http://www.ijmp.jor.br v. 7, n. 4, October - December 2016
ISSN: 2236-269X
DOI: 10.14807/ijmp.v7i4.443

DEMYSTIFYING RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY (CSR) AND FINANCIAL PERFORMANCE: AN INDIAN BUSINESS PERSPECTIVE

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Submission: 04/03/2016
Revision: 16/03/2016
Accept: 23/05/2016

ABSTRACT

Corporate Social Responsibility (CSR) is a desirable approach considering it reduces risks, increases brand value, improves transparency, and has a possible impact on the financial health of the business. Initiated as an act of philanthropy, it has recently become mandatory as a part of the Companies Act, 2013 in India which mandates CSR spending. The study had an objective to validate that CSR disclosures lead to better financial performance of a company and vice-versa. The study analyzed the relationship between CSR disclosure and financial performance and vice versa using various approaches viz., exploratory to understand the trends and practices and statistical by adopting multiple regression modelling techniques. The results of the study reveal that the company's financial performance (profitability) has a cause and effect relationship with the CSR disclosure and vice versa, which substantiated the theories predicting that CSR can affect the financial performance of the company.

ISSN: 2236-269X
DOI: 10.14807/ijmp.v7i4.443

Keywords: Corporate Social Responsibility, CSR Disclosure, Indian companies, Financial performance

1. INTRODUCTION

Social performance is the organization's commitment to creating and fairly distributing value among its stakeholders in and around its area of influence, as well as ameliorating societal problems. The challenge is to maintain balance between economic growth and enabling quality of life for all sections of society so that they live with dignity, thereby ensuring a license to operate.

In India, this has been mandated under Schedule VII, Section 135 of Companies Act, 2013 and The Company (CSR Policy) Rules, 2014 by Ministry of Corporate Affairs (MCA), which direct businesses to ensure spending 2% of their net profits on Corporate Social Responsibility (CSR). Previous studies suggested that, being socially responsible brings about tangible (better financial performance, increase in share price etc.) and intangible benefits (shareholder and investor trust, enhanced brand image etc.) for a business. Therefore, under the social dimension, this study attempts to gauge the relation between CSR disclosure and financial performance of a company in the Indian context.

The study attempts to understand the reason Indian companies disclosed CSR practices even when it was not mandated, and ascertain whether such practice resulted in improved financial performance of the company in any form. The research addresses this by including a comprehensive sample covering top 500 Indian companies.

1.1. Statement of Problem

There are numerous studies supporting relationships (positive, negative, neutral or no relation) between CSR and a company's profitability in western countries. Lack of consensus on the nature of relationship and less number of such studies in the Indian context were major drivers for this research. Thus, with the current study, researcher attempted to derive this relationship with a new set of variables i.e. Global Reporting Initiative (GRI) aspects, (GRI, 2002) and profitability measures of the company.

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1.2. Research Objectives

a. To validate the relationship between CSR disclosure and financial performance of a company

b. To understand the direction of causality in the relationship

2. LITERATURE REVIEW

The literature survey focused on the classification of articles, research papers from 1970 - 2014. The literature collection started in 2007 and databases like Elsevier Science Direct, IEEE Xplore, EBSCO, Proquest, Emerald and other online databases were explored. Keywords used for the search were CSR, CSR disclosure, CSR and financial performance, CSR in India, etc.

2.1. CSR Disclosure

CSR Disclosure is mainly about the CSR-related activities, targets achieved, and expenditure by the company for the interest of its stakeholders, usually in the form of CSR report, Corporate Citizenship report or Sustainability report. The objective is to provide information to stakeholders that can help them assess long- and short-term business concerns including risk, cash flow, and consistency in addressing societal or environmental concerns.

Studies were conducted to determine the extent an audience is interested in social responsibility reports (BUZBY; FALK, 1979; MOBLEY, 1970). The results of these studies were mixed, but most agreed that investors employ criteria that require consideration of some of the social activities of firms when making investment decisions.

In India, the guidelines for voluntary reporting on CSR are the CSR Voluntary Guidelines (2009, 2010) by the MCA and the Guidelines on CSR for Central Public Sector Enterprises (2010, 2012). However, not all companies adhered to these guidelines due to its voluntary nature; besides, general observance of law in India is slack (PRIETO-CARRÓN; LUND-THOMSEN; CHAN; MURO, 2006).

However, recently, there was a change in the legislative landscape with the introduction of Companies Act, 2013 and CSR Rules, 2014 (KANSAL; JOSHI; BATRA, 2014). This research is positioned in the pre-mandated phase, which attempts to investigate what factors affected companies’ disclosure or non-disclosure

INDEPENDENT JOURNAL OF MANAGEMENT & PRODUCTION (IJM&P)
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on CSR in the pre-mandated phase. This research would address the requirement of an inclusive study in the Indian context that elucidates the determinants of CSR disclosure.

2.2. CSR Disclosure and Financial Performance

The research by Porter and Kramer (2002) was considered path-breaking in ways that it reaffirmed the belief that economic investments lead to social returns and even social investments can result in economic benefits. In view of the same, they recommended that businesses should emphasize on both financial and social returns.

The concept of streamlining CSR to the company's core competency is advocated by the London Benchmarking Group model (LBG- leading standard for measuring and benchmarking corporate community investment). Since CSR performance is communicated via CSR disclosures, the latter may play an inevitable role in achieving tangible or intangible benefits.

Some researchers investigated the relation between CSR and financial performance, using both accounting and market measures. According to some, financial performance is a key factor for evaluating and understanding CSR disclosure.

2.3. Direction of Causality

One of the aspects in understanding the relation between CSR and financial performance is to understand the direction of causality, i.e., what acts as an antecedent and consequent for this relationship. In the context of this study, it would refer to whether CSR disclosure leads to better financial performance or better financial performance leads to enhanced CSR disclosure.

