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DOES CORPORATE SOCIAL RESPONSIBILITY AFFECT CORPORATE FINANCIAL PERFORMANCE? A MYTH OR A REALITY

Lovleen Gupta[*] Varda Sardana[**], Garima Narula[***] & Shubham Singhania[****]

ABSTRACT

Corporations are being encouraged to commence social responsibility reporting in their financial statements and indulge in various activities due to the ascending shareholders' interest in social performance. Many companies are, therefore, implementing social responsibility as a part of their daily operations. The aim of this study is to examine the impact of Corporate Social Responsibility (CSR) on the Corporate Financial Performance (CFP) of companies in the Indian context. Moreover, stakeholder theory and reputation theory have been analysed to understand the causal connection between CSR and CFP. NIFTY 50, a measure of the Indian market index that represents India's 50 largest companies listed on the National Stock Exchange, has been used as the study's base. Panel data regression with fixed effect assumptions has been employed for 210 firm-year observations from 2014-15 to 2018-19. The findings indicate that Corporate Social Responsibility and Corporate Financial Performance in terms of accounting and market-based measurements (Tobin's Q and ROA) have a significant and positive relationship. Although multiple studies have been undertaken to understand the relationship between CSR and CFP, this study goes one step further by focussing on the mandatory provisions of CSR as per the Companies Act 2013, and its impact on financial performance post these mandatory provisions.

[*] Assistant Professor, Department of Commerce, Hindu College, University of Delhi, India.

[**] Assistant Professor, Shri Ram College of Commerce, University of Delhi, India.

[***] Research Assistant, AJC EduTech Private Limited, Delhi, India.

[****] Corresponding Author-Research Scholar, Delhi Technological University, India. Email:shubhamsinghania1@gmail.com

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INTRODUCTION

"Business needs to go beyond the interests of their companies, to the community they serve."

- Ratan Tata

With the introduction of the United Nations' Sustainable Development Goals (SDGs), sustainable development has advanced to the point where it is inextricably linked to the function of the company (Ferguson, 2011). Society expects companies to strive for excellent cohesive administration, strong business principles, and environmentally accountable policies, because companies that inculcate ethical business practices in their working environment can set a difference in the economy and the social surrounding at large, thereby setting them on a stable footing. Thus, with the increasing expectations from companies, the notion of Corporate Social Responsibility is evolving with varied understandings in different spaces. Albeit CSR has been a vague notion, with no invariably recognised definition or consensus on the term's indisputable contextual relevance or connotations (Abdulrahman, 2013). According to the World Business Council, CSR is defined as "the ongoing commitment of business to act vital for economic development while meeting the needs of the employees, as well as the local community and society in general" (Watts et al., 1999).

Consumers are also keeping an eye on firms that carry out their responsibilities. For instance, buyers are purchasing from those organizations that are considerate towards climate changes or those producing eco-friendly products. Therefore, CSR emerges as a strategic advantage to the business organizations, if what is needed and required by consumers is delivered to them (Hopkins et al., 2008; D'Souza et al., 2007; Englehardt & Simmons, 2002; Mebratu, 2001). CSR is a regulation that extends social management by business associations (Hernández-Murillo & Martinek, 2009). It is a deal of companies with its social and environmental effects

and to head up with the expectation of public desires. It has undergone a vast development and evolution, from a philanthropic approach to society projects, from responsibility towards the preservation of the environment to providing a safe workplace for employees.

As CSR gained traction throughout the world, several organisations acted. The United Nations, on the basis of its 10 principles, enacted the UN Global Compact in the year 2000 in 4 large areas namely civil rights, environment, labour and corruption, as an International Protocol (Verma & Kumar, 2014). Other organizations such as the International Standardization Organization and Organization for Economic Cooperation and Development took measures to standardize CSR internationally (Cho et al., 2019). The motto behind the international standardization was to remove trade obstacles related to CSR in the future, so that firms become more active and responsible towards the community. As various attempts have been undertaken globally and the conduct of firms is turning out to be the principal issue, having a different outlook on CSR is essential. The study's premise focuses on the social factor, since companies and governments play an essential part in the community development. Today, many nations emphasize on CSR as a critical topic, and developing economies that are already behind in their economic development supplement government agendas along with solid CSR agendas. However, research has revealed that policy execution on CSR varies by country.

