JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

SUSTAINABILITY AS STRATEGY: INFUENCE OF ESG ON FINANCIAL PERFORMANCE. A STUDY ON PRICOL LTD.

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Abstract : This study explores how ESG factors influence financial performance, focusing on profitability, market value, and efficiency, with insights from Pricol Limited. Governance (G) and Social (S) factors positively impact ROA and Inventory Turnover, while Environmental (E) initiatives improve operational efficiency but may slightly reduce short-term profitability. Tobin's Q suggests that ESG plays a key role in investor confidence, with Governance being the most influential. At Pricol, integrating ESG practices strengthens long-term stability and regulatory compliance. While the financial impact of ESG varies, aligning sustainability efforts with business goals ensures steady growth and adherence to BRSR principles.

Keywords: ESG, Financial Performance, BRSR Principles

Introduction

ESG (Environmental, Social & Governance)

ESG factors are now essential to business strategy, shaping corporate operations and investment choices. Companies must balance financial performance with sustainability, social responsibility, and ethical governance. ESG drives long-term success by managing risks, enhancing transparency, and fostering stakeholder trust. Investors increasingly consider ESG metrics, recognizing their role in resilience and growth. In India, SEBI's BRSR framework mandates the top 1,000 listed companies to disclose sustainability metrics, aligning with global standards to improve corporate accountability. The BRSR covers nine core principles.

- **BRSR Principle 1:** Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent, and accountable.
- **BRSR Principle 2:** Businesses should provide goods and services in a manner that is sustainable and safe.
- **BRSR Principle 3:** Businesses should respect and promote the well-being of all employees, including those in their value chains.
- **BRSR Principle 4:** Businesses should respect the interests of and be responsive to all their stakeholders.
- **BRSR Principle 5:** Businesses should respect and promote human rights.
- **BRSR Principle 6:** Businesses should respect and make efforts to protect and restore the environment.
- **BRSR Principle 7:** Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.
- **BRSR Principle 8:** Businesses should promote inclusive growth and equitable development.
- **BRSR Principle 9:** Businesses should engage with and provide value to their consumers in a responsible manner.

REVIEW OF LITERATURE

Luo (2024) found that strong national governance enhances the positive impact of ESG on financial performance, as firms in politically stable and well-regulated countries gain better stakeholder perception and resource access.
Agliardi (2023) analyzed ESG's environmental pillar, showing that firms with low environmental scores perform better short-term, while sustainable companies exhibit lower risk and higher resilience, especially in downturns.

STATEMENT OF THE PROBLEM

This study examines the impact of ESG initiatives on Pricol Ltd.'s financial performance, focusing on profitability, market value, turnover, and operational efficiency. Despite growing ESG adoption, there is limited empirical research on its financial effects. By analyzing Pricol's financial data over three years, this study aims to determine whether ESG practices enhance financial success and corporate growth.

OBJECTIVES OF THE STUDY

1. To analyze the relationship between Pricol Ltd.'s environmental, social sustainability practices, corporate governance practices and its financial performance, focusing on profitability, market value, and efficiency.
2. To analyze the influence of Pricol Ltd.'s environmental, social sustainability practices and corporate governance practices on its financial performance, focusing on profitability, market value, and efficiency.
3. To understand the overall impact of ESG factors on the financial performance of Pricol Ltd

HYPOTHESIS FOR THE STUDY

H01: There is no significant relationship between Pricol Ltd.'s environmental, social sustainability practices, corporate governance practices and its financial performance, focusing on profitability, market value, and efficiency

H02: There is no influence of Pricol Ltd.'s environmental, social sustainability practices and corporate governance practices on its financial performance, focusing on profitability, market value, and efficiency. **H03**: There is no significant overall impact of ESG (Environmental, Social, and Governance) factors on the financial performance of Pricol Ltd.

