Article can be accessed online at http://www.publishingindia.com

Do Ethics Pay? A Study of Indian Companies

Puneeta Goel*

Abstract *Ethical corporate identity has become an important aspect of the global nature of the business. Ethical business behaviour is a way to a better world and may ultimately improve profits. This study establishes a link between different dimensions of ethical corporate identity and financial performance of the company in Indian context. Corporate governance, corporate social responsibility, and sustainability reporting are taken as indicators of business ethics. It was found that ethics and financial performance are significantly and positively correlated, however, only sustainability reporting has a significant impact on marketing ratios of Tobin Q, price to book value, accounting ratios of return on sales, return on capital employed, and return on equity for selected Indian companies. Corporate ethics policy should sensitise moral and ethical behaviour of business leaders.*

Keywords *Business Ethics, Corporate Governance, Corporate Social Responsibility, Sustainability Reporting, Financial Performance*

INTRODUCTION

Business ethics refer to the ethical outlook of an organisation or people engaged in business whether implied by their behaviour or explicitly stated in their governing principles (Cowton & Crisp, 1998). However, there is no simple formula to identify ethical practices for business organisations that are of excellent quality, socially responsible as well as meaningful in practice (Gartner, 2007). This study uses corporate governance, corporate social responsibility, and sustainability reporting as indicators of corporate ethical performance.

Corporate governance brings more transparency in business operations. Corporate governance creates sustainable value for the organisation and prepares the framework of regulation for proper communication between shareholders, board of directors and managers (Kraus & Britzelmaier, 2012). Corporate social responsibility defines the role of business which is beyond its objective of profitability and includes the concept of social and environment concerns for the community. Business needs to manage its relationship with wider society, whether for reasons of commercial viability or to add value to society (Blowfield & Frynas, 2005). Practicing sustainability and spending money on such activities are still institutional options and as such they are based on demands of shareholders, which are the reflection of social expectations of the society from business (Perera, Gonçalves, Antunes, & Imoniana, 2011).

Previous research has shown that responsible companies adhering to business ethics are better than or behave at par with traditional companies in the financial market (Hosmer, 1994). Respect for business ethics has a significant impact on business performance and also influences the competitiveness of the organisation (Ahmed & Seet, 2009). Ethical business behaviour is a way to a better world and may ultimately improve profits. In the long run, ethical behaviour can increase the company's market value (Blazovich & Smith, 2008; Goukasian & Whitney, 2007). Thus, while planning ethical programs, companies should adopt those practices that will benefit the community at large by providing the quality goods and decent services including taking care of social and environmental aspects besides reducing the financial cost (Nguyen, 2011; Aupperle, Carroll, & Hatfield, 1985). Ethical corporate identity has become an important aspect of the global nature of the business. Ethics identity of a company impacts its employee satisfaction and financial performance (Alessandro, 2003; Dheeraj, 2009; Ferrell, 2004). This study is an attempt to establish a link between these concepts and empirically test to develop existing limited evidence between business ethics and financial performance of the company in Indian context. It identifies the different dimensions of ethical corporate identity and explores its impact on financial results. This can result in valuable information for managers and researchers to promote ethics in business.

Azmi (2006); Shleifer (2004); and Ahmad and Seet (2009) found ethical practices towards stake holders can be source of competitive advantage and foster positive relationship inside and outside the organisation. Beiner, Drobetz, Schmid, and Zimmermann (2006), Prasana (2013) found that corporate governance has a significant statistical relationship with corporate performance variables like ROC, ROA etc. and have better risk return trade-off for investors. However, Sarpal and Singh (2013) and Bhagat and Bolton

* Amity University, Noida, Uttar Pradesh, India. Email: puneetagoel@gmail.com

(2008) found that there is no significant relationship between board and corporate performance. Foote, Gaffney, and Evans (2010); Ziegler and Arx (2008); and Jackson and Hua (2009) have argued that CSR should be adopted strategically by the organisation as it helps to meet the expectation of the shareholders which may have positive influence on the financial results of the company. Ekwueme, Egbunike, and Onyali (2013); and Epstein and Roy (2001) indicated a positive correlation between sustainable reporting and performance of the companies. It was seen that the consumers and investors showed more interest in purchasing products of green organisations. Table 1 gives the review of the similar studies done across different economies of the world.