In developing economies like India, the first legal attempt was made in 2009, through an issuance of Corporate Social Responsibility Voluntary Guidelines. These guidelines focused on the welfare of all stakeholders, customers, suppliers and workers' rights, their welfare, and the development of society (Verma & Kumar, 2014). However, the most ambitious attempt in respect of CSR activities came into effect when the Government of India, through Companies Act 2013, made it compulsory for certain type of firms to spend at least 2% of the average profits of the three immediately preceding financial year, and also mandated these firms to disclose about the composition of CSR Committee in their Board's report (Das & Bhunia, 2016).

Global investors have expressed varied opinions about the impact of mandated CSR reporting in India. It is asserted that CSR practices should not have to be monetary and that corporations' participation in activities may or may not be reported in monetary terms. However, the inclusion of funds prompts the concern of whether expenditure on CSR activities improves or degrades company financial performance. Dou (2015) in his study opined that there are various limitations due to which there is a lack of clarity on the significance of better social performance leading to improved financial performance. As a result, in our research we investigate the connection between CSR expenditure and the financial performance of listed companies in India.

Prior research has highlighted a mixed association between CSR and CFP, for both emerging and advanced economies (Adeneye & Ahmed, 2015; Idemudia, 2011; Nekhili et al., 2017a; Nguyen et al., 2015; Orlitzky et al., 2003; Rajput et al., 2012). The transition of CSR from voluntary to mandatory has also piqued the interest of Indian academicians (Boodoo, 2016; Kapoor & Dhamija, 2017; Mukherjee & Bird, 2016; Verma & Kumar, 2014). Since obligatory CSR expenditure is idiosyncratic to India, in 2013 the Government of India enacted the Companies Act 2013, making CSR spending mandatory. The fiscal year 2014–2015 was the first year when new provisions came into effect; however, not much research has been done post the Companies Act 2013. Thus, our research study identifies the potential gap and in order to bridge the gap it evaluates the impact caused by corporate social responsibility on financial performance of firms.

The existing literature provides a relationship between CSR and CFP, but the results are far from conclusive (Cahan & Malone, 1995; Orlitzky et al., 2003; Ullmann, 1985). This study focuses on those Indian companies that submit CSR reports and satisfy the legal requirements stated under Companies Act 2013. The rest of the paper has been organised as follows: the second section covers an overview of the underlying theory, literature related to CSR, CFP and their relationship, and the hypothesis development. The third section elaborates on the data set of the study, whereas the fourth section summarises the findings. The fifth section presents the

results, along with the justifications, while the sixth section provides conclusion, scope for future research, limitations and policy implication of the study.

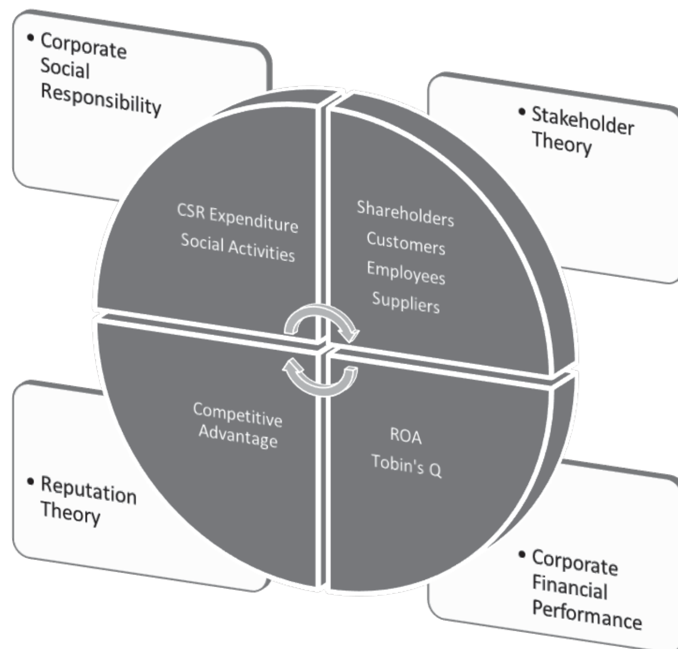
THEORY, LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