One general drawback observed in the empirical studies was that they could not distinguish financial performance for preceding, current and succeeding year's CSR disclosure and, therefore, suggested no reliable inferences about the direction of causation. Practically, McGuire et al., (1988) were the first to consider financial performance with respect to past, concurrent and subsequent to CSR performance.

While in most of the studies, economic performance covered a common five-year period with respect to the social disclosure periods, studies by Mahapatra

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(1984) and Mills and Gardner (1984) considered economic performance period as concurrent to the CSR performance period for analysis. Mills and Gardner (1984) studied the relationship between social disclosure and economic performance and concluded that companies are likely to disclose CSR and its expenditure when the financial statements indicate favorable economic performance. On the other hand, Shane and Spicer (1983) considered financial performance subsequent to the CSR disclosure period, finding a positive relation.

Studies by Waddock and Graves (1997) and McGuire et al., (1988) revealed that CSR was positively linked with prior financial performance and social performance is both a predictor and consequence of the company's financial performance. The two conflicting theories with respect to the direction of causality between CSR and financial performance is the Slack Resources Theory or the positive impact of financial performance on CSR, and the Good Management Theory or the positive impact of CSR on financial performance (WADDOCK; GRAVES, 1997).

The Slack resource theory indicates that better financial performance results in slack financial resources for companies to invest in social endeavors, thus, highlighting that better financial performance would be a predictor of better social performance (MCGUIRE et al., 1988). Good Management theory suggests that better CSR management practices improve relations with stakeholders resulting in better financial performance of the company.

Waddock and Graves (1997) followed a time lag method to reveal that there exists a positive relation between CSR and financial performance through time. Preston and O'bannon (1997) analyzed the relationship between indicators of CSR and financial performance with large United States (US) corporations. The results showed that better financial performance results in superior CSR activities and its disclosures. This further positively enhances the financial performance of the subsequent year.

2.4. Nature of Relationship

Negative association: The studies suggesting a negative relationship between social and financial performance believe that responsible companies face competitive disadvantage as they incur costs that might otherwise be avoided or

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should possibly be borne by the government (AUPPERLE et al., 1985). Also, high social responsibility leads to additional costs that put a company at an economic disadvantage compared to less socially responsible companies (BRAGDON; MARLIN, 1972; VANCE, 1975, ULLMANN, 1985).

These costs could be the result of promoting community development plans, extensive charitable donations, establishing procedures for environmental protection, and maintaining operations in economically depressed locations, (MCGUIRE et al., 1988). According to Friedman (1970) and some neoclassical economists, there are less quantifiable economic benefits for being socially responsible while there are various costs that affect the bottom line, thereby reducing profits and shareholder returns.

Crisostomo et al., (2011) examined the relationship considering firm value and financial performance in Brazil and concluded that CSR is value destroying, as a negative correlation between CSR and firm value was obtained. With a similar argument, other authors stated that investments, expenditures or activities not associated with the main objective of the company indicate diversion from the main purpose of the company and that of the resources from shareholders.

Vance's (1975) research, which analyzed the relation between corporate social involvement, reputational indexes and the percent change in the price per share, concluded that, in the short-run, CSR was inversely linked with profitability and a negative relation between change in share prices and corporate social involvement was observed.

Positive Association- In contrast to the above assertions, Margolis and Walsh (2001) inventoried 95 studies between 1972 and 2000 and conducted a meta-analysis, which revealed that a majority of the studies concluded with a positive relation.

Keim (1978) argued that social performance might be consistent with capital maximization intentions of the company. Heinze (1976) conducted a study based on the measure of social involvement similar to that of Vance, 1975 as a dependent variable. This study supported a positive correlation between social involvement and profitability.

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Bowman and Haire (1975) used the proportion of social involvement-related sentences in companies' annual reports as an index to measure social involvement. Their findings support that social involvement does not threaten the investor's profits, and it is not dysfunctional for a company to be socially involved.

Ingram (1978) conducted a market study to examine the associations of social disclosure based on accounting data and concluded that a significant positive relationship exists between CSR disclosure and cumulative excess returns. Another study on social disclosures by Kansal et al., (2014) analyzed the relationship between financial and non-financial company characteristics and social responsibility disclosures by Indian companies.

The study concluded that company size and industry category correlate with the company's social disclosures. In the Indian context, Kapoor and Sandhu (2010) similarly suggest a positive impact of CSR on profitability and insignificant positive impact on corporate growth (KAPOOR; SANDHU, 2010).

Neutral association: Some empirical results also suggest a third possibility in terms of neutral or no relationship between social and financial performance. Proponents of this thought argue that due to the existence of several intervening variables between social and financial performance, expecting a relationship could be unreasonable, except by chance (ULLMANN, 1985).

Confirming to Ullmann's interpretation, McWilliams and Siegel (2000) suggested that the relationship tends to disappear when accurate variables are introduced into econometric models, thereby concluding that CSR has a neutral effect on financial performance.

Aupperle et al., (1985) used both short-term (one year) and long-term (five year) corporate performance as a measure for CSR and Return on Assets (ROA). The results proved no statistical significance between CSR orientation and financial performance. They suggested that it was not possible to support the concept of positive or negative association between profitability and CSR orientation, and it is neither beneficial nor harmful for a company to fulfill its social responsibilities.

2.5. CSR disclosure and Non-financial determinants

Thus far, several studies have explored the financial as well as non-financial determinants of CSR disclosures and attempted to identify its linkage with financial

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performance (WADDOCK; GRAVES, 1997), including size of the business (HACKSTON; MILNE, 1996), company age (CORMIER; MAGNAN; VELTHOVEN, 2005) and nature of industry. Some studies focused on public sector companies (SINGH; AHUJA, 1983) or banking sector companies (HOSSAIN; REAZ, 2007).