Table 1: Review of Literature

Name of Authors	Year	Objective	Methodology	Findings
Lubanga	2003	Relationship between code of conduct, ethics and Financial performance	Correlation, Regression	Code of conduct, ethics have a positive impact on Financial performance
Berrone, Surroca, and Tribó Josep	2005	Impact of corporate ethical identity on stakeholder satisfaction and performance	Linear regression	Ethics provide greater degree of stakeholder satisfaction and significantly affects performance
Brammer, Brooks, and Pavelin	2005	Stock performance of 100 best corporate citizens of America	Regression	Top 100 generate small but positive cumulative abnormal returns in a 21-trading day window, highly rated firms provide large average annual abnormal returns
Beiner *et al*.	2006	Relation between Corporate Governance and firm valuation	Regression	Corporate governance index have significant influence on firm valuation
Brown and Caylor	2006	Relation between Corporate Governance and firm valuation	Regression	Firm performance is positively related to corporate governance
Brine, Brown, and Hackett	2007	Impact of CSR on financial performance	Regression	CSR leads to increase in returns on sales and equity but reduces return on asset
Kohli and Saha	2008	Corporate Governance and Valuations	Regression	Good corporate governance results in higher market valuation
Mittal, Sinha, and Singh	2008	Linking EVA and CSR	Correlation, Regression	Less evident that companies with code of ethics have significantly more EVA and MVA than those without codes
Edmans	2008	Relationship between employee satisfaction and long run stock returns	Regression	Employee satisfaction is directly related to stock returns but stock market does not fully value intangibles. Socially responsible investing may improve returns
Rais and Goedegebuurre	2009	Relationship between corporate social performance and financial performance	T-Test	Stakeholder relation variables display a strong, significant correlation as manifest variables of CSP.
Byus et al	2010	Relationship between CSR and profitability	Regression	No relationship Between financial performance and DJSI for first 3 years and negative relationship in next 3 years
Purlys	2010	Influence of ethics on enterprise competitiveness	Correlation	Commitment and compliance have positive influence on competitiveness
Wang and Smith	2010	Relationship between high reputation and financial performance	Regression-Ohlson Model, Altman Z Score	Firms with higher reputation are more valuable to stockholders, list firms' financial performance is better than the average firm, list firms are less risky but the evidence is mixed
Perera *et al.*	2011	Relating Sustainable Practices and business profitability	Kolmogorov-Smirnov test	No significant difference in performance of companies in pre and post period of sustainability initiative

Abatecola, Caputo, Mari, and Poggesi	2012	Relationship between corporate Governance, code of Conduct and Profitability	Correlation, Regression	Mixed results, Board size Positively correlated with ROA, ROS but not with Tobin Q, remuneration committee Positively related with Tobin Q but not with BMR
Areal and Carvalho	2012	Association between world most ethical companies and market returns	Regression Model	Market returns of ethical companies is higher
Monda and Giorgino	2013	Correlating Corporate governance and firm value	Regression	Only some aspects of corporate governance impact value of firm. Most advanced countries in corporate governance are USA and UK

RESEARCH METHODOLOGY

As it is evident from the prior research, there is a need to develop some well-defined parameters for measuring the ethical performance of the companies. This study defines ethical performance in a broader concept and includes corporate governance, social responsibility and sustainability as it attributes towards ethical behaviour. An ethical score has been developed based on these parameters to measure the ethical performance of the companies and to study its relationship with corporate financial performance. Thus, the hypothesis of the study is:

H1: There is no significant impact of corporate ethical practices on corporate financial performance.

RESEARCH DESIGN

Considering the list of ET500 for the year 2012 in large Manufacturing and IT companies in India, top 15 companies from eight sectors have been included. 20 parameters of corporate ethical performance identified to develop the ethical score of the selected companies on the basis of content analysis of their annual reports, sustainability reports and business responsibility reports available at the websites of the companies for the year 2012-13. Six financial ratios have been identified covering market valuation ratios and profitability ratios to analyse the financial performance of the selected companies for 2012-13. Prowess database and moneycontrol.com were referred to collect the relevant data required for the study. The ethical score of the companies showed Cronbach's alpha of 0.904 which is more than 0.7, the acceptable reliability coefficient and thus indicated that the instrument is reliable.

PARAMETERS OF ETHICAL PERFORMANCE

Corporate Governance

i. Number of meetings of board of directors
ii. Number of independent directors on board
iii. Risk management
iv. Compliance and ethics committee
v. Well-defined code of ethics
vi. Training and distribution of code of ethics
vii. Any legal cases pending against company
viii. Whistle blower policy

Corporate Social Responsibility

i. Employees grievance redressal
ii. Fair appraisal and remuneration policy
iii. Customer grievance redressal
iv. Supporting charitable foundation for CSR
v. Percentage profit spent on CSR

Sustainability Reporting

i. Publishing sustainability or business responsibility reports
ii. Following GRI indicators
iii. Environment conservation initiatives
iv. Pollution emission
v. Sustainability and social initiatives
vi. ISO certifications
vii. Awards and achievements at national and international level

ANALYSIS AND DISCUSSION

Table 2 presents a comprehensive view of the ethical practice followed by Indian companies taking into consideration all the three important aspects of corporate governance, corporate social responsibility and sustainability reporting as measures of corporate ethical identity.