CSR is a broad concept, and its cognizance has grown in both diversity and volume over the last few decades. The goal for corporations is to have a good influence on society while optimizing the production of shared value for the company's owners, workers, shareholders, and customers. The social obligations and financial performance of the company are the two essential elements, and these elements have sparked heated arguments among academicians, even though the existing literature is largely inconclusive. Several theories, as discussed in the next section, support the idea that CSR may boost company performance.

Theoretical Framework

The Stakeholder theory (Freeman & Cavusgil, 1984) and the Reputational theory are this study's underpinning theories. CSR has grown dramatically as a tool for engaging with many stakeholders and establishing a robust platform to satisfy them. Aigner (2016) with reference to stakeholder theory opines that organizations should be receptive to the demands of members of the community such as customers, creditors, suppliers, employees, etc. as they will be affected by the actions of organizations. Also, Donaldson (1999) believes that by claiming some version of the assertion, ceteris paribus, if managers consider the stakeholder interests, companies would enhance their economic value, such as return on investment. According to Porter and Kramer (2006), CSR actions improve the firm's relationship with their stakeholder and are also an optimal instrument that improves the company's competitiveness by generating shared benefits for the enterprise and society. Maqbool & Zameer (2018) highlighted the reputational theory and asserted that by investing in social activity, a business accumulates reputational capital which further improves its financial performance. Dou (2015) stated that if a firm took CSR

activities seriously, it would help them in building stronger reputations and have the option to save company value at the time of financial crises or a negative event. But if the firm lacks in CSR activities, it will impact the firm goodwill and expose it to potentially worst consequences. Rajput et al. (2012) stated that CSR improves a firm's reputation, and hence reduces its financial risk. A company that invests in CSR is less inclined to fail, in contrast to those who don't participate in CSR.



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Corporate social responsibility and corporate financial performance

Until now, the relation between CSR and CFP has been found to be uncertain (Donaldson, 1999; Jones & Wicks, 1999). Multiple studies showing positive, negative or even no relationship between the two are available (Aupperle et al., 1985; Broadstock et al., 2019; Egginton & Mcbrayer, 2018; Ofori et al., 2014; So, 2021; Wahba & Elsayed, 2015; Wang et al., 2018). Hernández-Murillo & Martinek (2009) and Adeneye & Ahmed, (2015) in their paper concluded that the firms which are strategically engaged in social activities can attract highly skilled employees, as they

are inclined and satisfied working with such firms and may prove to be loyal assets. This shall increase private profit along with amplifying the reputation of firms, signifying positive relations between CSR and CFP. Highlighting reputational, Fombrun (1996), Gardberg & Fombrun (2006), and Peloza (2006) also stated that the reputation of a firm can be a critical intangible asset that works as an indispensable connection between social responsibilities and profitability, by deducting transaction costs and adding to the merchandise demand. Guess what stakeholders will do in case of incomplete information? Certainly, plenty of unwilling things, but if a firm discloses all the information related to its social performances in the reports, the stakeholders will perceive a better reputation of the company on the basis of this information, thereby leading to enhanced sales and profitability. While other scholars argued that businesses' main responsibility is to allocate their resources efficiently and design the activities in such a way that it reaps more and more profits (Friedman, 1970; Lantos, 2001), they also stated that the board's attention should be on accomplishing the fundamental and final goals of shareholders' wealth, growth, and legal obligations in line with laws and regulations in the long term. Due to these conflicting connotations, several research scholars further studied the linkage of CSR and CFP. Many empirical studies were done using various metrics to examine the relationship. Some scholars investigated the link using return on asset (ROA), an accounting-based metric, because accounting ratios indicate how efficiently companies employ their assets and capital to increase inventory which will further improve sales and lead to profit generation (Cochran & Wood, 1984; Ngoc, 2018). Marte et al., (2012) in their study found that CSR has a positive and significant relationship with the ROA. Some researchers used market-based measures such as Tobin's Q to study the impact, since it cannot be manipulated by firms and also reflects the market's expectations of future earnings which are advantageous for firm's competitiveness (Kim & Oh, 2019; Singh et al., 2019; Velte, 2017; Wernerfelt & Montgomery, 1988). Relationship between CSR and Tobin's Q were found to be U-shaped (positive and negative later) by Kim & Oh (2019).

