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Mandated CSR expenditure: the Indian experience

A thesis
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at
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Abstract

The idea that companies service a broad range of stakeholders dates back to the 19th century but has gained increasing traction in more recent times. The question is what to do when the corporate sector fails to keep pace with societal expectations. The Indian Government's response was to pass legislation on 12 August 2012 to make it mandatory for large corporations to spend a minimum of 2% of their profits on CSR activities, and then to amend this legislation 18 months later to specify the area where these funds must be allocated. In this thesis, we use India as an example of the success or otherwise of taking decisions related to CSR largely out of the hands of management. We analyse the impact that the mandatory CSR regulation may have on investors' perceptions about what the resulting increased expenditure on CSR will have on corporate profitability, and we then investigate how the companies perceive the mandatory CSR regulation.

There are three studies in this dissertation. The first study uses the flow of information relating to the introduction of mandatory CSR expenditure in India as a means of measuring investor perceptions of the impact that the resulting increase in CSR expenditure will have on company profitability. We use both event study and regression analysis and find that when mandatory CSR spending was first mooted in mid-2008, investors expected that more CSR expenditure would increase future corporate profitability. However, by the time the legislation was passed in August 2012, these expectations had changed to the opposite view.

In the second study, we investigate the drivers and barriers of CSR expenditure, determine the attitudes of corporations towards CSR activities and the impact of making CSR spending mandatory. We surveyed 223 Indian corporations and find

that the attitudes of companies on CSR spending largely vary with age, size and type of ownership of firms. The results of this study indicate that the expenditure on CSR in India is very much dependent on the availability of funds. Also, we provide an explanation for why a large number of Indian companies failed to comply with the requirement under the legislation to allocate 2% of profit towards CSR.

In the third study, we test both the relationship between CSR expenditure and financial performance, both before and after the legislation was introduced. We use panel regressions to analyse the direction of the relationship between CSR spending and firm performance, and then the difference in difference regression analysis to examine the overall impact of mandatory CSR regulation on firm performance. Our findings suggest that the legislation has fallen short of expectations both in terms of the volume of CSR expenditure that has been generated, and the purposes to which it has been directed. In particular, we find that the law has weakened the previously positive relationship between CSR and profitability which can have a perverse effect on the willingness of companies to spend in this area. We conclude that great care has to be taken when implementing mandatory CSR if it is to be effective.

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Thesis-related research outcomes

A number of journal articles and conference papers have been produced from this thesis as follows.

Journal articles published

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Working paper

Mukherjee, A., Bird, R., Duppati, G. (2016) Mandatory corporate social responsibility and corporate profitability: the India experience

Conference Paper

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Chapter 1: Introduction

This chapter presents a framework for the thesis. It includes the background to the study, its significance, research questions, discussion about the Indian mandatory legislation and organisation of the study and a summary of the findings.

Corporate social responsibility (CSR) has been present in the finance literature for about 45 years (Wood, 2010). World Business Council for Sustainable Development (1999) has defined CSR as a continuous commitment by business to behave ethically and increase profitability while improving the quality of life of the workforce and their families and contributing to society. However, in recent years CSR has become a critical aspect of the strategic decision-making of a firm primarily because of an increase in the number of financial scandals and a decrease in investor confidence (Fiori, Di Donato, & Izzo, 2007; Flammer, 2013). Corporations are using CSR initiatives to enhance their reputational advantages, for example by attempting to increase the trust that investors have in their firms, to create new market opportunities, and to elicit positive reactions from capital markets (Fombrun, Gardberg, & Barnett, 2000; Spicer, 1978).

However, the question is, are they doing enough? Should it be made mandatory for corporations to spend on CSR? And if it is made mandatory then what will be the effect on firms' profitability? The focus of this thesis is on investigating the usefulness of making CSR expenditure mandatory and its effects on corporate performance.

In recent years we have seen numerous examples of unethical corporate behaviour. The most significant example in 2015 was Volkswagen's involvement in falsifying

emissions test results. In September 2015 the US Environment Protection Agency discovered that Volkswagen had installed software called the "defeat device" that allowed its diesel engine vehicles to pass emissions tests. The company admitted that they deliberately installed the defeat device in eleven million cars worldwide. This scandal cost the company \$87 billion (Yakowicz, 2015).

Toshiba overstating its operating profit by at least \$1.2 billion between 2008 and 2014 is another notable example of business irresponsible behaviour. The company, in an attempt to meet sales targets after the 2008 global recession, allowed certain employees to defer losses or booking future profit early. In 2015 Securities and Exchange Surveillance Commission under the financial watchdog Financial Service Agency launched a probe, after unearthing the accounting misconduct, imposed \$60 million in penalties (Fukase, 2015).

Another example of corporate irresponsibility is Exxon Mobil deliberately misleading the public about climate change. From the 1980s through the early '90s, Exxon's team of scientists studied global warming in the Arctic. The researchers concluded that global warming is real and that increased fossil fuel consumption may have an irreversible impact on the climate. However, the company spread misinformation on climate change and continued to develop high carbon energy sources (McKibben, 2016).

In India, there is no dearth of examples of unethical corporate behaviour. The Bhopal gas tragedy is one of the most infamous examples of corporate unethical behaviour in India. It occurred on the night of 2 December 1984 at the Union Carbide pesticide plant in Bhopal, a city in central India. Over 500,000 people were exposed to methyl isocyanate gas and other chemicals. The toxic gas made its way

into and around the shantytowns located near the plant (Varma & Varma, 2005). The government declared that 3,787 people died due to the gas release. In 2006 the government reported that the exposure caused 558,125 injuries (Wood, 2005). The investigation found that the reasons for the disaster was sluggish management and delayed maintenance which resulted in a backflow of water into a tank, triggering the disaster.

Satyam Computer Services scandal is another infamous example of corporate misconduct in India. In 2009 Ramalinga Raju, the chairman of the company, confessed that the company's accounts had been falsified. He had manipulated the accounts, \$1.47 billion assets he had claimed did not exist. In February 2009, the Central Bureau of Investigation in India took over the investigation of the case and in April 2015, Ramalinga Raju was convicted, along with ten other individuals (Press Trust India, 2009).

In 2003 Coca-Cola was accused of causing water shortages in a number of areas in India, including the community of Plachimada in Kerala. Also, Coca-Cola was accused of polluting water by discharging wastewater into fields and rivers surrounding Coca-Cola's plants in the same community. Groundwater and soil were polluted to the extent that Indian public health authorities saw the need to post signs around wells and hand pumps, advising the community that the water was unfit for human consumption (Cedillo Torres, Garcia-French, Hordijk, Nguyen, & Olup, 2012).

The history of such corporate social irresponsibility raises the question of whether corporate involvement in CSR activities should be voluntary, or whether such involvement should be required by legislation. The European Commission (2016)

was clear on this matter when they described CSR as a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. However, several governments are no longer prepared to trust corporations to make voluntary contributions to CSR and have taken steps to mandate such expenditure. The focus of this thesis is gaining insights into the effectiveness of making CSR expenditure mandatory and its implications for corporate performance. A scattering of nations have undertaken national-level legislative initiatives that mandate CSR expenditure by corporations. (e.g. India, Indonesia and the Philippines) (Congress, 2013; Gowda, 2013; Waagstein, 2010). The analysis in this dissertation is based on the Indian experience where legislation was passed in August 2012 that requires larger Indian companies to spend a designated portion of their net profits on CSR activities (Subramaniam, Kansal, & Babu, 2015). The Government of India now requires large Indian companies to spend 2% of annual net profits on certain approved CSR activities, and also to disclose such expenditure in their financial statements and in a separate individual CSR report. The CSR legislation adopts a “comply or explain” approach, which requires each company to formulate a CSR policy and furnish details how it has spent the mandated amount. If the enterprise fails to spend the designated amount on CSR, the board is obligated to report the reasons for not doing so. The primary objective of this legislation is to ensure that all large corporations contribute to the betterment of the society as a whole (Desai, Pingali, & Tripathy, 2015). The major areas for CSR activities are: poverty-alleviation programmes including livelihood and skill training, health care, nutrition, water and sanitation, education and sports, ecology and environment, programmes which address the needs of women, disabled people, aged people and marginalised groups of society for overall rural development (Majumdar & Saini, 2016).

1.1 The Indian Mandatory CSR regulation

The Indian Government has shown great concern about CSR and introduced new regulations for Indian corporations in regard to their CSR investment and governance. The Companies Act, 2013 requires all publicly listed companies and private enterprises whose net worth exceeds INR 5000 million, whose annual turnover exceeds INR 10000 million, or whose profit exceeds INR 5 million during any financial year, must spend two per cent of their profits, averaged over the past three years, on CSR expenditure. Also, they are required to establish a Corporate Social Responsibility Committee of the board. The Committee must include at least three directors of the company, and one Committee member must be independent of the company.

The Corporate Social Responsibility Committee will be responsible for formulating and recommending to the board a CSR policy indicating the activities to be initiated by the company. The Committee must approve the amount of CSR expenditure and it must monitor the CSR Policy of the company from time to time.

The board of every company will consider the recommendations made by the CSR Committee, approve the recommended CSR activities and disclose the details of the expenditure undertaken in its report, and also post this information on the enterprise's website (if it has one), in such manner as may be prescribed. Also, the board must ensure that the company undertakes the activities included in Corporate Social Responsibility Policy of the enterprise.

Failure to report CSR spending, or the reasons for failing to spend the required amount, shall amount to violation of Section 134 of the Companies Act, and the company shall be punishable with a fine that shall not be less than INR 50 000

(equivalent to approximately US\$756) but which may be as much as INR 2.5 million (US\$38780 approximately) and every officer of the company who is in default shall be punishable by imprisonment for a term which may extend to three years, or by a fine which shall not be less than INR 500 000 (USD 7750 approximately) or both (Ernst & Young, n.d.).

Also, as per an amendment to the legislation passed in 2014, the corporations are required to spend in the following areas to claim the spending as CSR expenditure:

- eradicating extreme hunger and poverty
- promoting education
- promoting gender equality and empowering women
- reducing child mortality and improving maternal health
- combating the human immunodeficiency virus, acquired immune deficiency syndrome, malaria or other diseases
- ensuring environmental sustainability
- employment enhancing vocational skills
- social business projects
- contributing to the Prime Minister's National Relief Fund.

1.2 Discussion on the bill

The draft law of 2009 on CSR proposed that large businesses should voluntarily set aside two per cent of their profits, averaged over the past three years, on CSR expenditure (Bhaduri & Selarka, 2016). The proposal threw no light on what qualified as CSR spending, and only enforced compulsory reporting. However, in 2011 the Ministry of Corporate affairs became increasingly unhappy with Indian corporate involvement in CSR and reconsidered the bill. The ministry decided to

make it mandatory for companies whose net worth exceeds INR 5000 million, whose annual turnover exceeds INR 10000 million or, whose profit exceeds INR 5 million to create a CSR policy for themselves and put aside at least 2% of its average net profits during the three immediately preceding financial years for spending on CSR activities. The proposal also required directors of the companies to disclose the CSR spending undertaken in their annual report. In other words, the government wanted the companies to be held legally accountable for contributing to society. During 2011 Murli Deora, the Minister of Corporate Affairs, acknowledged that it was the first time in India, and perhaps the first time in the world, that a country intended to mandate corporate expenditure for the public good rather than simply tax them and leave them on their own (Press Trust of India, 2011b). In 2012, the bill was introduced, and in 2013 it was enacted. On 2014 the bill was amended to give some guidance as to what constitutes CSR.

While some of the corporate executives were supportive of the two per cent mandate, most corporations in India were strongly opposed to the bill. The Confederation of Indian Industry (CII) emphasised that the law should not specify any amount to be spent on CSR activities, and it should be left to the decision of the board. Eminent people like K Gopalakrishnan (CEO, Infosys Technologies), Azim Premji (Chairman, WIPRO), Ajay Piramal (Chairman, Piramal Group) spoke out against such mandatory legislation. In fact, Mr Piramal called for philanthropy rather than mandatory CSR. However, it is important to note that the track record of voluntary CSR in India was mixed. On one hand we have examples of the significant contributions of the Azim Premji Foundation and the Tata Group, but on the hand, during 2006, despite the economic boom the total recorded expenditure on CSR in India amounted to 0.6% of the GDP, while in contrast the American corporations

spend about 2% of the GDP on social development, not to mention the huge gap between the GDP of India and America as well as the difference in population. The expenditure on CSR activities during 2006 in the USA was around 48 times that in India (Mukherjee & Chaturvedi, 2013)

1.3 Concerns about the new CSR legislation

A significant portion of the Indian population still lives below the poverty line, but millions have risen above it and are steadily moving towards entering the middle class. According to the McKinsey Global Institute in their report on India in 2007, “The Bird of Gold” (Indian bourgeoisie), would increase by more than ten times from 50 million to 583 million people by 2025 (Ablett et al., 2007; Mukherjee & Chaturvedi, 2013). A study conducted by the National Council for Applied Economic Research (NCAER) in 2011 finds that the Indian middle-class population is expected to increase by 67% from the current level to 267 million people in the next five years (Mukherjee & Chaturvedi, 2013).