CONCEPTUAL FRAMEWORK

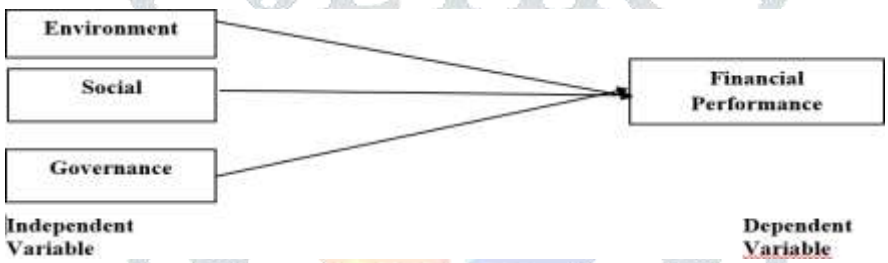

Figure 1: Conceptual Framework

OPERATIONAL DEFINITION

- Environmental (E) aligns with Principle 2 (Product Lifecycle Sustainability) and Principle 6 (Environmental Responsibility) of BRSR.
- Social (S) aligns with the remaining BRSR principles related to employee welfare, community engagement, and customer responsibility.
- Governance (G) aligns with Principle 1 (Ethical and Transparent Business) and Principle 7 (Stakeholder Engagement) of BRSR.
- Financial performance consists of NPM and ROA for profitability, Tobin's Q for market value, and Inventory Turnover and Operational Efficiency for efficiency.

RESEARCH METHODOLOGY

This study analyzes ESG's impact on financial performance using Pricol's financial statements and BRSR reports (2021-22 to 2023-24). A quantitative approach, employing financial ratios and correlation analysis, evaluates key metrics and ESG influence. This provides insights into corporate sustainability and financial outcomes.

ANALYSIS AND INTERPRETATION CORRELATION

Table 1: Correlation Matrix

	E	S	G	NPM	ROA	Inventory Turnover	Tobin's Q	Operating Efficiency

E	1							
S	-0.27	1						
G	-0.13	0.99	1					
NPM	-0.64	0.91	0.84	1				
ROA	-0.11	0.99	1	0.84	1			
Inventory Turnover	-0.16	0.99	1	0.86	0.99	1		
Tobin's Q	0.36	0.8	0.88	0.49	0.89	0.87	1	
Operating Efficiency	0.81	0.35	0.48	-0.06	0.49	0.46	0.84	1

Interpretation: Governance (G) and Social (S) show strong positive correlations with ROA (1.00, 0.99) and Inventory Turnover (1.00, 0.99), highlighting their impact on financial performance. Environmental (E) has a weak or negative correlation with most metrics, except Tobin's Q (0.36) and Operating Efficiency (0.81). The negative relationship between Environmental (E) and NPM (-0.64) suggests ESG investments may not drive immediate profitability but could enhance long-term value.

MULTIPLE REGRESSION ESG on NPM

Table 2:Multiple regression of ESG on NPM

Model	**Unstandardized Coefficients**	**Standardized Coefficients**	**T**	**Sig.**	**R Square**	**Adj. R Square**
	B	Std. Error	Beta			
(Constant)	-5.49	6.65		0.83	0.56	
Environmental (E)	2.80	1.78	0.84	1.57	0.36	0.71
Social (S)	5.72	2.56	0.91	2.23	0.27	0.83
Governance (G)	-3.13	3.77	0.64	0.83	0.56	0.41

Interpretation: The regression analysis shows Social (S) ($\beta = 0.91$, $p = 0.27$) and Environmental (E) ($\beta = 0.84$, $p = 0.36$) positively impact NPM, while Governance (G) has a negative effect ($\beta = 0.64$, $p = 0.56$). Despite strong R^2 values (0.71 - 0.83), high p-values indicate weak statistical significance, suggesting ESG's influence on NPM requires further validation.

ESG on ROA

Table 3:Multiple regression of ESG on ROA

Model	**Unstandardized Coefficients**	**Standardized Coefficients**	**T**	**Sig.**	**R Square**	**Adj. R Square**
	B	Std. Error	Beta			
(Constant)	68.29	106.53		0.64	0.64	
Environmental (E)	-3.42	29.79	0.11	-0.11	0.93	0.01
Social (S)	37.83	5.98	0.99	6.32	0.10	0.98

Governance (G)	20.28	0.23	0.99	86.46	0.01	1.00

Interpretation: Regression analysis shows that Governance (G) (β = 20.28, p = 0.007, R^2 = 0.999) and Social (S) (β = 37.83, p = 0.099, R^2 = 0.97) strongly impact ROA, while Environmental (E) (β = -3.41, p = 0.92, R^2 = 0.012) has no significant effect. This suggests ESG's influence is mainly driven by governance and social factors.

