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Corporate Governance, ESG Integration, and Financial Performance: Evidence from Indian Firms

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Abstract: This study examines the interplay between corporate governance mechanisms, environmental, social, and governance (ESG) integration, corporate reputation, and financial performance in the Indian context. Drawing on survey data from 535 respondents across multiple industries and employing Partial Least Squares Structural Equation Modeling (PLS-SEM), the study investigates both direct and indirect relationships among these constructs. The findings reveal that effective corporate governance positively influences ESG integration, corporate reputation, and financial performance. ESG integration mediates the relationship between governance mechanisms and financial performance, while corporate reputation further strengthens this link. Additionally, governance quality acts as a significant moderator, enhancing the positive effects of governance mechanisms on ESG integration and the subsequent impact on firm performance. The study contributes theoretically by integrating governance effectiveness, ESG adoption, and governance quality into a single model, offering a comprehensive understanding of their collective influence on financial outcomes. Practically, the results highlight the importance of robust governance structures and ESG strategies in fostering sustainable growth and reputational advantages. The study underscores that ESG initiatives are not merely compliance measures but strategic tools that convert governance practices into tangible financial and reputational value. This research provides actionable insights for managers, policymakers, and investors seeking to enhance firm performance through sustainable corporate practices in emerging markets.

Keywords: Corporate Governance Mechanisms; ESG Integration; Corporate Reputation; Governance Quality; Financial Performance; Emerging Markets

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1. Introduction

In recent years, the integration of Environmental, Social, and Governance (ESG) considerations into corporate strategy has emerged as a central theme in both academic discourse and business practice. Firms are increasingly expected to move beyond traditional profit-maximization objectives and incorporate sustainability, ethical governance, and social responsibility into their operations. This shift is particularly relevant in emerging economies such as India, where rapid economic growth is accompanied by rising environmental concerns, social inequalities, and governance challenges. Corporate governance mechanisms play a crucial role in shaping how firms adopt and implement ESG practices, thereby influencing their overall financial performance (De Villiers & Dimes, 2021; Escamez et al., 2026). As stakeholders demand greater transparency and accountability, organizations are under increasing pressure to align governance structures with sustainability goals.

The growing importance of ESG integration is driven by its potential to enhance firm value, reduce risks, and improve long-term performance. Prior studies have demonstrated that ESG disclosure and performance are positively associated with financial outcomes, although the strength and direction of this relationship often depend on governance quality and institutional context (Albitar et al., 2020; Lee & Suh, 2022). Corporate governance mechanisms—such as board structure, gender diversity, sustainability committees, and internal controls—serve as critical enablers that influence the effectiveness of ESG initiatives. For instance, governance structures can enhance monitoring, reduce agency conflicts, and ensure that sustainability strategies are aligned with organizational objectives (Lu, 2021; Elmghaamez et al., 2024). Moreover, the integration of ESG into governance frameworks has been found to strengthen corporate reputation and stakeholder trust, thereby contributing to improved financial performance (Fiandrino et al., 2019; Annesi et al., 2025).

Despite the growing body of literature, existing research presents mixed findings regarding the ESG–financial performance nexus. While several studies report a positive relationship, others highlight potential trade-offs and contextual variations, particularly in emerging markets (Nekhili et al., 2021; Elamer & Boulhaga, 2024). Furthermore, many studies focus on developed economies, limiting the generalizability of findings to countries like India, where institutional frameworks, regulatory environments, and governance practices differ significantly. Although recent research has begun to explore ESG integration in emerging markets, there remains a lack of comprehensive empirical studies that examine the moderating role of corporate governance mechanisms in this relationship (Fodouop Kouam, 2025; Guan et al., 2026). Additionally, the dynamic interaction between governance structures and ESG practices in shaping financial performance has not been sufficiently explored in the Indian context.

This study seeks to address these gaps by examining the impact of corporate governance mechanisms on ESG integration and their combined effect on firm financial performance in India. Specifically, the study aims to (i) analyze the direct relationship between ESG integration and financial performance, (ii) investigate the influence of corporate governance mechanisms on ESG practices, and (iii) assess the moderating role of governance mechanisms in the ESG–performance relationship. By adopting a comprehensive analytical framework, this research provides deeper insights into how governance structures enhance the effectiveness of ESG initiatives.

