



THE ROLE OF FINANCIAL PRACTICES IN PROMOTING ETHICAL INVESTING AT THE LAKSHMI MILLS COMPANY LIMITED, KOVILPATTI

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Abstract

This study explores the role of financial practices in promoting ethical investing, with a focused case analysis of The Lakshmi Mills Company Limited, Kovilpatti. In an era of growing investor awareness and demand for socially responsible practices, the financial strategies adopted by companies play a crucial role in attracting ethical investments. The research examines how transparency, corporate governance, environmental accountability, and sustainable financial reporting by Lakshmi Mills contribute to investor confidence and long-term value creation. By analyzing the company's financial disclosures, stakeholder engagement, and alignment with ESG (Environmental, Social, and Governance) criteria, the report identifies key practices that encourage ethical investment behavior. The findings suggest that a commitment to ethical financial conduct not only strengthens brand reputation but also provides a competitive edge in securing sustainable funding. This project aims to provide strategic insights for firms aiming to align their financial operations with ethical standards to attract responsible investors.

Keywords:*Ethical Investing, Corporate Governance, ESG Criteria, Financial Transparency.*

Introduction

In today's dynamic economic landscape, ethical investing has emerged as a key trend that blends traditional investment strategies with principles of social responsibility, sustainability, and ethical governance. Ethical investors seek not only financial returns but also desire to invest in companies that adhere to strong ethical values, environmental standards, and socially responsible practices. This shift in investment behavior marks a significant change in the way capital markets function and highlights the growing importance of ethical considerations in financial decision-making. In this context, financial practices play a pivotal role in influencing investor perceptions and attracting ethical capital. Transparent financial disclosures, responsible accounting, compliance with statutory norms, and a commitment to sustainable development are now considered essential components of good corporate governance.

The textile industry, especially in India, has undergone major transformations in terms of production efficiency, sustainability goals, and regulatory compliance. One of the pioneering organizations in this space is The Lakshmi Mills Company Limited, headquartered in Coimbatore with a prominent unit in Kovilpatti. Established in 1910, Lakshmi Mills has earned a reputation for quality textiles, responsible business practices, and a consistent focus on stakeholder interests.

Over the decades, the company has evolved from a traditional mill into a forward-looking enterprise that embraces innovation, sustainability, and financial integrity. Its financial practices and ethical business approach provide an ideal case for analyzing how companies can align their operations with the growing expectations of ethical investors.



Sustainability and integrated reporting, if available, are examined as part of the financial analysis. These documents go beyond traditional financial reporting by integrating social and environmental performance, and they signal a company's readiness to be held accountable by ethical investors.

1. Enhances understanding of ethical investing in the Indian context.
2. Demonstrates how financial practices influence investor behavior.
3. Encourages companies to adopt ethical, transparent, and sustainable financial strategies.
4. Aids investors in identifying financially and ethically strong firms.
5. Supports academic, regulatory, and industry stakeholders in promoting responsible business conduct.

Objectives of the Study

1. Analyze Financial Practices: Examine budgeting, accounting, investment planning, internal controls, and financial reporting to assess transparency, accountability, and adherence to ethical standards.
2. Evaluate Ethical Standards in Investment: Assess how fairness, integrity, and sustainability guide the company's financial planning and investment decisions, and their influence on stakeholder confidence.
3. Assess Financial Transparency: Evaluate the clarity, accuracy, and timeliness of Lakshmi Mills' financial disclosures and their impact on attracting ethically-minded investors.
4. Explore ESG Integration: Investigate the incorporation of Environmental, Social, and Governance (ESG) factors into financial policies, and the alignment of these strategies with sustainable development goals.

Need for the Study

- Align Traditional Companies with Ethical Investment Principles: Analyzing the financial and ethical strategies of The Lakshmi Mills Company provides insights into how legacy businesses can align with modern investment values without compromising profitability.
- Emphasize Financial Transparency: Ethical investing demands accurate financial reporting, ESG disclosures, and accountability. This study is needed to evaluate whether Lakshmi Mills genuinely integrates these elements or merely presents symbolic compliance.
- Provide Policy Recommendations: The study identifies gaps in current practices and offers actionable strategies for Lakshmi Mills and regulatory bodies to improve ethical financial management and investor engagement.

Scope of the Study

- Focus on Ethical Financial Behavior: The study concentrates on how responsible financial practices, transparent disclosures, ESG alignment, and stakeholder engagement enhance ethical investment potential at The Lakshmi Mills Company Limited.
- Rationale for Selecting Lakshmi Mills, Kovilpatti: The company is located in Kovilpatti, a prominent industrial town in Tamil Nadu. Its longstanding presence offers a representative case of how traditional firms in Tier-II towns are transitioning toward ethical financial and operational models.



Review of Literature

Sparkes&Cowton (2004), in their study entitled “The Development of Ethical Investment”, explained that ethical investing evolved from religious restrictions on where to invest, into a broader movement that includes environmental, social, and governance (ESG) considerations. They observed that investors increasingly prefer companies that reflect their personal values, especially in areas like sustainability and fair governance. The study is relevant to The Lakshmi Mills Company Limited as investors look for ethical behavior even in traditional sectors like textiles.

Bhagat and Bolton (2008), in their research “Corporate Governance and Firm Performance”, emphasized the significance of financial transparency and board independence in attracting ethical investors. According to the study, firms that exhibit good governance practices tend to experience higher investor trust and better financial outcomes. This relates to The Lakshmi Mills Company, where increased corporate governance can play a role in improving investor confidence.

