial factors into financial analysis to better capture risks and opportunities in a rapidly evolving global economy. Companies classified as ESG-compliant actively integrate environmental stewardship, social responsibility, and ethical governance into their core business strategies. These firms are typically evaluated by rating agencies such as S&P Global, MSCI, and Sustainalytics based on a variety of sustainability indicators. Environmentally, these companies work to minimize carbon emissions, reduce waste, and utilize renewable energy sources. Socially, they are committed to fair labor practices, diversity and inclusion, and community engagement. Governance-wise, they prioritize transparent reporting, ethical leadership, and effective internal controls. Companies that perform well across these dimensions are often included in sustainability-focused indices such as the NIFTY 100 ESG Index or the Dow Jones Sustainability Index.

In contrast, Non-ESG companies do not explicitly focus on these non-financial metrics. Their operations are typically guided by conventional business goals centered around profit maximization, revenue growth, and shareholder value. Such firms may not actively disclose their sustainability practices, nor are they typically evaluated by ESG rating agencies. While they may deliver impressive short-term financial performance, they often face higher exposure to environmental regulations, social controversies, or governance lapses, which could pose reputational and financial risks in the long term. Within the Indian investment context, the relevance of ESG investing is rapidly gaining ground. India, being one of the largest emerging economies, has witnessed growing investor awareness and policy-driven momentum toward responsible investing. Regulatory bodies like the Securities and Exchange Board of India (SEBI) have played a pivotal role by mandating sustainability reporting through Business Responsibility and Sustainability Reports (BRSR) for top-listed companies. Additionally, ESG-themed mutual funds have gained popularity, with firms like SBI, Kotak, and Axis launching dedicated ESG funds aimed at retail and institutional investors alike. Despite this momentum, the Indian market still lacks a unified understanding of how ESG investments compare to traditional ones in terms of risk, return, and dividend performance posing a critical question for decision-makers and stakeholders.

LITERATURE REVIEWS

According to Jain, N., & Mehrotra, V. (2021) ESG firms in India yield superior returns with no significant increase in risk, reinforcing the appeal of ESG portfolios. The study done by Dhasmana, S., et al. (2023) finds that investor sentiment does not significantly influence the ESG index, implying that Indian investors may remain indifferent to ESG initiatives adopted by companies. These findings carry critical implications for both policymakers and corporate leaders, indicating that ESG investing is not yet fully embedded in the mindset of Indian investors.

As per the study done by Ngo, T. T., & Nguyen, A. (2020) In Indian market studies, a positive correlation has been observed between ESG scores and stock return performance, indicating that companies with higher ESG ratings tend to deliver better financial returns. This suggests that strong ESG practices may enhance investor confidence and long-term value. Additionally, dividend variations between ESG and non-ESG firms were identified using the Dividend Discount Model (DDM), highlighting differences in income distribution strategies. This emphasizes the dual impact of ESG on both growth and dividend performance.

According to Singh, S., et al. (2023) ESG mutual funds in India have demonstrated a superior 5-year Compound Annual Growth Rate (CAGR) compared to traditional funds, indicating stronger long-term performance. Additionally, these funds experienced lower Net Asset Value (NAV) volatility, suggesting more stable returns. This highlights the potential of ESG funds to deliver consistent growth while managing market fluctuations effectively.

RESEARCH OBJECTIVES

1. To study and compare how much return investors get from the top 10 ESG companies versus the top 10 Non-ESG companies in India over a certain period.
2. To look at how risky these companies are by measuring how much their stock prices go up and down (volatility), and compare this between ESG and Non-ESG companies.
3. To examine how often and how consistently ESG and Non-ESG companies pay dividends to their shareholders.
4. To use a statistical test (independent sample t-test) to find out if the differences in return, risk, and dividend payments between ESG and Non-ESG companies are meaningful or just happened by chance.

RESEARCH GAP

This study compares the financial performance of ESG and Non-ESG companies in India, focusing on risk, return, and dividends. It explores whether ESG investments offer better long-term value through governance and resilience or if they compromise financial gains. The research questions include whether ESG firms generate higher or lower returns, have different risk levels, and show more consistent dividend payouts. Using statistical tools like the independent sample T-test, the study analyzes the returns, risk, and dividend consistency of the top 10 ESG and Non-ESG companies, aiming to provide insights for investors and policymakers on sustainable investing.

