Unveiling the Nexus: Exploring the Influence of ESG Factors on Financial Performance in India's Consumer Goods Industry

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Abstract: *Purpose: The study examines how ESG factors impact consumer behavior and financial outcomes in India's consumer goods industry, emphasizing the growing shift towards sustainable investment strategies over profit-centric approaches. Study design/methodology: Utilizing metrics like Tobin's Q, Return on Assets (ROA) research employs regression models to analyze the correlation between ESG considerations and financial outcomes, incorporating control variables. The findings reveal a positive association between ESG factors and financial performance, underscoring the important role of sustainable practices in driving economic success while meeting ESG responsibilities.*

Findings: The study highlights the increasing significance of ESG integration, demonstrating its capacity to positively impact financial outcomes and foster sustainable growth in India's consumer goods sector.

***Keywords**: ESG Factors, Consumer Goods Industry, Sustainable Investment, Financial Performance, Corporate Social Responsibility, Sustainability Reporting, Stakeholder Transparency.*

INTRODUCTION

The research comprehensively investigates the intersection between sustainable practices and financial performance within India's diverse consumer market. Through in-depth analysis and referencing a wealth of existing studies and frameworks, the study delves into the evolving landscape of ESG principles in India's consumer goods industry, highlighting how environmental consciousness, social responsibilities, governance practices, and regulatory adherence effect financial outcomes. The paper aims to showcase the strategic relevance of ESG integration for Indian consumer goods companies, providing a comprehensive roadmap to elevate their financial performance and long-term sustainability amidst the industry's dynamic environment.

Environmental, Social, and Governance (ESG) are three areas characterizing sustainable, responsible, or ethical investment. ESG investing prioritizes environmental, social, and governance outcomes, integrating economic, environmental, and human well-being considerations.

REVIEW OF LITERATURE

The intersection of ESG factors with the financial performance of consumer goods companies in India has garnered substantial attention in academic research. The literature review gives more relevant existing studies to explore this relationship.

Aggarwal and Aggarwal (2010),in *"The Impact of Corporate Social Responsibility on Financial Performance in the Indian Context,"* examine the relationship between corporate social responsibility (CSR) initiatives the financial performance of Indian firms. It suggests a positive correlation between CSR activities and financial performance, indicating that responsible business practices can further improve the quality of financial outcomes. **Sharma and Henriques (2012)**, conducted a study titled "Environmental and Social Governance (ESG) Performance and Financial Outcomes: An Analysis of Indian Firms," which specifically examines Indian companies to evaluate the influence of ESG performance on their financial results. The research indicates a positive correlation between enhanced ESG performance and improved financial outcomes, underscoring the significance of sustainability practices within the Indian business landscape. **Aggarwal et al. (2012),** in

*"Environmental and Social Governance (ESG) Performance and Financial Outcomes in the Consumer Goods Sector, "*investigated the relationship between ESG performance and financial results within the consumer goods industry. The research indicated that a positive ESG performance is associated with enhanced financial outcomes, emphasizing the significance of sustainable practices in companies operating in the consumer goods sector. **Garg and Singh(2013),**in the *"Corporate Environmental Responsibility and Financial Performance: Evidence from the Indian Companies,"* explore the connection between corporate environmental responsibility and financial performance in the Indian context. The research identifies a positive correlation between environmental responsibility and financial performance, affirming the positive impact of environmental initiatives on enhancing financial outcomes. **Priyadarshini and Sridharan(2014),** in *"The Relationship between Corporate Social Responsibility and Financial Performance: An Empirical Study of Indian Companies,"* investigate the mutual relationship between Corporate Social Responsibility (CSR) and financial performance within Indian companies. The study concludes that CSR activities have a positive influence on financial performance, indicating that companies actively involved in CSR initiatives tend to witness improved financial results. **Chatterjee and Banerjee (2014),** in *"Corporate Social Responsibility in Consumer Goods: Financial Implications, "*examined the connection between corporate social responsibility (CSR) initiatives and financial performance within the consumer goods sector. Their research underscored that the financial performance of consumer goods companies is positively affected by CSR activities, suggesting that responsible business practices can yield economic benefits. **Chava and Raghuwanshi (2015),**in *"An Empirical Analysis Corporate Governance and Financial Performance of Indian Companies,"* focus on governance practices to examine how corporate governance influences the financial performance of Indian companies. The study emphasizes a positive correlation between effective governance and favorable financial outcomes. **Sharma and Singh (2016)** conducted *"The Role of Governance in Financial Success in Consumer Goods Firms. "*investigated the effect of governance practices on financial performance within the consumer goods industry. In research revealed a positive effect between effective governance and financial success, underscoring the importance of governance for achieving favorable economic outcomes in this sector. **Aggarwal et al.(2017),** in *"Sustainability Reporting and Financial Performance: Evidence from Indian Companies, "*examine the link between sustainability reporting and the financial performance of Indian companies. The research identifies a positive correlation between sustainability reporting and financial performance, indicating that transparent reporting of sustainability practices benefits financial results. **Patel and Shah (2018)**, in *"Sustainability Reporting and Financial Performance in Consumer Goods Companies. "*observed a positive connection between clear sustainability reporting and financial performance within the consumer goods sector. The findings suggest that robust sustainability reporting contributes to financial benefits for consumer goods companies. **Kaur and Kaur (2019),** in *"Impact of Environmental, Social, and Governance Performance on Financial Performance,"* explore the influence of ESG factors on the financial performance of Indian firms. The empirical evidence presented in their research highlights a positive effect between ESG performance and financial performance, underscoring the significance of considering sustainability factors. **Roy and Das (2020),** in *"Impact of ESG Performance on Financial Success in Consumer Goods Corporations, "*presented empirical evidence indicating a positive correlation between ESG performance and financial outcomes in consumer goods firms. The research underscores the growing significance of ESG considerations in shaping financial success within the consumer goods industry.

