

Panel Data Study: CSR Disclosures and Financial Performance

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ABSTRACT

This paper investigates the effect of CSR disclosures on financial performance (EPS) for select firms belonging to the Banking, ITES, Oil, Gas and Energy, and Automotive sectors during the pre-mandatory disclosure period in India (2011-13), i.e. prior to the Companies Act, 2013. This is the first study to view CSR from the perspective of the National Voluntary Guidelines in India, prevalent as a guideline for firms to organize their CSR in India. The study utilized panel data regression with 60 firm-year observations using market capitalization, debt-equity ratio, Industry, research and development intensity, and advertisement expense as control variables. The results revealed that disclosures of ethical, transparent, and accountable functioning, safe and sustainable products, stakeholder management, and policy advocacy impacted EPS positively. Disclosures associated with employee well-being, environmental CSR, and inclusive growth practices were negatively associated with EPS. The direction of the association of Human rights disclosures with EPS varied depending on the model utilized. The study is relevant in acquiring new information about the disclosure practices of large firms in the years immediately preceding the implementation of the Companies Act 2013, a landmark milestone for CSR in India.

Keywords: *Corporate Social Responsibility, Ethics, Environmental Communication, Stakeholder Management, Inclusive Growth, Voluntary Guidelines, Financial Performance*

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INTRODUCTION

The effect of Corporate Social Responsibility (CSR) on firm financial performance is a growing concern to developing and emerging economy researchers due to the lack of definitive evidence. Further, new frontiers of research have unfolded which aim to understand how firms impact social justice, poverty, human rights (Belal & Momin, 2009), and development. The field of CSR is vibrantly alive with many unanswered questions regarding its outcomes. The present paper aims to understand the effect of CSR disclosures on financial performance, i.e., Earnings per share (EPS), for the period when disclosures were not mandatory in India (prior to the Companies Act, 2013). The research is significant since it studies nine elements of CSR, commensurate with the National Voluntary Guidelines (NVG), 2011.

The choice of National Voluntary Guidelines 2011 for the purpose of CSR elements is interesting since it was utilized by both the public and private sector firms as a guideline to undertake work on CSR prior to the Companies Act, 2013 for a brief duration. NVG principles have been in force in India since 2009 (six in number) and were extended in 2011 (enhanced to nine principles to further include value to the customer, safe and sustainable products, and policy advocacy). The nine aspects of responsible business practices encompassed: ethical, transparent, and accountable functioning; safe and sustainable products; employee well-being; stakeholder management, human rights, environment protection, responsible policy advocacy, value to customers, and inclusive growth and equitable practices. The present research dovetails specifically into CSR practices encompassed in the Companies Act 2013, for the elements of Environmental CSR, as well as Inclusive growth and equitable practices. Hence, it goes beyond social and environmental responsibilities to the community, to incorporate other aspects of firm operations, like ethical and accountable functioning, and responsibilities towards other stakeholders of the firm. Therefore, it is more broad-based in considering CSR as the prevalence of responsible business operations and the fulfilment of responsibilities towards all its stakeholders [similar to notions prescribed by UNIDO, the European Commission (2001), and Aguinis, H. & Glavas, A. (2012)]. The advantage of studying different elements of CSR in this manner permits one to understand the effects of multiple aspects of firm functioning, which have the capability to impact financial performance, rather than limiting oneself to only studying the effects of community-

related practices on financial performance, for which the theoretical and empirical foundation may be weak in the Indian context. Further, studying the effects of disaggregated elements have the benefit of studying each element as part of the whole model, similar to the Systems approach, where the sum of the parts is greater than the whole.

It may additionally be noted that at present, there is no such study available in the Indian context capturing the results of non-financial disclosures in years just prior to Companies Act 2013. The study hence presents historical relevance and a baseline for future investigations into similar relationships. Not only is this study relevant and consistent with other global studies associated with CSR disclosures (mentioned above), but it may be pertinent to mention, continues to be of relevance in India, where the Ministry of Corporate Affairs has revised the 2011 guidelines to frame the National Guidelines on Responsible Business Conduct (NGRBC) in 2019.

THEORETICAL ORIENTATION AND LITERATURE REVIEW

First, the theories which explain CSR disclosure are discussed. Next pertinent literature related to the present study is enumerated.