Table 2: Ethical Score of the Selected Companies

S. No.	Name of the Company	Total CG Score	%	Total CSR Score	%	Total SR Score	%	Total Ethical Score	% Score
	Maximum Score	17	100	15	100	24	100	56	100
1	Tata Steel	16	94.12	14	93.33	24	100	54	96.43
2	SAIL	12	70.59	10	66.67	18	75	40	71.43
3	JSW Steel	11	64.71	10	66.67	19	79.17	40	71.43
4	Jindal Steel & Power	12	70.59	11	73.33	21	87.5	44	78.57
5	Welspun Corp.	11	64.71	5	33.33	11	45.83	27	48.21
6	Jindal Saw	8	47.06	5	33.33	8	33.33	21	37.5
7	Bhushan Steel	8	47.06	5	33.33	8	33.33	21	37.5
8	Jindal Stainless	9	52.94	5	33.33	8	33.33	22	39.29
9	Uttam Galva Steel	10	58.82	5	33.33	10	41.67	25	44.64
10	Usha Martin	8	47.06	6	40	10	41.67	24	42.86
11	Uttam Value Steel	10	58.82	5	33.33	6	25	21	37.5
12	National Steel & Agro Industries	6	35.29	5	33.33	6	25	17	30.36
13	Sujana Metal Products	7	41.18	6	40	5	20.83	18	32.14
14	Maharashtra Seamless	8	47.06	5	33.33	8	33.33	21	37.5
15	Ramsarup Industries	9	52.94	5	33.33	4	16.67	18	32.14
16	Tata Consultancy services	16	94.12	11	73.33	22	91.67	49	87.5
17	Wipro	15	88.24	12	80	22	91.67	49	87.5
18	Infosys	14	82.35	13	86.67	22	91.67	49	87.5
19	Tech Mahindra	10	58.82	11	73.33	20	83.33	41	73.21
20	Oracle Financial services software	9	52.94	9	60	11	45.83	29	51.79
21	Moser Baer	12	70.59	7	46.67	9	37.5	28	50
22	3i Infotech	14	82.35	6	40	8	33.33	28	50
23	Prithvi Information Solutions	13	76.47	5	33.33	8	33.33	26	46.43
24	Firstsource Solutions	15	88.24	5	33.33	10	41.67	30	53.57
25	Sonata software	12	70.59	6	40	9	37.5	27	48.21
26	Rolta India	11	64.71	6	40	11	45.83	28	50
27	Polaris financial technologies	13	76.47	6	40	8	33.33	27	48.21
28	Mindtree	10	58.82	8	53.33	15	62.5	33	58.93
29	HCL Infosystems	12	70.59	6	40	12	50	30	53.57
30	NIIT	10	58.82	7	46.67	10	41.67	27	48.21
31	BHEL	11	64.71	7	46.67	12	50	30	53.57
32	Suzlon Energy	15	88.24	8	53.33	11	45.83	34	60.71
33	Crompton Greaves	12	70.59	7	46.67	10	41.67	29	51.79
34	Havells India	13	76.47	8	53.33	10	41.67	31	55.36
35	Thermax	12	70.59	9	60	9	37.5	30	53.57
36	BEML	12	70.59	7	46.67	10	41.67	29	51.79
37	Apar Industries	9	52.94	5	33.33	8	33.33	22	39.29
38	BGR Industry Systems	10	58.82	6	40	7	29.17	23	41.07

39	Electrotherm India	9	52.94	5	33.33	8	33.33	22	39.29
40	ISGEC heavy Engineering	10	58.82	5	33.33	7	29.17	22	39.29
41	Lakshmi machine works	10	58.82	5	33.33	8	33.33	23	41.07
42	HBL Power Systems	12	70.59	6	40	6	25	24	42.86
43	TIL	11	64.71	7	46.67	6	25	24	42.86
44	Mc-Nally Bharat Engineering	10	58.82	5	33.33	7	29.17	22	39.29
45	EMCO	16	94.12	11	73.33	14	58.33	41	73.21
46	Tata Motors	17	100	14	93.33	17	70.83	48	85.71
47	Mahindra & Mahindra	16	94.12	11	73.33	16	66.67	43	76.79
48	Maruti Suzuki	10	58.82	8	53.33	12	50	30	53.57
49	Hero motocop	12	70.59	8	53.33	14	58.33	34	60.71
50	Bajaj Auto	12	70.59	11	73.33	12	50	35	62.5
51	Ashok Leyland	10	58.82	6	40	11	45.83	27	48.21
52	Bosch India	13	76.47	9	60	14	58.33	36	64.29
53	Sundram Clayton	9	52.94	5	33.33	8	33.33	22	39.29
54	TVS Motors Company	10	58.82	6	40	10	41.67	26	46.43
55	Exide Industries	8	47.06	6	40	12	50	26	46.43
56	Motherson Sumi Systems	8	47.06	5	33.33	8	33.33	21	37.5
57	Eicher Motors	9	52.94	5	33.33	9	37.5	23	41.07
58	Sundram Fastners	10	58.82	5	33.33	11	45.83	26	46.43
59	Amararaja Batteries	11	64.71	6	40	13	54.17	30	53.57
60	Amtek Auto	8	47.06	5	33.33	9	37.5	22	39.29
61	Ranbaxy Laboratories	11	64.71	11	73.33	16	66.67	38	67.86
62	Dr. Reddy Laboratories	15	88.24	13	86.67	18	75	46	82.14
63	Cipla	11	64.71	9	60	17	70.83	37	66.07
64	Sun Pharmaceuticals	10	58.82	8	53.33	17	70.83	35	62.5
65	Lupin	13	76.47	10	66.67	16	66.67	39	69.64
66	Wockhardt	10	58.82	5	33.33	11	45.83	26	46.43
67	Jubiliant life Sciences	13	76.47	12	80	19	79.17	44	78.57
68	Piramal enterprises	13	76.47	5	33.33	11	45.83	29	51.79
69	Aurbindo Pharma	9	52.94	5	33.33	9	37.5	23	41.07
70	Cadila Healthcare	13	76.47	10	66.67	11	45.83	34	60.71
71	Glenmark Pharmaceuticals	11	64.71	6	40	11	45.83	28	50
72	Glaxosmithkline Pharma	12	70.59	7	46.67	12	50	31	55.36
73	Biocon	12	70.59	8	53.33	13	54.17	33	58.93
74	Torrent Pharmaceuticals	11	64.71	5	33.33	11	45.83	27	48.21
75	Strides Arcolabs	10	58.82	5	33.33	7	29.17	22	39.29
76	Tata Chemicals	16	94.12	12	80	19	79.17	47	83.93
77	Coromandel International	13	76.47	6	40	10	41.67	29	51.79
78	Zuari Global	8	47.06	5	33.33	8	33.33	21	37.5
79	Petronet LNG	9	52.94	7	46.67	14	58.33	30	53.57
80	Rashtriya Chemicals & Fertilizers	10	58.82	8	53.33	18	75	36	64.29
81	Gujarat State Fertilizer & Chemicals	11	64.71	5	33.33	9	37.5	25	44.64
82	Chambal Fertilisers & Chemicals	8	47.06	6	40	15	62.5	29	51.79