Company Size: Various studies in the literature affirm that company size has an influence on CSR disclosures (DIERKES; PRESTON, 1977; PATTEN, 1992; ROBERTS, 1992; HACKSTON; MILNE, 1996; ADAMS; HILL; ROBERTS, 1998). This led to an assumption that larger companies disclose more on CSR than smaller companies (PURUSHOTAHMAN; PHIL; ROSS, 2000; GRAY; JAVAD; SINCLAIR, 2001; HOSSAIN; REAZ, 2007; ARAS; AYBAR; KUTLU, 2010; SIREGAR; BACHTIAR, 2010).

Moreover, large companies have stakeholders who are interested in the social initiatives undertaken by the company (COWEN et al., 1987), and, therefore, impel a need to legitimize a company's actions, limit governmental intervention (PURUSHOTAHMAN et al., 2000), and ensure cash flow (CRISOSTOMO ; FREIRE ; VASCONCELLOS , 2011). The studies by Porwal and Sharma (1991) and Kansal et al., (2014) also concluded that company size correlates with social disclosures of the company.

Industry type: Many studies in the developed countries have suggested that sector or industry type is associated with CSR disclosure (COWEN et al., 1987; ROBERTS, 1992; Tilt, 1994; HACKSTON; MILNE, 1996; ADAMS et al., 1998; GRAY et al., 2001; GRAAFLAND; VAN DE VEN; STOFFELE, 2003; KOTONEN, 2009).

The association could be due to government pressure, consumer perceptions (COWEN et al., 1987) or industry-specific social or environmental impacts (DIERKES; PRESTON, 1977; COWEN et al., 1987; PATTEN, 1992; ROBERTS, 1992; HACKSTON; MILNE, 1996). The study by Hossain and Reaz (2007) was specific to the banking sector in India.

Country: Characteristics specific to each country may also have a role in the intensity of CSR (CRISOSTOMO et al., 2011). The relationship of CSR disclosures, as determined by financial attributes, has been widely investigated in developed countries (HANIFFA; COOKE, 2005; AMRAN; DEVI, 2008; CRISÓSTOMO et al., 2011; MAHADEO; HANUMAN; OOGARAH-SOOBAROYEN, 2011).

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It is understood from the literature that there is dearth of research undertaken in developing/under-developed countries where CSR is absolutely required, given the lower social provisions (BAUGHN; MCINTOSH, 2007; DOBERS; HALME, 2009). In the Indian context, it was found that research is limited to the nature of CSR disclosure (SINGH; AHUJA, 1983; COWEN et al., 1987; VASAL, 1995; CHAUDHRI; WANG, 2007; MURTHY; ABEYSEKERA, 2008; KANSAL et al., 2014). Despite India being a fast growing economy and several Indian companies featuring as Fortune companies, CSR disclosure-related research here is scanty.

Company Age: The age of a company can influence CSR efforts, as long-established ones are constantly under stakeholder scrutiny and, thus, more likely to contribute to voluntary social disclosures (KANSAL et al., 2014). Some researchers (CORMIER et al., 2005; ROBERTS, 1992) reported a positive relationship, while others (RAHMAN; ZAIN; AL-HAJ, 2011) denied any relationship between Company age and CSR disclosures.

Research Gaps: The research gaps identified in the study are three-fold, (a) no consensus on the sign of relationship between CSR disclosure and financial performance. (b) Studies not distinguishing between past, concurrent, and subsequent year's financial performance in relation to CSR, thus incapable of inferring about the direction of causation. (c) Lack of such studies in developing countries.

First, the ambiguity in a definite relationship and signage (+, -, ±) between CSR disclosure and profitability was identified as a gap, based on the criterion of examining appropriateness of constructs and variables in the extant literature. All these studies have considered different financial (stock market based or accounting measures) and non-financial parameters (age, size, industry type, risk, reputation, award, etc.) for analyzing the relationship.

Second, the direction of relationship was not unanimously approved and this was also identified as a research gap. The causality with respect to Slack resource theory and the Good management theory with a time lag needed to be examined. The studies did not provide any justification of cause and effect relationship between CSR disclosure and financial performance.

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In addition to the above, another gap was found pertaining to understanding CSR disclosures and its determinants in India in the pre-mandated phase, i.e., the period before the guidelines on CSR for Central Public Sector Enterprises (2010, 2012) and the Companies Act 2013 were issued, in India. The impetus was to know in terms of what actually drove social disclosures in the pre-mandated period and what were the tangible benefits to the companies due to such disclosures.

3. CONCEPTUAL FRAMEWORK

This research considered an organization as a closed system, with various characteristics like company size, industry sector, and financial performance which may impact the CSR disclosure. The study tested the relationship between CSR disclosure on financial performance or vice versa, considering CSR disclosure of the current year and financial performance variables of the previous and subsequent year.

It is assumed that CSR disclosure acts as an antecedent factor that facilitates better financial performance. On the other hand, when financial performance becomes an antecedent factor, it leads to better CSR disclosure. Figure 1 depicts the possible antecedent factors for fostering CSR disclosure and subsequent organizational financial benefits with time lag.