The contribution of this study is threefold. First, it extends the existing literature by integrating corporate governance and ESG perspectives into a unified model, thereby offering a more holistic understanding of firm performance. Second, it provides empirical evidence from the Indian context, contributing to the limited research on ESG practices in emerging economies. Third, the study offers practical implications for policymakers and corporate leaders by highlighting the importance of strengthening governance mechanisms to achieve sustainable financial performance. In doing so, the research underscores the strategic role of governance in driving ESG integration and long-term value creation.

2. Literature Review

Corporate governance effectiveness plays a fundamental role in shaping firms' strategic orientation toward sustainability and ESG integration. Strong governance structures ensure accountability, transparency, and alignment of managerial decisions with stakeholder interests, thereby facilitating the adoption of ESG practices (De Villiers & Dimes, 2021; Dicuonzo et al., 2022). In particular, governance mechanisms such as board independence, gender diversity, and the presence of sustainability committees enhance oversight and strategic decision-making related to environmental and social issues (Alodat & Hao, 2025; Elmghaamez et al., 2024). These mechanisms reduce agency conflicts and encourage firms to integrate ESG considerations into their core operations.

Empirical evidence suggests that firms with effective governance structures are more likely to disclose ESG information and adopt sustainability-oriented strategies (Umar et al., 2024; Kuzey et al., 2023). Governance effectiveness not only promotes compliance with regulatory requirements but also drives proactive engagement with ESG initiatives, thereby improving corporate legitimacy and stakeholder trust (Escamez et al., 2026; Fodouop Kouam, 2025). In emerging markets such as India, where institutional frameworks are evolving, governance effectiveness becomes even more critical in ensuring meaningful ESG integration.

H1: Corporate governance effectiveness positively influences ESG integration.

The relationship between ESG integration and firm financial performance has attracted significant scholarly attention. ESG integration reflects the extent to which firms incorporate environmental, social, and governance considerations into their strategic and operational decisions. According to stakeholder theory, firms that effectively address stakeholder concerns through ESG practices are more likely to achieve superior financial outcomes (Lee & Suh, 2022; Wang & Sarkis, 2017).

Several studies have reported a positive association between ESG performance and financial performance, indicating that sustainable practices enhance efficiency, reduce risks, and improve firm value (Albitar et al., 2020; Ramírez-Solís & Bernal Ponce, 2026). ESG integration can lead to cost savings through efficient resource utilization, improved risk management, and enhanced brand reputation, all of which contribute to financial performance (Chairani & Siregar, 2021; Elamer & Boulhaga, 2024). However, some studies also highlight potential trade-offs, particularly in the short term, due to the costs associated with implementing ESG initiatives (Nekhili et al., 2021; Lee & Suh, 2022). Despite these mixed findings, the consensus in recent literature supports the long-term financial benefits of ESG integration, particularly when supported by strong governance mechanisms.

H2: ESG integration positively affects financial performance.

Corporate governance effectiveness is widely recognized as a key determinant of firm financial performance. Effective governance mechanisms enhance monitoring, reduce agency costs, and ensure efficient resource allocation, thereby improving firm performance (Mahrani & Soewarno, 2018; Zubeltzu-Jaka et al., 2018). Governance structures also influence strategic decision-making and risk management, which are critical for achieving sustainable financial outcomes.

Empirical studies have demonstrated that firms with strong governance frameworks tend to exhibit better financial performance due to improved transparency, accountability, and stakeholder confidence (Fiandrino et al., 2019; Lu, 2021). Additionally, governance mechanisms can enhance the effectiveness of sustainability initiatives, thereby strengthening the ESG–performance relationship (Albitar et al., 2020; Elamer & Boulhaga, 2024). In the Indian context, where corporate governance reforms are ongoing, effective governance practices can play a crucial role in enhancing firm performance and competitiveness.

H3: Corporate governance effectiveness positively affects financial performance.

Corporate reputation is a valuable intangible asset that reflects stakeholders' perceptions of a firm's credibility, trustworthiness, and social responsibility. ESG integration plays a critical role in shaping corporate reputation by signaling a firm's commitment to sustainable and ethical practices (Annesi et al., 2025; Hoang, 2018). Firms that actively engage in ESG initiatives are more likely to gain the trust of stakeholders, including investors, customers, and regulators.

Research indicates that ESG disclosure and performance enhance corporate reputation by improving transparency and demonstrating accountability (De Villiers & Dimes, 2021; Escamez et al., 2026). Moreover, firms that integrate ESG into their strategies are better positioned to manage reputational risks and build long-term stakeholder relationships (Fodouop Kouam, 2025; Guan et al., 2026). In emerging markets, where trust and legitimacy are critical, ESG integration serves as a key driver of corporate reputation.

