Title: **Corporate Social Responsibility Reporting in India: Exploring Linkages with Firm Performance and Development**

Abstract

The study examines the Corporate Social Responsibility (CSR) strategies and activities of firms as disclosed in annual reports and explores its linkages to accounting and market performance of firms. The study examines the annual reports of a sample of 30 firms (out of 50) belonging to the benchmark index of the National Stock Exchange of India and tracks these reports for evidences of CSR activities over a five year period from 2007 to 2011. The study employs content analysis to study CSR disclosure and classifies and rates these activities using items from an established scale followed by construction of category wise CSR indexes. The association of these indexes with firm performance are explored through a pooled regression model after provisioning for control variables and lag effects. The study finds that CSR reporting may not be having any significant impact on accounting and market performance of the firm in the short term but environment oriented CSR disclosure may be negatively related to the market performance of the firm. The study also finds that firms focus heavily on employee and customer oriented CSR and the modes of CSR investments are more contributory rather than participative in nature.

Keywords: Corporate Social Responsibility; Firm Performance; Accountability; Sustainability; Reporting

JEL: M14, G38, D21 and L21

Brief Biographical sketch

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1. INTRODUCTION[1]

Since over last two decades, research literature places due emphasis on corporate responsibility obligations of firms (Quinn, Mintzberg, & James, 1987). Recognizing this view, organizations have also been spending voluntarily on various CSR activities. In countries like India, similar arrangements have been in vogue. The recently cleared Companies Act 2013 requires that the "*company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy*". (Section 135, Companies Act 2013).

One of the issues around social responsibility relates to the existence of two competing perspectives – whether organizations address stakeholder interest due to purely economic reasons or due to an intrinsic merit of doing so (Donaldson & Preston, 1995). Global studies have found that CSR codes are heavily influenced by US and European corporations (Kolk, 2005) and corporations elsewhere have only recently started to adopt the language and approach of CSR (Matten & Moon, 2008). Empirical studies carried out by Berman et. al. supports the perspective of economic motivations as the driver for addressing stakeholder needs. Also there are numerous examples of how addressing social needs leads to competitive advantage for firms (Porter & Kramer, 2011).

Though researchers have been studying about CSR for about last 50 years, only recently has there been a shift in setting from western to emerging economies (Murthy, 2008). Thus is becomes important to examine CSR activities carried out by firms and explore linkages if any between CSR Strategies followed by organizations and corporate returns.

2. LITERATURE REVIEW

2.1 CSR and Firm Performance

Starting with a limited reference by Ansoff, research on corporate stakeholder management has grown rapidly with the works of Freeman, Mintzberg, Donaldson & Preston, Carroll, Mendelow and others. Focussing more specifically on social stakeholders, researchers have tried to examine the social and economic performance of firms and explore whether firms performing well on social measures also have better economic performance (Berman, Wicks, Kotha, & Jones, 1999). The theoretical

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challenges range from relating social and economic performance, developing a fine grained understanding of stakeholder groups and finally questioning whether normative and descriptive research can be viewed separately (Harrison & Freeman, 1999).

The debate started by Friedman that the only social responsibility of business is to increase profits has changed its direction in the last few decades (Friedman, 1970). There is a growing body of research focusing on the relationship between CSR activities and firm's financial performance (Kurucz, Colbert, & Wheeler, 2008), albeit in the context of developed countries. In developed countries, particularly in the context of India, CSR disclosure and reporting has not been mandatory and CSR indexes have only been recently introduced. A meta-analysis of such studies have revealed varying relationships between CSR activities and financial performance of firms (Orlitzky, Schmidt, & Rynes, Corporate social and financial performance: A meta-analysis, 2003).

The results of empirical research into CSR and its linkages with firm performance, carried out mostly in developed countries have surprisingly failed to reach any particular conclusion. Some studies have suggested a negative association between CSR activities and the firm's financial performance mainly due to increased costs which could have been better utilized elsewhere in the value chain of the firm. Other studies have reported a positive association in terms of employee and customer goodwill. Some studies have even suggested that future research can focus on prior firm performance influencing the CSR agenda and not the other way around (McGuire, Sundgren, & Schneeweis, 1988).