83	Asian Paints	14	82.35	9	60	17	70.83	40	71.43
84	National Fertilizers	11	64.71	6	40	13	54.17	30	53.57
85	UPL	9	52.94	5	33.33	9	37.5	23	41.07
86	Gujarat Narmada Valley Fertilizers & Chemicals	12	70.59	6	40	11	45.83	29	51.79
87	Mangalore Chemicals & Fertilizers	8	47.06	5	33.33	9	37.5	22	39.29
88	Nagarjuna Fertilisers & Chemicals	16	94.12	9	60	17	70.83	42	75
89	Fertilisers and Chemicals Travancore	7	41.18	5	33.33	9	37.5	21	37.5
90	Pidilite Industries	9	52.94	5	33.33	12	50	26	46.43
91	Indian Oil Corporation	12	70.59	12	80	17	70.83	41	73.21
92	Bharat Petroleum Corporation	11	64.71	11	73.33	18	75	40	71.43
93	Hindustan Petroleum Corporation	12	70.59	10	66.67	16	66.67	38	67.86
94	Oil And Natural Gas Corporation	12	70.59	8	53.33	16	66.67	36	64.29
95	NTPC	12	70.59	10	66.67	16	66.67	38	67.86
96	Mangalore Refinery And Petrochemicals	11	64.71	11	73.33	13	54.17	35	62.5
97	Essar Oil	10	58.82	6	40	14	58.33	30	53.57
98	Chennai Petroleum Corporation	11	64.71	5	33.33	9	37.5	25	44.64
99	GAIL (India)	14	82.35	12	80	18	75	44	78.57
100	Tata Power Company	15	88.24	13	86.67	19	79.17	47	83.93
101	Reliance Infrastructure	15	88.24	11	73.33	15	62.5	41	73.21
102	Power Grid Corporation of India	16	94.12	9	60	17	70.83	42	75
103	Torrent Power	10	58.82	5	33.33	8	33.33	23	41.07
104	CESC	8	47.06	5	33.33	9	37.5	22	39.29
105	Neyveli Lignite Corporation	13	76.47	10	66.67	12	50	35	62.5
106	Reliance Industries	14	82.35	13	86.67	20	83.33	47	83.93
107	Larsen & Toubro	14	82.35	8	53.33	19	79.17	41	73.21
108	Grasim Industries	9	52.94	13	86.67	14	58.33	36	64.29
109	ITC	13	76.47	10	66.67	20	83.33	43	76.79
110	Videocon Industries	10	58.82	6	40	10	41.67	26	46.43
111	Voltas	13	76.47	7	46.67	14	58.33	34	60.71
112	Kesoram Industries	9	52.94	6	40	9	37.5	24	42.86
113	Century Textiles & Industries	9	52.94	5	33.33	8	33.33	22	39.29
114	DCM Shriram Consolidated	10	58.82	7	46.67	9	37.5	26	46.43
115	Sintex Industries	10	58.82	6	40	8	33.33	24	42.86
116	Mercator	9	52.94	7	46.67	8	33.33	24	42.86
117	Balmer Lawrie & Company	12	70.59	7	46.67	10	41.67	29	51.79
118	Sujana Universal Industries	9	52.94	6	40	6	25	21	37.5
119	Bajaj Electricals	12	70.59	7	46.67	10	41.67	29	51.79
120	Whirlpool of India	13	76.47	6	40	10	41.67	29	51.79

Source: Calculated by Researcher

Impact of Ethical Practices on Corporate Performance

Table 3 shows the results of the spearman correlation between 6 financial performance ratios and total ethical score along with individual score on corporate governance, CSR and sustainability reporting.