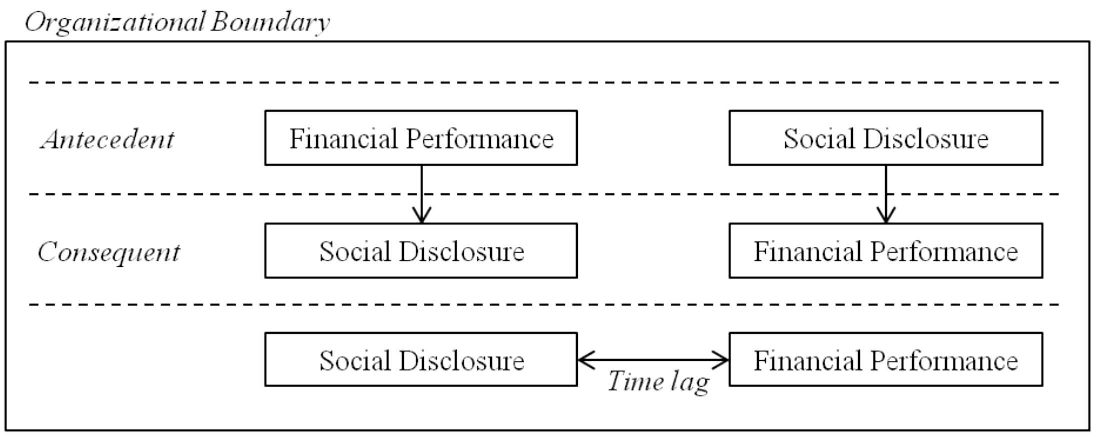

Figure 1: Factors determining CSR disclosure

Construct and Variables: Figure 3 represents the construct with CSR disclosure and financial performance variables. Since constructs are not directly observable, researchers use indicators or variables as a way of measuring or classifying most of the particulars of the construct (KAREN, 2006).

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CSR Disclosure: CSR disclosure is the communication medium to provide information on the social performance of a company. While many theoretical attempts have been made to understand and explain why companies voluntarily disclose CSR performance (DOWLING; PFEFFER, 1975; GUTHRIE; PARKER, 1989; GRAY; KOUHY; LAVERS, 1995; PATTEN, 1992), it was Gamerschlag, Moller, and, Verbeeten, (2011) who pointed out that preventing taxes or other regulatory actions are the major concerns for managers, thereby concluding that possibly, companies' disclose CSR performance because it serves an economic interest. CSR disclosure for 500 sample companies was studied for conducting this research. As an outcome, CSRWT was considered as a variable for CSR disclosure (weighted average of company score after content analysis + Karmayog score).

Financial Performance: Financial accounting and stock-market performance measures for financial performance have been used in the previous studies. Majority of studies have used ROA, sales, total assets, asset growth and operating income growth as accounting-based measures.

The current study also used accounting-based measures such as Return on Capital Employed (ROCE), ROA and Profit after Tax (PAT) for company's financial performance. Secondary data on ROCE, ROE and PAT for sample companies was collected from the CMIE Prowess database, which has data from company annual reports for companies listed in the Indian stock exchanges.

To ascertain the causality, the research extracted 2008-09 (one year before the CSR disclosure) and 2010-11 (one year after the CSR disclosure) financial data from Prowess and examined the relationship. The CSR disclosure was derived from 2009-10 sustainability / CSR reports. This method is similar to the one adopted by Waddock and Graves (1997) and Aras et al., (2010).

Control Variables: Size of a company can be an important control variable since size may influence company capacity to undertake CSR activities (DIERKES; PRESTON, 1977; PATTEN, 1992; ROBERTS, 1992; HACKSTON; MILNE, 1996; ADAMS et al., 1998). This study used the log of total assets and log of sales as a proxy for the estimation of company size.

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To control the effect of sector on social disclosure, sector dummies were incorporated into the models. The dummy control variables for sectors were classified based on Standard Industrial Classification (SIC) while some sectors were grouped based on similarities so as to ensure minimum observations.

Hypotheses: In alignment with the research by Waddock and Graves (1997), the hypotheses were formed on two bases, *viz.*, CSR and financial performance have a positive relation and CSR is both a predictor and consequence of the company's financial performance with time lag (for previous and subsequent years).

In Figure 3, size and industry type are treated as control variables and hence depicted with dotted lines. Based on the construct, the hypotheses were framed to ascertain the existence of relationship between CSR disclosure with prior and subsequent year's financial performance. The hypotheses attempt to address the sign and direction of causation for the relationship, as depicted in Figure 2 and Figure 3. The two hypotheses formulated are:

- *H1- CSR disclosure is positively associated with prior financial performance (Slack resource theory)*
- *H2- CSR disclosure is positively associated with future financial performance (Good management theory)*

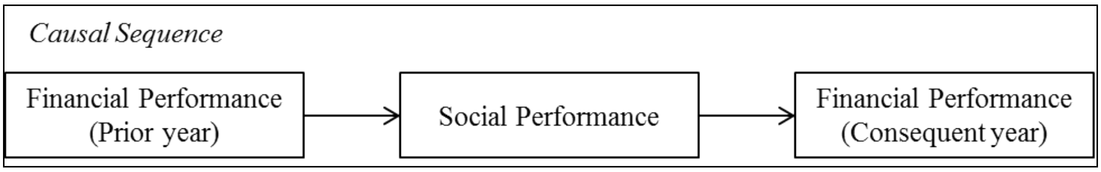

Figure 2: Direction of relationship and causality

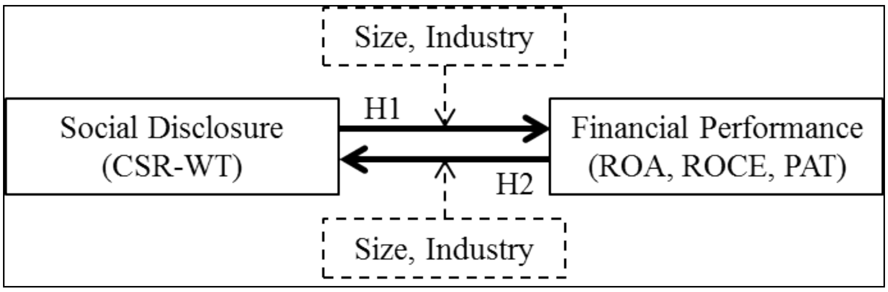

Figure 3: Hypothesis and Construct

4. RESEARCH DESIGN AND METHODOLOGY

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Research Design: For this study, a descriptive design has been adopted for which an exploratory literature survey was conducted to understand the current state of research on CSR disclosures. Descriptive design helped in identifying and defining various variables and formulating hypothetical statements based on the variables.