Corporate stakeholder theory suggests that a firm's value depends on both explicit and implicit claims and a high CSR image may lower costs of implicit claims thus leading to higher financial performance (Cornell & Shapiro, 1987). Other studies hold the view that supply and demand of investment opportunities in firms pursuing CSR activities determines the nature of linkages with the firm's market value and an unfavourable supply demand position may destroy the market value of a firm (Mackey, Mackey, & Barney, 2007).

Also studies have primarily used CSR data based on Fortune surveys, KLD index, Dow Jones Sustainability Index and the FTSE4Good Index etc. which are heavily represented by corporations from the developed economies. Recently such indexes have been developed for India also (S&P ESG India Index, BT Sustainable Development Index etc.) with implications for future research. However, these indexes are not solely focussed on CSR and a host of other items are loaded onto these indexes.

The next section highlights some of the studies carried out on CSR linking it to economic returns and some gaps which need to be addressed.

Some of the preliminary research gaps were identified based on our initial survey of literature which is provided below.

a) There is a scarcity of studies focussing on explicit CSR activities declared by firms.
b) Research exploring linkages between CSR strategies and firm performance have shown mixed results.
c) There is a scarcity of such research in the Indian context.

Some of the research literature on linkages between CSR and firm performance is provided below.

Studies	**Conclusions**
Moskowitz (1972); Bragdon & Martin (1972); Parket & Eilbirt (1975); Heinz (1976); Sturdivant & Ginter (1977); Davis (1975); Soloman & Hansen (1985); McWilliams & Siegel (2001); Godfrey (2004);	CSR linked positively to firm financial performance
Vance (1975); Bragdon & Martin (1985)	CSR linked negatively to firm financial performance
Bowman & Haira (1975);	Mid-range CSR investing firms perform financially well
Alexander & Buchholz (1978); Abbott & Monsen (1979)	No linkages found
Ullmann (1985);	CSR influenced by past firm performances

2.2 Measuring CSR

The initial intention of the research was to measure CSR spend in financial terms. However, CSR reporting practices in India being mostly voluntary in nature, such information was not available. One of the basic issues in measuring CSR is that it is multidimensional in nature and comprises of multiple theories like agency theory, institutional theory, the resource-based view of the firm, stakeholder theory, stewardship theory, and the theory of the firm (McWilliams, Van Fleet, & Cory, 2002). Also apart from typology, there has been very little work on how firms should emphasize on different aspects of CSR (Lindgreen, Swaen, & Johnston, 2009).

Carroll's work tracing the evolution of the CSR construct since 1950, distinguishes between the economic and the non-economic aspects of CSR – the former being the activities the firm undertakes for itself, while the latter being activities the firm does for others (Carroll, 1999). Carroll's definition is also congruent with the concept of stakeholders and the theories developed by Freeman and others. Again the concept of stakeholders have been classified further into various categories like primary and secondary stakeholders (Freeman, 1984), internal, external, and societal stakeholders (Wherther & Chandler, 2006) and various other subcategories. Wheeler and Sillanpaa's classification may be the most detailed one consisting of primary social, secondary social, primary non-social, and secondary non-social stakeholders (Wheeler & Sillanpaa, 1997). Turker's work related to developing a scale for measuring CSR and linked to the typology adopted by Wheeler and Sillanpaa has reported similar findings i.e. CSR to social and non-social stakeholders (society, natural environment, future generations, NGO), employees, customers, and government (Turker, 2009). The social disclosure rating developed by Sutantoputra and mapped to GRI 2002 Guidelines also mentions various hard (Governance structure and management systems, Credibility, Social performance indicators, Social spending) and soft (Vision and strategy claims, Social profile and Social initiatives) disclosure factors (Sutantoputra, 2009).