Table 3: Result of Spearman Correlation

		Ethical Score	Corporate Governance	Corporate Social Responsibility	Sustainability Responsibility
TobinQ	Correlation Coefficient	0.32	0.21	0.24	0.34
	Sig. (2-tailed)	0	0.03	0.01	0
PE	Correlation Coefficient	-0.07	-0.06	-0.14	0
	Sig. (2-tailed)	0.53	0.59	0.18	0.97
PB	Correlation Coefficient	-0.05	-0.1	-0.18	0.09
	Sig. (2-tailed)	0.59	0.31	0.07	0.37
ROS	Correlation Coefficient	0.31	0.13	0.27	0.36
	Sig. (2-tailed)	0	0.15	0	0
ROCE	Correlation Coefficient	0.18	0.09	0.13	0.21
	Sig. (2-tailed)	0.05	0.35	0.15	0.02
ROE	Correlation Coefficient	0.18	0.16	0.1	0.19
	Sig. (2-tailed)	0.05	0.09	0.29	0.04

Source: Calculated by researcher

There is a positive and significant correlation between market valuation measure of Tobin Q and total ethical score, corporate governance, CSR and Sustainability reporting. But, price earning and price to book value ratio show a negative correlation with total ethical score, corporate governance and CSR. Profitability measure ROS has a positive correlation with total ethical score, corporate governance, CSR, and sustainability and is also statistically significant except for corporate governance.

The results are consistent with those by Klapper and Love (2002); Mohanty (2003); Bauer, Guenster, and Otten (2003); Kumar (2004); Cheung, Stouraitis, and Tan (2010) as there is a positive impact and correlation between corporate governance and market valuation. But, Misra and Vishnavi (2012) confirm that regulations on corporate governance have not been able to provide any significant benefit to the investors by way of reducing market risk or increasing returns.

Development of Regression Model

Multiple linear regression model has been used to study the impact of ethical practices on financial performance of the companies. Corporate governance, corporate social responsibility score, and sustainability reporting are taken as independent variables to study their impact on dependent variables Tobin Q, P/E, PB and accounting variables ROS, ROCE and ROE. The age and size of the company represented by its total assets were taken as control variables to overcome the problem of difference in companies under study.

The backward stepwise regression model used was:

$$\hat{Y}= \beta_0 + \beta_{1x1} + \beta_{2x2} + \ldots\ldots + \beta_{kxk} + \mathcal{E}$$

where y is the independent variable represented by financial performance indicator Tobin Q, P/E, PB, ROS, ROCE and ROE; x_1 corporate governance score, x2 is corporate social responsibility, x_3 is sustainability reporting as independent variables representing ethical practices followed by the companies, x_4 represents control variable age of the company, and x_5 denotes the total asset of the company as control variable.

Table 4: Result of ANOVA of Regression Model

	Model		Sum of Squares	df	Mean Square	F	Sig.
Tobin Q	4	Regression	92.22	2	46.11	5.008	.008[d]
		Residual	1068.014	116	9.207		
		Total	1160.234	118			
P/E	6	Regression	0	0	0	.	.[f]
		Residual	6018942.8	91	66142.2		
		Total	6018942.8	91			
P/B	6	Regression	0	0	0	.	.[f]
		Residual	322303.13	108	2984.29		
		Total	322303.13	108			
ROS	4	Regression	2220.475	2	1110.24	8.48	.000[d]
		Residual	15318.471	117	130.927		
		Total	17538.946	119			
ROCE	4	Regression	1170.581	2	585.291	3.921	.022[d]
		Residual	17466.165	117	149.283		
		Total	18636.747	119			
ROE	6	Regression	0	0	0	.	.[f]
		Residual	24534468.22	119	206172		
		Total	24534468.22	119			

Source: Calculated by researcher

Table 5: Model Summary of Regression Model

Financial Ratio	Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Predictor
Tobin Q	4	.282[d]	0.079	0.064	3.03431	d.: (Constant), T Asset, SR
P/E	6	.000[f]	0	0	257.181	f.: (constant)
P/B	6	.000[f]	0	0	54.6286	f.: (constant)
ROS	4	.356[d]	0.127	0.112	11.4423	d.: (Constant), CG, SR
ROCE	4	.251[d]	0.063	0.047	12.2182	d.: (Constant), T Asset, SR
ROE	6	.000[f]	0	0	454.062	f. : (constant)

Source: Calculated by researcher

Table 6: Coefficients of Regression Model for Financial Ratios

Dependent Variable	Model B		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
			Std. Error	Beta			
TobinQ	4	(Constant)	-0.141	0.857		-0.165	0.869
		SR	0.05	0.017	0.296	2.916	0.004
		T Asset	-1.49E-06	0	-0.252	-2.479	0.015
P/E	6	(Constant)	56.436	26.813		2.105	0.038