Theories Explaining CSR Disclosure

Historically, legitimacy theory, and stakeholder theory were utilized to explain CSR. First, CSR disclosures could be explained under the legitimacy theory as a way to avoid existential threat perception, and be a form of risk mitigation. Suchman (1995, p. 574), Deegan (2002), and Nikolaeva and Bicho (2011) have discussed earlier that risk to existence was reduced by adhering to societal ‘norms, values, beliefs and definitions.’ CSR disclosures may be also viewed from the perspective of managing stakeholder perception. Stakeholders have been defined as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman & Veal, 2001, p.4). Their identification, comprehension of expectations, and their involvement in decision-making are significant aspects of the process of stakeholder management.

CSR disclosures may hence be explained in the light of conveying the legitimate actions of the firm, and in managing stakeholder expectations. It

would be interesting to understand whether the association between CSR disclosures and EPS may be explained using this theoretical framework. The next section elaborates upon the literature review.

Relationship between CSR Disclosures and CFP

This section elaborates upon past studies that investigated the relationship between CSR disclosures and CFP. First, the studies that investigated the association at an overall level are discussed. Next studies focusing on individual elements of CSR and CFP are referred to.

ESG (Environment, Social, and Governance) indicators have been studied as a proxy for CSR by a few researchers. In this context, a positive relationship between ESG disclosures and CFP was reported by Zhao, Guo, Yuan, Wu, Li, Zhou, and Kang (2018) for the power sector firms in China. In India, it was discerned that CSR disclosures were associated with higher profits (Govindarajan, 2016; Singh & Chakraborty, 2018). An insignificant association has been observed between the quantity and quality of CSR disclosures, and market measure of financial performance (Singh & Chakraborty, 2021). Laskar (2018) also observed a positive relationship between sustainability reporting and firm financial performance. On the other hand, a negative association between CSR disclosures and CFP was reported by Rehman, Riaz, Cullinan, Zhang and Wang (2020) for firms listed on the Shanghai Stock Exchange for the period 2008 to 2012. Hence, it is observed that the relationship between the overall level of CSR and CFP can be either positive or negative.

It has been suggested by Johnson, Erasmus and Mans-Kemp (2019) that significant links may exist between disaggregated measures of CSR and CFP as observed in their study of 66 firms listed on the Johannesburg Stock Exchange (2011-2016). Jaisinghani and Sekhon (2020) studied four elements of CSR for listed firms in India for the period 2008-2017. They observed community development and product disclosures to be positively associated with CFP; and environment and customer-linked disclosures to be negatively associated with CFP. The authors did not study the nine principles of responsible business practice in the Indian context which the present study has attempted to consider. In another study, climate change disclosures were observed as having a positive impact on ROE, but no evidence of association was observed for ROA in the case of 44 Indian companies during the period 2011- 2015 (Kumar & Firoz, 2018). This study has looked upon one disclosure variable rather than studying the effect of multiple variables simultaneously.

Johnson, Mans-Kemp and Erasmus (2019) have observed that the sector to which the firm belonged wielded influence on the association between CSR and CFP. Hasan, Singh and Kashiramka (2021) investigated this relationship in India utilizing ESG disclosures for the period 2014-15 to 2018-19 for 287 companies in India. Varying results were detected by the researchers concerning Industry effects. CSR disclosures were positively related to CFP in the consumer goods, consumer services, and heavy engineering industries. Healthcare, energy, and utility firms were observed to depict a negative association between CSR disclosures and CFP.

In investigating the association between CSR and CFP, researchers have utilized firm size and leverage (Tyagi, Sharma & Aggarwal, 2013; Martínez-Ferrero & Frías-Aceituno, 2015); Research and development (Dowell, Hart & Yeung, 2000; Barnett & Salomon, 2012); advertisement expenditure (Dowell, Hart & Yeung, 2000; Barnett & Salomon, 2012); as well as industry (Chand & Fraser, 2006) as control variables.

RESEARCH GAP AND EMERGING HYPOTHESIS

From the literature review, it is observed that the CSR elements represented by the NVG principles constitute a viable basis for studying associations with EPS (measure of financial performance), due to the lack of such a study in the Indian context. Hence, in the present research, the following relationships were examined:

H₀1: There is no effect of ethical, transparent, and accountable functioning disclosures on EPS.

H₀2: There is no effect of safe and sustainable products disclosures on EPS.