Majority of the studies conducted in the past have shown mixed results in identifying any significant relationship between the CSR and CFP but based on our two theories,

stakeholder and reputational theory, we hypothesize that corporate social responsibility shall have a positive impact on corporate financial performance.

H_{a1}: CSR has a positive association with Corporate Financial Performance in terms of accounting-based measures (ROA).

H_{a2}: CSR has a positive association with Corporate Financial Performance in terms of market-based measures (Tobin's Q).

RESEARCH OBJECTIVES

- To explore the growing trend of CSR in the Indian context.
- To explore the impact of Corporate Social Responsibility on Corporate Financial Performance in terms of Accounting Based Measures (ROA).
- To explore the impact of Corporate Social Responsibility on Corporate Financial Performance in terms of Market Based Measures (Tobin's Q).

RESEARCH METHODOLOGY

Data and Sample

The relationship between CSR and financial performance was investigated in this study by looking at companies listed on the National Stock Exchange (NSE 50). India is the only country in the world that has made it mandatory for businesses to contribute a part of the earnings to social causes via CSR initiatives (Boodoo, 2016; Sharma & Aggarwal, 2021). As per the new mandatory rule, companies are required to spend 2% of their net profit on CSR initiatives. Prior to this change, listed companies willingly submitted sustainability reports that included CSR expenditure. In our analysis, we evaluated the NSE 50, from which we eliminated banking institutions, which follow the Banking Regulation Act 1949 and not the Companies

Act 2013. Some companies with missing data were also excluded from the sample. As a result, a sample of 42 firms was used, accounting for a total of 210 firm year observations. The NSE accounts for roughly 65 percent of the index's entire free-float market capitalization and the performance of the top 50 stocks is reflected in the Nifty 50. Therefore, it is taken to be a sound reflection of measuring the corporate financial performance post the mandatory provision of CSR spending.

Secondary data sources were used to obtain data on CSR and CFP. The data utilized in the study was obtained from the Prowess Database and the data for Corporate Governance variables were manually collected from the Corporate Governance reports of these firms. The time span of the research study is five years, from 2014–2015 to 2018-19. The term of five years represents a larger time and shall be more representative of the outcomes.

Variables

To suitably depict the relationship between the CSR and CFP, some of the widely used variables have been summarized below:

- Dependent Variables

In our study, we used CFP (corporate financial performance) as a dependent variable. The current study measures financial performance using two proxies - Return on Asset (ROA) and Tobin's Q. Return on Asset is the most prominent variable used to assess financial performance. It is an accounting-based measure which indicates how profitable the company is, as compared to its total asset. The manager, investor, or analyst gets a brief on how much earnings are generated by the company management by using its assets. ROA is exhibited as a percentage by dividing firms' total earnings by its assets. A high ROA means that the company is earning more money on less investment. Hence, ROA is used as a proxy measure by Cho et al., (2019), Giannarakis et al., (2016) and Ofori et al., (2014) to study the relationship between CSR and CFP.