Dependent Variable	Model B		Unstandardised Coefficients		Standardised Coefficients	T	Sig.
			Std. Error	Beta			
P/B	6	(Constant)	9.145	5.232		1.748	0.083
ROS	4	(Constant)	6.709	5.086		1.319	0.19
		CG	-0.181	0.094	-0.208	-1.935	0.055
		SR	0.288	0.071	0.438	4.074	0
ROCE	4	(Constant)	7.641	3.431		2.227	0.028
		SR	0.191	0.069	0.282	2.757	0.007
		T Asset	-4.27E-06	0	-0.18	-1.759	0.081
ROE	6	(Constant)	-27.513	41.45		-0.664	0.508

Source: Calculated by researcher

From the results of regression analysis in Tables 4, 5, and 6, it can be interpreted that Tobin Q, ROS and ROCE have linear relationship with sustainability reporting and with corporate governance also in case of ROS. There is a mix relationship between the dependent variables and independent variables. Thus, for Tobin Q, ROS and ROCE only, hypothesis of the study is accepted.

Discussion

As per the results, only sustainability reporting has a significant impact on financial performance parameter but other parameters of corporate governance and corporate social responsibility are not strongly related to financial performance (Tata and Sharma, 2012). It can be concluded that disclosures of ethical practice via corporate governance, CSR and SR are only a reflection of the real ethical behaviour of the Indian companies and do not reflect any true impact on corporate performance. Brown and Caylor (2006) did not find any positive and significant relationship between corporate governance and firm valuation for US stock exchange.

At the same time it was found that CSR has a positive impact on P/E, ROS and ROE which means increase in CSR investment would have a direct impact on profitability but the statistical analysis reveal that there is no significant impact of CSR performance on market valuation and profitability of the business. The results are consistent in the (Izzo & Magnanelli, 2012) who have denied the existence of a particular role of corporate social performance in defining the cost of debt of the company. The results of the study by Goukasian and Whitney (2007) also reveal that operating performance of the companies has worsened compared to their performance prior to the identification of CSR activities in the business organisation.

The low level of CSR performance against the expected score may be due to the lack of integrated and rational CSR policy and governing standards (Kansal & Singh, 2011). The present study is consistent with Tripathi and Seth (2014) and does not find any significant relationship between corporate social performance and corporate financial performance for the selected Indian companies. No doubt the things are changing and companies and managers are becoming proactive is adopting social initiatives as integral part of their operations but Indian corporate world has to go a long way to sincerely implement the regulation as per new Companies Act, 2013. As we are moving from voluntary disclosure to mandatory disclosures, many new challenges will come to the forefront. It is still the infant stage for Indian companies to adopt these changes and make ethical practices an integral part of their corporate agenda.

The regression results are also consistent with the result of Ngwakwe (2009), as it has been statistically proved that there is a significant impact of sustainability reporting on financial performance. The increased level of sustainability reporting leads to improved Tobin Q, ROS, ROCE & ROE. It may be attributed to the cost reduction due to energy conservation measures, less cost in litigation, fine and penalties as the companies adhere to sustainable business practices. Hence, investment in social and environment venture is not a wasteful activity but an important part of corporate strategy which helps the companies in complying with the social and environment regulation besides achieving the economic goals.

CONCLUSION

The study includes the disclosure of ethical practice of top 120 Indian companies for a period of one year only i.e. 2012-13. Although the report have been read a number of times to cross check the reported aspect so that more consistency is achieved in rating but still the subjectivity inherent in the rating scale remains a limitation. Future research can refine this concept and add to the qualitative measurement of ethical behaviour of the companies.

From the analysis of the study, it can be concluded that there is an enlightened awareness among Indian companies, regarding disclosing ethical practice, yet it may be considered a weak disclosure. There is a need to extend the mandatory disclosure norms so as to cover the voluntary index, so that Indian companies can compete at international level. It is still a changeover stage for Indian companies and things would definitely improve once the new guidelines proposed by regulatory authorities are implemented in true sense.

REFERENCES

Abatecola, G., Caputo, A., Mari, M., & Poggesi, S. (2012). Relations among corporate governance, codes of conduct, and the profitability of public utilities: An empirical study of companies on the Italian stock exchange. *International Journal of Management, 29*(2), 611-625.

Ahmad, N. H., & Seet, P. S. (2009). Developing competitive advantage through ethical and SR practices: The case of SME in Australia and Malaysia. *International Business Research., 2*(4), 116-124.

Alessandro, B. (2003). Business ethics and profit: The impact of corporate social responsibility programs on corporate strategic planning. *Cahiers du CEREN, 5*(2003) 14-27.