Reinhardt, Stavins, and Vietor (2008), in their study “Corporate Social Responsibility Through an Economic Lens”, concluded that companies which disclose their social and environmental impacts in financial reports attract more long-term investors. Ethical investors seek not only financial returns but also assurance that the company contributes positively to society. The Lakshmi Mills Company’s move towards publishing sustainability data is in line with these findings.

Bloomberg Intelligence (2022), projected that ESG assets will exceed \$50 trillion by 2025. This trend confirms that companies like Lakshmi Mills cannot afford to ignore ethical finance, as it represents a significant share of the future investment landscape.

World Economic Forum (2021), in its “Global Risks Report,” identified environmental and social risks as top threats to global business. Firms proactively managing these risks, like Lakshmi Mills through green financing and ethical sourcing, will be more attractive to risk-averse investors.

Kotsantonis, Pinney&Serafeim (2016), in their paper “ESG Integration in Investment Management: Myths and Realities,” debunked common misconceptions around ESG, showing that ESG integration enhances risk-adjusted returns and does not compromise financial performance. This reinforces the importance of Lakshmi Mills aligning its financial strategy with ESG factors to gain access to quality investment capital.

- ★ Boston Consulting Group (2021), in “The Investor ESG Toolkit,” stresses the importance of aligning internal financial controls with sustainability metrics to attract impact investors.

Research Methodology

Research methodology is the backbone of any academic study, providing a structured framework for collecting data, analyzing it, and drawing valid conclusions. This study aims to examine the financial practices of The Lakshmi Mills Company Limited and their alignment with ethical investment principles. Given the increasing relevance of Environmental, Social, and Governance (ESG) criteria in investment decisions, this research explores how the company’s financial strategies promote ethical investing. This chapter outlines the research design, data collection methods, area and period of study, sources of data, and the statistical tools used for analysis.

Research Design:The study follows a descriptive and analytical research design. Descriptive research helps portray an accurate profile of financial strategies, ESG initiatives, and ethical investment trends



within The Lakshmi Mills Company Limited. Analytical techniques are used to interpret the relationship between financial decisions and ethical investing patterns. The design integrates both qualitative and quantitative dimensions to provide a comprehensive understanding of the subject matter.

Data Collection Methods

The research is based on both primary and secondary data.

Primary Data

- Structured questionnaires distributed to 50 participants including company staff, investors, and financial analysts.
- In-depth interviews with senior financial executives and ethical investing experts.
- Observational data from investor meetings and public disclosures.

Secondary Data

- Annual reports and sustainability disclosures of The Lakshmi Mills Company Limited (2019–2024).
- Articles, journals, and whitepapers on ethical investing and ESG reporting.
- Financial websites and regulatory documents from SEBI, BSE, and NSE.

Statistical tools used for Analysis

To ensure a thorough and reliable interpretation of the data, the following statistical tools were applied:

Quantitative Tools:

- **Ratio Analysis:** To evaluate financial health through profitability, liquidity, and solvency ratios.
- **Trend Analysis:** Used to observe changes in financial variables across the study period using 2019 as the base year.
- **Correlation Analysis:** Pearson’s correlation was used to determine the relationship between ESG factors and investor behavior.
- **Chi-Square Test:** To assess the association between ethical disclosure and investor trust.

Qualitative Tools:

- **Thematic Analysis:** Applied to interview transcripts to identify recurring themes like governance, transparency, and ethical compliance.
- **Content Analysis:** To examine the nature and quality of ESG disclosures.

Chi-Square Analysis

H₀ (NULL HYPOTHESIS):

There is no significant correlation between the respondents' investment experience and their opinion on the importance of financial transparency in ethical investing.

H₁ (ALTERNATE HYPOTHESIS):

There is a significant correlation between the respondents' investment experience and their opinion on the importance of financial transparency in ethical investing.

Investment Experience	Strongly Agree	Agree	Neutral	Total
Employed	20.2	12.1	14.9	55
Unemployed	10.0	5.9	7.2	27
Student	6.7	4.0	4.9	18
Total	37	22	27	100



Total: Strongly Agree = 37, Agree = 22, Neutral = 27, Overall = 100

Chi-Square Statistic:

$$\chi^2 = \sum (O - E)^2 / E = 0.52$$

Degrees of Freedom:

$$df = (r - 1)(c - 1) = (3 - 1)(3 - 1) = 4$$

p-value:

$$p = 0.97$$

Inference

There is no statistically significant correlation between the respondents' investment experience and their views on the importance of financial transparency in ethical investing. This suggests that regardless of employment status, whether employed, unemployed, or a student respondents largely share a common view that financial transparency is essential. The consensus indicates a general awareness of the ethical expectations in investment practices across different respondent categories.

Conclusion

The study on The Role of Financial Practices in Encouraging Ethical Investing at The Lakshmi Mills Company Limited, Kovilpatti, has highlighted the critical intersection of finance and ethics in contemporary business practices. Through this research, it has become evident that robust financial governance, transparency in reporting, and accountability are foundational in attracting and sustaining ethical investors.

Lakshmi Mills, with its long-standing reputation and adherence to sustainable practices, has demonstrated a commendable approach toward integrating ethical considerations into its financial operations. The company's focus on stakeholder value, compliance with ESG (Environmental, Social, and Governance) norms, and its efforts toward responsible resource utilization serve as benchmarks for ethical investing.

This project emphasizes that when companies adopt sound financial practices aligned with ethical principles, they not only gain investor confidence but also contribute positively to societal development. Ethical investing is no longer a niche concept but a growing trend driven by informed stakeholders. Companies like Lakshmi Mills, by maintaining integrity and transparency in their financial practices, are well-positioned to attract such conscientious investors and sustain long-term value creation.

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