Another variable is Tobin's Q, a market-based measure. Tobin's Q is characterized as

the total of the market estimation of share and the book value of debt divided by the book value of total assets (K. Campbell & Mínguez-Vera, 2008). It is considered as a good indicator of market measure as it takes into account risk factors and reflects a market expectation of future earnings (Campbell & Mínguez-Vera, 2008; Singh et al., 2019). By indicating the competitive advantage for a firms, it is considered as a good proxy variable (Wernerfelt & Montgomery, 1988). It acts as a significant barometer for financial performance as it comprises the external factors that incorporates internal performance (Raza et al., 2015). The main difference between Tobin's Q and ROA is that the former focuses on expectations of future research (Demsetz & Villalonga, 2001) and the later focuses on the events that have already occurred. Yang et al., (2019) concluded in a research paper that shareholders' dimensions have a positive and significant relation with Tobin's Q. Firms which properly indulge in CSR activities can pull new investors and hold the market trust, thus moving towards a better financial position for the firms.

- Independent Variable

The annual report is often regarded as the primary vector of CSR expenditure undertaken by the company. Further, yearly report analysis allows for the collection of past, time-sensitive data and serves as an option for many companies to conduct a longitudinal research. In our research, we have employed CSR expenditure as a CSR proxy following studies such as Krishnan (2018), Rajput et al. (2012), Verma & Kumar (2014). CSR expenditure refers to the amount spent by the company under the head of CSR in its financial statements. The major disadvantage is that though companies, in their annual reports, explain the type of CSR activities they are involved in, however they do not specify the funds spent on such activities. Despite this limitation, CSR expenditure has been recognised as one of the widely used measures of Corporate Social Responsibility.

- Control Variables

In our study, we have used four control variables. First is the size of the firm, which is

likely to influence financial performance, as large firms have access to large financial resources to influence performance (Short & Keasey, 1999; Zahid et al., 2020). Hence, the firm size has been calculated by using the natural logarithm of the total assets (Al-Hajri & Al-Enezi, 2019; Stanny & Ely, 2008; Yekini, 2015). Second control variable is financial leverage. Leverage is a key component of a company's financial strategy as it determines how much debt is used to fund the company's asset operations. The higher the firm's debt, the greater is the amount of financial leverage (Subiyanto et al., 2021). It is determined by dividing total debt by paid-up equity capital (Carnahan et al., 2010; Khedkar, 2015; Singh et al., 2019). The third variable, firm age, has been calculated by subtracting the year of firm's incorporation from the current year into consideration, to determine the number of years the firm has been in existence. (Sharma & Aggarwal, 2021). Though age does not have a direct influence on financial performance, according to Coad et al. (2018), it has an indirect impact through intermediary processes like organizations goal clarity, cumulative reputation, and organisational rigidity. Firms create a board committee to keep an eye on operations of the firm. The fourth control variable, board size, refers to the total number of directors on board (Nekhili et al., 2017b; O'Neill et al., 1989; Oware, 2020; Sanan, 2016). Larger board size negatively affect firm financial performance due to conflict of interest between the firms (Vaidya, 2019).

Table I: Summary of Variables

Variables	Symbols	Description	Sources
Tobin's Q	Tobin's Q	It gauges the company's market value with its asset replacement cost. Tobin's Q= (Market value of equity + Book value of total liability) / Total Assets	Yang et al. (2019), Nekhili et al. (2017b), Oware (2020)

Return on Asset	ROA	Percentage of profit earned against the total asset employed by the firm. ROA (Return on Asset) = Net Income / Total Assets	Das et al. (2015), Yekini (2015), Marte et al. (2012), Giannarakis et al. (2016)
CSR Expenditure	CSR Exp	Measures the amount spent by firms on social activity.	Verma & Kumar (2014) Barnea & Rubin (2010) Mukherjee & Bird (2016) Sharma & Aggarwal (2021)
Leverage	LEVER	Computed as the percentage of total assets that is financed by the debt. LEVERAGE= Company Debt/ Shareholders Equity	Chollet & Cellier (2012) Campbell & Mínguez-Vera (2008) Nekhili et al. (2017b) Nguyen et al. (2015)
Firm size	F-SIZE	Calculated as the logarithm of total assets.	Maqbool & Zameer (2018) Kim & Oh (2019) Yekini (2015)
Firm age	F-AGE	Calculated as difference between the year of incorporation and the year under consideration	Kaur & Dave (2020) Maqbool & Zameer (2018) Oware (2020)
Board size	B-SIZE	Number of directors on Board	A. Das & Dey (2016) Oware, (2020)

