ABSTRACT

Credit ratings provide crucial insights into a firm's financial performance and creditworthiness, influencing investment decisions made by various stakeholders. Recent scholarly investigations have shed light on the complex nature of operational leanness, highlighting its non-linear association with equity performance. Furthermore, the influence of resource efficiency on a firm's operational domains has been a topic of debate, with conflicting perspectives regarding its impact on overall performance. The growing importance of Environmental, Social and Governance (ESG) practices in achieving a sustainable future has created a need to explore their integration into credit ratings. This research investigates the relationship between firm performance measured by operational leanness and sustainability and credit ratings, focusing on the credit rating system in Pakistan. By analyzing secondary data from the period between 2008 and 2021, we aim to enhance our understanding of how inventory, PPE leanness and ESG factors affect a firm's financial performance and creditworthiness. We analyzed data from the websites of eighty firms listed on the Pakistan Stock Exchange and rated by the Pakistan Credit Rating Agency (PACRA). Through panel data analysis, our findings reveal a positive association between operational leanness and credit ratings and between ESG factors and credit ratings.

Furthermore, we employ control variables such as firm size, leverage, coverage, capital intensity ratio, ROA, ROE, Tobin's Q, Beta and Debt, and dummy variables, including loss and subordinate debt, to assess the financial performance within the context of credit ratings. These additional analyses reinforce the consistency of our results with earlier studies. The findings offer valuable insights for practitioners, investors, and policymakers, enhancing their understanding of the credit rating system and its implications for firms' financial performance.

Keywords: Credit Ratings, Operational Leanness, ESG, Sustainability, Firms Performance.