Areal, N., & Carvalho, A. (2012). The world's most ethical companies: Does the fame translate into gain? EFM Classification Code: 380 – Portfolio Performance Evaluation, 750 – Law, Ethics and Finance. Retrieved from http://www.efmaefm.org/0EFMAMEETINGS/EFMA%20ANNUAL%20MEETINGS/2012-Barcelona/papers/EFMA2012_0401_fullpaper.pdf

Aupperle, K. E., Carroll, A. B., & Hatfield, J. D. (1985). An empirical examination of the relationship between corporate social responsibility and profitability. *Academy of Management Journal, 28*(2), 446-463.

Azmi, R. A. (2006). Business Ethics as Competitive advantage for Companies in Globalization Era. Retrieved from http://ssrn.com/abstract=1010073.

Bauer, R., Guenster, N., & Otten, R. (2004). Overnance in Europe: The effecton stock returns, firm valueand performance. *Journal of Asset Management, 5*(2), 91-104.

Beiner, S., Drobetz, W., M. Schmid, M., & Zimmermann, H. (2006). An integrated framework of corporate governance and firm valuation. *European Financial Managemennt,* 249-283.

Berrone, P., Surroca, J., & Tribó Josep, A. (2005). Corporate ethical identity as determinant of firm performance: a test of the mediating role of stakeholder satisfaction. *Working paper Business Economic Series, 8,* 05-31. Universidad Carlos III de Madrid, Spain.

Bhagat, S., & Bolton, B. (2008). Corporate governance and firm performance. *Journal of Corporate Finance, 14*(3), 257-273.

Blazovich, J. L. & Smith L. M. (2008). Ethical corporate citizenship: Does it pays?. Retrieved from http://ssrn.com/abstract=1125067

Blowfield, M., & Frynas, J. G. (2005). Setting new agendas: Critical perspectives on corporate social responsibility in the developing world. *International Affairs, 81,* 499-513.

Brammer, S. J., Brooks, C., & Pavelin, S. (2005). The Stock Performance of America's 100 Best Corporate Citizens. Retrieved from: SSRN: http://ssrn.com/abstract=834486 orhttp://dx.doi.org/10.2139/ssrn.834486.

Brine, M., Brown, R., & Hackett, G. (2007). Corporate social responsibility and financial performance in the Australian context [online]. *Economic Round-up,* 47-58. Retrieved from http://search.informit.com.au/documentSummary;dn=254072917099846;res=IELBUS> ISSN: 1031-8968.

Brown, L. D., & Caylor, M. L. (2006). Corporate governance and firm valuation. *Journal of Accounting and Public Policy, 25*(4), 409-434.

Byus, K., Deis D., & Ouyang, B. (2010). Doing well by doing good: Corporate social responsibility and profitability. *SAM Advanced Management Journal, 75*(1), 44-55.

Cheung, Y.-L., Stouraitis, A., & Tan, W. (2010). Does the quality of corporate governance affect firm valuation and risk? Evidence from a corporate governance scorecard in Hong Kong. *International Review of Finance, 10,* 403-432. DOI: 10.1111/j.1468-2443.2010.01106.x

Cowton, C., & Crisp, R. (1998). *Business ethics: Perspectives on the practice of theory.* New York: Oxford University Press.

Dheeraj, S., Shaheen, B., & James, M. S. (2009). An investigation of the effects of corporate ethical values on employee commitment and performance: Examining the moderating role of perceived fairness. *Journal of Business Ethics, 89*, 251-260

Edmans, A. (2008). Does the Stock Market Fully Value Intangibles? Employees Satisfaction and Equity Prices. Retrieved from http://ssrn.com/abstract=985735

Ekwueme, C. M., Egbunike, C. F., & Onyali, C. I. (2013). Benefits of triple bottom line disclosures on corporate performance: An exploratory study of corporate stakeholders. *Journal of Management and Sustainability, 3*(2), 79-91.

Epstein, M. J., & Roy M. J. (2001). Sustainability in Action: Identifying and Measuring the Key Performance Drivers. *Long Range Planning 34*(2001), 585-604. Retrieved from www.lrpjournal.com

Ferrell, O.C. (2004). Business ethics and customer satisfaction. *Academy of Management Executive, 18*(2), 126-129.

Foote, J., Gaffney, N., & R. Evans, J. (2010). Corporate social responsibility: Implications for performance excellence. *Total Quality Management & Business Excellence, 21*(8), 799-812.

Gartner, H. (2007). *Responsibility at work: How leading professionals act (or don't act),* p.232. San Francisco: Jossey-Bass. ISBN 978-0-7879-9475-4.

Goukasian, L., & Whitney, L. K. (2008). Corporate Socially Responsible Firms Perform Well! Evidence from Financial and Operating Performances. Working Paper Series. DOI: 10.2139/ssrn.972649.

Hosmer, L. T. (1994). Strategic planning as of ethics mattered. *Strategic Management Journal, 15*(Special Issue), 17-34.

Izzo, M. F., & Magnanelli, B. S. (2012). Does it Pay or Does Firm Pay? Retrieved from http://ssrn.com/abstract=1986131

Jackson, L., & Hua, N. (2009). Corporate social responsibility and financial performance: A snapshot from the lodging and gaming industries. *Journal of Hospitality Financial Management,* 63-78.