Empirical Model Specification

We analyse the relationship between CSR and CFP based on a panel data regression model employed by Oware (2020). The econometric models have been specified below:

Model 1. $Q_{it} = \alpha + \beta_1.CSRExp_{it} + \sum\beta_2.F\text{-}SIZE_{it} + \sum\beta_3.LEVER_{it} + \sum\beta_4.B\text{-}SIZE_{it} + \sum\beta_5.AGE_{it} + \mu_{it}$

Model 2. $P_{it} = \alpha + \beta_1.CSRExp_{it} + \sum\beta_2.F\text{-}SIZE_{it} + \sum\beta_3.LEVER_{it} + \sum\beta_4.B\text{-}SIZE_{it} + \sum\beta_5.AGE_{it} + \mu_{it}$

where,

Q_{it} = Tobins' Q, proxy for financial performance of firm i in period t.

P_{it} = ROA (Return on Assets), our proxy for financial performance of firm i in period t.

CSR Exp_{it} = CSR expenditure, our proxy for Corporate Social Responsibility of firm i in period t.

$F\text{-}SIZE_{it}$ = Firm Size of firm i in period t.

$LEVER_{it}$ = Leverage of firm i in period t.

$B\text{-}SIZE_{it}$ = Board Size of firm i in period t.

AGE_{it} = Age of firm i in period t.

μ_{it} = disturbance term/ error.

RESULTS & ANALYSIS

Table II: Descriptive Statistics for the variables

	Mean	Standard Deviation	Maximum	Minimum	Observations
Tobin's Q	6.141524	7.558199	.34	50.71	210
ROA	11.29771	11.78678	-9.48	77.61	210
CSR Exp	98.80596	138.68	0	904	210
LEVER	.6604286	1.288156	0	6.78	210
F-SIZE	4.650614	.5195477	3.421604	5.790655	210
F-AGE	49.94286	27.8629	9	148	210
B-SIZE	12.22857	3.225963	4	25	210

Source: Author's own calculations

The above table gives descriptive statistics using 210 observations in the form of mean, median, standard deviation, maxima, and minima, for the dependent, independent, and control variables. The average mean of Tobin's Q and ROA are approximately 6.14 and 11.29 respectively which shows that the firms under consideration have sound financial performance. The average mean of CSR is also considerable at Rs. 98.80 crores, indicating that businesses invest a significant amount in social activities, representing their consciousness towards social welfare. The average value of natural log of firm size is Rs.4.65 crores, indicating that the sampled companies are in solid financial shape. In addition, the preceding table shows a relatively low mean leverage of 0.66, which indicates that the sampled firms

are not significantly dependent on the external funding for their operations. In addition, the average number of members on the board is 12 which is sufficient for effective management of the firms.

The Hausman test was conducted to choose between the fixed effects and random effects models in panel data, with the fixed effects model being used when the null hypothesis was rejected. Both the regression models were run using the fixed effects estimation.

Tables III, IV and V shows the Pearson correlation coefficients and VIF under the study.

Table III: Pair wise correlation between Tobin's Q and other independent variables.