H₀3: There is no effect of employee well-being disclosures on EPS.

H₀4: There is no effect of stakeholder management disclosures on EPS.

H₀5: There is no effect of human rights disclosures on EPS.

H₀6: There is no effect of environment protection disclosures on EPS.

H₀7: There is no effect of responsible policy advocacy disclosures on EPS.

H₀8: There is no effect of disclosures associated with value to customers on EPS.

H₀9: There is no effect of inclusive growth and equitable practice disclosures on EPS.

For control variables, the following hypothesis may be computed:

H₀10: There is no effect of Market Capitalization on EPS.

H₀11: There is no effect of Debt – Equity ratio on EPS.

H₀12: There is no effect of Research and Development intensity on EPS.

H₀13: There is no effect of Advertisement Expenses on EPS.

H₀14: There is no effect of Industry on EPS.

For ease of analysis, the following short names were utilized in the conceptual framework and analysis.

Table 1: Variables and Short Names

Dependent Variable	Short Name
Earnings per share	EPS
Independent Variable	Short Name
Ethical, accountable and transparent functioning	ETA
Safe and sustainable products	S_SP
Practices promoting employee well-being	E_WB
Practices promoting stakeholder management	ST_MT
Practices promoting human rights	HUM_RT
Practices promoting the protection and conservation of the environment	ENV_CSR
Practices related to responsible policy advocacy	POL_AD
Practices leading to inclusive growth and equitable distribution	INCL_G
Practices adding value to the customer	CUST_V
Control Variables	Short Name
Market Capitalization	MCAP
Debt – Equity Ratio	DE
Industry	IND
Research and Development Intensity	RDI
Advertisement Expenses	ADV_EXP

CONCEPTUAL FRAMEWORK

The relations examined in the present research are encapsulated in Fig. 1.

RESEARCH DESIGN

Research Objectives

The purpose of the present research is to understand the effect of CSR disclosures on EPS. To attain the research objectives, first the empirical models devised from the research hypothesis are outlined. Next, the data sources, selection of firms and sectors are discussed.

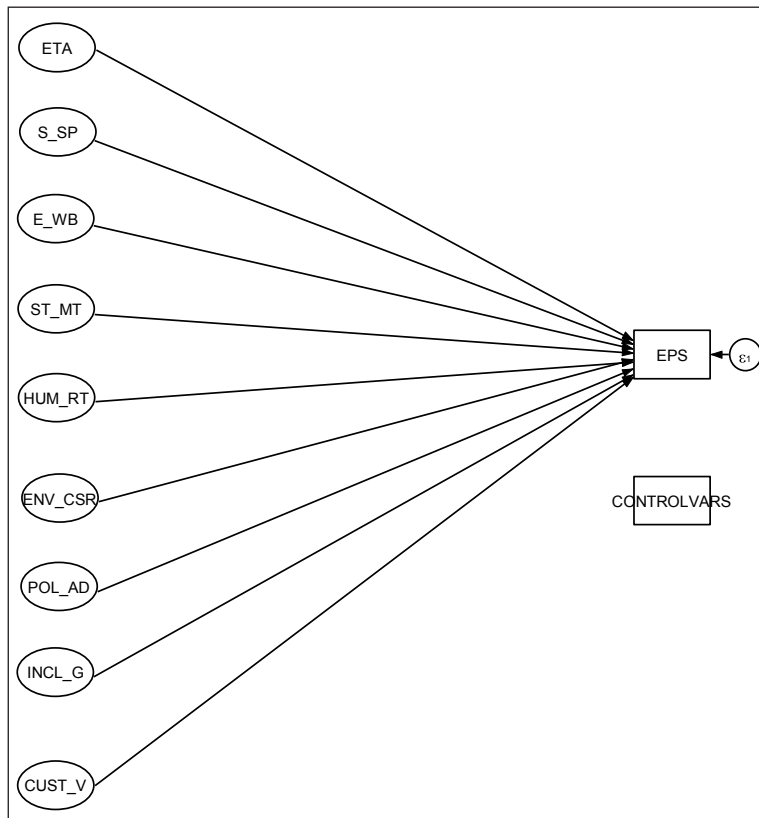


Fig. 1: Conceptual Framework of Relationships Tested in the Present Research

Models Associated with Hypothesis

An initial model was built with nine independent variables and four control variables (market capitalization, debt-equity ratio, industry, research and

development intensity i.e., RDI or advertisement expenditure). Hence, two initial models were built by adding RDI or advertisement expense. Two sub-models were subsequently built by eliminating the insignificant variables. These were named as best-performing models.