In the Indian context, the Ministry of Corporate Affairs, Government of India has published the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' in 2011 which lists down nine principles provided in the following table:

Principle	**Content**
1	Businesses should conduct and govern themselves with Ethics, Transparency and Accountability
2	Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle
3	Businesses should promote the wellbeing of all employees
4	Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged,

	vulnerable and marginalised
5	Businesses should respect and promote human rights
6	Business should respect, protect, and make efforts to restore the environment
7	Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner
8	Businesses should support inclusive growth and equitable development
9	Businesses should engage with and provide value to their customers and consumers in a responsible manner

Source: (Ministry of Corporate Affairs, Government of India, 2011)

3. METHODOLOGY

3.1 Research Objective

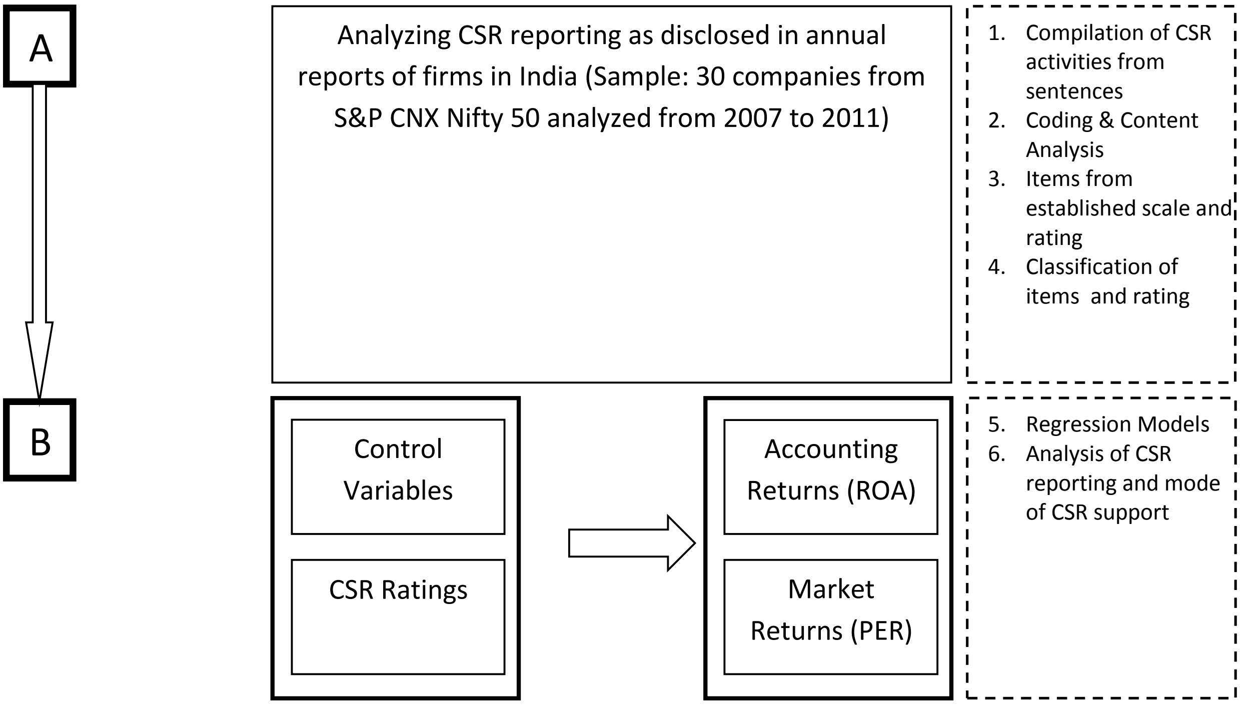
Various studies have adopted primarily three different kinds of approaches to studying CSR by firms – descriptive, instrumentalist and normative. Descriptive research focuses more on what firms do, normative research bases its assumptions that firms have moral commitment towards CSR and the instrumental approach assumes that addressing stakeholder interests are tied to economic returns. This study assumes the descriptive and instrumental approach of firms towards CSR and expects to link social and economic performance of firms.