H4: ESG integration positively influences corporate reputation.

Corporate reputation has a significant impact on firm financial performance, as it influences stakeholder perceptions and behaviors. A strong reputation enhances customer loyalty, attracts investment, and reduces transaction costs, thereby contributing to improved financial outcomes (Wang & Sarkis, 2017; Zubeltzu-Jaka et al., 2018). Reputation also acts as a buffer against negative events, enabling firms to maintain stability during crises.

Empirical studies have shown that firms with a positive reputation tend to outperform their competitors in terms of financial performance (Fiandrino et al., 2019; Ramírez-

Solís & Bernal Ponce, 2026). ESG practices contribute to reputation building by demonstrating a firm's commitment to sustainability and ethical conduct, which in turn enhances financial performance (Annesi et al., 2025; Elamer & Boulhaga, 2024).

H5: Corporate reputation positively affects financial performance.

ESG integration serves as a key mechanism through which corporate governance effectiveness influences financial performance. Effective governance structures facilitate the adoption of ESG practices, which in turn enhance financial outcomes. This mediating role is supported by studies that highlight the importance of ESG in linking governance mechanisms to firm performance (Albitar et al., 2020; Umar et al., 2024).

Furthermore, ESG integration enables firms to align their strategies with stakeholder expectations, improve risk management, and enhance operational efficiency, thereby contributing to financial performance (Chairani & Siregar, 2021; Guan et al., 2026). This suggests that governance mechanisms influence financial performance not only directly but also indirectly through ESG integration.

H6: ESG integration mediates the relationship between corporate governance effectiveness and financial performance.

Corporate reputation also acts as a mediating variable in the relationship between ESG integration and financial performance. ESG practices enhance reputation by signaling a firm's commitment to sustainability, which in turn influences stakeholder perceptions and financial outcomes (Annesi et al., 2025; Hoang, 2018). Reputation serves as a valuable intangible resource that translates ESG efforts into economic benefits.

Empirical evidence supports the mediating role of reputation in the ESG–performance relationship, highlighting its importance in enhancing firm value (Elamer & Boulhaga, 2024; Ramírez-Solís & Bernal Ponce, 2026). This indicates that ESG integration improves financial performance partly through its positive impact on corporate reputation.

H7: Corporate reputation mediates the relationship between ESG integration and financial performance.

Governance quality plays a moderating role in the relationship between ESG integration and financial performance. High governance quality strengthens the effectiveness of ESG initiatives by ensuring proper implementation, monitoring, and alignment with organizational goals (Lu, 2021; Albitar et al., 2020). Firms with strong governance frameworks are better able to leverage ESG practices to achieve superior financial outcomes.

Studies have shown that governance mechanisms such as board diversity and internal controls enhance the ESG–performance relationship by improving decision-making and reducing risks (Alodat & Hao, 2025; Elmghaamez et al., 2024). In emerging markets, governance quality is particularly important in ensuring that ESG initiatives translate into tangible financial benefits.

H8: Governance quality positively moderates the relationship between ESG integration and financial performance, such that the relationship is stronger when governance quality is high.

3. Methodology

This study adopts a quantitative research design to examine the relationships among corporate governance effectiveness, ESG integration, corporate reputation, governance quality, and financial performance in the Indian context. A survey-based approach was employed to collect primary data, as it enables the capture of respondents' perceptions regarding organizational practices and performance, which are particularly suitable for structural equation modeling (SEM) analysis. The target population of the study comprises managerial-level employees, sustainability officers, finance professionals, and executives working in Indian firms across manufacturing, service, and technology sectors. These respondents were selected because they possess adequate knowledge and experience regarding corporate governance practices, ESG implementation, and organizational performance. A purposive sampling technique was utilized to ensure that participants had relevant exposure to the study variables. This approach is consistent with prior studies that rely on informed respondents for perceptual assessments of governance and sustainability practices (Umar et al., 2024; Alodat & Hao, 2025).

Data were collected through a structured questionnaire distributed both online and offline over a period of three months. A total of 600 questionnaires were distributed, out of which 560 responses were received. After screening for incomplete responses, missing values, and response inconsistencies, 535 valid responses were retained for final analysis, yielding a high effective response rate. The sample size exceeds the minimum requirements for Partial Least Squares Structural Equation Modeling (PLS-SEM), ensuring adequate statistical power and robustness of results. The demographic profile of respondents includes a diverse representation in terms of age, gender, education, industry type, and work experience. This diversity enhances the generalizability of the findings across different organizational settings in India. Furthermore, the sample size satisfies the "10-times rule" and more advanced statistical power criteria, confirming its suitability for SEM analysis involving multiple constructs and relationships.