The two basic models may hence be explained as:

- Basic Model 1 and 2:

Model A1 (EPS with RDI)

A1. EPS = Intercept + nine independent variables with coefficient + three control variables with co-efficient + RDI

$$EPS_{i,t} = c + \beta_0 (ET_{i,t}) + \beta_1 (S_SP_{i,t}) + \beta_2 (E_WB_{i,t}) + \beta_3 (ST_MT_{i,t}) + \beta_4 (HUM_RT_{i,t}) + \beta_5 (ENV_CSR_{i,t}) + \beta_6 (POL_AD_{i,t}) + \beta_7 (INCL_G_{i,t}) + \beta_8 (CUST_V_{i,t}) + \beta_9 (MCAP_{i,t}) + \beta_{10} (DE_{i,t}) + \beta_{11} (RDI_{i,t}) + \beta_{12} (IND_{i,t}) + \varepsilon \quad EQ A1$$

Model A2 (EPS with ADV_EXP)

A2. EPS = Intercept + nine independent variables with co-efficient + three control variables with co-efficient + Advertisement expense

$$EP_{i,t} = c + \beta_0 (ET_{i,t}) + \beta_1 (S_SP_{i,t}) + \beta_2 (E_WB_{i,t}) + \beta_3 (ST_MT_{i,t}) + \beta_4 (HUM_RT_{i,t}) + \beta_5 (ENV_CSR_{i,t}) + \beta_6 (POL_AD_{i,t}) + \beta_7 (INCL_G_{i,t}) + \beta_8 (CUST_V_{i,t}) + \beta_9 (MCAP_{i,t}) + \beta_{10} (DE_{i,t}) + \beta_{11} (ADV_EXP_{i,t}) + \beta_{12} (IND_{i,t}) + \varepsilon \quad EQ A2$$

- Then the two best performing sub-models were derived through the elimination of insignificant variables in each case – A1 and A2 mentioned above.

Model B1 (EPS with RDI)

B1. EPS = intercept + significant independent variables with coefficients + significant control variables with coefficients. (In relation to A1)

Model B2 (EPS with ADV_EXP)

B2. EPS = intercept + significant independent variables with coefficients + significant control variables with co-efficients (in relation to A2)

Where:

Variable_{it} = Variable short name (Enumerated in Table I) for ith firm in period t

Data Source

Data on NVG principles for the select firms was collected through content analysis of firm disclosures from secondary sources like annual reports, sustainability reports, business responsibility reports, CSR reports, and websites of individual firms. Data on EPS was acquired from S&P Capital IQ. Data for MCAP was procured from Prowess IQ to account for firm size. Data for DE ratio, ADV_EXP, and RDI was procured from S&P Capital IQ. Finally, IND, a dummy for Industry to differentiate between manufacturing and service sectors was included which was coded by investigating the sub sector in Prowess for the concerned firm.

Sector and Firm Identification

First, the database provided by the Centre for Monitoring the Indian Economy, i.e., Prowess was used to procure CNX500 (broad-based index) list of firms. The sub-sectors were analyzed for average turnover and average profit after tax. The sub-sector average net profit (2012) of Rs 9,000 crores was set as the lowest threshold to include a sector in the study. Eight firms belonging to the Automotive and Banking sectors, seven firms in the oil, gas, and energy sectors, and computer software were included. The sample of 30 firms studied over 2 years immediately preceding the Indian Companies Act, 2013 led to 60 firm-year observations.

Measurement Instrument of Independent Variables

Since no other comparable data collection instrument on NVG principles was available in India, nine instruments were created in the form of 99 statements. Literature review was the basis for the identification of points to be included for each principle. The reliability of the instruments was checked with the help of an inter-rater agreement test conducted amongst three industry experts, with 10 – 25 years of experience in the development, and corporate sector. The test passed with inter-rater agreement on 92.4% of the statements. The expert comments helped assume that the content validity was tested. No additional points were suggested by the experts who observed the statements to be comprehensive.