The objective of the research is to assess the implications of firms' CSR strategies on accounting and market returns of the firm. Specifically, the following aspects of CSR were studied.

- Understanding CSR Reporting in India
- Exploring the linkage between reported CSR activities and financial performance of the firm

3.2 Overall Research Framework

The methodological framework adopted for our research is provided below.



3.3 Data

Voluntary disclosure theory suggests that firms carrying out more CSR activities are likely to differentiate themselves from others by offering more information (Dye, 1985). We collected CSR information of companies as disclosed in their annual reports from 2007 to 2011. Our sample set of companies consisted of 30 companies out of 50 companies included in the S&P CNX Nifty 50 Index of the National Stock Exchange of India.

3.4 Analysis of Annual Reports

Measuring CSR

The annual reports were analysed using content analysis as this is an established method in social and environmental reporting (Abbott & Monsen, 1979). We compiled sentences from the annual reports referring to various CSR activities undertaken by the firm. It is believed that sentences provide complete, meaningful and reliable data for further analysis (Milne & Adler, 1999).

We used content analysis techniques used by other similar studies. A coder with master level degree was trained in the various aspects of CSR reporting by companies. At the initial phase the coder did not know the entire methodology to be followed by was instructed to collect and code various information related to CSR disclosed by the companies.

For the purpose of the present study, we have focussed only on external and societal stakeholders. Thus we have used a subset of items developed by Turker which relate to the principle 4 to 8 as suggested by the Ministry of Corporate Affairs, Government of India. Principles 1,2,3 and 9 relate more to the internal working and governance of the firm and may be driven more by a profit motive than principles 4 to 8. Thus the compiled CSR activity information was classified across various following categories using items from the scale developed by Turker which also conform to the classification provided by Wheeler and Sillanpaa. These items were further rated on a 7 point likert type scale. Independent rating for 15 companies selected from the 30 companies was carried out and the inter-rater reliability kappa of individual items was 0.772 with $p < 0.001$, which may be considered to be acceptable.

The items were classified in 5 categories following the classification of Ministry of Corporate Affairs, Government of India. Average rating of each of the 5 categories was taken to represent categorical indexes denoting the level of CSR reported in annual reports. A composite CSR index was also constructed using the average of these ratings for all items under a particular category.

Also, our study of CSR activities of 30 firms revealed that firms focus on one or more of the following 8 areas – 1) Environment 2) Local Community Development 3) Global Issues 4) Education and Health initiatives 5) Philanthropy 6) Civic Issues 7) Employee Oriented and 8) Customer Orientated. Thus the areas where the firms were focussing their CSR activities were ranked from 1 to 8. However our analysis of annual reports over 5 years (2007-2011) suggests that data around CSR especially spends are very scarce and only public sector companies indicate CSR spends in their annual reports. Thus after ranking CSR activities of firms, we analysed how firms spend on CSR which were again classified into 5 categories – 1) Cash 2) In kind 3) Volunteers 4) Loans and 5) Others. We recorded from our collected information, which of the channels have firms used and maintained a Yes/No classification against each of the above.

Measuring Financial Performance

Some studies have reported that accounting-based measures, particularly ROA, proved to be better predictors of corporate social responsibility (McGuire, Sundgren, &

Schneeweis, 1988). For the present study we have also taken ROA as an accounting based indicator of firm performance.

In an efficient stock market, any information related to the earnings outlook of a firm is expected to be reflected on the current stock price (Alexander & Rogene, 1978). To account for the influence of earnings, the price earnings ratio has been considered as an indicator from a CSR perspective of our study.

3.5 Linking CSR and Firm Performance: Estimation Method

To explore the linkage between CSR and firm performance, a pooled regression model having the following variables were set up. To reduce the endogeneity bias, some studies use lagged measures of financial variables so that the impact of CSR disclosure by firm i at time t was assessed on performance at time t + 1 (Vurro & Perrini, 2011).