All constructs in this study were measured using multi-item scales adapted from prior validated studies, ensuring content validity and reliability. A five-point Likert scale ranging from 1 ("strongly disagree") to 5 ("strongly agree") was used to capture respondents' perceptions. Although the data are perception-based, the constructs are labeled without explicitly including the term "perceived," following standard practice in SEM-based research. Corporate governance effectiveness was measured using items capturing board independence, gender diversity, and the presence of sustainability-oriented governance mechanisms. These items were adapted from prior studies on governance and ESG disclosure (Albitar et al., 2020; Elmghaamez et al., 2024). Respondents were asked to evaluate the effectiveness of governance structures in ensuring transparency, accountability, and sustainability oversight.

ESG integration was measured by assessing the extent to which environmental, social, and governance considerations are embedded in organizational strategies and operations. The measurement items were adapted from studies focusing on ESG practices and sustainability integration (Almnadheh et al., 2025; Escamez et al., 2026). The items captured aspects such as ESG-based decision-making, disclosure practices, and alignment with corporate strategy. Corporate reputation was measured using indicators related to stakeholder trust, brand credibility, and social and environmental image. These items were adapted from prior literature emphasizing the role of ESG in shaping reputation (Annesi et al., 2025; Hoang, 2018). Respondents assessed how their organization is perceived by stakeholders in terms of ethical and sustainable practices.

Financial performance was measured using subjective indicators such as perceived profitability, sales growth, and overall market performance relative to competitors. This approach is widely used in survey-based studies where objective financial data may not be accessible (Lee & Suh, 2022; Ramírez-Solís & Bernal Ponce, 2026). Prior research supports the validity of subjective performance measures as reliable proxies for actual performance. Governance quality was measured as a moderating construct reflecting overall governance strength, including transparency, accountability, and ethical standards. The measurement items were adapted from studies examining governance mechanisms and their moderating role in ESG-performance relationships (Lu, 2021; Guan et al., 2026). All measurement items were pre-tested through a pilot study involving 30 respondents to ensure clarity, relevance, and reliability. Minor modifications were made based on feedback to improve the questionnaire's comprehensibility.

The study employs Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS software to analyze the proposed model. PLS-SEM is particularly suitable for this study due to its ability to handle complex models, predictive orientation, and suitability for non-normal data distributions. It is also appropriate for exploratory and theory-building research, especially in emerging areas such as ESG integration and governance (Hair et al., 2019). The analysis was conducted in two stages: measurement model assessment and structural model evaluation.

The measurement model was evaluated to assess the reliability and validity of the constructs. Internal consistency reliability was examined using Cronbach's alpha and Composite Reliability (CR), with threshold values of 0.70 indicating acceptable reliability. Convergent validity was assessed using factor loadings and Average Variance Extracted (AVE), where factor loadings above 0.70 and AVE values above 0.50 indicate adequate convergence. Discriminant validity was evaluated using the Fornell–Larcker criterion and the Heterotrait-Monotrait (HTMT) ratio. According to the Fornell–Larcker criterion, the square root of AVE for each construct should exceed its correlations with other constructs. HTMT values below 0.85 indicate satisfactory discriminant validity.

Additionally, model fit was assessed using SmartPLS-specific indices such as the Standardized Root Mean Square Residual (SRMR), Normed Fit Index (NFI), and discrepancy measures (d_ULS and d_G). These indices provide an overall evaluation of how well the model fits the observed data. The structural model was assessed to test the hypothesized relationships among constructs. Path coefficients were examined to determine the strength and direction of relationships. Bootstrapping with 5,000 resamples was performed to assess the statistical significance of the paths, with a p-value of less than 0.05 indicating significance.

The coefficient of determination (R^2) was used to evaluate the explanatory power of the model, indicating the proportion of variance explained in endogenous constructs. Effect size (f^2) was calculated to assess the impact of each exogenous variable on endogenous variables, with values of 0.02, 0.15, and 0.35 representing small, medium, and large effects, respectively. Predictive relevance (Q^2) was assessed using the blindfolding procedure, where values greater than zero indicate that the model has predictive capability. Mediation effects were tested using bootstrapping to examine indirect effects, while moderation analysis was conducted by creating interaction terms in SmartPLS to assess the moderating role of governance quality. The study adheres to established ethical standards in research. Participation was voluntary, and respondents were informed about the purpose and scope of the study prior to data collection. Confidentiality and anonymity of responses were strictly maintained, and data were used solely for academic purposes. Respondents were assured that their information would not be disclosed to any third party, ensuring unbiased and honest responses.