Table 2: Summary Statistics for Dependent Variables

Variables	Mean	Maximum	Minimum	Standard Deviation	Skewness	Kurtosis	Jarque- Bera Probability
EPS	40.35	127.40	0.35	35.88	1.00	2.88	0.01*
ETA	16.58	27.00	10.00	4.00	-0.10	1.90	0.21
S_SP	7.07	16.00	0.00	5.10	0.11	1.97	0.25
E_WB	9.08	18.00	0.00	4.52	0.06	2.30	0.53
ST_MT	5.07	12.00	0.00	3.48	0.36	2.02	0.16
HUM_RT	7.48	16.00	0.00	4.91	0.32	1.63	0.06
ECSR	2.50	6.00	0.00	1.91	0.13	1.56	0.07
POL_AD	10.30	24.00	0.00	7.62	-0.03	1.66	0.10
INCL_G	19.20	34.00	2.00	8.09	-0.28	2.48	0.47
CUST_V	8.15	14.00	2.00	3.20	-0.07	2.40	0.62
MCAP	731.24	4252.30	19.86	874.68	1.89	6.58	0.00*
DE	1.00	3.60	0.00	0.97	0.94	3.05	0.02*
RDI	0.57	3.69	0.00	0.86	2.01	6.58	0.00*
ADV_EXP	5.21	66.07	0.00	13.46	3.81	16.41	0.00*

Footnote: * Variables are not normally distributed as per Jarque - bera test statistic ($p \leq 0.05$: Statistic is non-normal).

The construct validity was tested through correlation analysis. The responses of Judges 1 and 2 were observed to be perfectly correlated. Judges 1 and 3 were moderately correlated. The Pearson correlation coefficient was significant at a 1% level of significance. Hence, the construct validity of the instruments was assumed to be passed. It was not possible to test criterion validity since no known comparable instruments were known to exist in the Indian context.

Scores of Independent Variable

For the independent variables, the scores procured on statements were summed to arrive at a unique score for each firm.

Descriptive Analysis

The estimated equations were derived by using ordinary least squares panel data regression.

Descriptive Statistics

The descriptive statistics of the variables considered in the model are enclosed in Table 3. The Min/Max associated with EPS was 0.35/127.40. The standard deviation was at 35.88 for EPS. The normality of the variables was tested using Jarque – Bera test statistic. The independent variables showed normality, and only three independent variables and the control variables were not normally distributed. Use of OLS regression may hence be permitted.

Before modeling, the Granger causality test was conducted. The test checked the prediction capability of the dataset in the time period (t1) for data in time period (t2). The time period difference otherwise known as Lag was 1 in this case. It was discerned that EPS was granger caused by ST_MT and CUST_V.

Table of Correlations

The disclosure scores of NVG principles were observed to be highly correlated in Table 3. Amongst the exceptions, a moderate correlation was observed between ECSR and INCL_V and CUST_V; a moderate correlation was observed between POL_AD and INCL_V; and a negative association was observed between EPS and E_WB, POL_AD and INCL_V.

Table 3: Correlations Matrix

Variables	ETA	S_SP	E_WB	ST_MT	HUM_RT	ECSR	POL_AD	INCL_G	CUST_V	EPS	MCAP	DE	RDI	ADV_EXP
ETA	1													
S_SP	0.814	1												
E_WB	0.723	0.640	1											
ST_MT	0.696	0.905	0.607	1										
HUM_RT	0.784	0.840	0.714	0.817	1									
ECSR	0.816	0.643	0.597	0.598	0.640	1								
POL_AD	0.669	0.573	0.678	0.617	0.764	0.556	1							
INCL_G	0.563	0.530	0.530	0.566	0.499	0.463	0.489	1						
CUST_V	0.656	0.738	0.510	0.650	0.600	0.477	0.539	0.540	1					
EPS	-0.266	-0.096	-.526	-0.237	-0.291	-0.249	-0.509	-0.696	-0.233	1				
MCAP	0.823	0.702	0.580	0.541	0.600	0.598	0.420	0.359	0.518	-0.022	1			
DE	0.012	0.107	0.163	0.332	0.316	-0.072	0.322	0.668	0.176	-0.706	-0.187	1		
RDI	0.693	0.651	0.160	0.527	0.519	0.556	0.292	0.452	0.527	-0.006	0.734	0.005	1	
ADV_EXP	0.620	0.536	0.085	0.415	0.452	0.415	0.232	0.456	0.453	-0.086	0.624	0.112	0.940	1

RESULTS

Effect on EPS

The results of the regression models on EPS are enclosed in Table 4. It was observed that the direction of variables was similar in the comprehensive and basic models within each of the scenarios – with RDI and ADV_EXP.