Descriptive design primarily focuses on explaining how a phenomenon works for the research. In a time frame perspective, this research design employed a cross-sectional study approach. The reason for selecting this approach is that it is extremely difficult to conduct a longitudinal study for a wide variety of organizations. This approach collects information at one point of time from a sample, or, more specifically, helps to take a snapshot analysis of the phenomenon.

Research Method: This study uses both Qualitative and Quantitative research methods. In qualitative research, an inductive exploratory method is used, which primarily describes, explores and gains understanding about a concept. It is usually based on qualitative data, which is examined for trends and themes.

For this research, the qualitative method included a study wherein the complete CSR literature, including CSR disclosure, CSR management, CSR practices in company, etc., were surveyed. This study utilized the quantitative research method to verify and validate the model conceptualized from literature survey. Quantitative study uses Regression analysis to examine the proposed research framework. This approach basically takes the explanatory approach and investigates relationships between variables.

Unit of Analysis: Since this study focuses on CSR disclosure of an organization, the unit of analysis in this research is the organization.

Data Collection: Secondary data for the quantitative study was derived as a result of the qualitative study (content analysis of sample company reports describing their CSR efforts). As the unit of analysis of this study is organization, it is necessary to identify the organization disclosing on their CSR performance. Organizations pertaining to different sectors and types were also considered. Special attention was given to maintaining heterogeneity of sample.

Sampling: The sample used for both the qualitative and quantitative study was the same. The population included India's top 500 Companies that were ranked by Dun and Bradstreet on the criteria of total income, net profit, net worth and market

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capitalization. They were from private, public or government sector and spread across various industry types.

For qualitative analysis, it was this study's aim to do an in-depth analysis of organizations' CSR disclosure, which would give a wide and correct insight of CSR disclosure based on GRI aspects.

Scoring Method: The top 500 companies in India were rated as per their CSR disclosure on 18 GRI aspects using binary codes 0 and 1. The summation of the ratings resulted in a company-specific score (Variable CSR_Disclosure). Another company-specific score was obtained from Karmayog (KARMAYOG, 2007), which rated these companies on a 0-5 scale.

Both these scores were considered for the study by giving equal weightages to each and, thus, devising a comprehensive variable CST_WT (CSR_disclosure and Karmayog rating). This helped in achieving an inclusive method to enable coalition of the entire gamut of disclosure scores to achieve a weighted company score.

Statistical techniques: This study has used multiple regression as the main statistical technique apart from other descriptive statistics (i.e. Mean, Standard Deviation, Correlation, etc.)

5. QUALITATIVE STUDY

As a prelude to the empirical analysis, a qualitative study was conducted with a purpose to explore the definitions of CSR, elaborate on its development in India, and study the theoretical concepts expounded by various researchers. It also examined how India's top 500 companies deployed their CSR activities in business and identified key CSR practices, mapping these against GRI standards (GAUTAM; SINGH, 2010).

This study was conducted in 2009. It involved secondary data collection and use of content analysis technique to assess CSR practices of companies operating in India. Karmayog rated Dun and Bradstreet's list of India's top 500 companies on a 0-5 point scale based on CSR disclosure available on company's website and latest annual report. Annexure II provides the criteria for rating companies.

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Out of the top 500 companies that were considered for the study, 229 (46%) received a '0' rating for not reporting on CSR and were, therefore, excluded, leaving 271 companies that reported on CSR. Further, around 26 companies were dropped out as they reported on environmental parameters and not actually CSR. Therefore, a final list of 245 (49%) companies was obtained, their reports were downloaded and content analyzed.

The assessment was done by mapping their reported aspects against the 18 social aspects from the GRI framework (Figure 4), which are globally accepted and most widely used. These social aspects were clubbed under Indicator categories: Society, Human Rights, Labor Practice and decent work, and Product Responsibility. A binary code of '0' & '1' was allocated for not reporting/ reporting on the particular social aspect.

The assessment was based on four criteria: the social indicators tracked by the company, the innovativeness in CSR, linkage of CSR initiatives to business, and focus area of CSR in each company. The study clearly mapped the CSR performance and disclosures of 500 Indian companies against GRI social aspects.

Observations: It was observed that while 46% companies did not report on CSR, around 8% scored 3 and 4 out of 5 from Karmayog. Around 49% companies out of 500 companies were reporting on CSR. Most of the companies report on donations, infrastructural interventions, primary education, mid-day meals, etc.

Although spending on CSR was not mandated while the study was conducted, it was still made a criteria for this analysis whether a company discloses annual expenditure towards CSR. In most reports there was no mention of CSR expenditure in their disclosures with an exception of very few companies.

While a lot of CSR initiatives were highlighted, Companies' outreach for CSR activities was not justified in these disclosures, which led to the assumption that companies are only making token gestures towards CSR in tangential ways such as donations to charitable trusts or Non-government Organization (NGOs), sponsorship of events, etc. and only a few companies had a structured approach.

It was observed that Companies hesitate to disclose the CSR management approach or strategy adopted by them during the normal course of business or while acquiring a tract of land/ new project, and what approach is followed for

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Resettlement and Rehabilitation (R&R), compensation and employment advantage to Project-affected Persons (PAP).

Conclusions: The main findings of the study are that CSR has been adopted as a comprehensive business strategy, arising mainly from performance considerations and stakeholder pressure. The study suggests that business and CSR strategy appears to be on a convergent path, towards business and CSR integration. CSR is on an upward learning curve and was primarily driven by philanthropy in absence of any mandate.