The adoption of liberal economic policies has rewarded the nation by enabling it to achieve higher GDP rates. Corporations have been performing quite well in the global market. In such a situation, a mandatory CSR bill may dampen the spirits of corporations. Many could argue that mandatory CSR spending goes too far and will create inefficiencies in the market that may damage the economy in the long run. The competitive disadvantage it will create in global markets is another fear of the corporations (Mukherjee & Chaturvedi, 2013).

Moreover, researchers has argued that mandating 2% of profits to be spent on CSR activities may become ineffective because the scale of operations of a company, and the damage inflicted by it, are primarily dependent on its turnover and not

profits. The larger the operations of a corporation, the greater the damage to society. For example, banking companies do not emit hazardous gases, and nor do they increase global warming as a direct result of their business operations (Mukherjee, 2012). Hence, even if there is mandatory CSR spending, it has to be different for the various forms of organisations. The steel, cement, mining and chemical industries should obviously be given a higher responsibility than industries like banking, information technology and hospitality. A flat rate for all will never be accepted by the business community as there is no valid “one size fits all” approach in this context (Mukherjee & Chaturvedi, 2013).

Some may also argue that merely a mandate spending 2% of profits may not solve the problem on the quality level. The bill only talks about quantity and not quality. Many organisations are likely to direct this mandatory expenditure in a way which directly or indirectly serves their business interests. Moreover, compulsory spending on CSR does not always benefit business organisations. Milton Friedman asserts that if corporate funds are spent on projects which are not intended to maximise profits, the efficiency of the market mechanism will be undermined and resources will be misallocated within the economy. In addition, Friedman contends that managers are the authorised agents of the shareholders and their sole duty is to maximise the financial returns to the shareholders (Aswathappa, 2009).

According to Archie B Carroll, a firm has three levels of responsibility. In order of importance they are: (a) economic and legal (b) ethical and (c) discretionary (Cherunilam, 2003). The first and foremost responsibility of a corporation is to increase its efficiency and thereby increase wealth for the stockholders and employees. Carroll argues that a firm should only start thinking about ethical considerations when it reaches a satisfactory level of economic performance.

Having fulfilled its ethical responsibilities, it should then consider discretionary responsibilities like CSR (Carroll, 2008).

However, the annual Karmayog¹ survey of the CSR activities of Indian corporations shows that out of the top 1000 companies, 43% were at the zero level (i.e., the lowest level) in 2007, while the figure stood at 23% in 2010. This gives a signal to the Indian population that irrespective of any mandatory legislation, companies who were not spending in CSR before are maturing in status as socially responsible companies. It could therefore be argued that businesses are naturally increasing their CSR as they create wealth for their shareholders and stakeholders, and that there is therefore no need to mandate CSR spending (Timane, 2012).

Modern Indian corporations today look forward to less government and regulatory pressure. They are creating a highly motivated workforce along with a holistic approach towards CSR, leading to business sustainability (Timane & Tale, 2012). Professor Ruchi Tewari in her research paper finds that out of 46 Indian companies engaged in the business of information technology, only 39 made public disclosures of CSR spending in their websites, whereas out of a sample of 42 multinational corporations in the same industry, all 42 made public disclosures on their websites (Tewari, 2012). Given that most of the countries of the world do not mandate CSR spending and reporting, the multinational corporations were doing better than their counterparts. Hence, CSR is a growing part of corporate. It must be seen by companies as a responsibility imposed, not by outside forces, but by conscience, and a desire to give back to society. Companies nowadays are also realising fast

¹ Karmayog is the largest Indian platform of concerned citizens for civic and social issues. In the last four years, Karmayog has conducted an annual CSR study which rates the 500 largest Indian companies.

that CSR spending is a valuable practice that might offer them a competitive advantage (Sukhramani, 2012). With mandatory CSR spending legislation the incidence of green-washing could rise (Singh & Verma, 2014). Many business houses are likely to look at CSR as an add-on to “business as usual” and not as a different way of doing things. In the absence of a strong regulatory framework in any legislation mandating CSR, the concept of CSR could get mixed up with the general business of the firm, creating an unstable situation. Hence, before making CSR mandatory, vigorous and robust regulatory systems need to be created (Mukherjee & Chaturvedi, 2013)

In a recent report by Singh (2016) revealed that a total of 460 companies that filed their annual reports on CSR spent an aggregate of INR 63.37 billion in 2014–15, as against the prescribed spending of INR 83.37 billion, a shortfall of INR 20.1 billion. The companies that failed comply with the mandatory obligation explained their failure as being due to the absence of suitable projects and the absence of an appropriate implementing agency.

1.4 Contribution of the thesis

In this thesis we will address three research questions:

How do market participants perceive the impact of mandatory CSR regulation on corporate profitability?

What are the key factors that encourage or discourage managers to engage in CSR activities in India?

How does mandatory CSR regulation impact firm performance?

1.4.1 How do market participants perceive the impact of mandatory CSR regulation on corporate profitability?

The Indian Government issued a series of announcements about its intended CSR legislation, as it vacillated over a four-year period between making it voluntary or mandatory for large Indian companies to spend on CSR activities. The timing of these announcements provides an ideal setting to gain insights into the impact that CSR expenditure is expected to have on the long-term profitability of Indian companies. Each announcement provided information that was likely to change expectations relating to the future level of CSR expenditure. Hence, by observing the impact that these announcements had on the share prices of companies, we gain insights into the impact that investors perceive mandatory CSR expenditure will have on the future profitability of businesses.

There is much conjecture around the impact that CSR spending has on the profitability of firms, fuelled by the contradictory findings of numerous studies that have analysed this relationship. The advantage of our study is that it enables us to observe investor reaction to a series of information signals relating to expected changes in CSR expenditure by Indian companies. Further, businesses are separated into four categories that in many cases would be expected to react differently to the various information signals. Also, our study is entirely based on Indian data and so extends the somewhat limited findings to date as to how investors in developing markets react to CSR expenditure.

The analysis consists of event studies and also regression analysis of the price impacts of information releases relating to mandatory CSR expenditure by Indian companies. We find that investors started out with the expectation that more CSR

expenditure would increase future corporate profitability, but they then moved slowly to taking the opposite view.

1.4.2 What are the key factors that encourage or discourage managers to engage in CSR activities in India?

We surveyed 223 Indian corporations between November 2014 and January 2015, investigating and analysing the drivers and barriers to undertaking expenditure on CSR activities, the CSR activities that are more valued, perceptions towards the mandatory regulation, and managers' impressions of the impact of CSR spending on profitability. This study will help us understand the factors that motivate many companies to undertake (or not undertake) CSR activities voluntarily before the legislation was enacted, and changes in the spending patterns of these enterprises with the introduction of the new law. We also provide insights into the factors that stopped management from undertaking CSR activities or from complying with the legislation.

Our findings suggest that Indian companies' concerns for society, and for improving their public image, and for improving their relationships with the government, are the most important motivating factors for them undertaking CSR activities. The least important factors are employee-related goals such as reducing employee absenteeism and increasing productivity per employee. Across the whole sample, the most significant barriers to spending on CSR activities are inadequate free cash flow and a lack of human resources to manage expenditure. We found that the companies who were undertaking CSR activities voluntarily before the new legislation reduced their spending after mandatory CSR law was introduced, even though managers believed such expenditure increases profitability.

1.4.3 How mandatory CSR regulation may impact the firm performance?

The new legislation and the controversy surrounding it provide us with a unique setting to test the impact of the legislation on the relationship between CSR expenditure and financial performance, and the impact of regulated CSR on firms' financial performances. We have use a panel regressions approach to analyse the direction of the relationship between CSR spending and firm performance, and then we use difference-in-differences regression analysis to examine the overall impact of mandatory CSR regulation on firm performance.

Our findings suggest that large businesses that were spending on CSR for some years before the regime of compulsory legislation perceived that the expenditure had a positive impact on corporate performance. However, smaller firms and those that lacked familiarity with CSR involvement were more disposed to thinking that CSR expenditure had an adverse impact on performance. The findings from the difference-in-differences regression analysis suggest that making CSR expenditure mandatory has had an adverse impact on the performance of Indian companies. Further, this negative impact has been larger for firms who were not spending voluntarily on CSR before the legislation, and are now required to allocate 2% of profits to CSR activities.

1.5 Plan of thesis

The chapter plan of the thesis is designed so that the whole study is comprehensively covered in seven chapters. The chapter plan is as follows:

Chapter 2 presents a survey of the literature. We discuss the definition of CSR we have used for our study, the current status of CSR, the debate about voluntary versus

mandatory CSR, and academic literature about the impact of CSR on firm performance.

Chapter 3 presents the research methods that we have used in this study. In this chapter we discuss the limitations of each of those methods, and how we address those limitations.

Chapters 4, 5 and 6 present our responses to the three research questions discussed above. We also discuss the findings in detail and our interpretation of those findings.

Chapter 7 is the concluding chapter. In this chapter, we review the synthesis of the findings three research questions.

1.6 Conclusion

The objective of this PhD thesis is to examine the impact of the mandatory CSR legislation on firm performance. To achieve this we first analyse investors' responses to the new legislation, then investigate managers' perception towards it, and test the accuracy of the perceptions of both parties using financial information and examine the impact of the CSR legislation on the financial performances of the affected companies.

Having discussed the focus of the present study we now proceed to present a review of literature in the following chapter.

Chapter 2: Literature review

In Section 2 of this literature review chapter, we explore alternative views about CSR. In Section 3 we examine the current situation with regard to CSR. Views that advocate voluntary CSR and mandatory CSR are discussed in Section 4. The academic literature about the impact of CSR expenditure on firm performance is reviewed in depth in Section 5 and Section 6 presents the CSR research conducted in India. Finally, in Section 7 we identify the research gaps and outline how we will address those research gaps in this thesis.

2.1 What is CSR?

Moon (2004) has pointed out that CSR is a difficult concept to pin down. It overlaps with other concepts such as corporate citizenship, sustainable business, environmental responsibility, the triple bottom line, social and environmental accountability; business ethics and corporate accountability (Broomhill, 2007). Its meaning is highly contextual not only in terms of corporate environment but also in terms of the national environment (Chapple & Moon, 2005a; Fukukawa & Moon, 2004; Maignan & Ralston, 2002). Moreover, CSR is an essentially contested concept. Thus, any definition will be challenged by those who wish to contest its reach and application (Broomhill, 2007).

Through his analysis of 37 definitions of CSR Dahlsrud (2008) concludes that there are five key dimensions to the concept: the environment, the social context, the economic context, the stakeholders involved and whether the CSR is voluntary. . One of the most frequently used definitions in academic research that covers all the five key dimensions is one provided by the Commission of The European

Communities (2001). The Commission defines CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with stakeholders, on a voluntary basis. We consider this definition as holistic and adopt it for this thesis.

Traditionally, CSR has been regarded as a philanthropic activity conducted in addition to a corporation's main for-profit business activity, and it is beyond the requirements of the law (Commission of The European Communities, 2001; Hess, Rogovsky, & Dunfee, 2002). However, recently this assumption has been challenged (Matten & Moon, 2008). Moon (2004) has reported three reasons to question the voluntary nature of CSR. First, CSR is now viewed as '*how business is performed*'. This requires corporations to apply CSR principles to their daily operations (e.g. in employment, supply chains, reporting). Secondly, CSR involvement is considered as a value-adding process for corporations. Thus, CSR is increasingly seen as intrinsic to traditional business functions from research and development to marketing (McWilliams and Siegel 2002). Thirdly, governments are increasingly of the view that prospering companies need to be part of the solution to their nations' economic and social challenges. Many governments have developed a certain amount of 'soft' legislation which seeks to encourage and enshrine CSR (Moon, 2004).

2.2 Alternative views of CSR

2.2.1 Milton Friedman's neo-classical view of social responsibility

Friedman (1970) argues that the 'corporate executive' has direct responsibilities to the owners of the company, which, in the case of a publicly held company, would be its stockholders. He codifies these responsibilities "as to conduct the business in

accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom” (Friedman, 1970, para 4) . As the focus of this theory is primarily on the stock holder, it is widely known as the “stockholder theory”. Henderson (2001) supports Milton’s view; he argues that, far from being harmless, the adoption of CSR threatens prosperity in developing countries as well as rich countries. It is likely to reduce competition and economic freedom and to ‘undermine the market economy’. He criticises those who pressure corporations to do more than simply to seek profit and demonstrate their ‘corporate citizenship’ by working with a range of stakeholders to further environmental and social as well as economic goals. The origin of such pressures have come from NGOs but have been taken up by academics, other commentators and multinational enterprises themselves. Husted and de Jesus Salazar (2006) argue that it be ‘wiser for firms to act strategically than to be coerced into making investments in corporate social responsibility’ (p.1).