Model A1

In model A1 (basic model with RDI), EPS was positively and significantly affected by S_SP, ST_MT, and POL_AD. Among the control variables, MCAP, RDI, and IND affected EPS positively and significantly.

Estimated Equation: Model A1

$$\text{EPS}_{i,t} = 44.27 + (-0.85) \text{ETA} + (4.74) \text{S_SP} + (-1.37) \text{E_WB} + (0.93) \text{ST_MT} + (-3.59) \text{HUM_RT} + (-6.60) \text{ENV_CSR} + (3.98) \text{POL_AD} + (-1.42) \text{INCL_G} + (-2.16) \text{CUST_V} + (0.001) \text{M_CAP} + (-29.21) \text{DE} + (2.17) \text{RDI} + (60.24) \text{IND} \quad \text{EQ (A1)}$$

Model B1

In model B1 (Best performing model with RDI), S_SP and POL_AD were observed to impact EPS positively and significantly. HUM_RT, ECSR, and INCL_G impacted EPS negatively and significantly. Amongst the control variables, DE and IND had a significant negative impact on EPS.

Estimated Equation: Model B1

$$\text{EPS}_{i,t} = 17.72 + (3.72) \text{S_SP} + (-3.67) \text{HUM_RT} + (-6.37) \text{ENV_CSR} + (3.77) \text{POL_AD} + (-1.48) \text{INCL_G} + (-31.14) \text{DE} + (0.44) \text{RDI} + (71.02) \text{IND} \quad \text{EQ (B1)}$$

Model A2

In model A2, EPS was positively and significantly impacted by ETA, S_SP, and HUM_RT. It was further observed that ST_MT, ECSR, INCL_G, and CUST_V affected EPS negatively. DE and ADV_EXP affected EPS significantly and negatively.

Estimated Equation: Model A2

$$\text{EPS} = 27.85 + (5.59) \text{ETA} + (4.59) \text{S_SP} + (-6.67) \text{E_WB} + (-3.66) \text{ST_MT} + (5.26) \text{HUM_RT} + (-2.44) \text{ENV_CSR} + (-2.09) \text{POL_AD} + (-0.29) \text{INCL_G} + (-0.97) \text{CUST_V} + (-0.01) \text{MCAP} + (-17.99) \text{DE} + (-1.26) \text{ADV_EXP} + (15.23) \text{IND} \quad \text{EQ (A2)}$$

Table 4: Estimated Model for EPS

Variable	Expected Sign	Model A1 (RDI)				Model B1 (RDI)				Model A2 (ADV_EXP)				Model B2 (ADV_EXP)			
		Actual Sign	Beta (SE)	t value	P Value	Actual Sign	Beta (SE)	t value	P Value	Actual Sign	Beta (SE)	t value	P Value	Actual Sign	Beta (SE)	t value	P Value
C		+	44.27 (41.366)	1.07	0.30	+	17.72 (11.24)	1.58	0.13	+	27.85 (35.90)	0.78	0.45	+	32.08 (31.37)	1.02	0.32
ETA	+	-	-0.85 (2.22)	-0.30	0.70					+	5.59 (3.06)	1.83	0.08***	+	4.06 (2.00)	2.03	0.05***
S_SP	+	+	4.74 (2.37)	2.00	0.06***	+	3.27 (1.75)	1.86	0.07***	+	4.59 (1.83)	2.51	0.02**	+	4.11 (1.68)	2.45	0.02***
E_WB	+/-	-	-1.37 (2.74)	-0.50	0.62					-	-6.67 (2.14)	-3.12	0.01*	-	-6.96 (1.79)	-3.88	0.00*
ST_MT	+	+	0.93 (3.24)	0.29	0.78					-	-3.66 (2.17)	-1.68	0.11	-	-3.67 (2.00)	-1.83	0.08***
HUM_RT	+	-	-3.59 (2.40)	-1.49	0.15	-	-3.67 (1.39)	-2.64	0.01*	+	5.26 (2.42)	2.17	0.04**	+	5.60 (2.32)	2.42	0.02**
ENV_CSR	+	-	-6.60 (4.05)	-1.63	0.12	-	-6.37 (3.04)	-2.10	0.05**	-	-2.44 (3.120)	-0.78	0.44				
POL_AD	+	+	3.98 (1.69)	2.36	0.03**	+	3.77 (1.20)	3.15	0.00*	-	-2.09 (0.97)	-2.15	0.04**	-	-2.05 (0.95)	-2.16	0.04**
INCL_G	+	-	-1.42 (.87)	-1.63	0.12	-	-1.48 (0.73)	-2.04	0.05***	-	-0.29 (1.14)	-0.26	0.80				
CUST_V	+	-	-2.16 (2.70)	-0.80	0.43					-	-0.97 (2.24)	-0.43	0.67				