	Tobin's Q	CSR Exp	LEVER	F-AGE	B-SIZE	F-SIZE
Tobin's Q	1.0000					
CSR Exp	-0.1407	1.0000				
LEVER	-0.1471	-0.1119	1.0000			
F-AGE	0.1078	0.1466	-0.2985	1.0000		
B-SIZE	-0.2976	0.2254	-0.0069	0.1538	1.0000	
F-SIZE	-0.5035	0.4710	0.3651	0.0294	0.3753	1.0000

Table IV: Pair wise correlation between ROA and other independent variables

	ROA	CSR Exp	LEVER	F-AGE	B-SIZE	F-SIZE
ROA	1.0000					
CSR Exp	0.0427	1.0000				
LEVER	-0.3397	-0.1119	1.0000			
F-AGE	0.0710	0.1466	-0.2985	1.0000		
B-SIZE	-0.1529	0.2254	-0.0069	0.1538	1.0000	
F-SIZE	-0.3648	0.4710	0.3651	0.0294	0.3753	1.0000

Table V: Variance inflation factor

Variables	VIF	1/VIF
F-SIZE	1.90	0.527140
LEVER	1.46	0.683792
CSR	1.46	0.684087
B-SIZE	1.21	0.825876
F-AGE	1.14	0.877337
Mean VIF	1.43	

The largest significant correlation coefficients amongst the independent variables with both Tobin's Q and ROA are 0.471 and 0.375, and as this falls below the threshold of 0.80 (Dougherty, 2011; Gujarati, 2004) we deduce that there is no multicollinearity in the sample. The VIF test is used to determine the degree of correlation among the variables, however there is no indication of multicollinearity because all of the values are less than 8 (N. Kaur & Singh, 2020). As a result, we may conclude that the model equations do not have any multicollinearity.

Table VI: Panel Regression using the variable Tobin's Q and other variables

Variable	t-statistic	P-Value
CSR Exp	2.15	0.033**
LEVER	1.79	0.075*
F-AGE	2.60	0.010***
B-SIZE	-2.20	0.029**
F-SIZE	-7.14	0.000***

Source: Authors' own Calculations *$p<0.10$; **$p<0.05$; ***$p<0.01$.

CSR Exp=CSR Expenditure, LEVER= Leverage; F-AGE= Firms age; B-SIZE= Board Size; F-SIZE= Firm size

The first multiple regressions equation is run using Tobin's Q as a dependent variable. We find that the p-value for CSR is 0.033 which is significant at 5%, and therefore we reject the null hypothesis. This means that CSR has a positive and significant impact on corporate financial performance – a market-based measure. The p-value of firm age is also significant which means that the age of firm will

positively impact firm financial performance. The p-value for leverage is 0.075 which is significant, which similarly means that the leverage ratio would impact Tobin's Q, as per past studies. The variable firm size and B-size are also significant but negative, and thus we conclude that firm age and board size negatively affects Tobin's Q.

Table VII: Panel regression using variable ROA and other variables

Variable	t-statistic	P-Value
CSR Exp	2.86	0.005***
LEVER	-2.34	0.020*
F-AGE	0.12	0.907
B-SIZE	-0.90	0.368
F-SIZE	-4.44	0.000***

Source: Authors' own calculations *p<0.10; **p<0.05; ***p<0.01.

LEVER= Leverage; F-AGE= Firms age; B-SIZE= Board Size; F-SIZE= Firm size

The second regression model uses ROA as a dependent variable instead of Tobin's Q (Table VII). The p-value of CSR Expenditure is 0.005 which indicates that it is significant at 5%. Thus, CSR influences the financial performance or ROA. Firm age is found to be statistically insignificant with a p-value of 0.907. The p-value of leverage, and firm size are statistically significant, but negative, thereby indicating its negative impacts on the financial performance. Age of the firm and board size are found to have insignificant results and thus, they do not impact financial performance.