ESG on Inventory Turnover

Table 4:Multiple regression of ESG on Inventory turnover

Model	**Unstandardized Coefficients**	**Standardized Coefficients**	**T**	**Sig.**	**R Square**	**Adj. R Square**
	B	Std. Error	Beta			
(Constant)	8.36	7.80		1.07	0.48	
Environmental (E)	-0.34	2.18	0.16	-0.16	0.90	0.02
Social (S)	2.80	0.32	0.99	8.66	0.07	0.99
Governance (G)	1.49	0.05	0.99	32.91	0.02	1.00

Interpretation: Governance (G) has the strongest positive impact on inventory turnover (β = 0.99, p = 0.02), showing a strong relationship. Social (S) also has a positive effect (β = 0.99, p = 0.07), while Environmental (E) has a negligible negative impact (β = 0.16, p = 0.90), indicating little influence.

ESG on Tobin's Q

Table 5:Multiple regression of ESG on Tobin's Q

Model	**Unstandardized Coefficients**	**Standardized Coefficients**	**T**	**Sig.**	**R Square**	**Adj. R Square**
	B	Std. Error	Beta			
(Constant)	0.9995	0.0012		833.68	0.0008	
Environmental (E)	0.0001	0.0003	0.36	0.38	0.77	0.13
Social (S)	0.0041	0.0110	0.35	0.38	0.77	0.12
Governance (G)	21.50	13.86	0.84	1.55	0.36	0.71

Interpretation: Governance (G) has the highest positive impact on Tobin's Q (β = 0.84), but its low significance (p = 0.36) weakens reliability. Environmental (E) (β = 0.36, p = 0.77) and Social (S) (β = 0.35, p = 0.77) have minimal influence, suggesting ESG factors do not strongly affect Tobin's Q.

ESG on Operational Efficiency

Table 6:Multiple regression of ESG on Operational Efficiency

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.	R Square	Adj. R Square
	B	Std. Error	Beta			
(Constant)	0.0865	0.0194		4.46	0.14	
Environmental (E)	0.0074	0.0054	0.81	1.37	0.40	0.65
Social (S)	0.0041	0.0110	0.35	0.38	0.77	0.12
Governance (G)	0.0030	0.0054	0.48	0.55	0.68	0.23

Interpretation: Environmental (E) has the strongest positive impact on operational efficiency, but its significance level is low, indicating limited reliability. Social (S) and Governance (G) show weaker relationships, suggesting ESG factors have only a moderate influence on operational efficiency.

FINDINGS

The analysis shows that Governance (G) and Social (S) have a strong positive impact on financial performance, with high correlations to ROA (1.00, 0.99) and Inventory Turnover (1.00, 0.99). Environmental (E) has mixed effects, improving Operating Efficiency (0.81) but negatively affecting NPM (-0.64) and showing a weak link to ROA (-0.11). Tobin's Q is strongly associated with Governance (0.88) and Social (0.80), highlighting ESG's influence on investor confidence. While Governance and Social factors drive financial stability, Environmental investments may not yield immediate profitability. Overall, ESG, especially Governance and Social, plays a key role in financial success and efficiency.

CONCLUSION

The study emphasizes the crucial role of ESG factors in influencing financial performance, based on an analysis of Pricol's data. Governance (G) and Social (S) have the most positive impact on profitability, efficiency, and investor confidence. Environmental (E) improves operational efficiency but offers limited immediate financial gains. Governance stands out as the key driver, significantly affecting ROA, inventory turnover, and Tobin's Q, reinforcing its importance in corporate stability and growth. While ESG adoption supports long-term sustainability, its financial effects vary across different metrics. Integrating ESG strategies with financial objectives is essential for enhancing value creation and strengthening investor trust.

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