4. Results

The demographic characteristics of the 535 respondents are presented in Table 1, which provides an overview of the participants' gender, age, education, industry type, and work experience. Male respondents accounted for 58.3% of the sample, while females constituted 41.7%, indicating a slight gender imbalance but sufficient representation for analysis. Age distribution reveals that the majority of participants (44.1%) were aged between 26 and 35 years, followed by 23.2% in the 36–45 age group, 22.1% below 25 years, and 10.6% above 45 years. This indicates that the sample is largely composed of young professionals, who are typically more engaged with ESG and corporate governance initiatives, consistent with previous studies highlighting the role of younger managers in sustainability adoption (Albitar et al., 2020; Alodat & Hao, 2025). Regarding educational background, 47.1% of respondents were graduates, 27.7% undergraduates, and 25.2% postgraduates, showing a well-educated sample capable of comprehending ESG practices and corporate governance mechanisms (Elamer & Boulhaga, 2024). In terms of industry, 42.6% of respondents were from manufacturing, 32.9% from services, and 24.5% from technology firms, reflecting diverse organizational contexts that enhance the generalizability of the study. The respondents' work experience was also varied, with 44.5% having 3–7 years, 29% more than 7 years, and 26.5% below 3 years, suggesting a combination of early-career and mid-level professionals knowledgeable about corporate governance and ESG integration (Guan et al., 2026).

Table 1: Demographic Profile of Respondents

Variable	Category	Frequency	Percentage (%)
Gender	Male	312	58.3
	Female	223	41.7
Age	Below 25	118	22.1
	26–35	236	44.1
	36–45	124	23.2
	Above 45	57	10.6
Education	Undergraduate	148	27.7
	Graduate	252	47.1
	Postgraduate	135	25.2
Industry Type	Manufacturing	228	42.6
	Service	176	32.9
	Technology	131	24.5
Experience	<3 years	142	26.5
	3–7 years	238	44.5
	>7 years	155	29.0

Before testing hypotheses, the measurement model was evaluated for reliability, convergent validity, and discriminant validity. As shown in Table 2, all indicator loadings for the constructs—Corporate Governance Effectiveness (CGE), ESG Integration (ESGI), Corporate Reputation (CR), Financial Performance (FP), and Governance Quality (GQ)—exceeded the recommended threshold of 0.70, indicating strong item reliability (Hair et al., 2022). Specifically, CGE indicators ranged from 0.84 to 0.88, ESGI from 0.85 to 0.88, CR from 0.86 to 0.89, FP from 0.86 to 0.90, and GQ from 0.85 to 0.88, demonstrating that the items effectively captured the intended latent constructs.

Table 2: Factor Loadings

Construct	Item Code	Loading
Corporate Governance Effectiveness (CGE)	CGE1	0.84
	CGE2	0.87
	CGE3	0.88
	CGE4	0.86
ESG Integration (ESGI)	ESGI1	0.85
	ESGI2	0.88
	ESGI3	0.87
	ESGI4	0.86
Corporate Reputation (CR)	CR1	0.86
	CR2	0.89
	CR3	0.88
Financial Performance (FP)	FP1	0.87
	FP2	0.90
	FP3	0.88
	FP4	0.86
Governance Quality (GQ)	GQ1	0.85
	GQ2	0.88
	GQ3	0.87

Table 3 presents Cronbach's alpha, composite reliability (CR), and average variance extracted (AVE). Cronbach's alpha values ranged from 0.876 (GQ) to 0.903 (FP), surpassing the 0.70 benchmark, confirming internal consistency (Nunnally & Bernstein, 1994). Composite reliability values were above 0.90 for all constructs, reflecting high construct reliability. AVE values ranged from 0.756 to 0.793, exceeding the 0.50 threshold, confirming convergent validity (Fornell & Larcker, 1981; Almnadheh et al., 2025). These results establish that the measurement items reliably represent their respective constructs.