Model 1A

Independent Variables:	Accounting Performance (ROA)
Dependant Variables:	CSR scores (Category wise Index for Stakeholder Oriented CSR; Human Rights Oriented CSR; Environment Oriented CSR; Policy Advocacy Oriented CSR; and Inclusive Growth Oriented CSR; Please see annexure I)
Control Variables:	Firm Size (Net Sales in Ten Million INR); PAT (in Ten Million INR); Ownership (1= State Owned, 2=Indian Private, 3=Foreign Private)

Model 1B

Independent Variables:	Accounting Performance (ROA)
Dependant Variables:	CSR scores (Category wise Index for Stakeholder Oriented CSR; Human Rights Oriented CSR; Environment Oriented CSR; Policy Advocacy Oriented CSR; and Inclusive Growth Oriented CSR; Please see annexure I), Dummy variables for mode of CSR spend (Cash, In kind, Volunteers and Loans)

Control Variables:	Firm Size (Net Sales in Ten Million INR); PAT (in Ten Million INR); Ownership (1= State Owned, 2=Indian Private, 3=Foreign Private)

Model 2A

Independent Variables:	Market Performance (P/E Ratio)
Dependant Variables:	CSR scores (Category wise Index for Stakeholder Oriented CSR; Human Rights Oriented CSR; Environment Oriented CSR; Policy Advocacy Oriented CSR; and Inclusive Growth Oriented CSR; Please see annexure I)
Control Variables:	Firm Size (Net Sales in Ten Million INR); PAT (in Ten Million INR); Ownership (1= State Owned, 2=Indian Private, 3=Foreign Private)

Model 2B

Independent Variables:	Market Performance (P/E Ratio)
Dependant Variables:	CSR scores (Category wise Index for Stakeholder Oriented CSR; Human Rights Oriented CSR; Environment Oriented CSR; Policy Advocacy Oriented CSR; and Inclusive Growth Oriented CSR; Please see annexure I), Dummy variables for mode of CSR spend (Cash, In kind, Volunteers and Loans)
Control Variables:	Firm Size (Net Sales in Ten Million INR); PAT (in Ten Million INR); Ownership (1= State Owned, 2=Indian Private, 3=Foreign Private)

4. RESULTS

The results of Pearson’s correlation between the variables are presented in the table below. Positive correlations between ROA and Stakeholder oriented CSR, Human Rights oriented CSR and Inclusive Growth oriented CSR are noticed. Also positive correlations between PE Ratio and CSR oriented towards policy advocacy is noticed. Positive correlations between control variables like ownership and both ROA and PE Ratio are noticed, though for other control variables positive correlations between PAT and ROA is also observed. As high degree of correlations between CSR indicators and performance parameters are not expected without lag effects, the similar analysis is carried out with performance parameters (ROA and PE Ratio) lagged by 1 and then 2 time periods. The results are provided in the subsequent tables.

Table 1: Correlation between Variables with no lag

	1	2	3	4	5	6	7	8	9	10
ROA	1	-0.144	0.086	-0.025	.259**	0.028	.166*	-0.018	-0.063	0.005
PE Ratio	-0.144	1	-0.153	-0.141	.317**	-.199*	-0.101	-0.13	0.047	-.231**
PAT	0.086	-0.153	1	.448**	-.605**	0.038	0.045	0.039	-0.002	0.069
Net Sales	-0.025	-0.141	.448**	1	-.325**	-0.007	-0.137	-0.061	0.094	-0.048
Ownership	.259**	.317**	-.605**	-.325**	1	-0.154	0.01	-0.141	-0.03	-0.124
Stakeholder	0.028	-.199*	0.038	-0.007	-0.154	1	.526**	.616**	.239**	.527**
Human Rights	.166*	-0.101	0.045	-0.137	0.01	.526**	1	.275**	.365**	.556**
Environment	-0.018	-0.13	0.039	-0.061	-0.141	.616**	.275**	1	.345**	.439**
Policy Advocacy	-0.063	0.047	-0.002	0.094	-0.03	.239**	.365**	.345**	1	.373**
Inclusive Growth	0.005	-.231**	0.069	-0.048	-0.124	.527**	.556**	.439**	.373**	1