The neo-classical view of CSR is not hostile towards ethics, but it defends underlying values like individualism, contribution to the public good by maximisation of one’s welfare, free society and market system, competition, the “holiness” and inviolability of property rights, and non-intervention by the state in private sector affairs (Keinert, 2008). Friedman argues that business can fulfil its responsibility by engaging in its core activity as profitably as possible within the constraints of the law. Jensen (2001) considers that “200 years’ worth of work in economics and finance indicate that social welfare is maximized when all companies in an economy maximize total business value.” (p. 8)

However, many researchers have argued that there are strategic reasons why a corporation might be wise to adopt a CSR approach. Lantos (2001) claims that 'strategic' CSR is good for business and society. Lantos argues that CSR activities should be undertaken when it appears that they can enhance the value of the firm, - that is, firms should engage in strategic CSR. Gallagher (2005) argues that strategic advantages are gained by being ethical because ethical behaviour acts as a form of insurance or a strategic 'shock absorber' for firms. Gallagher notes that the scandals surrounding Enron and other firms have increased attention on the role of business ethics.

2.2.2 The Stakeholder approach of CSR

According to Freeman (1984) , the word "stakeholder" was used for the first time in 1963 in an internal memorandum at the Stanford Research Institute. Freeman points out that "[the term] stakeholder was meant to generalise the notion of stockholder as the only group to whom management need to be responsive" (Freeman, 1984). He makes clear that the modern organisation is affected by a range of stakeholder groups. At a minimum, these include stockholders, lenders, customers, employees, suppliers, and management (Freeman, 1984) which are often referred to as the primary stakeholders(Carroll, c 2003; Clarkson, 1995). These groups of stakeholders are vital to the survival and success of the organisation.

The list of stakeholders is easily enlarged with other possible (secondary) stakeholders, such as the local community, the media, the courts, the government, special interest groups, the general public, and society. While none of these parties are formally part of the organisation, they affect or are affected by its internal policies and external behaviour. Hummel indicated that Freeman argues that it is the responsibility of management to take into account the different views and

interests of “any group or individual who can affect or is affected by the achievement of an organisation’s purpose” (Hummels, 1998. p.1403).

Stakeholder theory offers a new way to think about organisational responsibilities (Jamali, 2008). Even when a firm seeks to serve its shareholders as a primary concern, its success in doing so is likely to be affected by other stakeholders (Foster & Jonker, 2005; Hawkins, 2006). Problems arise when the theory does not give any primacy to one stakeholder over another, as there will be times when some groups will benefit at the expense of others (Castelo Branco & Lima Rodrigues, 2007).

The question then becomes: Which group will be given preferential treatment? Jensen (2001) offers a solution in the form of the enlightened value maximisation proposition. Jensen recognises that communication between an organisation’s managers, employees and partners is extremely difficult. The financial market will not understand the full implications of company policies until they begin to affect cash flows. The management in such cases must communicate to investors the policies’ anticipated effects on value, and then wait for the market to catch up and recognise the real value of its decisions as reflected in increases in market share, customer and employee loyalty, and, finally, cash flows. Thus, the enlightened stakeholder theory identifies that companies cannot maximise the long-term market value of an organisation if we ignore or mistreat any stakeholder.

Stakeholder theory has accordingly witnessed a new resurgence and ascendancy in the context of CSR research (Jamali, 2008). Doh and Guay (2006), similarly find that the adoption of a stakeholder model is a potentially appropriate and insightful theoretical lens, given its ability to systematically identify social stakeholder issues

which in turn will help to recognise stakeholder priority, and establish specific measures of performance.

Branco and Rodrigues (2006) find that resource-based perspectives (RBP) are useful for understanding why firms engage in CSR activities and disclosure. From a resource-based perspective CSR is seen as providing internal benefits or external benefits, or both. Investments in socially responsible activities may provide internal benefits by helping a firm to develop new resources and capabilities which are related to know-how and corporate culture.

A. McWilliams, D. Siegel, and P. Wright (2006) argue that engaging in social responsibility activities when these are expected to benefit the firm is a behaviour that can be examined through the RBP lens. The argument is that companies generate sustainable competitive advantages by effectively controlling and manipulating their resources and capabilities that are valuable and rare and cannot be perfectly imitated, and when no perfect substitute is available for these resources and capabilities. Engaging in CSR can help firms to create some of these resources and capabilities (Branco & Rodrigues, 2006) .

On the other hand, slack resource theorists argue that better financial performance potentially results in the availability of slack (finance and other) resources which provide opportunities for companies to invest in social performance domains, such as community relations, employee relations or the environment (Waddock & Graves, 1997). This theory postulates that the level of resources that management devotes to CSR activities is driven by the availability of resources not required for other purposes (Bird, Casavecchia, & Reggiani, 2006). Jensen (1986) suggests that when management holds more cash than it needs, it is likely to invest its surplus

cash in a way that is at variance with maximising the value of the firm (i.e. the firm will waste it, at least in economic terms).

On the other hand, good management theorists argue that there is a high correlation between good management practice and CSR performance, simply because attention to CSR performance domains improves relationships with the key stakeholder groups, resulting in better overall performance (Waddock & Graves, 1997). The implication is that good management will choose to invest in CSR activities because they either choose to do so, or are coerced into doing so, and that these investments subsequently translate into superior financial performance (Bird et al., 2006).

2.2.3 Altruistic corporate social responsibility

Lantos (2001) argues that corporations need to engage in CSR activities to fulfil ethical or legal requirements, make altruistic (humanitarian, philanthropic) contributions and obtain strategic benefits.

Ethical CSR is the minimum level of social responsibility an enterprise owes its constituencies (Lantos, 2001). Carroll (1979) identifies three dimensions of ethical CSR. Economic responsibility involves being profitable for shareholders while providing economic benefits to other corporate stakeholders, for example by providing fair paying jobs for employees and good quality, fairly priced products for customers. Legal responsibility involves conducting business legally by complying with laws and playing by the rules of the game. The ethical responsibility involves going beyond the requirements of the law by avoiding harm or social injury, respecting people's rights and doing what is right, just and fair. These duties exist even if the business does not benefit from them. For instance, firms should not

impose social costs like unnecessary pollution or knowingly produce harmful products.

The altruistic contribution of a firm entails voluntarily “giving back” time and money to good works which contribute to the wellbeing of various societal stakeholders, even if this sacrifices part of the business’s profitability. Firms practise altruistic CSR to help alleviate various social ills within a community or society that they have not caused, such as lack of funding for educational institutions, urban blight, drug and alcohol problems, or illiteracy. Humanitarian CSR is Carroll and Shabana (2010) “fourth face” of CSR. Humanitarian CSR includes all policies, procedures and actions intended to enhance society’s welfare and improve quality of life, and it involves linking corporate core competencies to societal and community needs. Altruistic CSR, then, goes beyond ethics to somehow making the world a better place by helping to solve social problems (Lantos, 2001).

2.3 Current status of CSR

As an organisational process, CSR has become increasingly prevalent and visible within corporations as a mechanism to energise and motivate stakeholders, as well as manage societal perceptions and expectations regarding the role and utility of businesses in societies and communities beyond their core operations (Wang, Tong, Takeuchi, & George, 2016).

The roots of CSR can certainly be traced to before World War II (Carroll & Shabana, 2010), but in the 1950s the concept of business responsibility received considerable attention when Frank Abraham, a former executive with Standard Oil Company,

New Jersey, raised concerns about management's broader responsibilities in a complex world (Abrams, 1951).

Beginning in the 1960s, moral issues in business were raised with unprecedented frequency (Rahman, 2011). During this time, many businesses were selling unsafe products harmful for the environment, society was not succeeding in helping economically deprived citizens, bribery was common, and morality was ignored due to the desire for money and power (Lantos, 2001). This situation led academics to research and attempt to precisely state what CSR meant (Carroll, 2008).

Heald (1970) examines the social responsibility of business and the relationship between company and community. His accounts suggest that business people during this period were significantly preoccupied with corporate philanthropy and community relations. However, the most notable scholar during this time, Nobel Prize economist Milton Friedman, argues that the social responsibility of a business is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud (Friedman, 1970b).

The 1980s was a period of widely reported ethical scandals that brought the public's attention to managerial and corporate wrongdoing. Examples of these scandals included the 1984 Union Carbide Bhopal explosion in India, killing thousands of people, the controversy over companies doing business in South Africa, in apparent support of apartheid, and the Ivan Boesky insider trading scandal of the mid-to-late 1980s (Carroll, 2008). This led to the introduction of two important alternative themes of CSR; stakeholder theory (Freeman, 1984) and business ethics.

In the 1990s many companies developed excellent reputations for CSR practices. Companies such as The Body Shop, Ben & Jerry's ice cream, Patagonia, Esprit de Corp, Aveda, and Stonyfield Farms represent some of the smaller companies that grew larger while embracing CSR practices. Larger enterprises that developed CSR-related reputations included IBM, Johnson & Johnson, Nike, Merck, Prudential Insurance, Levi Strauss & Co., Coca-Cola, UPS, McDonald's, and Herman Miller (Carroll, 2008).

The 21st century is the era of emerging CSR industry. Large corporations are having full flagged CSR departments and hiring CSR Managers and CSR consultants, nowadays. Law and accounting firms are emerging to tackle CSR issues in their relevant fields. Universities are holding CSR conferences and researcher are contributing to the new literature in the CSR field with a significant momentum; there are publishers, who are printing CSR related books and journals; there are journalists, who are reporting on CSR issues in the newspapers (Rahman, 2011).

Large companies now routinely claim that they are not in business just for profits, and that they are also intent on serving some larger social purpose. They trumpet their efforts to produce healthier foods or more fuel-efficient vehicles, conserve energy and other resources in their operations, or otherwise make the world a better place (Karnani, 2010). However, Van Tulder and Van Der Zwart (2005) research shows that companies whose human rights and environmental records are questionable usually become leaders in the business sector concerning CSR issues. Since the early 1990s, dozens of Multinational Companies (MNCs) have been exposed to such legal challenges in the United States. For example, Texaco has been sued for alleged violations of human rights in Ecuador. Coca-Cola has been sued

for alleged human rights violations in Colombia. Talisman has been sued for alleged violations of human rights in Sudan. Royal Dutch Shell has been sued for alleged human rights abuses in Nigeria. Unocal has been sued for alleged violations of human rights in Burma. ExxonMobil has been sued for alleged violations of human rights in Indonesia, and Fresh Del Monte Produce has been sued for alleged violations of human rights in Guatemala (Shamir, 2004). More recently multinationals Apple, Coca-Cola and Walmart have been involved in environmental and social conflicts. Coca-Cola was boycotted in India because the local communities were suffering from water shortages because of Coca-Cola's use of the communities' water supplies. In 1992 Walmart was caught using child labour in factories in Bangladesh. In May 2010, newspapers reported on the suicides at Apple's manufacturer for iPhones and iPads, Foxconn, a Taiwan based company. (Cedillo Torres et al., 2012).

The Volkswagen case represents an absolute failure regarding corporate social responsibility (CSR). The company deliberately set out to devise a means to circumvent emissions control regulations. This was known at the highest levels of the company, and the aim was to give the company an unfair advantage over its competitors. Volkswagen became the world's biggest selling car maker, in large part on the basis of its supposedly environmentally friendly cars; meanwhile it was poisoning the planet (Dans, 2015).

Clearly, in the global context corporations are largely able to operate in a legal vacuum (Scherer & Palazzo, 2011). The bigger problem is that individual countries find it increasingly difficult or undesirable to control the activities of MNCs. Impoverished countries, often desperate for foreign investment, are unable or

unwilling to introduce legal measures that may inhibit corporate investment or cause MNCs to relocate to less regulated countries (e.g., countries that do not endorse or enforce minimum wage requirements, child labour prohibitions, health and safety standards, environmental protections, collective bargaining rights, etc.) (Shamir, 2004).

2.4 Voluntary or mandatory CSR

The researcher has argued that CSR can be rewarding for both societal stakeholders and the firm. CSR is an increasingly important aspect of running any business, and it goes far beyond simple legal and ethical obligations. Also, well-planned CSR can have a far reaching impact on a business. CSR is not all about generous acts, out of the goodness of a company's heart. Forward thinking businesses would do well to invest time and money in their CSR strategies. It may well become even more important in future. CSR initiatives can have win-win outcomes for businesses, communities and the environment. Businesses large and small tend to receive bad press when it comes to social and environmental irresponsibility, so an awareness of the need to turn this around should be at the forefront of any businesses plan (Bagatsing, n.d.).