RESEARCH HYPOTHESES

Returns

H1: There is significant difference in the average stock returns between ESG and Non- ESG companies in India.

H0: There is no significant difference in the average stock returns between ESG and Non- ESG companies in India.

Risk

H1: There is significant difference in the financial risk between ESG and Non-ESG companies.

H0 : There is no significant difference in the financial risk between ESG and Non-ESG companies.

Dividend

H1: There is significant difference in dividend payouts between ESG and Non-ESG companies.

H0: There is no significant difference in dividend payouts between ESG and Non-ESG companies.

Top 10 ESG Indian Companies															
Company	Sector	ESG Score (S&P Globa)	15-04-2025	Jan-24				Jan-23				Jan-22			
			CMP	Opening Price	Closing Price	Dividend	Return (%)	Opening Price	Closing Price	Dividend	Return (%)	Opening Price	Closing Price	Dividend	Return (%)
Infosys	IT Services	77 (Strong)	1426	1899	1500	33	-19.27	1515	1534	35	3.56	1542	1880	49	25.10
TATA consumer product	FMCG	70 (Strong)	1103	748	757	6.05	2.01	753	1074	8.45	43.75	1067	915	7.75	-13.52
Hindustan Uniliver	FMCG	70 (Strong)	2362	2361	2550	36	9.53	2548	2653	40	5.69	2644	2327	53	-9.98
Wipro	IT Services	69 (Good)	244	359	196	6	-43.73	196	236	1	20.92	238	301	1	26.89
ITC	FMCG / Diversified	68 (Good)	420	219	311	11.5	47.26	312	437	15.5	45.03	442	457	13.25	6.39
HDFC LIFE	Financial Services	64 (Good)	705	650	566	1.7	-12.66	570	646	1.9	13.67	648	617	2	-4.48
Nestle Indian	FMCG	64 (Good)	2368	1967	1960	220	10.83	1956	2658	242	48.26	2737	2170	18.25	-20.05
Tech mahindra	IT Services	63 (Good)	1302	1729	1016	48	-38.46	1009	1272	44	30.43	1297	1706	43	34.85
Dr reddy	Pharmaceuticals	63 (Good)	1155	970	846	30	-9.69	847	1160	40	41.68	1164	1389	40	22.77
Asian paint	Chemicals / Paints	62 (Good)	2415	3422	3087	19.9	-9.21	3047	3402	26.4	12.52	3396	2281	32.4	-31.88
Average							41.215	-6.34			45.425	26.55		25.965	3.61

Table 2. Average Returns, Dividend, and Risk of Top 10 ESG Indian Companies.

Top 10 ESG Indian Companies		
Average Return	Average Dividend	Risk (S.D.) of companies
3.13	39.00	22.19
10.75	7.42	29.62
1.75	43.00	10.34
1.36	2.67	39.16
32.89	13.42	22.98
-1.16	1.87	13.47
13.01	160.08	34.21
8.94	45.00	41.11
18.25	36.67	25.98
-9.52	26.23	22.20
7.94	37.54	