**p< 0.01, *p< 0.05

Repeating the above analysis with a lag of one year reveals that the current years ROA is positively correlated with all the previous year's CSR activities except policy advocacy. However, a market indicator like the PE ratio is only positively correlated with policy advocacy – an association which has remained unchanged.

Table 2: Correlation between Variables with lag of 1 year for financial parameters

	1	2	3	4	5	6	7	8	9	10
ROA	1	-0.146	0.103	-0.016	.205*	0.065	0.105	0.037	-0.161	0.001
PE Ratio	-0.146	1	-0.173	-0.158	.352**	-.243**	-0.143	-.346**	0.045	-0.047
PAT	0.103	-0.173	1	.463**	-.526**	0.127	0.075	.217*	0.081	0.105
Net Sales	-0.016	-0.158	.463**	1	-.295**	0.088	-0.055	0.026	0.104	0.043
Ownership	.205*	.352**	-.526**	-.295**	1	-0.174	-0.041	-.200*	-0.1	-0.126
Stakeholder	0.065	-.243**	0.127	0.088	-0.174	1	.498**	.626**	.252**	.538**
Human Rights	0.105	-0.143	0.075	-0.055	-0.041	.498**	1	.319**	.421**	.546**
Environment	0.037	-.346**	.217*	0.026	-.200*	.626**	.319**	1	.256**	.473**
Policy Advocacy	-0.161	0.045	0.081	0.104	-0.1	.252**	.421**	.256**	1	.372**
Inclusive Growth	0.001	-0.047	0.105	0.043	-0.126	.538**	.546**	.473**	.372**	1

**p< 0.01, *p< 0.05

The results of the regression model with ROA as the dependent variable, control variables (PAT, Net Sales, Ownership) and independent variables (Model 1A: CSR Index for Stakeholders, Human Rights, Environment, Policy Advocacy, Inclusive Growth; Model 1B: CSR Index for Stakeholders, Human Rights, Environment, Policy Advocacy, Inclusive Growth with additional variables on the modes through which firms spend on CSR – Cash, In kind, Volunteers, Loans) are provided below. However, it is seen that only two of the control variables (PAT and Ownership) are significantly related to ROA. Other CSR indexes have no significant impact on accounting returns.

Table 3: Results of Regression Analysis of CSR Indexes on Accounting Returns (ROA)

Model		**Standardized Coefficients**	**t**	**Sig.**
1	PAT	0.316	2.837	0.005
	Net Sales	-0.057	-0.579	0.564
	Ownership	0.354	3.426	0.001
1A	PAT	0.292	2.579	0.011
	Net Sales	-0.019	-0.192	0.848
	Ownership	0.348	3.359	0.001
	Stakeholder	0.071	0.559	0.577
	Human Rights	0.173	1.501	0.136
	Environment	0.024	0.201	0.841
	Policy Advocacy	-0.228	-2.301	0.023
	Inclusive Growth	-0.044	-0.383	0.702
1B	PAT	0.295	2.651	0.009
	Net Sales	-0.025	-0.252	0.802
	Ownership	0.28	2.663	0.009
	Stakeholder	0.078	0.622	0.535
	Human Rights	0.276	2.227	0.028
	Environment	0.02	0.16	0.873
	Policy Advocacy	-0.252	-2.558	0.012
	Inclusive Growth	-0.139	-1.176	0.242
	Cash	0.119	1.326	0.188
	In kind	0.146	1.522	0.131
	Volunteers	0.175	1.857	0.066
	Loans	-0.162	-1.681	0.096