John, E. (1994). Expanded and Articulated in 1998: Cannibals with Forks: The Triple Bottom Line of 21st Century Business.

Kansal, M., & Singh, S. (2012). Measurement of corporate social performance: An Indian perspective. *Social Responsibility Journal, 8*(4), 527-546. doi:http://dx.doi.org/10.1108/17471111211272101.

Klapper, L. F., & Love, I. (2002). Corporate Governance, Investor Protection, and Performancein Emerging Markets. World Bank Policy Research Working Paper No. 2818. Retrieved from: http://ssrn.com/abstract=303979 or http://dx.doi.org/10.2139/ssrn.303979.

Kohli, N., & Saha, G. C. (2008). Corporate governance and valuations: Evidence from selected indian companies. *International Journal of Disclosure and Governance, 5*(3), 236-251. doi:http://dx.doi.org/10.1057/jdg.2008.10 Kraus, P., & Britzelmaier, B. (2012). Corporate governance and corporate performance: A German perspective. *International Journal of Management Cases, 327-340.*

Kumar, J. (2004). Does corporate governance influence firm value? Evidence from Indian firms. *The Journal of Entrepreneurial Finance & Business Ventures, 9*(2), 61-91. Retrieved from http://search.proquest.com/docview/1030136017?accountid=164287

Lubanga, A. (2003). Code of Conduct and Ethics on Perceived Financial Performance in Uganda Public Service: A Case of Ministry of Education and Sports. A Research Report Submitted to The Graduate and Research Centre of Makerere University Business School.

Mc Murrian, R. C., & Matulich, E. (2006). Building customer value and profitability with business ethics. *Journal of Business & Economics Research, 4*(11), *11-18.*

Mittal, R. K., Sinha, N., & Singh, A. (2008). An analysis of linkage between economic value added and corporate social responsibility. *Management Decision, 46*(9), 1437-1443. doi:http://dx.doi.org/10.1108/00251740810912037.

Misra, D., & Vishnani, S. (2012). Impact of corporate governance regulation on market risk. *Vikalpa, 37*(2), 19-32. Retrieved from http://www.vikalpa.com/pdf/articles/2012/Pages-from-Vikalpa37.2-19-32.pdf

Mohanty, P. (2003). Institutional Investors and Corporate Governance in India. National Stock Exchange of India Research Initiative Paper No. 15. Available at SSRN: http://ssrn.com/abstract=353820 orhttp://dx.doi.org/10.2139/ssrn.353820.

Monda, B., & Giorgino, M. (2013). Corporate Governance and ShareholderValue in Listed Firms: An EmpiricalAnalysis in Five Countries (France, Italy,Japan, UK, USA). Retrieved from http://mpra.ub.uni-muenchen.de/45422/.

Nguyen, T. H. N., (2011). Being Socially Responsible and Environmentally Friendly improves the Corporate Competitiveness and Profitability? *Advances in Management, 4*(3), 21-25.

Perera, L. C. J., Gonçalves, R., Antunes, M. T. P., & Imoniana, J.O. (2011). Sustainable Practice and Business Profitability in Brazil. *Journal of International Business and Economics, 11(3), 14-24.*

Prasanna, P. K. (2013). Impact of corporate governance regulations on Indian stock market volatility and efficiency. *International Journal of Disclosure and Governance, 10*(1), 1-12. doi:http://dx.doi.org/10.1057/jdg.2011.28.

Purlys, C. (2010). Influence of Business Ethics for Enterprise Competitiveness. 6th International Scientific Conference, May 13–14, Vilnius, Lithuania. *Business and Management*, 711-718. Retrieved from: http://www.vgtu.lt/en/editions/proceedings.

Rais, S., & Goedegebuurre, R. V. (2009). Corporate social performance and financial performance. The case of Indonesian firms in the manufacturing Industry. *Problems and Perspectives in Management,* 224-238.

Sarpal, S., & Singh, F. (2013). Board size and corporate performance: An empirical investigation. *International Journal of Business Ethics in Developing Economies, 2(1), 1-8.*

Shleifer, A. (2004). Does Competition Destroy Ethical Behavior? *American Economic Review Papers and Proceedings, 94*(2), 414-418.

Tata, S. V., & Sharma, M. (2012). Corporate governance mechanisms and firm performance: A study of indian firms. *Journal of Commerce and Accounting Research, 1*(1), 11-17. Retrieved from http://search.proquest.com/docview/1490668725?accountid=164287.

Tripathi, V., & Seth, S. (2014). The link between corporate social and financial performance of Nifty 50 companies in India. *Aspirare, 1,* 48-70.

Wang, K., Smith, K. T., & Smith, L. M., (2010). Does Corporate Reputation Translate into Higher Market Value? Retrieved from http://ssrn.com/abstract=1135331.

Ziegler, A., & Arx, v. U. (2008). The effect of CSR on stock performance: New evidence for the USA and Europe. Zurich: Center of Economic Research at ETH Zurich. Retrieved from: http://www.cer.ethz.ch/research/wp_08_85.pdf.