Table 4. Top 10 Non- ESG Indian Companies

Top 10 Non-ESG Indian Companies															
Company	Sector	ESG Score (S&P Globa)	15-04-2025	Jan-24				Jan-23				Jan-22			
			CMP	Opening Price	Closing Price	Dividend	Return (%)	Opening Price	Closing Price	Dividend	Return (%)	Opening Price	Closing Price	Dividend	Return (%)
Coal India	Mining	45 (Weak)	395	384.25	368.5	26.05	2.68	214.25	384.25	24.55	90.81	156.95	214.25	23	51.16
ONGC	Oil & Gas	48 (Weak)	233	216.45	263.02	12.5	27.29	147.35	216.45	10.25	53.85	157.05	147.35	11.75	1.31
IOC (Indian Oil Corp.)	Oil & Gas	50 (Average)	133	132.7	130.28	7	3.45	132.7	80.05	8	-33.65	79	80.05	6.4	9.45
NTPC	Power (Coal-based)	52 (Average)	366	314.95	308.25	8	0.41	169	314.95	9.5	91.98	131.35	169	7	33.99
Vedanta	Metals & Mining	40 (Weak)	394	265.85	432.15	43.5	78.92	309.65	265.85	62.5	6.04	338.2	309.65	81.5	15.66
BPCL	Oil & Gas	49 (Weak)	293	226.55	277.65	10.5	27.19	172.35	226.55	25	45.95	198.1	172.35	13	-6.44
GAIL	Oil & Gas	53 (Average)	180	163.65	179.58	5.5	13.10	163.65	97.25	4	-38.13	93.05	97.25	6	10.96
SAIL	Steel	47 (Weak)	112	116.35	106.03	2	-7.15	85.9	116.35	1.5	37.19	112	85.9	4.75	-19.06
Hindustan Zinc	Metals & Mining	42 (Weak)	432	318.5	433.35	29	45.16	318.5	332.8	52	20.82	330	332.8	36.5	11.91
Power Grid Corp.	Utilities	55 (Average)	305	318.5	469.15	11.75	50.99	156.07	318.5	13.75	112.89	153.9	156.07	12.75	9.69
Average							15.58	24.20			21.105	38.77		20.265	11.86

Average Dividend of Non ESG	Average Dividend of ESG
24.53	39.00
11.50	7.42
7.13	43.00
8.17	2.67
62.50	13.42
16.17	1.87
5.17	160.08
2.75	45.00
39.17	36.67
12.75	26.23

Risk (S.D.) of companies of Non ESG	Risk (S.D.) of companies of ESG
44.14	22.19
26.27	29.62
23.34	10.34
46.32	39.16
39.59	22.98
26.54	13.47
28.98	34.21
29.65	41.11
17.21	25.98
51.94	22.20

ESG Score (S&P Global) of Non ESG	ESG Score (S&P Global) of ESG
45	77
48	70
50	70
52	69
40	68
49	64
53	64
47	63
42	63
55	62

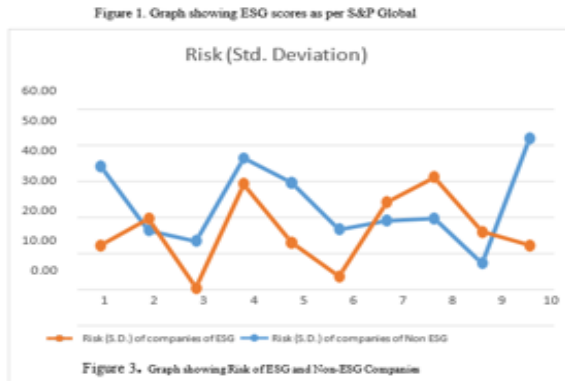
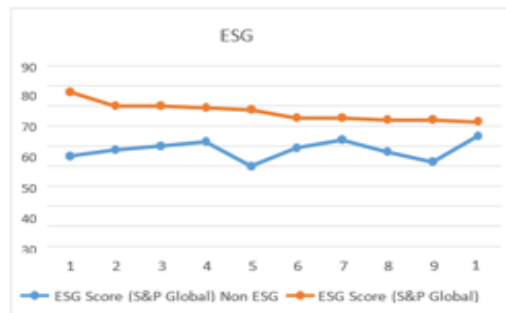


Figure 3. Graph showing Risk of ESG and Non-ESG Companies



Return 2024 ESG-Non ESG companies:

	VAR_1	N	Mean	Std. Deviation	Std. Error Mean
RETURN_24	ESG	10	-6.3390	26.13138	8.26347
	NON	10	24.2049	27.35662	8.65092

The analysis shows that there's a significant difference between the two groups when it comes to RETURN_24. Levene's Test confirms that the variances in both groups are roughly equal (p-value of 0.708). The t-test results show a significant difference in means, with a t-value of -2.553 and a p-value of 0.020. This means the first group has a lower average value for RETURN_24 than the second group, with a difference of about -30.54 units. The confidence interval for this difference is between -55.68 and -5.41, meaning the difference is statistically meaningful and not due to random chance.