Table 3: Reliability and Convergent Validity

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE
CGE	0.892	0.925	0.756
ESGI	0.901	0.931	0.772
CR	0.884	0.920	0.793
FP	0.903	0.932	0.774
GQ	0.876	0.918	0.789

Discriminant validity was evaluated using the Fornell–Larcker criterion and HTMT ratio. As shown in Table 4, the square root of AVE for each construct exceeded its correlations with other constructs, confirming adequate discriminant validity. HTMT ratios (Table 5) were below 0.90, indicating no significant issues of multicollinearity between constructs, in line with standards for PLS-SEM analysis (Henseler et al., 2015). Collectively, these results demonstrate that the measurement model is robust and suitable for structural model evaluation.

Table 4: Fornell–Larcker Criterion

Construct	CGE	ESGI	CR	FP	GQ
CGE	0.869				
ESGI	0.671	0.879			
CR	0.648	0.722	0.891		
FP	0.689	0.741	0.768	0.880	
GQ	0.654	0.706	0.719	0.734	0.888

Table 5: HTMT Ratio

Construct	CGE	ESGI	CR	FP	GQ
CGE	—				
ESGI	0.781	—			
CR	0.756	0.823	—		
FP	0.802	0.841	0.868	—	
GQ	0.772	0.829	0.844	0.861	—

The overall model fit was assessed using SRMR, NFI, d_ULS, and d_G, reported in Table 6. The standardized root mean square residual (SRMR) of 0.056 falls below the recommended 0.08 threshold, indicating excellent fit. The normed fit index (NFI) of 0.918 also exceeds the 0.90 benchmark, while d_ULS and d_G values are within acceptable limits, confirming the model's adequacy for hypothesis testing (Hair et al., 2022; Lee & Suh, 2022).

Table 6. Model Fitness Indices

Fit Indicator	Value	Threshold	Interpretation
SRMR	0.056	< 0.08	Excellent Fit
NFI	0.918	≥ 0.90	Strong Fit
d_ULS	0.842	Acceptable	Good
d_G	0.617	Acceptable	Good

The predictive power of the model was evaluated using R^2 and Q^2 statistics (Table 7). ESGI had an R^2 of 0.451 and Q^2 of 0.326, indicating moderate explanatory power. CR exhibited an R^2 of 0.522 and Q^2 of 0.358, also reflecting moderate predictive relevance. FP demonstrated an R^2 of 0.648 and Q^2 of 0.441, indicating strong predictive relevance. These findings confirm that the model explains a substantial portion of variance in ESG integration, corporate reputation, and financial performance, consistent with prior research linking corporate governance and ESG to firm outcomes (Fiandrino et al., 2019; Chairani & Siregar, 2021).

Table 7: R^2 and Q^2 Values

Endogenous Variable	R^2	Q^2	Interpretation
ESGI	0.451	0.326	Moderate
CR	0.522	0.358	Moderate
FP	0.648	0.441	Strong

Path coefficients and significance values are reported in Table 8. The analysis shows that CGE significantly affects ESGI ($\beta = 0.672$, $t = 14.112$, $p < 0.001$), supporting H1. CGE also positively influences FP ($\beta = 0.241$, $t = 4.587$, $p < 0.001$), confirming H2. ESGI significantly affects FP ($\beta = 0.318$, $t = 5.962$, $p < 0.001$), supporting H3, and ESGI has a strong impact on CR ($\beta = 0.706$, $t = 15.238$, $p < 0.001$), confirming H4. The effect of CR on FP is also significant ($\beta = 0.371$, $t = 6.884$, $p < 0.001$), supporting H5. CGE positively influences CR ($\beta = 0.228$, $t = 4.173$, $p < 0.001$), confirming H6. Moderation analysis reveals that GQ strengthens the effect of ESGI on FP ($\beta = 0.142$, $t = 3.216$, $p = 0.001$) and CGE on ESGI ($\beta = 0.129$, $t = 2.987$, $p = 0.003$), supporting H7 and H8 respectively. These results indicate that governance quality enhances the effectiveness of corporate governance mechanisms and ESG integration in driving firm performance, consistent with evidence from emerging markets (Umar et al., 2024; Escamez et al., 2026).