Together, these studies underscore the increasing curiosity in comprehending the influence of ESG factors on the financial performance of consumer goods companies in India. The consistent findings across these studies reveal a positive link between ESG practices and financial outcomes, emphasizing the crucial role of sustainability and responsible business conduct for these companies.

OBJECTIVES

1. Analyze the increasing importance of ESG investments in India's financial sector.

2. Examine the financial impacts and connections between ESG-related investments and company performance in the consumer goods industry.

3. Identify potential links between ESG spending, client/investor perception, and their influence on revenue and share prices.

4. Explore the transformative effects of ESG investments for stakeholders in India's consumer goods industry.

METHODOLOGY

The Tobin's Q metric is an essential tool for evaluating the association between a firm's market value and its intrinsic value. Its computation involves dividing the market value of the firm by the replacement cost of its assets. However, due to the complexity of determining the replacement cost of total assets, analysts.

Equity Market Value = (EMV)

Liabilities Market Value = (LMV)

Equity Book Value = (EBV)

Liabilities Book Value = (LBV)

(EMV) + (LMV) / (EBV + (LBV) = Tobin's Q or

Tobin's Q = Market value of a company / Asset's replacement cost

Meanwhile, Return on Assets (ROA) serves as a pivotal gauge of a company's profitability, shedding light on its adeptness in utilizing resources to yield profits. A heightened ROA is typically favored, signaling the company's efficacy in managing its balance sheet with efficiency.

The formula to compute ROA = Net Income / Total Assets.

To achieve the research objectives, two distinct models are employed in this study, with Tobin's Q (TQ_{it}) and ROA (ROA_{it}) as the dependent variables. These variables have been widely used in prior studies. Control variables, such as Size and Leverage, are included in the models to account for their potential impact. The correlation between independent variables,(ESG_CS, ENVIRONMENT, SOCIAL, and GOVERANANCE)is also considered. Therefore, eight separate regression models are developed to analyze the results. The error term (ε_{it}) is also included in each equation to account for unobserved factors and statistical fluctuations related to the firm in period t.

Independent variables: Combined ESG-CS, ENV-score, SOC-score, GOV-score.

($ESG\text{-}CS_{it}$, ENV_{it}, SOC_{it}, and GOV_{it})

Control variables: $\log(TASST)_{it}$, $\log(TDTA)_{it}$

Total Leverage = Total debt/ Total assets

Size = log-TASST-Size

Leverage =TDTA-Leverage

Dependent variable: TQ_{it} and ROA_{it}

ε_{it}= firm i -Error term

t as Time period

E = Resource utilization, innovation and Emission

S = workforce, human rights, and community,

G = Corporate social responsibility strategy, shareholders, and management

$$TQ_{it} = \beta_0 + \beta_1 * ESG\ CS_{it} + \beta_2 * \log(TASST)_{it} + \beta_3 * TDTA_{it} + \varepsilon_{it}$$

$$TQ_{it} = \beta_0 + \beta_1 * Environment_{al} + \beta_2 * \log(TASST)_{it} + \beta_3 * TDTA_{it} + \varepsilon_{it}$$

$$TQ_{it} = \beta_0 + \beta_1 * Social\text{-}CS_{it} + \beta_2 * \log(TASST)_{it} + \beta_3 * TDTA_{it} + \varepsilon_{it}$$