This qualitative study was first of its kind; as such an exhaustive study was not carried out for Indian companies. This study was extended to derive a relation between CSR disclosure and financial performance of the Indian companies. With this backdrop, the researcher identified an exclusive approach to map the relationship between CSR disclosures and financial performance. This study will be useful to any Indian company in understanding more about its shortcomings and opportunities.

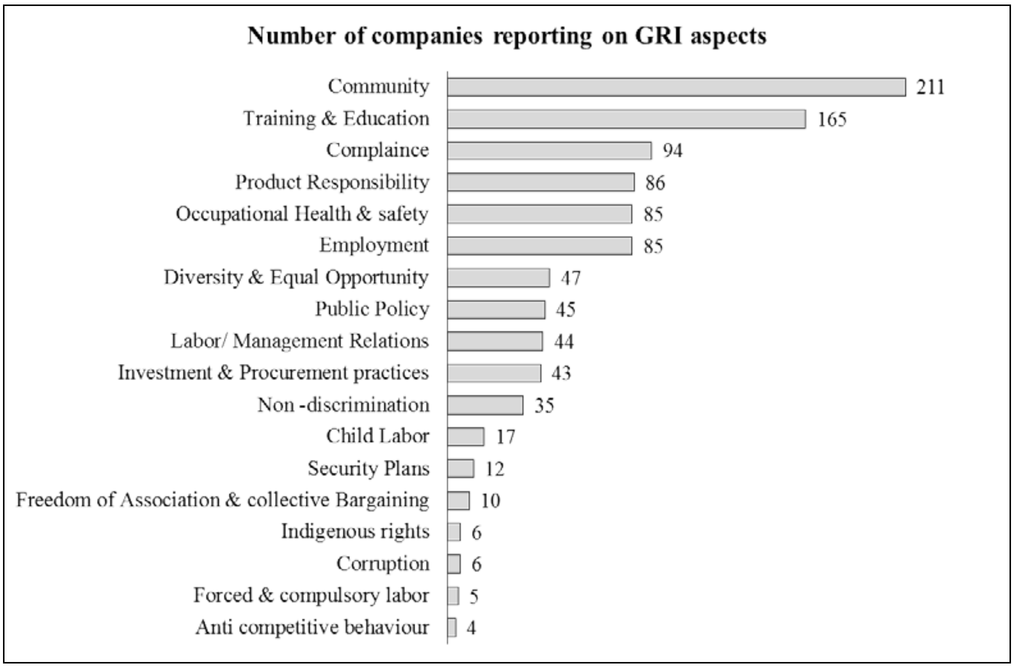

Figure 4: Graph depicting GRI reporting trends by Indian Companies
Source: Gautam and Singh, 2010

6. Quantitative Study

This research used 18 GRI social aspects for determining CSR disclosure. The unit of analysis and the sample of 500 companies were same as used for the qualitative study. Karmayog rating (0-5) was used as a criterion to extract the sample

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from 500 companies for the empirical research. The judgmental sampling conducted has been described in the previous section.

For the final 271 sample companies, their annual reports / CSR reports were downloaded and analyzed. The disclosure related to CSR was derived from the 2009-10 CSR/ Sustainability reports of the sample companies similar to prior studies that used secondary data from annual reports (GRAY et al., 1995; HACKSTON; MILNE, 1996; HALL, 2002).

The CSR activities reported in public documents might be overstated or understated, so a content analysis was done on the sample companies by reviewing their CSR/ Sustainability reports along with mapping their disclosure on 18 GRI aspects. The sample companies were rated 0 or 1 based on their CSR disclosure on social aspects.

The score of 1 or 0 was given based on reporting or not reporting on the GRI aspect, respectively. It was found that around 26 companies are reporting on environment in the name of CSR. These were dropped from the sample, after which a final list of 245 companies was obtained. Complete financial data for 214 companies was obtained from Prowess database on which further empirical analysis was performed.

As per the mixed results produced by earlier studies, the investigation for the relationship between profitability and CSR disclosure in the current study used three measures for financial performance viz., PAT, ROCE, and ROA. Data labels used for financial performance variables are listed in Table 1. The study has also used two measures to control for size, which are natural log of sales and natural log of total assets.

Variables: Table 1 provides the codes for financial performance used in the study along with their description and financial year. Table 2 provides the codes for CSR disclosure variables along with their description. CSRD variable is the sum of GRI aspects given in Table 2 and includes variables CsrA to CsrPR. CSRWT is the weighted score for CSR disclosure of a company, which was calculated giving equal weightage (50%) each to Karmayog rating and CSRD score.

Table 1: Variables for Financial Performance

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No	Code	Description	Financial year
1	CoName	Company name	As on FY2008-09
2	PAT09	Profit After Tax	FY2008-09
3	ROA 09	Return on Assets	FY2008-09
4	ROCE 09	Return on Capital Employed	FY2008-09
5	lnTA09	Natural log of Total Assets	FY2008-09
6	lnSales09	Natural log of Sales	FY2008-09
7	lnSales10	Natural log of Sales	FY 2009-10
8	lnTA10	Natural log of Total Assets	FY 2009-10
9	PAT11	Profit After Tax	FY 2010-11
10	ROA11	Return on Assets	FY 2010-11
11	ROCE11	Return on Capital Employed	FY 2010-11

Table 2: Variables for CSR Disclosure or GRI social aspects

No	Code	Description
1	CsrA	Community
2	CsrB	Corruption
3	CsrC1	Public Policy
4	CsrC2	Anti Competitive behavior
5	CsrE	Compliance
6	CsrF	Investment and procurement practices
7	CsrG	Non-discrimination
8	CsrH	Freedom of Association and collective bargaining
9	CsrI	Child labor
10	CsrJ	Forced and compulsory labor
11	CsrK	Security plans
12	CsrL	Indigenous rights
13	CsrM	Employment
14	CsrN	Labor / Management Relations
15	CsrO	Occupational health and safety
16	CsrP	Training and education
17	CsrQ	Diversity and equal opportunity
18	CsrPR	Product responsibility
	CSRD	CSR Disclosure = Total score for disclosure on GRI aspects (No. 1 to 18)
	CSRWT	CSR Weighted Score= 0.5* CSRD + 0.5* Karmayog rating

6.1 Data Analysis

The correlation matrix was used to check for significant correlations between independent variables used in the multiple regression models. For the models given in the next sub section, independent variables used in Models 1, 2, 4 and 5 showed correlation coefficient values less than 0.2 and were deemed insignificant. For models 3 and 6, significant correlation was observed between independent variables, but the values were less than 0.6.