Independent Variables

Variable	Expected Sign	Model A1 (RDI)				Model B1 (RDI)				Model A2 (ADV_EXP)				Model B2 (ADV_EXP)			
		Actual Sign	Beta (SE)	t value	P Value	Actual Sign	Beta (SE)	t value	P Value	Actual Sign	Beta (SE)	t value	P Value	Actual Sign	Beta (SE)	t value	P Value
Control Variables	MC AP	+	0.00 (0.01)	0.24	0.82					-	-0.01 (0.01)	-0.67	0.51				
	DE	-	-29.21 (6.89)	-4.24	0.00*	-	31.14 (4.71)	-6.61	0.00*	-	-17.99 (5.02)	-3.58	0.00*	-	-18.27 (3.75)	-4.87	0.00*
	RDI	+	2.17 (7.38)	0.29	0.77	+	0.44 (4.49)	0.10	0.92								
	ADV_EXP	+/-								-	-1.26 (0.45)	-2.78	0.01*	-	-1.31 (0.40)	-3.26	0.00*
	IND	+	60.24 (35.47)	1.70	0.10***	+	71.02 (10.17)	6.98	0.00*	+	15.23 (22.76)	0.67	0.51	+	13.62 (15.67)	0.87	0.39
R ²				.7543				.7242				.7230				.7101	
Adj R ²				.6091				.6426				.5593				.6098	
F value				5.19				8.86				4.41				7.07	
P-value				0.00*				0.00*				0.00*				0.00*	

Foot Note: * Significance at 1%. ** Significance at 5%. *** Significance at 10%.

Model B2

In the best-performing model with ADV_EXP, ETA, S_SP, and HUM_RT affected EPS positively, and significantly. E_WB, ST_MT, and POL_AD impacted EPS negatively and significantly. DE and ADV_EXP had a significant negative effect on EPS.

Estimated Equation: Model B2

$$\begin{aligned} \text{EPS} = & 32.08 + (4.06) \text{ETA} + (4.11) \text{S_SP} + (-6.96) \text{E_WB} + (-3.64) \\ & \text{ST_MT} + (5.60) \text{HUM_RT} + (-2.05) \text{POL_AD} + (-18.27) \text{DE} + (-1.31) \\ & \text{ADV_EXP} + (13.62) \text{IND} \end{aligned} \quad EQ(B2)$$

CONCLUSIONS

The present paper examined the relationship between CSR disclosures and EPS from an empirical standpoint, viewing CSR from the lens of National Voluntary Guidelines 2011, which is not known to have been attempted so far. Studying a cross-section of 30 firms across 4 sectors of the Indian economy, the analysis spans large firms for 60 firm-year observations. The analysis accomplished at a disaggregated level highlights that the nature of the association in the Indian context is consistent with previous studies for most of the principles.

First, ETA disclosures were observed to have a positive relationship with EPS. This is similar to the empirical results observed by Blazovich and Smith (2010, 18, 20) and Aggarwal (2013, 68) who investigated the relationship with financial performance. The robust design of processes and transparent communication aid in imparting legitimacy to a firm through assurance of ethical and accountable functioning. Performance on ethics not only constitutes critical screens for socially responsible investing (Boutin-Dufresne & Savaria, 2004, 58); but attracts rewards from consumers in the form of higher prices (Schuler & Cording, 2006, 545) and increased sales.