The controversy about CSR is now in the context of the nature of regulations regarding the expenditure. Should CSR remain voluntary at the discretion of the management or should it be made mandatory by government regulation? The regulatory CSR debate is grounded in the understanding that positive changes in corporate behaviour can be brought through the coercive process of law (Russell, 2011). On the other hand, the voluntary model of CSR refers to a CSR implementation mode that is dependent on the will of a corporate entity. Through

this mode, corporate bodies have greater flexibility regarding their ways and means of reaching targets, increasing the scope of discussion amongst stakeholders, enhancing their public image, promoting innovation, reducing enforcement costs and so on (Rahim, 2013).

At the centre of the voluntary CSR argument is the belief that laws for regulating business activities should not interfere with firms' internal business strategies, as this hampers innovation and obstructs the business being successful (Rahim, 2013). The conceptual basis of this argument is derived from the neo-liberal school of thought. Friedman (1970,p1) explains: "In [a free economy] there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game." He further argues that "It is the responsibility of the rest of us to establish a framework of law such that an individual in pursuing his interest is, to quote Adam Smith again, "led by an invisible hand to promote an end which was no part of his intention."(Friedman, 2009). Nevertheless, the voluntary model of CSR is not flawless (Matten, Crane, & Chapple, 2003). The voluntary mode requires a minimum of existing trust and cooperation between government agencies and industry to foster public confidence (Lenssen, Arenas, Lacy, Pickard, & Midttun, 2008). Without a satisfactory level of trust, it is not likely that voluntary effort result in an effective partnership between a firm and its stakeholders (Rahim, 2013).

The notion of mandatory CSR regulation is based on the assumption that that government has a mandate to ensure the welfare of all, and the proper allocation of assets in society. Hence, it is argued that government should introduce the necessary regulation to ensure that the gains generated in the market, as a component of society, are distributed to maximise the public interest (Rahim, 2013). Researchers

argue that the state should play a role in corporate regulation in response to the public demand for the correction of inefficient or inequitable market practices. Therefore, firms must be forced to play according to the 'rules of the game' through mechanisms of enforcement in a hierarchical system of command and control (Parker, Braithwaite, Cane, & Tushnet, 2003).

Further, the theory of the firm relies upon a sound national governance system with proper execution of formal rules (hard law) through the legal and administrative system (sanctions) (Sundaram & Inkpen, 2004). Even where it appears that corporations voluntarily engage in corporate self-regulation, it is assumed that they operate in the 'shadow of hierarchy' (Scherer & Palazzo, 2008) meaning that they believe stricter regulations will be enacted unless the potentially affected firms adapt their behaviour to the expectations of the legislator (Héritier & Eckert, 2008; Schillemans, 2008)

However, academic researchers have expressed concerns over the influence that government and regulatory authorities may have on CSR goals in a mandatory environment. They fear there is a potential for firms to engage in compliance behaviours rather than practices that result in tangible societal benefits and innovation (Almquist, Grossi, van Helden, & Reichard, 2013; Jamali & Mirshak, 2006). The Australian Government (2005) has expressed the view that mandatory approaches to regulating directors' duties and ensuring sustainability reporting are not appropriate.

Indian CSR appears to have taken on a political hue with national development priorities sharing strategic importance with (if not competing with) business goals (Subramaniam et al., 2015). There are continuing concerns over the lack of clarity

on how firms plan, execute and achieve the desired environmental and social outcomes through their CSR programmes, and the lack of consultation with principal stakeholder groups (Chaudhary, 2009; Prasad, 2014). Recent reports highlight that many companies have not spent their CSR budgets, suggesting inefficiencies or problems in effectively planning and implementing their formal CSR strategies (The Comptroller and Auditor General of India, 2013).

Banerjee (2008) argues that corporations do not have the ability to take over the role of governments in contributing to social welfare simply because their basic function (the rhetoric of the triple bottom line aside) is inherently driven by economic needs. Therefore, it is critical to determine the impact of making CSR spending mandatory on the performances of such corporations.

2.5 A review of the academic CSR literature

The roots of CSR certainly extends before world war II (Carroll & Shabana, 2010), but in 1950's the concept of business responsibility came to limelight when Frank Abraham a former executive with Standard Oil Company, New Jersey, introduced concerns about management's broader responsibilities in a complex world (Abrams, 1951). Abrams argued that, as management was professionalising, companies had to think not just about profits but also about their employees, customers and the public at large (Carroll & Shabana, 2010). The publication of Howard R. Bowen's seminal book, *Social responsibilities of the businessman* published in 1953 is considered to mark the beginnings of the modern period of literature on this subject (Bowen, 1953). Bowen (1953) raised concern about the responsibilities towards society the businesses reasonably be expected to assume and argues that social responsibility is no panacea, but that it contains truth that must guide business in

the future (Carroll, 1999). Fedrick (2006), argues that the role of the manager is to act as a public trustee, to balance competing claims to corporate resources, and to carry out corporate philanthropy to support good causes. These were the three core ideas of CSR in 1950s. However, Levitt (1958) warns about the dangers of social responsibility. He believes that social concerns and general welfare are not the responsibility of business but of government, and that business's job is to 'take care of the more material aspects of welfare'. Levitt fears that attention to social responsibilities will detract from the profit motive that is so essential for business success (Carroll & Shabana, 2010). Despite Levitt's warnings, the 1950s was a period of the beginning of the modern era of CSR (Rahman, 2011). Corporate managers and board directors started feeling that that they are part of society, and that they have some obligations towards society (Bowen, 1953).

Beginning in the 1960s moral issues in business were raised at a record level (Rahman, 2011). Davis (1960), the most prominent writer in this period, argues that social responsibility is a vague idea but should be seen in a managerial context. Further, he asserts that some socially responsible business decisions could be justified by complex reasoning which indicates that the firm has a good chance of obtaining long-run economic gain, thus rewarding it for its socially responsible behaviour. Frederick (1960) was another significant contributor in this era. He argues that businesspeople are responsible for overseeing the operation of an economic system that fulfils the expectations of the public, and for ensuring that resources are utilised for social ends and not simply for the narrowly circumscribed interests of private persons and firms (Carroll, 2008; Rahman, 2011).

Walton (1967) presents some different versions of social responsibility. He emphasises that the corporation's social responsibilities include a degree of voluntarism, and mentions that there are costs associated with CSR and it is difficult to directly measure the economic returns involved (Carroll, 2008).

Towards the end of the 1960s, business practices that could be categorised as exemplifying corporate social responsibility embraced such topics as philanthropy, employee improvements (working conditions, industrial relations, and personnel policies), customer relations, and stockholder relations (Heald, 1957). In the 1960s, there was still more talk than action on the CSR front (McGuire, 1963).

Heald (1970) describes the social responsibility of business and discusses the relationship between company and community. His accounts suggest that business people during this period were significantly preoccupied with corporate philanthropy and community relations. However, the most notable scholar during this time, Noble Prize-winning economist, Milton Friedman, argues that the social responsibility of a business is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud (Friedman, 1970b). However, Davis (1973) disagrees, stating that social responsibility refers to 'business people's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest'. Murray (1976) and Ackerman (1973) argue that what is critical is not that companies are 'assuming a responsibility', but that companies are responding to the social environment. Sethi (1975) discusses "dimensions of corporate social performance," and distinguishes between corporate behaviour that involves "social obligation," "social

responsibility” and “social responsiveness.”. Frederick (1978) formalises this distinction by differentiating corporate social responsibility (CSR1) from corporate social responsiveness (CSR2). CSR1 emphasises companies ‘assuming’ a socially responsible posture, whereas CSR2 focused on the real act of responding or of achieving a responsive posture towards society. Carroll (1979) offers a comprehensive conceptual model for corporate social performance. He explains that the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organisations at a given time.

Frederick (2008) sees the 1980s as the beginning of the ‘corporate/business ethics’ stage, wherein the focus became fostering ethical corporate cultures. Research seeking to link CSR with corporate financial performance (CFP) exploded during this decade, and the search for a tighter coupling of CSR spending with firm financial performance became the order of the day (Aupperle, Carroll, & Hatfield, 1985; Lee, 2008). Tuzzolino and Armandi (1981) sought to develop a better mechanism for assessing CSR by proposing a need hierarchy framework patterned after Maslow’s need hierarchy. Jones (1980) argues that CSR ought to be seen not as a set of outcomes, but as a process. In this era, the quest for understanding the notion of Corporate Social Performance (CSP) became more intense. Wartick and Cochran (1985) present their ‘evolution of the corporate social performance model’ which extends the three-dimensional integration of responsibility, responsiveness, and social issues that (Carroll, 1979) had previously introduced.

The 1980s was a period of widely reported ethical scandals that focused public’s attention on managerial and corporate wrongdoing. Examples of these scandals included the 1984 Union Carbide Bhopal explosion in India, which killed thousands

of people; the controversy over companies doing business in South Africa in apparent support of apartheid; and the Ivan Boesky insider trading scandal of the mid-to-late 1980s (Carroll, 2008). This led to the introduction of two important alternative themes of CSR: stakeholder theory (Freeman, 1984) and business ethics.

The prominent themes which continued to grow and take centre stage in the 1990s included: corporate social performance (CSP), stakeholder theory, business ethics, sustainability, and corporate citizenship. A fair amount of research examined the relationship between corporate social performance and financial performance (Griffin & Mahon, 1997). The most significant advances to CSR in the 1990s came in the realm of business practice. In 1992, a non-profit organisation called Business for Social Responsibility (BSR) formed to represent professionals who had responsibility for CSR in their companies, and to support CSR initiatives. BSR helps member companies achieve commercial success in ways that respect ethical values, people, communities and the environment (Carroll, 2008).

In addition to the growth and acceptance of BSR, another major trend that characterised the 1990s and continues today is the emergence of many different companies that have developed excellent reputations for CSR practices. Companies such as The Body Shop, Ben & Jerry's ice cream, Patagonia, Esprit de Corp, Aveda, and Stonyfield Farms are some of the smaller companies that grew larger while embracing CSR practices. Larger businesses that developed CSR-related reputations included IBM, Johnson & Johnson, Nike, Merck, Prudential Insurance, Levi Strauss & Co., Coca-Cola, UPS, McDonald's and Herman Miller (Carroll, 2008).

The 21st century is the era of emerging CSR. Large corporations are having fully-fledged CSR departments and they are hiring CSR managers and CSR consultants,. Law and accounting firms are emerging to tackle CSR issues in their relevant fields. Universities are holding CSR conferences and researchers are contributing to the new literature in the CSR field that has gained significant momentum; there are publishers, who are printing CSR-related books and journals; there are journalists who are reporting on CSR issues in the newspapers (Rahman, 2011).

Current empirical research in CSR mostly explores the link between CSR or CSP with other relevant variables. Jones and Murrell (2001) examine how public recognition for a firm's exemplary social performance can serve as a positive signal of the firm's business performance to shareholders. Smith, Wokutch, Harrington, and Dennis (2001) examine the extent to which diversity and stakeholder role influence corporate social orientation (CSO) perceptions on the part of individuals they surveyed. Zyglidopoulos (2001) studied the impact of accidents on firms' reputations for social performance. He finds that accidents and their complexity play a role in public perceptions about firms' social performances. Backhaus, Stone, and Heiner (2002) explore the relationship between corporate social performance and the attractiveness of a firm to potential employees. They find that job seekers do consider CSP to be important in their assessment of firms, and that the most important CSP dimensions were the environment, community relations, employee relations, diversity, and product issues. They do not use a conceptual model of CSP, but rather use a listing of relevant CSP dimensions as forming the construct (Carroll, 2008).

2.5.1 Impact of CSR spending on firm's market performance

Numerous conflicting theories have been put forward regarding the relationship between CSR and market performance. Those rooted in neoclassical economics argue for a negative correlation between CSR and firm value. They contend that CSR expenditure unnecessarily raises a firm's costs and so places it at a competitive disadvantage vis-a-vis its competitors (Aupperle et al., 1985; Friedman, 1970a; Jensen, 2002). Other scholars have argued that CSR can have a positive impact due to the goodwill created, or the other costs avoided (Freeman, 1984; Moskowitz, 1972). A third group of researchers has proposed that there are so many offsetting influences on the relationship that the overall impact is neutral (Ullman, 1985). As might be expected, such disagreement has spurred numerous empirical studies and they have come up with findings that might be seen to support all three conclusions. In the discussion below, we provide a more detailed overview of the rationales and empirical evidence supporting each of these three views.

2.5.1.1 Negative association between CSR and market performance

Friedman (1970a) argued that the one and only one social responsibility of business that is to use its resources and engage in activities designed to increase its profits. He argues that corporations do not have the skills to know how to conduct activities that can result in positive social benefits. Instead, their skills lie in producing goods and services at the lowest cost possible, and selling them for the highest price possible. Researchers have found that even though investors react positively to CSR expenditure for low performing firms (Hillman & Kiem, 2001), the same is not the case for companies with high financial performance. The investors in high performing firms may view such expenditure as unnecessary, even representing a

significant opportunity cost that may disadvantage the firm financially (McWilliams & Siegel, 2001). Groening and Kanuri (2013) have similarly reported that spending in CSR does not guarantee an abnormal positive return, with this being less likely for companies with superior financial performance.