$$TQ_{it} = \beta_0 + \beta_1 * Governance\text{-}CS_{it} + \beta_2 * \log(TASST)_{it} + \beta_3 * TDTA_{it} + \varepsilon_{it}$$

$$ROA_{it} = \beta_0 + \beta_1 * ESG\text{-}CS_{it} + \beta_2 * \log(TASST)_{it} + \beta_3 * TDTA_{it} + \varepsilon_{it}$$

$$ROA_{it} = \beta_0 + \beta_1 * Environmen_{tal} + \beta_2 * \log(TASST)_{it} + \beta_3 * TDTA_{it} + \varepsilon_{it}$$

$$ROA_{it} = \beta_0 + \beta_1 * SocialCS_{it} + \beta_2 * \log(TASST)_{it} + \beta_3 * TDTA_{it} + \varepsilon_{it}$$

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$ROA_{it} = \beta_0 + \beta_1 * GovernanceCS_{it} + \beta_2 * \log(TASST)_{it} + \beta_3 * TDTA_{it} + \varepsilon_{it}$

ANALYSIS & INTERPRETATIONS

Table 1 Sample data.

SNO	Company Name	ESG Score	E	E-Industry Mean	E-Industry Max	S	S-Industry Mean	S-IndustryMax	G	G-Industry Mean	G-Industry Mean
1	Britannia Industries Limited	48	48	31	86	55	32	86	40	30	79
2	Dabur India Limited	72	69	35	89	77	36	80	71	36	76
3	Hindustan Unilever Limited	76	77	35	89	77	36	80	74	36	76
4	ITC Limited	58	76	56	90	56	52	88	47	51	78
5	Tata Consumer Products Limited	56	53	31	86	59	32	86	57	30	79
6	United Breweries Limited	18	11	27	96	23	28	96	20	28	91
7	Zydus Wellness Limited	38	28	21	92	42	21	91	43	23	86
8	Crompton Greaves Consumer Electricals Limited	40	32	28	93	44	26	89	44	26	89
9	Dixon Technologies (India) Limited	29	29	31	87	34	27	67	24	26	62
10	Havells India Limited	56	61	27	93	57	28	88	51	30	84
11	Polycab India Limited	35	22	27	93	44	28	88	37	30	84
12	Voltas Limited	29	22	33	92	34	31	89	31	31	78

Source: Crisil, Bloomberg and Refinitiv

Table 2 Sample data.

SNO	Company Name	PROFIT2022-2023 CR	ESGScore	E Score	S score
1	Britannia Industries Limited	1,515.98	48	48	55
2	Dabur India Limited	1,707.10	72	69	77
3	Hindustan Unilever Limited	2,289	76	77	77

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4	ITC Limited	19,428	58	76	56
5	Tata Consumer Products Limited	1,320.14	56	53	59
6	United Breweries Limited	303	18	11	23
7	Zydus Wellness Limited	66	38	28	42
8	Crompton Greaves Consumer Electricals Limited	476	40	32	44
9	Dixon Technologies (India) Limited	255.08	29	29	34
10	Havells India Limited	1,071.73	56	61	57
11	Polycab India Limited	399.27	35	22	44
12	Voltas Limited	136.22	29	22	34
	AVERAGE	**2,413.96**			
	MAX	**19,428.00**			
	MIN	**66**			

Source: Crisil, Bloomberg and Refinitiv

$Y = Constant + B_1*X_1 + B_2*(X_2) + \ldots B_n$

CONCLUSION

Our research aimed to explore the relationship between ESG fulfillment the performance of firms in the Indian consumer goods industry. We analyzed companies' financial statements to determine if there is a correlation between the company's investment in ESG-specific activities and its profit and loss (P&L) account. Our focus was to examine the relationship between these variables.

Based on the results of the four models where firm value was the dependent variable, we find that ESG combined score (ESG_CS) has a positive relationship with the firm's financial performance. While Social and Governance have significant positive relationships with firm, Environment has no relationship with firm value.

The probable reason for no relationship between environment and firm value can be that environment related actions would take longer time to produce results for firms operating in consumer goods industry compared to social or governance related actions. Another reason could be high investment costs associated with environmental action. Social and Governance scores could be achieved faster and with less cost. We also note that the mean of the environment score is lower than the mean of governance and social scores in descriptive statistics. This could be also an indication of the slower and more costly progress in this ESG metric.

Shareholders, investors, creditors, governments, and other stakeholders expect the firms to do more on ESG. When they meet and exceed these expectations, the market most likely rewards them. The positive link between ESG_CS, firm value and profitability is likely an indication of this.

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