DISCUSSIONS & CONCLUSION

The study's findings have significant ramifications for scholars, Indian companies, and policy makers. For decades, academicians have debated and discussed why CSR is gaining utmost importance by the society as well as customers, and whether it contributes to the financial performance of a company. This study uses the Indian stock market as a testing ground to explore the relationship between Corporate Social Responsibility and Corporate Financial Performance of listed companies. Also, the study is being conducted to fill a research gap by putting the theoretical premises of the stakeholder theory and the reputational theory to test. We examined a five-year panel data of 210 firm year observations from 2014-15 to 2018-19 and employed descriptive analysis, correlation & panel regression with fixed effect assumptions in our study. The study's findings indicate that CSR has a positive and significant influence on a company's financial performance, as measured by both market and accounting metrics. The findings are in line with previous research (L. Das & Bhunia, 2016; Fry et al., 1982; Marte et al., 2012; Yekini, 2015). This might be attributed to a variety of factors. Firstly, CSR acts as a strategic technique, since by participating in social initiatives firms will get new opportunities to do business, help in building a reputation, and protect firms from exorbitant regulation. Secondly, following CSR norms will fulfill their duty towards various stakeholders.

Many scholars stated in their study that firms which act consciously towards their social duties or obligations will automatically build a strong image in the market as people are more inclined towards them. Customers tend to buy more products or services from them, ultimately leading to improvement in their financial performance (Campbell et al., 2002; Fombrun & Shanley, 1990; Galaskiewicz & Colman, 2006; Gardberg & Fombrun, 2006). Thus, this social portfolio helps the firm to enhance financial performance over a long period of time. Employees are also highly interested and satisfied with these companies which is proven by their loyalties and have commitment. Therefore, CSR can be utilized as a significant strategy to select and uphold talented people, which has an evident positive impact on the firms' financial performance.

The size of the company as defined by natural log of total assets negatively affects financial performance, as represented by Tobin's Q and ROA. This conclusion is supported by previous research which has shown that the size of a company has a negative bearing on its financial performance (Olawale et al., 2017). The plausible reason for the same could be that with growth in size of these firms, instead of economies of scale, diseconomies of scale set in and this hampers the performance of the firms. The members on the board negatively affect the financial performance and this is seen in previous studies also (Jadiyappa et al., 2021; Nekhili et al., 2017a; Zahid et al., 2020). With larger boards, the chances of conflict between the board tends to increase and this may negatively impact financial performance. The age of the firm in the study positively impacts the financial performance and the same results are found in other studies as well (Sharma & Aggarwal, 2021; Zahid et al., 2020). Financial Leverage is positive and significant with Tobin's Q but negative and significant with ROA (Oware, 2020; Sharma & Aggarwal, 2021).

Based on the findings that CSR has a positive and significant influence on CFP and based on the literature review, we suggests that CSR improves a company's image. Hence, more companies should be encouraged to participate in CSR, and rules governing CSR should be directed towards improving the financial performance of not just these large firms but small and medium firms.

LIMITATIONS AND FUTURE SCOPE

Like any other paper, this paper also has certain limitations of its own. One of the limitations is that we used a limited sample of 42 firms listed on NSE 50. Also, the data spans only five years. To achieve a more reliable conclusion, more research may be conducted with a larger number of firms using the most recent data. Thirdly, the inclusions of companies were solely based in India. Further study in other developing countries is needed to increase the generalizability of the research. The variables employed to investigate the relationship were limited. A future study might examine the relationship using a variety of financial and non-financial performance indicators. Correspondingly, the CSR expenditure was employed in the study to

assess CSR performance. In future research, we can define the activities under which CSR amount is spent to have better insights. Finally, in our study we utilized data from the post-mandatory-period, that is, after the government made it compulsory for businesses to incorporate CSR. Future research can be done comparing voluntary and mandatory CSR spending, that is, before and after the Companies Act 2013, to see any major changes in the performance of the firms.

POLICY IMPLICATIONS: COMMUNICATING CSR TO FINANCIAL PERFORMANCE

Based on the empirical analysis, we find that Corporate Social Responsibility has a positive and significant relationship with the performance of the firms. The result of this study has both policy and managerial implications. The benefit of firms' social activities on their financial performance would encourage the firms to use the CSR funds in much more disciplined and effective manner, in order to create better wealth and benefit for their stakeholders. We also believe that the results shall also encourage the academicians to explore the concept of Corporate Social Responsibility with other dimensions such as qualitative aspect, financial reporting, etc.

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