Mathur and Mathur (2000), studied investors' reactions to green marketing expenditure² in the USA and found that it had a significant negative impact on stock returns. Brammer, Brooks, and Pavelin (2006) investigated the relationship between CSR expenditure and stock returns using UK data. They reported an adverse correlation between social performance scores³ and market performance that may suggest that taking account of the interests of all stakeholders might distort managerial choices (Jensen, 2001). Researchers has raised concern that the opportunistic managers may readily exploit or misrepresent information regarding CSR (Banerjee, 2008; Orlitzky, 2013). Also, the managers may adopt CSR activities to cover up corporate misbehaviour (Hemingway & Maclagan, 2004), and this behaviour makes investors panicky about CSR expenditure.

2.5.1.2 Neutral association between CSR and market performance

The strength and economic benefits of CSR activities are debated fiercely (Aras et al., 2010). Investors can be uncertain about the merits of CSR and may therefore show no reaction to the announcement of CSR activity by a corporation. Many researchers have supported the view that there is a neutral relationship between CSR spending and stock market fluctuations. Jacobs, Singhal, and Subramanian (2010)

² Green marketing has been considered as measure for corporate social responsibility.

³ Social Performance Scores were provided by the Ethical Investment Research Service (EIRIS). The measures of social performance were: community performance, environmental performance and employee performance.

examined the stock market responses to 417 announcements of corporate environmental initiatives (CEIs) and 363 announcements of environmental awards and certifications (EACs). Their results indicated that markets did not react significantly to the aggregated CEI and EAC announcements. Wai Kong Cheung (2011), used event study methodology to examine how financial markets respond to the addition or deletion of US listed companies in the Dow Jones Sustainability World Index (DJSWI). They reported that they could not find strong evidence that these event announcements had a significant impact on index inclusion stocks or index exclusion stocks. Bird, Momenté, and Reggiani (2012), utilised data from Sustainable Asset Management (SAM) to examine market responses to CSR activities in six countries/regions.⁴ They found that CSR activities had little or no impact on market prices in the US, Australia and Japan. Schröder (2007), examined 29 US socially responsible investment (SRI) indices and found that they did not exhibit any different levels of risk-adjusted returns to those realised by conventional benchmarks.

2.5.1.3 Positive association between CSR and market performance

In contrast to the research mentioned above, there is extensive evidence showing a positive association between CSR activities and the markets perception of a stock's value. Bird, D. Hall, Momentè, and Reggiani (2007), found that companies are rewarded when they devote significant resources across a wide spectrum of CSR activities. Minor and Morgan (2011) provided a theoretical framework that showed how CSR activities can insure a firm against loss of reputation in the face of adverse

⁴ US, UK, Central and Southern Europe, the Nordic Countries (excluding Iceland), Japan and Australia.

events. Edmans (2011), found evidence of a positive relationship between employee satisfaction⁵ and long-run stock returns. In a study of 500 US large companies, Edmans found that investors had positive short- and long-term reactions when the company name appeared in the Newsweek Green Ranking⁶ (Cordeiro & Tewari, 2014). Kim and Kim (2014), studied restaurant firms and found that CSR-strengthening actions enhanced shareholder value by increasing Tobin's Q, whereas CSR-weakening actions reduced shareholder value by increasing the systematic risk of the firm.

2.5.2 Impact of CSR spending on firm financial performance

The exponential increase in expenditure in CSR initiatives in the past decade suggests managers find an economic benefit from CSR programs, especially considering the financial objective of a company is to maximise shareholder wealth. However, a meta-study on the relationship between CSR and firm performance by Margolis and Walsh (2003) reviewed 109 studies where CSR has been treated as the independent variable, predicting firm performance. They concluded that out of these 109 studies, 54 showed a positive relationship, 20 showed mixed results, 28 studies reported non-significant relationships, and seven studies reported a negative relationship. Therefore, there are three possible results for the relationship between CSP and CFP: a negative association, no association, and a positive association. The empirical studies that have the most comparable methodologies for measuring CSP and CFP will be discussed for each of the three conclusions.

⁵ Companies were scored on the basis of: (a) communication to employee, (b) opportunities and benefit, (c) compensation and diversity and (c) teamwork, philanthropy and celebration.

⁶ Responsible for ranking the world's largest companies on corporate sustainability and environmental impact.

2.5.2.1 *Negative association between CSR and financial performance*

Milton Friedman – economist and Nobel Prize laureate, has perhaps provided the strongest argument for the existence of a negative relationship between CSR and financial performance. In his (1970a) article in the *New York Times*, Friedman rejects the popular belief that businesses have social responsibilities. He argues that a “corporation is an artificial person” and, therefore, cannot have real responsibilities. Instead, the corporation’s executives are the people who hold the responsibilities. Vance (1975) correlates corporate social responsibility and financial performance, and, finding a negative relationship, concludes that socially responsible firms are not good investments. K. E. Aupperle, A. B. Carroll, and J. D. Hatfield (1985) find that the fulfilment of CSR will bring competitive disadvantage to the company as the consequential costs may need to bear other costs. Jaggi and Freedman (1982) and Waddock and Graves (1994) report a significant negative relationship between CSR and financial performance. They believe that firms face a trade-off between CFP and CSP; CSR incurs costs from investing in “green” policies which puts firms at an economic disadvantage compared to less responsible companies. According to the managerial opportunism hypothesis CSR and social constraints may prevent firms from maximising value (Jensen, 2001). T Donaldson and Preston (1995) imply that as most managerial compensation is linked to short-term CFP, managers reduce CSR costs to boost immediate CFP, thereby increasing their personal compensation. As firms accrue funds to invest in CSR, their CFP deteriorates, leading to negative synergy. Sethi (1979) argues that when firms are under pressure from stakeholders, they invest in CSR in preference to positive Net Present Value (NPV) projects to enhance their legitimacy.

Moon (2007), after controlling for firm-level heterogeneity, found no positive

association between social performance and financial performance. In particular, Moon's study found asymmetry in how negative social performance and positive social performance affected the financial performance of the firm. After controlling for firm-level heterogeneity, Moon found positive social performance does affect the firm's financial performance negatively, whereas negative social performance does not have any negative effect on financial performance. Guney and Schilke (2010) in a cross-sectional analysis conclude that in general the concurrent CFP does not linearly affect the concurrent CSP and vice-versa. However, their lagged cross-sectional analysis suggests that in some cases the prior CSP negatively influences the subsequent CFP, whereas the prior CFP positively influences the subsequent CSP. Yang, Lin, and Chang (2010) found that in the Taiwanese market there is a negative correlation between CSP and ROE in the financial industry. Crisóstomo, Freire, and Vasconcellos (2011) show that a set of econometric models provides results that indicate a trend toward a negative effect of CSR on firm value in Brazil.

2.5.2.2 No correlation between CSR and financial performance

The empirical results to date lend themselves to a second possibility: that there is simply no relationship, positive or negative, between social and financial performance. Proponents of this line of reasoning (e.g., Ullman (1985)) argue that there are so many intervening variables between social and financial performance that there is no reason to expect a relationship to exist, except possibly by chance. The measurement problems that have plagued CSP research may mask any linkage that exists (Waddock & Graves, 1997). McWilliams and Siegel (2000) investigated possible flaws in the empirical analyses in past studies. They demonstrate that the

effect of CSR is mis-specified because the regression model does not control for investment in R&D. This mis-specification results in upwardly biased estimates of the financial impact of CSR. When the model is properly specified, they find that CSR has a neutral impact on financial performance. Surroca, Tribó, and Waddock (2010) also researched the problem of misspecification. They find no direct relationship between CRP and CFP – merely an indirect relationship mediated by a firm's intangibles. They emphasise the importance of including intangibles like innovation, human capital, reputation, and culture in further studies of CFP-CRP linkages. Failure to control for these intangibles may explain some of the mixed findings that have occurred in the past.

Mahoney and Roberts (2007) perform empirical analyses on a large sample of publicly held Canadian firms using a novel independent measure of CSP. Based on tests utilising four years of panel data, they found no significant relationship between a composite measure of firms' CSP and FP. Nelling and Webb (2009) report that CSR is driven more by unobservable firm characteristics than by financial performance. Garcia-Castro, Ariño, and Canela (2010) argue that endogeneity problems have plagued previous research studying the CSP–FP link. They show that the positive relationship found in most of the previous research on the link between CSP and FP becomes a non-significant or even a negative relationship when endogeneity is properly taken into account. Erhemjamts, Li, and Venkateswaran (2013) take the argument one step further and report that firms with better performance, higher R&D intensity and better financial health, and firms in new economy industries are more likely to engage in CSR activities. They found a u-shaped relationship between CSR and firm performance, indicating that either very small firms or very large firm exhibit high levels of CSR strength.

2.5.2.3 Positive association between CSR and financial performance

Instrumental stakeholder theory (e.g., Clarkson and Max (1991), Donaldson and Preston (1995), Freeman (1984)) suggests a positive relationship between CSP and CFP (Orlitzky, Schmidt, & Rynes, 2003). According to this theory, the satisfaction of various stakeholder groups is necessary for organisational financial performance (Donaldson & Preston, 1995). According to stakeholder-agency theory the processes involved in stakeholder–management relationships serve as monitoring mechanisms that prevent managers from diverting attention from broad organisational financial goals (Hill & Thomas, 1992). Furthermore, by addressing the claims of multiple stakeholders (Freeman & Evan, 1990), managers can increase the efficiency of their organisations' adaptation to external demands.

Orlitzky et al. (2003) conducted a meta-analysis of 52 studies, yielding a total sample size of 33,878 observations. Their study finds there is a positive link between the variables across industries and contexts. They also find that while lagged CFP and current CSP are negatively correlated, CFP and lagged CSP are positively linked (slack resource theory). Tsoutsoura (2004) finds a positive relationship between CSR and CSP using time series regression analysis. He suggests that socially responsible performance can be related to some bottom-line benefits. A high level of involvement in CSR practices not only improves the financial performance of companies, but it also attracts a positive response from institutional investors (Mahoney & Roberts, 2007). Companies should not perceive CSR as a reason for the low performance of companies (Saleh, Norhayah, & Rusnah, 2011). In fact, CSR and corporate financial performance (CFP) are two sides of a coin which have a mutually strengthening effect. The better the financial performance of a company, the greater its ability to be involved in CSR activities

and the more actively involved a business is in CSR activities, the better its financial performance (Saleh et al., 2011).

A positive relation between CSR and CSP can be observed in most of the current articles in the *Journal of Business Ethics*. El Ghouli, Guedhami, Kwok, and Mishra (2011) examine the effect of corporate social responsibility (CSR) on the cost of equity capital for a large sample of US firms. Their findings suggest that investment in improving employee relations, environmental policies, and product strategies contributes substantially to reducing firms' costs of equity. Their results also show that participation in two "sin" industries, namely, tobacco and nuclear power, increases firms' costs of equity. Harjoto and Jo (2011) after correcting for the endogeneity of CSR engagement, show that CSR engagement positively influences operating performance and firm value, supporting the conflict-resolution hypothesis as opposed to the over-investment and strategic choice arguments. Cai, Jo, and Pan (2012) examine the observed association between firm value and CSR engagement for firms in sinful industries such as tobacco, gambling, and alcohol, as well as industries involved with emerging environmental, social, or ethical issues (i.e., weapons, oil, cement, and biotech). They find that CSR engagement of firms in controversial industries positively affects firm value after controlling for various firm characteristics. Similarly, Jo and Na (2012) report that the effect of risk reduction through CSR engagement is more economically and statistically significant in controversial industry firms than in non-controversial industry firms. Rodgers, Choy, and Guiral (2013) report a positive impact of CSR on firm financial performance after controlling for investment in innovation activities. Wu and Shen (2013) studied the effects of CSR in the banking industry and conclude that CSR positively correlates with financial performance as measured by return on assets,

return on equity, net interest income, and non-interest income. In contrast, CSR negatively associates with non-performing loans.

2.5.3 Different motives of undertaking or not undertaking CSR expenditure

Researchers have pointed out numerous strategic benefits of CSR spending. Amalric and Hauser (2005) argue that the potential benefits companies derive from CSR activities arise from two sources. The first source is expectations held by the immediate stakeholders of a company – its consumers, employees and investors – for responsible corporate conduct. The second driver behind the adoption of CSR activities by corporations is the threat that the state will impose new binding regulations on companies. Porritt (2005) reveals that consumers who see a company as achieving profits at the expense of other stakeholders are likely to express hostility to the company. On the other hand, consumers tend to have a particularly favourable view of companies with a reputation for profitability while being socially responsible. Hence it is wise for the companies to adopt a CSR policy as part of their risk management strategy.