Factor analysis: The study utilized factor analysis to support the factor structure of the variables and to ascertain that the variables employed in the study were conceptually different. Factor analysis was conducted with the aid of statistical

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software package SPSS Version 20.0 using Principal Component analysis with Varimax rotation and Kaiser Normalization.

The value of Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy was 0.583. It is a measure of sampling adequacy and is an index used to examine the appropriateness of factor analysis. High values (between 0.5 and 1.0) indicate that factor analysis is appropriate while values below 0.5 imply that factor analysis may not be appropriate (MALHOTRA; BRIKS, 2007). Factor analysis identified three factors that accounted for 79.601% of the variance,

Multiple Regression Analysis- In six models tested in this research, linear regression was employed using IBM SPSS 20.0 to ascertain the relationship between dependent and independent variables.

- ***H1- Better financial performance results in improved CSR***

This portion provides the results of the regression analysis using CSR Disclosure as the dependent variable and financial performance, indicated by ROA, PAT and ROCE as independent while natural log of total assets and natural log of sales for same year were used as the control variables for size.

There is a one year lag between the disclosure of CSR (FY-10) and the measures of financial performance (FY-09). In order to examine the existence of multicollinearity in the sample, the Variance Inflation Factors (VIF) was investigated. It was observed that the degree of multicollinearity was well below the acceptable limit of 10. The results show that the three models with CSRWT as dependent variable and ROA, PAT and ROCE as independent variables are statistically significant. Thus, results accept H1, which states that better financial performance results in improved CSR disclosure. Model-wise interpretations have been explained ahead.

Model 1: gives the results of using CSRWT as the dependent variable and ROA as an independent variable (R-square = 0.0545, Std. Error = 1.2017). Log of total assets and log of sales of the same year are used as control variables. Result of multiple regression analyses is given in Table 3 which suggests that the relationship between CSRWT and ROA is significant.

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Table 3: Model 1 - Regression coefficients for dependent variable CSRWT

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.1097	0.6514		1.7035	0.0901
ROA09	0.0116	0.0069	0.1179	1.6852	0.0935
lnTA09	0.3353	0.1976	0.1712	1.6966	0.0914
lnSales09	0.0783	0.1918	0.0412	0.4084	0.6834

* Indicates level of significance * P <5%, **P<1%

Model 2: gives the results of using CSRWT as the dependent variable and RoCE09 as the independent variable with log of total assets and log of sales of the same year as control variables (R-square = 0.0722, Std. Error = 1.1904). The result of the multiple regression analysis is given in Table 4 which suggests that the relationship between CSRWT and ROCE is significant.

Table 4: Model 2 - Regression coefficients for dependent variable CSRWT

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.0088	0.6474		1.5581	0.1208
lnTA09	0.3817	0.1971	0.1949	1.9366	0.0542
lnSales09	0.0368	0.1911	0.0193	0.1923	0.8477
RoCE09	0.0074	0.0029	0.1793*	2.5682	0.0110

* Indicates level of significance * P <5%, **P<1%

Model 3: gives the results of using CSRWT as the dependent variable and PAT09 as an independent variable; log of total assets and log of sales of the same year have been used as control variables (R-square = 0.0670, Std. Error = 1.1937). The result of multiple regression analysis is given in Table 5 which concludes that the relationship between CSRWT and PAT09 is significant.

Table 5: Model 3: Regression coefficients for dependent variable CSRWT

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	2.049	0.743		2.759	0.006
lnTA09	0.133	0.211	0.068	0.631	0.529
lnSales09	0.072	0.190	0.038	0.378	0.706
PAT09	1.190E-05	0.000	0.193*	2.343	0.020

* Indicates level of significance * P <5%, **P<1%

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- ***H2- Improved CSR leads to better financial performance***

To test H2, ROA, ROCE and PAT were used as the dependent variables and CSRWT as the independent variable, with the same measures of size employed as control variables for the same year. Again, there is a one-year lag between the disclosure of CSR (FY-10) and the measures of financial performance (FY-11). Models 4-6 provide regression results for ROA, ROCE and PAT as dependent variables and CSR disclosure as independent variable and are found to be statistically significant. Results accept H2, which states that improved CSR disclosure leads to better financial performance.

Model 4: presents the regression result using ROA11 as the dependent variable, CSRWT as the independent variable with Log of Sales and Log of total assets of previous years as the control variables (R-square = 0.0824, Std. Error = 7.7527). The result of multiple regression analysis is given in Table 6 which concludes that the relationship between ROA11 and CSRWT is significant.

Table 6: Model 4: Regression coefficients for dependent variable ROA11

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	8.918	4.409		2.023	0.044
CSRWT	1.401	0.460	0.215**	3.044	0.003
lnSales10	3.405	1.486	0.251*	2.292	0.023
lnTA10	-4.374	1.418	-0.340**	-3.085	0.002

* Indicates level of significance * P <5%, **P<1%

Model 5: gives the results when RoCE11 is used as the dependent variable and CSRWT as the independent variable with Log of Sales and Log of total assets of previous years as control variables (R-square = 0.1159, Std. Error = 21.4215). The result of multiple regression analysis is given in Table 7 which concludes that the relationship between RoCE11 and CSRWT is present and significant.