The projected returns for 2024 reveal a sharp contrast between ESG and Non-ESG companies. ESG firms are expected to see a negative average return of -6.34%, while Non-ESG companies are projected to have a positive return of 24.20%. The t-test results (t = -2.553, p = 0.020) confirm this difference is statistically significant, highlighting the underperformance of ESG firms compared to their Non-ESG counterparts. This gap could reflect skepticism about the financial benefits of ESG initiatives, especially in the short term, as economic conditions fluctuate and regulations change. The negative returns for ESG firms may suggest that the costs of adopting ESG strategies or the market's undervaluation of these firms are holding back performance, which in turn affects investor confidence and financial projections for ESG investments in 2024.

Dividend 2024 comparison ESG-Non ESG

	VAR_1	N	Mean	Std. Deviation	Std. Error Mean
DIVIDEND_24	ESG	10	41.2150	64.64088	20.44124
	NON	10	15.5800	13.06523	4.13159

Levene's Test for Equality of Variances			t-test for Equality of Means							
F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference			
							Lower	Upper		
DIVIDEND_24	Equal variances assumed	2.651	.121	1.229	18	.235	25.63500	20.85460	-18.17889	69.44889
	Equal variances not assumed			1.229	9.734	.248	25.63500	20.85460	-21.00456	72.27456

The analysis of DIVIDEND_24 shows that there's no significant difference between the two groups. Levene's Test suggests that the variances are equal, with a p-value of 0.121. The t-test results also support this, as the p-values are 0.235 and 0.248, both above

0.05. This means that any difference in the average returns (about 25.64) is likely just due to random chance. The confidence interval for the mean difference ranges from -18.18 to 69.45, which includes zero, reinforcing that the observed difference

	VAR_1	N	Mean	Std. Deviation	Std. Error Mean
RETURN_23	ESG	10	26.5510	17.35498	5.48813
	NON	10	38.7750	51.49586	16.28442

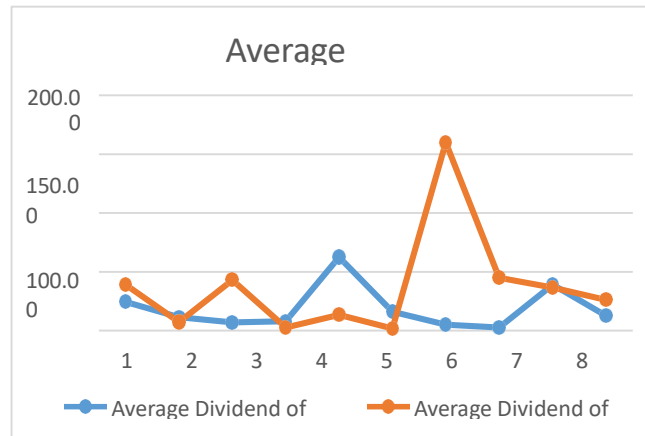
isn't statistically significant. Overall, there's no clear evidence of a real difference in DIVIDEND_24 between the two groups. For the projected 2024 dividend payouts, ESG companies have a higher average dividend (41.22) compared to Non-ESG companies (15.58). However, SG firms also show more volatility, with a standard deviation of 64.64, while Non-ESG firms have a lower standard deviation of 13.07. The t-test results ($t = 1.229, p = 0.235$) reveal no statistically significant difference between the two groups. The high standard deviation for ESG companies indicates considerable variation within this group, likely due to differences in industry profiles and how ESG strategies impact profit distribution. While ESG companies may offer higher average dividends, the lack of statistical significance, combined with the greater variability, suggests that dividend expectations for ESG firms are uncertain and less stable than those for Non-ESG companies.

Levene's Test for Equality of Variances			t-test for Equality of Means							
F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	% Confidence Interval of the Difference			
							Lower	Upper		
RETURN_23	Equal variances assumed	7.068	.016	-.711	18	.486	-12.22400	17.18435	-48.32698	23.87898
	Equal variances not assumed			-.711	11.018	.492	-12.22400	17.18435	-50.03879	25.59079

Return 2023 ESG-Non ESG companies:

In 2023, ESG companies had a mean return of 26.55, while non-ESG companies had a higher mean return of 38.78. However, the t-test result shows a p-value of 0.486, which is much greater than the typical 0.05 threshold for significance. This means there is no statistically significant difference between the returns of ESG and non-ESG companies. Although non-ESG companies had a higher average return, the difference observed could simply be due to chance rather than any meaningful underlying trend. In 2023, ESG firms achieved a mean return of **26.5510**, whereas Non-ESG firms managed **38.7750**. The variability was higher among Non-ESG companies ($SD = 51.49586$) compared to ESG ($SD = 17.35498$). The t-test ($t = -0.711, p = 0.486$) showed no statistically significant difference. This result highlights that while Non-ESG firms enjoyed a higher average return, the wide disparity in their performance outcomes introduces risk. ESG firms, although yielding lower returns, displayed more consistent performance in 2023. This could be indicative of the stabilizing effects of ESG practices in volatile markets, offering moderate but steadier returns compared to the boom-or-bust outcomes observed in the Non-ESG sector.

Dividend 2023 comparison ESG-Non ESG



	VAR_1	Mean	Std. Deviation	Std. Error Mean
DIVIDEND_23	ESG	45.4250	70.94906	22.43606
	NON	21.1050	20.68378	6.54078

Levene's Test for Equality of Variances			t-test for Equality of Means							
F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference			
							Lower	Upper		
DIVIDEND_23	Equal variances assumed	1.580	.225	1.041	18	.312	24.32000	23.37004	-24.77863	73.41863
	Equal variances not assumed			1.041	10.519	.321	24.32000	23.37004	-27.40563	76.04563

In 2023, ESG companies paid an average dividend of 45.43, significantly higher than the 21.11 paid by non-ESG companies, but with greater variability ($SD = 70.95$ compared to 20.68). Despite the higher mean for ESG companies, the t-test results ($t = 1.041, p = 0.312$) indicate no statistically significant difference between the two groups. This trend reflects a consistent pattern from previous years, where ESG firms offer higher, yet more volatile dividends. This variability likely stems from differing industry exposures, the varied commitment levels of companies toward ESG goals, and external economic factors that disproportionately affect ESG-focused firms, leading to unpredictable dividend distribution.

	VAR_1	N	Mean	Std. Deviation	Std. Error Mean
RETURN_22	ESG	10	3.6090	22.89459	7.23990
	NON	10	11.8610	19.61386	6.20245

Levene's Test for Equality of Variances			t-test for Equality of Means							
F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference			
							Lower	Upper		
RETURN_22	Equal variances assumed	1.458	.243	-.866	18	.398	-8.25200	9.53344	-28.28102	11.77702
	Equal variances not assumed			-.866	17.586	.398	-8.25200	9.53344	-28.31488	11.81088

In 2022, ESG companies posted an average return of 3.61, significantly lower than the 11.86 for non-ESG companies, but the difference was not statistically significant ($t = -0.866$, $p = 0.398$). Despite the higher returns from non-ESG companies, both groups showed substantial variability in their performance ($SD = 22.89$ for ESG and 19.61 for non-ESG), indicating inconsistent returns across the board. This lack of a clear trend may be attributed to a year of global economic uncertainty, market volatility, and shifting ESG regulations, suggesting that neither ESG alignment nor traditional business strategies had a decisive impact on returns, reflecting the complexity and unpredictability of the market during this period.

Dividend 2022

	VAR_1	N	Mean	Std. Deviation	Std. Error Mean
DIVIDEND_22	ESG	10	25.9650	19.83441	6.27219
	NON	10	20.2650	23.60543	7.46469

Levene's Test for Equality of Variances			t-test for Equality of Means							
F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference			
							Lower	Upper		
DIVIDEND_22	Equal variances assumed	.067	.799	.585	18	.566	5.70000	9.74997	-14.78394	26.18394
	Equal variances not assumed			.585	17.481	.566	5.70000	9.74997	-14.82762	26.22762

In 2022, ESG companies paid an average dividend of 25.97, slightly higher than the 20.27 paid by non-ESG companies, though the difference was not statistically significant ($t = 0.585$, $p = 0.566$). The standard deviations (19.83 for ESG and 23.61 for non-ESG) indicate that both groups exhibited relatively similar variability in dividend payouts that year. This suggests a period of stability in dividends, potentially driven by a post-pandemic recovery and a general shift among companies towards prioritizing consistent investor returns, regardless of their ESG alignment.