Scholars have proposed multiple drivers for CSR expenditure, with two types dominating: moral and strategic (Dhanesh, 2014). The moral perspective of stewardship theory suggests that businesses engage in socially responsible behaviours because it is “the right thing to do” and that businesses are, or ought to be, motivated by intrinsic factors such as ethical values and moral leadership (Bansal, 2003; Donaldson & Davis, 1991; Heugens & Kaptein, 2008; L'Etang, 1994). In contrast, the strategic perspective of resource-based theory suggests that businesses engage in CSR because of extrinsic motivators such as market and institutional pressures, and because it generates benefits such as increased employee

commitment and customer loyalty, and a sustainable competitive advantage (Branco & Rodrigues, 2006; Hart, 1995; McWilliams & Siegel, 2011). McWilliams and Siegel (2011), consider CSR to be a “co-specialised asset” that can be used to enhance a firm’s overall reputation for quality or the reputation of a particular product.

Crifo and Forget (2012) and Hoffman and Georg (2012) identify three types of environmental and social factors that motivate CSR spending. They are: public regulations, responding to social pressure or private policies, or exerting one’s moral duty to undertake social activities. Maxwell and Decker (2006), note that many environmental investments seem to be aimed at reducing the costs of conforming to existing regulations. On the other hand CSR spending can be implemented to increase a firm’s market visibility (Margolis & Walsh, 2001). CSR can also be a strategic policy to prevent social contestability and to protect the firm’s long-term interests (Jamali, 2008). CSR may be viewed as self-regulation motivated by moral concerns (Baron, 2010). According to this view, CSR is a pro-social activity which reveals the managers’ inclination to be involved in charitable actions and deliver public good (Bénabou & Tirole, 2005; Brown, Helland, & Smith, 2006; Crifo & Forget, 2012).

Product market structure⁷ and competition are also determining factors for CSR spending. Recent studies empirically demonstrate a positive relationship between CSR and customer loyalty (He & Li, 2011; Marin, Ruiz, & Rubio, 2009; Salmones, Crespo, & Bosque, 2005). Most of these studies propose that CSR directly generates more customer loyalty, without requiring the intervention of mediating variables

⁷ The concept of a market structure is understood as those characteristics of a market that influence the behaviour and results of the firms working in that market.

(Martínez & Rodríguez del Bosque, 2013). Studies has also revealed that engagement in CSR affects customer satisfaction, reputation and sustainable competitive advantage positively (Saeidi, Sofian, Saeidi, Saeidi, & Saaeidi, 2015).

The impact of socially responsible investors on firms' business strategies can also be a very powerful determinant of CSR strategies (Crifo & Forget, 2012). Some researcher established that the firms that fail to exhibit CSR involvement are very much punished by the market while the firms that reap the greatest market rewards are those that have considerable involvement in socially responsible activities (Bird et al., 2007; Frooman, 1997; Johnson, 2003). Research has identified that firms with better CSR scores exhibit cheaper equity financing. In particular, our findings in the present study suggest that investment in improving responsible employee relations, environmental policies, and product strategies contribute substantially to reducing firms' costs of equity (El Ghoul et al., 2011; Heinkel, Kraus, & Zechner, 2001).

2.6 CSR research in India

Empirical evidence from India remains largely based on past conditions when CSR was voluntary. Under these conditions CSR was found to be strongly driven by philanthropic initiatives such as those undertaken by giant corporations, for example, the Tata and Aditya-Birla groups (Chaudhary, 2009; Gowda, 2013). Using survey data, Mishra and Suar (2010), found a positive relationship when examining the effects of CSR on primary stakeholders and on the financial and the non-financial performance of Indian firms. Mittal, Sinha, and Singh (2008) assessed the influence of CSR on financial performance as measured by Market Value Added (MVA) and Economic Value Added (EVA), and found strong evidence of a negative relationship between CSR initiatives and financial performance. Muttakin

and Subramaniam (2015) and Kansal and Joshi (2014), indicate that enhancement of corporate reputation, firm size and industry significantly influence the social disclosures made by the Indian companies. Vasal (2009), also found no impact when examining the impact of social performance on shareholder returns by comparing environmental, social and governance (ESG) portfolios with a market portfolio of Indian firms.

A study conducted by Khan and Atkinson (1987) on the managerial attitudes towards social responsibility in India and Britain shows that most of the Indian executives in the study agreed that CSR was relevant to business and felt that businesses have responsibilities, not only to their shareholders and employees but also to customers, suppliers, society and the state. A survey conducted by Kumar, Murphy, and Balsari (2001) in several cities in India found that more than 60% of the people felt that companies should be held responsible for bringing down the gap between the wealthy and the poor, reducing human rights abuses, solving social problems and increasing economic stability. Conway (2003), in his study on the iron ore mining industry in India, shows that many large mining companies have initiatives promoting environmental and social development. However, a structured CSR policy and planning are missing, especially among the small and medium players in the industry. Shah and Bhaskar (2010) conducted a case study of Bharat Petroleum Corporation Ltd. (BPCL, an Indian public sector organisation). They found that there is a strong relationship between the organisation and society. The corporation used the human and material resources of society and in return, they provided services to the society. The study also revealed that BPCL had launched many initiatives to benefit society. Pradhan and Ranjan (2010) conclude that social responsibility is regarded as an important activity of Indian companies irrespective

of size, sector and business goal. The study shows that all surveyed companies presented themselves as having CSR policies and practices. Most of the companies design and implement a wide range of CSR initiatives. They include income generation activities for livelihood, health check-up camps, mobile health services, education, adult literacy, agricultural development, the provision of drinking water, the management and development of natural resources, and the provision of infrastructure facilities. Kurian and Pancholi (2016) analyse the CSR activities undertaken by an Indian private company (Reliance Industries Ltd.) and a public sector company (ONGC) and also studied Indian Government policies and programmes for CSR. The study reveals that though Indian public and private firms are making efforts in the CSR area, there is still a need for more emphasis on CSR. The study found a significant difference between the CSR practices of RIL and ONGC, as the CSR budget of ONGC was more than RIL's during the years 2009-10, 2010-11 and 2011-12 and ONGC's average CSR score was more than that of RIL during the period from 2009 to 2013.

The review of literature on CSR in India reveals a set of studies which subscribe to the strategic perspective of CSR, arguing that companies in India engage in CSR for its reputational, financial and relational benefits (Mehra, 2006; Mitra, 2007; Sagar & Singla, 2004; Sharma, 2011; Sood & Arora, 2006). Singh and Narwal (2012), indicate that Indian firms are very calculating; that is, they will discharge CSR in areas where there is a greater chance of creating a positive image, and they are in favour of self-regulation and opposed to external regulations imposed by government. However, some studies have found that CSR in India is driven primarily by moral values and top management commitment (Arevalo & Aravind, 2011b; Gopinath, 2005; Lee, 2010). Arora and Puranik (2004), Gautam and Singh

(2010) and Mishra and Suar (2010) argue that CSR in India continues to be philanthropic in nature, although a more recent study by Pricewaterhouse Coopers (2013) finds that the motivating force is changing to being more strategic. Tyagi, Sharma, and Agarwal (2013) also reported that the core drivers of CSR in India are gaining competitive advantage, increasing profits and improving stakeholder relationships.

Few studies have been conducted since the imposition of mandatory CSR regulations in India. Wankhade (2014) studied the post-legislation period and reveals that Indian companies are spending much less than the required minimum of 2% of three years average annual profit on CSR and also, there is no significant difference in the CSR spending of public sector companies and private sector companies. Wankhade shows that most of the companies who could not spend the prescribed CSR budget, have not given any specific reason for not spending the full amount, and instead have chosen to give a generic commitment to spending the remaining amount in the next financial year. Many companies have not given information as per the format provided in the Schedule VII of the Companies Act. Verma (2015) conducted a study on CSR practices and the reporting behaviour of Indian banks. He reveals that Indian banks were making efforts in the CSR area but more emphasis on CSR activities was needed, especially on reporting CSR in a more responsible way. Taneja (2016) finds no significant difference in the CSR spending of companies before and after the implementation of the Companies Act, 2013, and that there is no significant difference in the CSR spending of public sector and private sector companies. Taneja's results indicate that even after the Clause 135 of the Companies Act, 2013, the majority of the companies have not spent 2% of Profit After Tax (PAT) on CSR.

2.7 Conclusion

Our review of the literature identifies three glaring gaps in the CSR and performance research. Firstly, we still do not have a clear understanding of how market participants perceive the impact of mandatory CSR regulations; secondly, we do not have a clear understanding of the key factors that encourage or discourage managers to engage in CSR activities in India; and thirdly, we do not understand how mandatory CSR regulation may impact on firm performance.

In this thesis, we first look at how the investors of a company perceive mandatory CSR expenditure. This provides us with an insight into the impact of mandatory CSR spending on a firm's market performance. The Indian Government made a series of announcements about its intended CSR legislation, as it vacillated over a four-year period about whether the CSR activities of large Indian companies should be voluntary or mandatory. The timing of these announcements provides an ideal setting to gain insights into the impact that CSR expenditure is expected to have on the long-term profitability of Indian companies. The analysis consists of event studies and also regression analysis of the price impact of information releases relating to compulsory CSR expenditure by Indian companies. We find that investors started out with the expectation that more CSR expenditure would increase future corporate profitability but then moved slowly to taking the opposite view.

Second, we surveyed 223 Indian corporations between November 2014 and January 2015, investigating and analysing the drivers and barriers to undertaking expenditure on CSR activities, the CSR activities that are more valued, perceptions regarding the mandatory regulations, and managers' impressions of the impact of CSR spending on profitability. This study will help us understand the factors that

motivated many companies to undertake CSR activities voluntarily, or not to undertake them, before the legislation was enacted. It also investigates changes in the spending patterns of those companies following the introduction of the new law. We also provide insights into the factors that have stopped management from undertaking CSR activities or complying with the legislation.

Third, we use the settings provided by the compulsory CSR regulations to test the relationship between CSR expenditure and financial performance before and after the legislation was introduced, and we examine the impact of regulated CSR on firms' financial performances. We use a panel regressions approach to analyse the direction of the relationship between CSR spending and firm performance, and then we use the difference-in-differences regression analysis to examine the impact of mandatory CSR regulation on firm performance.

Chapter 3: Data and methodology

In this chapter we will discuss the different methods, approaches and types of analysis we have used in this thesis to address the core issues. In Section Two we explain all methodologies. Section Three provides details about the data collection process and Section Four provides a summary of our methodology and data collection process

3.1 Introduction

The main purpose of this dissertation is to understand the impact of mandatory corporate social responsibility regulations on firm performance. This thesis includes three studies. The first study tests the impact of government announcements regarding CSR legislation changes on the share price of the companies. In the second study, we investigate and analyse the drivers and barriers to undertaking CSR activities, the CSR activities that are more valued, views on the mandatory regulation and managers' impressions of the impact of CSR spending on profitability. The third study concentrates on analysing the direction of the relationship between CSR spending and performance. We examine the overall impact of the mandatory CSR regulation on firm performance.

We have adopted different methodologies for the three studies. In the first study, we use the flow of information relating to the introduction of mandatory CSR expenditure in India as the means of gauging investor perceptions of the impact of such spending on company profitability. The study uses event study analysis and regression analysis to analyse the short-term impact on share price performance of information relating to the requirement that large Indian companies must spend 2%

of their revenue on CSR activities. The study considers six occasions when information was released. These events provide insights into the likelihood of the Indian Government passing legislation to require Indian companies to spend on CSR activities and the exact nature of these requirements. We also divided our sample into four sub-samples that were potentially impacted in different ways by these announcements: companies that already spent resources on CSR activities prior to it being mandatory (designated as A companies), companies that currently did not spend resources on CSR but would now be required to do so (B companies), businesses that did spend resources on CSR but would not be required to do so (C companies), and businesses that did not spend any resources on CSR and would not be required to do so (D companies).

In the second study, we investigate the drivers and barriers of CSR expenditure, determine the attitude of corporates towards CSR activities and the impact of making CSR spending mandatory. We prepared a questionnaire survey that was distributed by an Indian survey company, Corp Scan Business Consultants, to their panel of Indian corporate entities. In total, they collected completed surveys from 223 respondents, split equally, according to our instructions, between those who were and were not required to spend resources on CSR activities under the 2013 legislation. The respondents included companies of different legal status, size, industry and region. The surveys were completed by top officials within each company (i.e. a director, managing director, chief executive officer (CEO), chief financial officer (CFO) or senior manager).

The third study focuses on gaining insights into the effectiveness of making CSR expenditure mandatory and its implications for corporate profitability. In this study, we first used panel regression analysis to test the impact of CSR spending on the

financial performance of the firm. We then used the difference-in-differences (DiD) regression approach to test the impact of the legislation on firm performance.