Table 8. Path Analysis and Hypothesis Testing

Hypothesis	Path	β	t-value	p-value	Result
H1	CGE → ESGI	0.672	14.112	0.000	Supported
H2	CGE → FP	0.241	4.587	0.000	Supported
H3	ESGI → FP	0.318	5.962	0.000	Supported
H4	ESGI → CR	0.706	15.238	0.000	Supported
H5	CR → FP	0.371	6.884	0.000	Supported
H6	CGE → CR	0.228	4.173	0.000	Supported
H7	GQ × ESGI → FP	0.142	3.216	0.001	Supported
H8	GQ × CGE → ESGI	0.129	2.987	0.003	Supported

Mediation effects are summarized in Table 9. ESGI partially mediates the relationship between CGE and FP ($\beta = 0.214$, $t = 4.782$, $p < 0.001$). CR partially mediates the ESGI → FP path ($\beta = 0.262$, $t = 5.331$, $p < 0.001$) and the CGE → FP path through CR ($\beta = 0.085$, $t = 3.114$, $p = 0.002$). These results demonstrate that ESG integration and corporate reputation serve as significant mechanisms through which corporate governance effectiveness translates into improved financial performance, corroborating prior research (Albitar et al., 2020; Lu, 2021).

Table 9: Mediation Effects

Path	Effect Type	β	t-value	p-value	Result
CGE → ESGI → FP	Indirect	0.214	4.782	0.000	Partial Mediation
ESGI → CR → FP	Indirect	0.262	5.331	0.000	Partial Mediation
CGE → CR → FP	Indirect	0.085	3.114	0.002	Partial Mediation

5. Discussion

The results of this study provide comprehensive insights into the relationships among corporate governance effectiveness, ESG integration, corporate reputation, governance quality, and financial performance in the Indian context. Overall, the findings align with prior research while offering nuanced understanding of how governance mechanisms and ESG practices jointly shape firm outcomes (Albitar et al., 2020; Alodat & Hao, 2025).

First, the significant positive effect of corporate governance effectiveness on ESG integration (H1 supported) confirms that well-structured governance mechanisms facilitate the adoption and implementation of ESG initiatives. This aligns with prior evidence suggesting that effective boards, risk management frameworks, and internal control systems are critical drivers of sustainability adoption (Guan et al., 2026; Fodouop Kouam, 2025). The results suggest that firms with structured oversight and governance protocols are better positioned to integrate environmental, social, and governance considerations into strategic and operational decisions.

Second, corporate governance effectiveness was found to have a direct positive impact on financial performance (H2 supported), corroborating the resource-based view, which posits that strong governance is a strategic resource enhancing firm efficiency, risk management, and investor confidence (Fiandrino et al., 2019; Chairani & Siregar, 2021). These findings also resonate with prior studies indicating that governance mechanisms, such as board independence, audit committees, and internal controls, directly influence profitability and firm value by ensuring strategic alignment and reducing opportunistic behaviors (Lu, 2021; Zubeltzu-Jaka et al., 2018).

Third, ESG integration significantly enhances both corporate reputation (H4) and financial performance (H3). This demonstrates that firms engaging in ESG practices gain reputational advantages, which in turn translate into tangible financial benefits. Prior studies have highlighted similar pathways, indicating that ESG initiatives improve stakeholder trust, brand equity, and operational efficiency, which ultimately drive profitability (Almnadheh et al., 2025; Lee & Suh, 2022). The mediation analysis further confirmed that ESG integration partially mediates the relationship between governance effectiveness and financial performance, suggesting that ESG adoption is a key channel through which governance mechanisms contribute to financial outcomes (Elamer & Boulhaga, 2024).

Corporate reputation also emerged as a significant determinant of financial performance (H5 supported), reflecting the importance of intangible assets in value creation. Firms that are perceived as socially responsible and environmentally conscious tend to attract more investors, customers, and skilled employees, enhancing revenue and cost efficiency (Ramírez-Solís & Bernal Ponce, 2026; Albitar et al., 2020). Additionally, corporate governance effectiveness positively influenced corporate reputation (H6 supported), underscoring that transparent and accountable governance not only ensures compliance but also strengthens external perceptions of integrity and reliability (Escamez et al., 2026; De Villiers & Dimes, 2021).

The moderating role of governance quality was also confirmed in two key relationships: CGE → ESG integration (H8) and ESG integration → financial performance (H7). Firms with high governance quality experience amplified benefits of both governance mechanisms and ESG adoption, consistent with prior research demonstrating that governance structures, ethical culture, and oversight mechanisms enhance the effectiveness of ESG initiatives and their translation into financial outcomes (Umar et al., 2024; Elmghaamez et al., 2024). This finding highlights that governance quality acts as a strategic lever, ensuring that ESG investments and corporate oversight are efficiently executed and generate optimal value.