Average Return, Risk and Dividend of ESG-Non ESG companies:

	VAR_1	N	Mean	Std. Deviation	Std. Error Mean
AVG_RISK	ESG	10	26.1260	10.12237	3.20097
	NON	10	33.3980	11.34870	3.58877
AVG_DIV	ESG	10	37.5360	46.19954	14.60958
	NON	10	18.9840	18.69788	5.91279
AVG_RETURN	ESG	10	7.9400	11.81247	3.73543
	NON	10	24.9480	21.99939	6.95682

Levene's Test for Equality of Variances			t-test for Equality of Means							
F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference			
							Lower	Upper		
AVG_RISK	Equal variances assumed	.539	.472	-1.512	18	.148	-7.27200	4.80890	-17.37513	2.83113
	Equal variances not assumed			-1.512	17.770	.148	-7.27200	4.80890	-17.38452	2.84052
AVG_DIV	Equal variances assumed	1.275	.274	1.177	18	.254	18.55200	15.76074	-14.56008	51.66408
	Equal variances not assumed			1.177	11.871	.262	18.55200	15.76074	-15.82902	52.93302
AVG_RETURN	Equal variances assumed	3.228	.089	-2.154	18	.045	-17.00800	7.89625	-33.59740	-.41860
	Equal variances not assumed			-2.154	13.791	.049	-17.00800	7.89625	-33.96784	-.04816

The analysis of average risk (AVG_RISK) between ESG and Non-ESG companies highlights notable differences, with ESG companies exhibiting a lower mean risk of 26.13 compared to 33.40 for Non-ESG companies. However, the t-test result ($p = 0.148$) indicates that the difference in risk levels is not statistically significant at the 0.05 level. While ESG companies show lower average risk, the variability in risk within both categories overlaps to such an extent that the reduction in risk associated with ESG practices isn't strong enough to draw a statistically meaningful conclusion. This suggests that ESG status alone may not provide a reliable indication of lower investment risk. Regarding dividends (AVG_DIV), ESG companies display a higher mean dividend (37.54) compared to Non-ESG companies (18.98). However, the standard deviation for ESG companies is much larger, indicating greater variability in dividend payouts. The t-test result ($p = 0.254$) reveals no statistically significant difference between the two groups. While ESG companies may appear to provide higher average dividends, the substantial inconsistency within ESG firms' dividend distributions means that ESG status alone cannot be a dependable predictor of dividend payouts. The findings point to the complexity within ESG firms, where profitability might be influenced by their sustainable business models. When examining average returns (AVG_RETURN), a significant difference emerges, with ESG companies achieving a mean return of 7.94, notably lower than the 24.95 seen in Non-ESG companies. The t-test result ($p = 0.045$) confirms this difference is statistically significant at the 0.05 level, suggesting that ESG investments tend to deliver lower financial returns. This supports the idea that ESG commitments, which often prioritize social and environmental outcomes, may come with opportunity costs, potentially limiting exposure to higher-yield investments. Therefore, investors focused on maximizing financial returns may find Non-ESG companies more attractive, albeit with higher associated risks.

Results and Conclusion:

ESG companies generally show lower average risk compared to Non-ESG firms, but this difference is not statistically significant, suggesting ESG practices alone don't reliably reduce investment risk. While ESG firms tend to offer higher average dividend payouts, particularly in 2023 and 2024, these differences are also not statistically significant, with ESG companies displaying much higher variability in dividends, indicating inconsistency. On returns, ESG companies consistently show lower average returns, with a statistically significant difference overall, and particularly in 2024 where ESG firms even showed negative returns. This suggests a financial trade-off for prioritizing ESG criteria. While 2023 returns from ESG companies were lower on average, the difference was not significant, but ESG returns were more consistent, hinting at potential lower volatility benefits for risk-averse investors. The data also suggests that despite ESG firms often posting higher dividends in specific years, the high variability in their performance raises concerns for income-focused investors, as it may reflect an unpredictable financial outlook. Overall, the findings question the short-term financial superiority of ESG investments, as they don't guarantee better outcomes in terms of risk, returns, or dividends.