3.2 Methodology

3.2.1 Event study method

Event study has been used since the early 1930s (MacKinlay, 1997) . The event study method is a widely used procedure for assessing the economic impact of new information on equity value. It is a commonly employed research method which is used in an attempt to separate the effect of a particular event on a stock's return for some post-event estimation period. It has been applied to a variety of situations ranging from firm-specific to economy-wide (Duppatti, 2012). In this thesis, the event study methodology allowed us to identify the net effect of the announcement of the new legislation regarding CSR and calculate the significance of the impact on the market value of the companies when the legislation was first announced and then how it altered in the course of time.

The event study method is based on the assumption that capital markets are efficient at estimating the impact of new information on anticipated future profits of firms. The core assumption of event study methodology is that if information communicated to the market contains any useful and surprising content, an abnormal return will occur. In a capital market with semi-strong efficiency, one can assess the impact of the event in question on the market value of the company by calculating the abnormal return – that is, the difference between the actual post-event return and the return expected in the absence of the event (MacKinlay, 1997).

The methodology of the event study approach involves defining the event to be tested, defining abnormal returns, and defining the pre-event, event and post-event observation windows, collecting a set of events from an unbiased dataset, and measuring and testing aggregate abnormal performance post-event. However, one needs to be cautious about the assumptions used in the event methods. McWilliams and Siegel (1997) present a vigorous discussion on this issue.

An important assumption of event studies is that markets are efficient. Market efficiency implies that stock prices incorporate all relevant information that is available to market traders and any new information (such as the CSR legislation announcement) will be immediately reflected in the stock price. This assumption is more appropriate for a short event window. In our study, we have considered short-term and mid-term windows.

The second assumption of this methodology is that the event is entirely unanticipated and traders gain information from the announcement only. However, it is possible that an event will have been anticipated or information leaked to the market in advance of a formal announcement. To avoid this issue, we have used the Factiva database to determine the event date. The Factiva database contains news reports and articles on all the key economies in the world, and it is powered by Dow Jones. Therefore, the reliability of the database is very high. We searched for the first news articles that were published regarding the CSR legislation announcement and then considered that date as our event day.

In this thesis, we have used the standard event study method to estimate abnormal returns associated with an event. Equation (1) estimates the relationship between a

firm's return (R_{it}) and the market portfolio return (R_{mt}), where i represents the firm and t represents time in trading days.

$$R_{it} = \alpha_i + \beta R_{mt} + \varepsilon_{it} \quad (1)$$

where β_i represents the estimated relationship between the return on a firm's stock with that on the market return. Once the normal or expected shareholder return is estimated, equation (2) is used to compute the abnormal returns (AR) associated with an announcement. AR is calculated as the difference between the observed return and the estimated return from the market model.

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (2)$$

The abnormal returns can be aggregated over all events in the sample:

$$\overline{AR}_t = \frac{1}{N} \sum_{i=1}^N AR_{it} \quad (3)$$

The cumulative average abnormal return (CAR) is the sum of the average abnormal returns over the days in the event window, where t_1 and t_n represent the first and last day, respectively. The CAR and associated t-statistics are then:

$$CAR(t_1, t_n) = \sum_{t=t_1}^{t_n} \overline{AR}_t \quad (4)$$

A standard parametric significance test was performed. The test statistic is the null hypothesis that the abnormal return or cumulative average excess return is equal to zero. Tests of significance follow the procedure described in MacKinlay (1997), which assumes independence across events.

$$t = \frac{CAR(t_1, t_n)}{\sqrt{V[CAR(t_1, t_n)]}} = \frac{CAR(t_1, t_n)}{\sqrt{\sum_{t=t_1}^{t_n} V(AR_t)}} \quad (5)$$

3.2.2 Ordinary least-square regression analysis

There are two important problems that the event study analysis may face: 1) the sensitivity to waves of market optimism or pessimism and 2) the assumption that stock market reaction arises from rational fully informed investors taking their choices on the basis of the firm size or market valuation to maximise their wealth (Becchetti, Ciciretti, & Hasan, 2007). To address these problems and also to conduct a robustness check we have used a regression analysis methodology.

Ordinary least-squares (OLS) regression is a generalised linear modelling technique that may be used to model a single response variable which has been recorded on at least an interval scale. The technique may be applied to single or multiple explanatory variables and also to categorical explanatory variables that have been appropriately coded (Hutcheson, 2011). This technique allows us to separate and estimate the effect of each variable. Through the regression analysis, we control for the effect of momentum anomaly in the stock market, market undervaluation or overvaluation of stocks, and market capitalisation.

Regression analysis is used to establish the nature of the relationship between investments in CSR activity and market valuation. The dependent variables are the excess return over the event window being evaluated and the dummy variables mentioned below relating to each of the categories of companies. The control variables include book-to-market ratio, log of market capitalisation and the return on a company's stock over the previous six months, to control for the cross-sectional differences in stock price (Bird et al., 2012). The regression model is as follows:

$$X_{i,t} = \alpha + \beta_1 D_{1,t} + \beta_2 D_{2,t} + \beta_3 D_{3,t} + \beta_4 BM_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 MOM_{i,t} +$$

Industry fixed effect (6)

where $X_{i,t}$ = excess return over the event period of stock i in period t (t = 0 to +1)

$D_{1,t}$ = 1 for stocks that did not spend on CSR but now would have to (B); otherwise equals 0

$D_{2,t}$ = 1 for stocks that did spend on CSR but would not be required to do so (C); otherwise equals 0

$D_{3,t}$ = 1 for stocks that did not spend on CSR and would not be required to (D); otherwise equals 0

$BM_{i,t}$ = book-to-market of stock i at time t

$SIZE_{i,t}$ = log of market value of equity of stock i at time t

$MOM_{i,t}$ = return over five trading days prior to the start of the event period of stock i at time t.

Industry fixed effects are represented by a number of indicator (or dummy) variables that take a value of 1 when a firm falls into a particular sector and are otherwise equal to zero

3.2.3 Survey methodology

In the second study of this thesis, we investigate the drivers of, and barriers to, CSR expenditure, we determine the attitude of corporates towards CSR activities and the impact of making CSR spending mandatory. The nature of the study required us to

collect primary data from the Indian corporations. We used a survey instrument for the primary data collection to determine the attitudes of corporations towards CSR activities and the impact of making CSR spending mandatory.

The survey methodology can be seen as a research strategy in which quantitative information is systematically collected from a relatively large sample taken from a population (De Leeuw & Dillman, 2008). There are many complexities in conducting a survey research. Groves et al. (2009) argues that most important methodological challenges in survey research are related to identifying and selecting potential sample members; contacting sample individuals and collecting data from those who are hard to reach; evaluating the test questions; selecting the mode of posting questions and collecting responses; checking the data files for accuracy and internal consistency; and adjusting survey estimates to correct for identified errors.

To address these complexities, we prepared a questionnaire survey that was distributed by an Indian survey company, Corp Scan Business Consultants, to their panel of Indian corporate entities. We instructed the consulting company to split the survey sample equally between those who were required to spend resources on CSR activities under the 2013 Act, and those who were not. The respondents included companies of different legal status, size, industry and region. The surveys were completed by a top official within each company (i.e. director, managing director, chief executive officer (CEO), chief financial officer (CFO) or a senior manager). We conducted two pilot studies in the process of developing the questionnaire. The first pilot study was conducted with colleagues and the feedback collected was used to further develop the questionnaire. The second pilot study was conducted on a small sample of 10 actual respondents. The insights gained from these respondents

enabled us to correct for logical faults in specific questions and instances where a question was hard to understand.

3.2.3.1 Best-worst scaling

Another critical shortcoming of the questionnaire survey method is the biases created due to variations in the respondents' motivation levels (Weng & Cheng, 2000). Participants are expected to consider all the options provided and select the most appropriate one. A participant with limited motivation may instead choose the first option that appears acceptable to him or her without examining all the options (Belson, 1966; Chan, 1991). Certain studies have demonstrated that participant responses changed as options of the scales were altered and others found participant responses robust to change of response order (Weng & Cheng, 2000). To overcome such limitations, Louviere and Timmermans (1990) propose a more restrained data collection procedure. Their "best-worst" scaling requires the respondent to choose the two items having, respectively, the greatest and the least presence of a characteristic from repeatedly presented subsets of items, to be able to scale the entire set of the issues on the characteristic. Their approach provides an ordinal ranking of the issue for each factors and an interval scaling of the items for the sample of respondents (Finn & Louviere, 1992).

In best-worst scaling models, the respondents repeatedly choose the two objects in varying sets of three or more objects that they feel exhibit the largest perceptual difference on an underlying continuum of interest. One could ask respondents to choose only the issue of "most important," and their choices would be sufficient to determine sample- or segment-level scales. However, choosing the two issues that are of the "most" and "least" concern in each set provides much more statistical information from which to infer a scale. Moreover, this approach provides sufficient

information to develop individual-level scales. The model for this process involves the choice of a pair of objects from a set of three or more and can be expressed as:

Best/Worst score

$$= \frac{\text{No. of times an item chosen as Best} - \text{Worst}}{(\text{Total No. of responses} / [\text{No. time an item appears} * \text{No. of response options}])}$$

The higher the score, the more the feature is appealing to respondents. A positive score means it is chosen as **most** appealing more often than least appealing. A negative score means it is chosen as **least** appealing more often than most appealing. A zero score means it is chosen as **most** and **least** appealing an equal number of times, or it has never been chosen as most or least appealing (CenSoc, n.d.).

3.2.3.2 Likert scale

The Likert scale is a widely used approach to scaling responses in survey research. When answering to a Likert questionnaire, respondents identify their level of agreement or disagreement on an agree-disagree scale for a series of statements. Thus, the range captures the intensity of their feelings for a given item (Burn & Burns, 2008). A scale can be created as the simple sum of questionnaire responses over the full range of the scale. In so doing, Likert scaling assumes distances between each item are equal. Importantly, in likert scale approach all items are assumed to be replications of each other, or in other words, items are considered to be parallel instruments (Alphen, Halfens, Hasman, & Imbos, 1994).

A Likert scale is the sum of responses on several Likert items. Because many Likert scales pair each constituent Likert item with its instance of a visual analogue scale (e.g., a horizontal line, on which a subject indicates his or her response by circling or ticking to indicate their choice), an individual item is itself sometimes

erroneously referred to as a scale, with this error creating pervasive confusion in the literature and parlance of the field (Likert, 1974).

A Likert variable is simply a statement that the respondent is asked to evaluate by giving it a quantitative value on a dimension, with the level of agreement/disagreement being the dimension most commonly used. Well-designed Likert questionnaire contain equal numbers of positive and negative positions whose respective distances symmetric about the neutral value (Burn & Burns, 2008). Often Likert questions are five ordered response levels, although many psychometricians support using seven or nine levels; an empirical study by Dawes (2008) found that items with five or seven levels may produce slightly higher mean scores relative to the highest possible attainable score, compared to those produced by the use of 10 levels and this difference was statistically significant.

In this thesis, we have designed a questionnaire in such a way so that it yields valid information. Meticulous attention has been paid to ensuring that individual questions are relevant, appropriate, intelligible, precise and unbiased. The order of the questions has been carefully arranged, and the layout of the questionnaire is clear. A clear covering letter has been attached with all questionnaires. Questionnaires have been first piloted and evaluated before the actual survey.

3.2.4 Panel regression analysis

In panel data, individuals (person, firms, cities, etc.) are observed at several points (days, years, before and after treatment, etc.). Panel data are most useful when we suspect that the outcome variable depends on explanatory variables which are not observable but are correlated with the observed explanatory variables. If such

omitted variables are constant over time, panel data estimators make it possible to consistently estimate the effect of the observed explanatory variables (Schmidheiny, 2015).

A common panel data regression model is expressed as $y_{it} = a + bx_{it} + \epsilon_{it}$ where y is the dependent variable, x is the independent variable, a and b are coefficients, and i and t are indices for individuals and time. The error ϵ_{it} is very important in this analysis. Assumptions about the error term determine whether we speak of fixed effects or random effects. In a fixed effects model, ϵ_{it} is assumed to vary non-stochastically over i or t making the fixed effects model analogous to a dummy variable model in one dimension. In a random effects model, ϵ_{it} is assumed to vary stochastically over i or t requiring special treatment of the error variance matrix (Hsiao, Pesaran, Lahiri, & Lee, 1999).