Table 7: Model 5: Regression coefficients for dependent variable RoCE11

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	21.011	12.181		1.725	0.086
CSRWT	4.492	1.272	0.244**	3.532	0.001
lnSales10	12.567	4.105	0.330**	3.061	0.003
lnTA10	-14.920	3.918	-0.412**	-3.808	0.000

* Indicates level of significance * P <5%, **P<1%

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Model 6: presents the regression result using PAT11 as the dependent variable and CSRWT as the independent variable with Log of Sales and Log of total assets of previous years as control variables (R-square = 0.3843, Std. Error = 18750.81). The result of the multiple regression analysis is given in Table 8, which suggests that the relationship between PAT11 and CSRWT is present and significant.

Table 8: Model 6: Regression coefficients for dependent variable PAT11

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	- 1,03,570.2881	10,662.4935		-9.7135	0.0000
CSRWT	2,892.7981	1,113.3193	0.1501*	2.5984	0.0101
lnSales10	5,756.5682	3,593.5380	0.1440	1.6019	0.1108
lnTA10	17,235.6246	3,429.3787	0.4537**	5.0259	0.0000

* Indicates level of significance * P <5%, **P<1%

7. RESULTS AND DISCUSSION

With the course of research, it is implicit that while the mainstreaming of CSR as a core business issue has been recent, it has been studied and researched for over 50 years. Its evolution has been transformational as CSR has grown from a marginalized notion of philanthropy into a multifaceted concept, which is pivotal for making business decisions (COCHRAN, 2007).

CSR started as philanthropy in India, matured as Industrialists and private sector began their active involvement in the socio-economic development of the country, and gained mainstream attention today as businesses abandoned their traditional engagement with CSR and integrated it with a sustainable business strategy.

In India, CSR has progressed in the form of four models with the help of visionaries- Ethical (M.K. Gandhi), Statist (J.L. Nehru), Liberal (Milton Friedman) and Stakeholder (R.E. Freeman). The highlight in this course of CSR evolution has been incremental, starting from philanthropy to becoming mandatory. CSR has sustained the attention with business and other stakeholders as it gradually surfaced as a significant business dimension, starting from its establishment to being operational.

CSR practices in India are unique as large business groups commit to nation building due to family tradition (BALASUBRAMANIAN et al., 2005; SAGAR; SINGLA,

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2004). A remarkable example is the Tata Group, which established the Tata Endowment Fund (1892) for promoting talented youth for higher studies abroad. Till 2013, CSR in India was not backed by any legislation and, thus, there was a lack of standardized disclosure on CSR initiatives.

This situation was aggravated due to the absence of any formal corporate reputation ratings such as Fortune, Moskowitz, Kinder Lydenberg Domini (KLD), etc., which is recognized internationally. The only platform in India, which provides rating to companies on their CSR performance is Karmayog (Karmayog, 2007), but the acceptability or usage of this platform by companies themselves or by various stakeholders has not been established.

In India, the guidelines for voluntary reporting on CSR are the CSR Voluntary Guidelines (2009,d 2010) by the MCA and the Guidelines on CSR for Central Public Sector Enterprises (2010, 2012). In 2014, India became the first country in the world to mandate CSR spending (2% of net profits) through Schedule VII of Companies Act, 2013 and CSR Rules, 2014 (KANSAL et al., 2014).

In addition, the mandate recommended formation of a board-level CSR committee, which would guides, steers, and monitor the designing policies, guidelines for CSR effectiveness measures, and mobilise resources for the marginalised and vulnerable communities through various CSR initiatives.

The study began with introducing CSR and elaborated on the concept of CSR, evolution of its disclosure and detailed the propositions made by studies (negative, positive, neural) regarding CSR disclosure and financial performance in a business scenario. It scanned from a theoretical perspective, the different arguments made for and against a positive relationship between CSR disclosure and financial performance concurrent or subsequent to the disclosure.

Two hypotheses were proposed and were addressed with six empirical models. The first hypothesis was based on the Slack resource theory while the second was based on the Good management theory. This chapter examined the relationship between CSR disclosure and financial performance of 214 companies by using data from the years 2008-2010 and analyzed their financial and CSR disclosure data.

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GRI social aspects were used as CSR disclosure variables and PAT, ROCE and ROA as variables for financial performance. The study moved beyond the limits of connecting CSR and financial performance and went on to evaluate the direction of causation between the two.

In order to test the first hypothesis, regression analysis was employed. CSR disclosure was used as the dependent variable. Financial performance (profitability), indicated by ROCE, ROA and PAT, were used as the independent variables. Natural log of assets and natural log of sales were used as the control variables for size. In the second hypothesis, ROCE, ROA and PAT were used as dependent variables. CSR disclosure was used as the independent variable. Control variables used in the first hypothesis were retained.

The first hypothesis, which states that “better financial performance results in improved CSR”, was accepted and positive relationship was found between indicators of financial performance and CSR disclosure. The second hypothesis, which states that “improved CSR leads to better financial performance,” was also accepted.

The six models used for the study exhibited a trend towards a positive relationship (between CSR disclosure and financial performance and vise versa). Moreover, the findings indicate that variables like size and industry sector are insignificant when explaining the aforementioned relationship.

A conclusion can be drawn based on the empirical results of this study that CSR disclosures were made by sample companies in the pre-mandated phase as it positively impacted the financial performance of the company. The current study is capable of supporting the opinion that such a relationship exists and has made an attempt to overcome some limitations of previous studies.

The research used an exhaustive sample of top Indian companies to ascertain the intent of CSR disclosure practices within companies, even when it was not mandated. The results suggest that there is a positive relation between the CSR disclosure practices and financial performance of the company, thereby justifying the intent of CSR disclosures. Thus, it addresses the requirement of an inclusive study in the Indian context that elucidates the determinants of CSR disclosure.

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