These results carry several theoretical and practical implications. Theoretically, the study extends the ESG-governance-performance literature by demonstrating that corporate governance effectiveness not only directly influences financial outcomes but also indirectly shapes performance through ESG integration and corporate reputation. The inclusion of governance quality as a moderator further refines the conceptual model, suggesting that firm-level governance attributes critically condition the effectiveness of ESG practices. Practically, the findings provide guidance for corporate managers and policymakers. Firms should strengthen board oversight, internal controls, and ESG monitoring mechanisms to maximize both reputational and financial benefits. For Indian firms, which are increasingly subject to sustainability disclosures and investor scrutiny, this study emphasizes the strategic importance of governance and ESG as intertwined mechanisms for long-term value creation (Hoang, 2018; Almnadheh et al., 2025).

6. Conclusions

This study investigates the relationships among corporate governance effectiveness, ESG integration, corporate reputation, governance quality, and financial performance in the Indian context. Using survey data from 535 respondents and analyzing it through PLS-SEM, the study demonstrates that governance mechanisms play a central role in shaping both ESG practices and firm performance. The findings provide robust evidence that ESG integration and corporate reputation serve as critical pathways through which governance effectiveness translates into financial outcomes.

The study confirms that corporate governance effectiveness positively influences ESG integration, corporate reputation, and financial performance. Firms with structured boards, robust risk management systems, and effective oversight mechanisms are better equipped to implement ESG initiatives strategically. ESG integration enhances corporate reputation and financial performance, serving as a key mediator that channels the benefits of governance practices into tangible financial outcomes. Moreover, corporate reputation itself directly strengthens financial performance, highlighting the strategic importance of intangible assets in value creation. The study further identifies governance quality as a significant moderator, amplifying the positive impact of governance effectiveness on ESG integration and the effect of ESG practices on financial performance. These results underscore that governance quality enhances the strategic efficiency of ESG and oversight mechanisms, ensuring that resources allocated toward sustainability and governance are translated into measurable firm value.

Theoretically, this study extends existing literature by integrating governance effectiveness, ESG integration, corporate reputation, and governance quality into a comprehensive framework. While prior research has examined the ESG–performance link or governance–performance link separately (Albitar et al., 2020; Alodat & Hao, 2025; Elmghaamez et al., 2024), this study provides an integrated model showing the interplay among governance mechanisms, ESG practices, and governance quality, offering deeper insights into how these factors collectively impact financial performance. The findings also highlight the mediating role of ESG integration and corporate reputation, providing empirical support for the notion that sustainability initiatives create both reputational and financial value.

From a practical perspective, the study offers actionable insights for corporate managers, board members, and policymakers. Indian firms should focus on strengthening governance mechanisms such as board independence, risk management frameworks, and internal control systems to facilitate ESG adoption effectively. Additionally, prioritizing ESG practices not only fulfills regulatory and societal expectations but also enhances corporate reputation, attracting investors, customers, and skilled employees. Firms with high governance quality can maximize the benefits of ESG practices, suggesting that governance enhancements should be aligned strategically with sustainability objectives to achieve optimal outcomes.

Despite its contributions, the study has limitations that offer avenues for future research. First, the cross-sectional design limits causal inferences; longitudinal studies could provide deeper insights into the dynamic effects of governance and ESG over time. Second, the study relies on perceptual data, which may be subject to respondent bias. Future studies could complement perceptual measures with archival or financial data for validation. Third, while the study focuses on Indian firms, extending the model to other emerging and developed markets would enhance generalizability and comparative insights. Finally, additional moderators such as organizational culture, regulatory enforcement, or stakeholder pressure could be explored to enrich the understanding of ESG–performance mechanisms.

Declarations

Ethics and Guidelines: The study was conducted in accordance with the Declaration of Helsinki, and ethically approved by the Institutional Review Board of Universiti Malaysia Perlis (Approval Number: 5478-25-372) on [Date: 22-06-2025]. The ethical approval specifically covers the research procedures and data collection activities conducted for this study.

Consent to participate: Written informed consent was obtained from all participants prior to data collection. Consent was obtained using a standardized written form, signed by each participant before participation in the survey.

Consent to publish: The authors have provided consent to publish.

Competing interests: The authors declare no competing interests.

Data availability statement: Data will be made available on reasonable request from the corresponding author.

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Declaration of using generative AI: During the preparation of this work the author(s) used ChatGPT in order to correct the grammatical errors. After using this tool/service, the author(s) reviewed and edited the content as needed and take full responsibility for the content of the published article.

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