The results of the regression model with PE Ratio as the dependent variable, control variables (PAT, Net Sales, Ownership) and independent variables (Model 2A: CSR Index for Stakeholders, Human Rights, Environment, Policy Advocacy, Inclusive Growth; Model 2B: CSR Index for Stakeholders, Human Rights, Environment, Policy Advocacy, Inclusive Growth with additional variables on the modes through which firms spend on CSR – Cash, In kind, Volunteers, Loans) are provided below. However, it is seen that only one of the control variables (Ownership) are significantly related to ROA. Other CSR indexes have no significant impact on market perception of returns except the CSR index for Environment which bears a negative relationship to the PE ratio.

Table 4: Results of Regression Analysis of CSR Indexes on Market Returns (PE Ratio)

Model		**Standardized Coefficients**	**t**	**Sig.**
2	PAT	0.049	0.446	0.657
	Net Sales	-0.076	-0.771	0.442
	Ownership	0.355	3.48	0.001
2A	PAT	0.139	1.333	0.185
	Net Sales	-0.154	-1.647	0.102
	Ownership	0.34	3.555	0.001
	Stakeholder	-0.003	-0.024	0.981
	Human Rights	-0.228	-2.142	0.034
	Environment	-0.385	-3.535	0.001
	Policy Advocacy	0.196	2.146	0.034
	Inclusive Growth	0.223	2.085	0.039
2B	PAT	0.123	1.179	0.241
	Net Sales	-0.165	-1.777	0.078
	Ownership	0.378	3.842	0
	Stakeholder	-0.024	-0.207	0.837
	Human Rights	-0.211	-1.813	0.073
	Environment	-0.381	-3.319	0.001

	Policy Advocacy	0.19	2.054	0.042
	Inclusive Growth	0.26	2.346	0.021
	Cash	-0.03	-0.359	0.72
	In kind	0.098	1.085	0.28
	Volunteers	-0.151	-1.712	0.09
	Loans	0.099	1.101	0.273

We had ranked firms disclosure of CSR activities around 8 recurring themes from 1 to 8. A summary of our average ranking as rated from the content analysis of annual reports indicate that firms focus (or disclose in annual reports) mostly on employee and customer oriented CSR activities followed by Philanthropy and Global Issues.

Table 5: Summary of CSR content of annual reports

	No. of Firms	**Environment**	**Local Community**	**Global Issues**	**Education & Health**	**Philanthropy**	**Civic Issues**	**Employee Oriented**	**Customer Orientated**
Automobiles	3	6.7	4.0	7.0	3.7	7.0	6.7	8.0	8.0
Banking & Finance	6	7.0	4.3	7.7	3.3	6.0	6.7	7.5	8.0
Cement	2	4.5	4.5	5.5	6.0	7.5	6.0	8.0	8.0
Construction & Engineering	5	5.8	3.6	7.4	3.4	7.0	6.0	7.8	8.0
FMCG	2	5.0	6.0	6.5	6.0	8.0	7.5	7.0	7.5
Information Technology	2	6.0	5.0	6.0	4.0	7.5	7.5	6.0	7.0
Metals	1	6.0	1.0	8.0	2.0	7.0	2.0	8.0	8.0
Oil & Gas	4	4.5	3.3	7.0	2.8	7.3	7.0	6.8	8.0
Pharmaceuticals	1	8.0	6.0	5.0	3.0	8.0	6.0	8.0	8.0
Power	2	7.5	3.0	8.0	2.5	5.0	3.5	7.5	8.0
Telecommunications	2	5.0	4.5	5.5	4.0	5.0	6.5	6.5	7.0
		6.0	**4.1**	**6.7**	**3.7**	**6.8**	**5.9**	**7.4**	**7.8**

We also analysed the mention of channels through which firms disburse their CSR funds, a summary of which is provided below. This analysis indicates that firms mostly disburse their CSR funds through cash or kind. Volunteering by employees, loans and other modes do not feature to a large extent in annual reports.