Second, S_SP disclosures were perceived to have a positive relationship with EPS. Empirically, similar results have been observed by Dowell, Hart and Yeung (2000, p. 16) in the case of adherence to higher environmental standards. These results may be interpreted from the perspective that stakeholders expect higher standards of performance from firms with respect to sustainable procurement, consumption, and disposal practices, and extended also to the supply chains. This is especially important in the case of oil, gas and energy, and the automotive sectors with consequent

implications for the quality of air, and health hazards impacting humanity. These results potentially indicate a growing awareness of safety and sustainability concerns among various stakeholders, since it is significantly associated with EPS.

Third, E_WB disclosures were observed to have a negative relationship with EPS. Aggarwal (2013, 68) also observed a significant negative relationship between employee-related disclosures and financial performance. Employees constitute a small number of stakeholders for most large firms. From the results, it seems that firm attention to the improvement of employee well-being has not attracted a high level of attention from stakeholders in general. The services sector, especially the computer software sector has made significant disclosures on E_WB, and the automotive sector made the least disclosures. The automotive sector employs a large number of contractual daily wage workers to address seasonal demand, with no additional liability for firms. The computer software sector, in contrast, hires educated and blue-collar workers, including a large percentage of women. Hence, the nature of employment offered, and diversity of the labor force may be impacting disclosure practices of firms with consequent implications for CFP.

Fourth, ST_MT impacted EPS positively.

Fifth, HUM_RT impacted EPS both positively and negatively in the two models. No determinate association may be attributed to this result.

Sixth, ENV_CSR aimed at protection and conservation of the environment, impacted EPS negatively. Lioui and Sharma (2012, 101), believe that Environmental CSR activities are particularly “time and resource-consuming”. ENV_CSR projects firm environmental preservation initiatives that are external to its operations. Hence, these are direct efforts for environmental preservation in the community. It is expected that firms have made contributions through implementation partners for carrying out such activities, with negative associations for the CFP measure.

Seventh, POL_AD had a positive relationship with EPS. No paper was observed to have been published that examined the effect of policy advocacy on CFP earlier. We expect firms involved in advocacy at the local, national, and international levels to exercise their voice to effect policies that will positively impact their futures.

Eight, INCL_G seemed to have a negative impact on EPS. This was contrary to the observation of a weak positive relationship by Balabanis, Phillips and Lyall (1998) and Aggarwal (2013). It is possible, the cost of implementation in direct community initiatives for the promotion

of education, healthcare, rural development, women empowerment, malnutrition, and other developmental efforts, executed with the help of firm Trusts, or non-profits, outweighs the positive effects of impacting potential consumers to impact sales positively for the sample firms analyzed. This behoves the question, whether research questions in future should address the CSR – CFP association, or move towards more outcome oriented questions addressing the wider social science outcomes like development, quality of life, well-being etc.

Finally, CUST_V was not observed to be in the Best Performing model.

While our work of studying CSR at a disaggregated level is in line with ESG studies, analyzing disclosure phenomenon across a wide number of elements impacting CFP, it is the first one to consider the effect of disclosures on the nine principles of National Voluntary Guidelines, 2011 of corporate responsibility on EPS in India. It is also the first one to examine the nature of the relationships in a period immediately preceding the mandatory disclosure norm. Though the study has been carried out for large firms, on the assumption that large firms disclose more non-financial information, the sample may be expanded across various sectors and to small and medium enterprises.

From the perspective of whether legitimacy theory and stakeholder management theories explain the non-financial disclosures, it is relevant to note that firms did not avoid disclosing the bad news e.g. Maruti Suzuki. Hence transparency and ethics do play an important role in non-financial disclosures. Secondly, it was observed that more extractive the industry, greater were its non-financial disclosures. The oil, gas and energy sector was the best performing in disclosures across sectors. Third, we did observe that disclosures were made pertinent to all stakeholders. While there is room for improvement in some areas, by and large information pertinent to a sector was described.

The policy implications of the present study may be of interest to policymakers. Voluntary disclosures are dependent on communication frameworks adopted by firms and the perceived need to disclose aspects of responsible practices. Clear policy guidelines are required in the area of human rights, advocacy, sustainable and safe operations, and information to the customer. There is scope for further understanding the nature of the independent variables in terms of causal associations by expanding the study over a longer period of time. Further, given the context of the developmental nature of CSR spending, outcomes other than the financial need to be investigated, which will involve going out in the community

to understand the impact on the beneficiaries. This study may be used as a “beginning” to further deep dive into the non-financial outcomes, by taking into account the variables which have emerged as significant in the best-performing models.

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