Table 6: Summary of modes of CSR spending as disclosed in annual reports

	No. of Firms	Cash	In kind	Volunteering	Loans & Others
Automobiles	**3**	3	2	1	0
Banking & Finance	**6**	5	5	5	2
Cement	**2**	2	0	0	0
Construction & Engineering	**5**	5	4	3	0
FMCG	**2**	2	2	1	0
Information Technology	**2**	2	2	2	0
Metals	**1**	1	1	0	1
Oil & Gas	**4**	4	4	1	0
Pharmaceuticals	**1**	1	1	0	0
Power	**2**	2	2	0	1
Telecommunications	**2**	2	0	1	0
Total	**30**	**29**	**23**	**14**	**4**

5. DISCUSSION & CONCLUSIONS

The study offers a number of findings of interest on how CSR reporting is linked with financial performance of the firm. First, from the correlation analysis we find that CSR activity reporting is not significantly correlated with measures of accounting returns like the ROA. Similar findings hold true for measures of market returns like the average PE ratio, the only exception being that environmental CSR activities are negatively correlated. Similar findings emerge from the results of our regression analysis. One of the possible interpretations could be that investment in CSR activities by firms has a long term return horizon and thus is not reflected in returns in a tears time as all the financial variables in the model were lagged by a year only subsequent to the CSR activity being reported. Also, in case of PE ratio, CSR activities aimed at improving the natural environment may be negatively perceived as environmental quality can be considered as a public good with no exclusivity being possible for the firm only. Thus practising managers should keep the long term nature of CSR in their planning horizons and quick returns from CSR activities may not be possible in an annual planning horizon. Second, firms possibly in their own interest focus on employee and customer oriented CSR. However firms need to expand their CSR activities to other areas of concern also. Finally, most firms indicate that they route their CSR spends through specific investments cash or kind though it was not possible for us to collect actual CSR spend by firms. In addition to these firms need to explore other possible avenues for maintain these activities like encouraging volunteering by employees, providing loan arrangements and other possible ones which may be more participative rather than contributory in nature.

6. FUTURE DIRECTIONS FOR RESEARCH

The study is based on a small sample of firms intended as a feasibility study and employs a content analysis technique to arrive at CSR indexes which are used as proxy for category wise CSR spends. Given the design of the present study and the constraints in collecting CSR information, future reach could well explore some of the possible options for building on and complimenting this study. First, the lag effects of CSR activities by firms are not known specifically. This research is based on lag effects of one year only. Thus, conclusions are dependent on lag effects and this may be covered by expanding the time horizon for this study. Second, the research is limited to analysis of explicit CSR as mentioned in the annual reports. Thus the study shall not be able to account for any implicit CSR activities or any mismatch between explicit CSR as mentioned in the annual reports and those that has actually materialized in practice. Though actual firm level CSR data is difficult to get in practice, future studies especially in India are likely to benefit from mandatory CSR spending norms as mentioned in the Companies Bill 2012. Finally, non-financial returns over long term also needs to be considered along with the motivations of firms to invest in CSR, which may help us in arriving at a holistic understanding of returns on CSR investment.

7. POLICY IMPLICATIONS

Companies live from quarter to quarter, or at best, from year to year. The result of this research fails to find a positive correlation between capital market performance of a firm and CSR activities undertaken by firms. This explains why companies shy away from social investments. They shy away because CSR activities do not impact the economic performance in the short-period. Managers do not have enough incentive to spend on CSR activities. This is reflected in their reluctance to disclose CSR spending in their annual reports. This is also reflected in the fact that less than 50 Indian companies have adopted sustainability reporting (GRI reporting). It is unlikely that companies, in general, will adopt the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' in its true spirit. Therefore, SEBI should consider making it mandatory for board of directors to form a sub-committee to monitor implementation of the guidelines and to include in the board of directors report a section on the progress made during the reporting period in this direction.

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