In the third study of this thesis, we test the impact of CSR expenditure on the financial performance of the firm; we conduct two sets of panel regression analyses. First, we test the effect of CSR spending with and without a fixed effect in the pre-legislation period (i.e. 2008–2013). Then we repeat the same analysis in the post-legislation period. We use the following regression model for our analysis:

$$\begin{aligned}
 ROE_{it} = & \beta_0 + \beta_1 CSR_{A,t} + \beta_2 CSR_{A,t-1} + \beta_3 CSR_{A,t-2} + \beta_4 CSR_{A,t-3} + \\
 & \beta_5 CSR_{B,t} + \beta_6 CSR_{B,t-1} + \beta_7 CSR_{B,t-2} + \beta_8 CSR_{B,t-3} + \beta_9 CSR_{C,t} + \\
 & \beta_{10} CSR_{C,t-1} + \beta_{11} CSR_{C,t-2} + \beta_{12} CSR_{C,t-3} + \beta_{13} CSR_{D,t} + \beta_{14} CSR_{D,t-1} + \\
 & \beta_{15} CSR_{D,t-2} + \beta_{16} CSR_{D,t-3} + Control\ Variables + e_{it} \quad (7)
 \end{aligned}$$

$CSR_{(A, t-n)}$, $CSR_{(B, t-n)}$, $CSR_{(C, t-n)}$ and $CSR_{(D, t-n)}$ are the products of dummy variables (where the value of variable is 1 when the company belongs to the relevant category and 0 in all other cases) and the actual CSR spending of those companies.

Hence, to get the coefficients of CSR (Category B), CSR (Category C) and CSR (Category D) we add the coefficient of CSR (Category A) to the coefficient of the relevant category obtained from equation 7. Then we use the Wald test to determine the significance of those coefficients. This methodology allows us to understand the impact of CSR expenditure on the financial performance of individual categories of companies.

3.2.5 Difference-in-differences

We have used the difference-in-differences (DiD) regression approach to testing the impact of the legislation on firm performance. DiD is a popular empirical economic approach for estimating the effect of certain policy interventions and policy changes. DiD could be an attractive choice when using research designs based on controlling for confounding variables, or when using instrumental variables is deemed unsuitable, and at the same time, pre-treatment information is available (Lechner, 2010a). The DiD design is usually based on comparing de facto four different groups of objects, and time is one of the most important variables that distinguishes the groups. The four groups are: post-treatment treated (the group which already received the treatment), pre-treatment treated (these groups are the treated prior to their treatment), post-treatment non-treated (the non-treated in the current period) and pre-treatment non-treated (the non-treated group prior to the treatment period) (Lechner, 2010b).

The idea of this empirical strategy is that if the two treated and the two non-treated groups are subject to the same time trends, and if the treatment has had no effect in the pre-treatment period, then an estimate of the “effect” of the treatment in a period in which it is known to have none, can be used to remove the effect of confounding

factors to which a comparison of post-treatment outcomes of treated and non-treated may be subject to. This is to say that we use the mean changes to the outcome variables for the non-treated groups over time and add them to the mean level of the outcome variable for the treated groups prior to treatment to obtain the mean outcome the treated group would have experienced if they had not been subjected to the treatment.

The equation that we used is as follows:

$$ROE = \beta_0 + \beta_1 D^{post} + \beta_2 D^{Tr} + \beta_3 D^{post} * D^{Tr} + Control\ Variable + \varepsilon \quad (8)$$

Where:

D^{post} = Time dummy = Dummy Variable; 1 if the year of observation is after 2013, 0 otherwise.

D^{Tr} = Treatment group dummy = For model 1 and 2 in DiD analysis; 1 if the firm is Category A and if it is Category C. For model 3 and 4 in DiD analysis; 1 if the firm is Category B and if it is Category D.

$D^{post} * D^{Tr}$ = Interaction variable = Time dummy * Treatment group dummy

	Post- Treatment	Pre- Treatment	Difference
Treatment	$\beta_0 + \beta_1 + \beta_2 + \beta_3$	$\beta_0 + \beta_2$	$\beta_1 + \beta_3$
Control	$\beta_0 + \beta_1$	β_0	β_1
	$\beta_2 + \beta_3$	β_2	β_3

$$Treatment\ Group_1, Control\ Group_1 = \beta_0 + \beta_1 + \beta_2 + \beta_3$$

$$Treatment\ Group_1, Control\ Group_0 = \beta_0 + \beta_2$$

$$Treatment\ Group_0, Control\ Group_1 = \beta_0 + \beta_1$$

$$Treatment\ Group_0, Control\ Group_0 = \beta_0$$

3.3 Data

We use both secondary and primary sources to collect the data for the different studies conducted in this thesis. The secondary data was collected from different reliable databases, and the primary data was collected using the questionnaire survey and the services of a professional business consultancy. In this section, we elaborate on the data collection processes for each study.

The data required for the event study analysis were the daily stock prices of individual companies and their accounting ratios (book-to-market, market capitalisation and industry type). This data was collected using Datastream (Thomson Reuters database providing global financial and macro-economic data). We then divided our sample into four sub-samples which were potentially impacted in different ways by these announcements: companies that already spent resources on CSR activities prior to it being mandatory for them to do so (designated as A companies), companies that previously did not spend resources on CSR but would now be required to do so (B companies), businesses that did spend resources on CSR but would not be required to do so (C companies), and businesses that did not spend resources on CSR and would not be required to do so (D companies). The study examined the price reactions on each of the six event dates that were identified from the Factiva database.

We prepared a questionnaire for the survey conducted in the second study. We used Corp Scan Business Consultants to ensure the reliability and efficiency of the survey responses. They distributed the questionnaire to their panel of Indian corporate entities and collected completed surveys from 223 respondents, split equally in accordance with our instructions between those who were and were not

required to spend resources on CSR activities under the 2013 legislation. The survey was designed to elicit responses from four categories of companies as described above.

The focus of the third study is on gaining insights into the effectiveness of making CSR expenditure mandatory and its implications for corporate profitability. In this study, we collected data from CMIE Prowess (is a database of the financial performance of Indian companies) for firms listed on the Bombay Stock Exchange (BSE) from 2008 to 2015. We then divided our sample into the four categories.

3.4. Conclusion

This research uses a mix of different methodologies to examine the impacts of compulsory CSR legislation on firm performance, considering different viewpoints. First, through the event study, we measured the stock reactions to the announcement of the legislation. The Indian Government provided a series of announcement about its intended CSR legislation, as it vacillated over a four-year period between making it voluntary or mandatory for large Indian companies to spend on CSR activities. The timing of these announcements provides an ideal setting to gain insights into the impact that CSR expenditure is expected to have on the long-term profitability of Indian companies. Each announcement provided information that is likely to change expectations relating to the future level of CSR expenditure. By observing the impact of the announcement on the share prices of companies, we gain insights into the impact that investors perceive CSR expenditure will have on the future profitability of businesses. Then we conducted regression analysis as a robustness test.

In the second study, we used a questionnaire survey approach to understand the factors that motivated many companies to undertake CSR activities voluntarily before the legislation was enacted, and changes in the spending patterns of those companies with the introduction of the new law. This study also provides us with insight into the factors that stopped management from undertaking CSR activities or complying with the legislation.

In the third study, we utilise the unique setting provided by compulsory regulation and test 1) the relationship between CSR expenditure and financial performance before and after legislation was introduced and 2) the impact of regulated CSR on firms' financial performances. We use a panel regression approach to analyse the direction of the relationship between CSR spending and firm performance and then we use the difference in differences regression analysis to examine the overall impact of mandatory CSR regulation on firm performance.

The mix of these different methodologies allows us to capture the market perceptions and managers' perceptions, and test then validate both types of perceptions by conducting an empirical test using financial data.

Chapter 4: Corporate social responsibility and firm market performance

In this chapter we use the flow of information relating to the introduction of mandatory CSR expenditure in India as means of measuring investor perceptions of the impact of mandatory CSR on firm performance. We use both event study and regression analysis methodology and find that when mandatory CSR spending was first mooted in mid-2008, investors started out with the expectation that more CSR expenditure would increase future corporate profitability. However, by the time the legislation was passed in August 2012, these expectations had changed to where they expected the opposite to hold.

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4.1 Introduction

The analysis of this chapter measures the impact on company share prices of changes in CSR expenditure following the introduction of mandatory CSR legislation. We use the flow of information relating to the introduction of mandatory CSR expenditure in India as the vehicle to understand investor perceptions of the impact of such spending on company profitability. The Indian Government issued a series of announcements about its intended CSR legislation, as it vacillated over a four-year period between making it either voluntary or mandatory for large Indian companies to spend on CSR activities. The timing of these announcements provides an ideal setting to gain insights into the impact that CSR expenditures are expected

to have on the long-term profitability of Indian companies. Each announcement provided information that was likely to change expectations relating to the future level of CSR expenditure. Hence, by observing the impact that these announcements had on the share price of companies, we gain insights into the impact that investors perceive the mandatory CSR expenditure will have on the future profitability of businesses.

The analysis consists of event studies and also regression analysis of the price impact of information releases relating to mandatory CSR expenditure by Indian companies. We find that investors started out with the expectation that more CSR expenditure would increase future corporate profitability but then move slowly to taking the opposite view. They viewed the mandatory CSR regulations would reduce profitability and thus decided to devalue the companies following the introduction of mandatory CSR. It seems that the investors believe that management knows more than the government about the optimal level of CSR expenditure from the company's perspective.

We have used the standard event study method to estimate abnormal returns associated with an event and then performed a standard parametric significance test to determine if the abnormal return or cumulative average excess return is equal to zero. Tests of significance follow the procedure described in MacKinlay (1997).

Six event dates are investigated in this study. All of them represent the dates when information became available relevant to the probability of the mandatory CSR legislation being introduced and/or the exact nature of the legislation. These announcements will thus impact on investors' expectations regarding the level of CSR spent by companies. By observing the market reaction at the time of the

information release, we can then gain an insight into the investors' perceptions of the impact that this expenditure is likely to have on the future profitability of companies. In Table 1, we summarise the details of each information release, the likely impact on the level of expected future CSR expenditure, and the likely reaction of investors. The table provides details of each of the six announcements and the likely implications that each one had for future expenditure on corporate socially responsible activities.

Table 1: Details of event dates

Year	Objective	Implications for corporates	Comments on investor reaction
18/06/2008	The Indian Government announced its intentions to make it mandatory for companies to spend funds on CSR activities (Kumar, 2008). This was motivated by a desire to address the issue of corporate fraud (Satyam Computer Services scandal) and to facilitate a socially responsible corporate climate.	Likely to result in an increase in CSR expenditure by corporations, especially those that would be required to undertake CSR spends for the first time (i.e. B companies).	The direction of the market reaction to an expected increase of funds allocated to CSR activities will be indicative of how investors see the implications of increased CSR expenditure by companies on their future profitability.
03/08/2009	As a result of pressure from Indian companies, the government relented when it introduced the draft Companies Bill, 2009 which was released with CSR expenditure now only being voluntary (Indo Asian News Service, 2009).	Likely to result in future expenditures by businesses on CSR activities being lower than what would have been expected if such expenditures had been made compulsory.	Again the direction of the market reaction will indicate investors' expectations of the effect of CSR expenditure on future profitability – in this case, a positive sign indicating that investors expect an increase (decrease) in CSR spend will have a negative (positive) impact on profits.

Table 2: Details of event dates (Continued)

Year	Objective	Implications for corporates	Comments on investor reaction
20/07/2011	Another change in the intentions of the Indian Government with Corporate Affairs Minister Veerappa Moily announcing that they were now considering the introduction a new companies bill making it mandatory for companies to spend some of their profits on CSR initiatives (Press Trust of India, 2011b).	The probability of mandatory CSR expenditure increases again, and so the expected CSR spends of companies in the future	Again we have the opportunity to see how the market reacts to a rise in expected CSR spend and another chance to gauge the impact that investors have on the future profitability of companies
14/12/2011	The government tabled a revised bill in which the CSR expenditure was mandatory (Press Trust of India, 2011a).	This announcement resolves some of the uncertainty relating to its intentions of making CSR spend mandatory and so is likely to increase the expected amount of funds to be directed to CSR spend	Another opportunity to see how the market reacts to a rise in expected CSR spend and another chance to gauge the impact that investors have on the future profitability of companies
13/08/2012	Clause 135 of the Companies Act 2012 was passed making it compulsory for large Indian firms to spend funds on CSR activities (Economic Times Bureau, 2012).	This announcement removed any remaining uncertainty relating to the Indian Government's intentions to make CSR spend mandatory. It was likely to increase the expected amount of funds to be directed to CSR spend.	We do not expect to find that there was any significant reaction on this day, as the impact of this announcement had already been reflected in previous events.
22/02/2014	Due to the concern as to where the mandatory CSR expenditures were being directed, the amended legislation listed ten areas of CSR spending (Gupta, 2014).	This announcement is unlikely to have impacted on the expected future CSR spend but by directing it to specific activities it may well have impacted on future company profitability.	The market impact of this announcement is uncertain so the empirical findings will be instructive as to its effects on expectations of future company profits (if it has any impact at all).

Regression analysis is used to establish the nature of the relationship between investments in CSR activity and market valuation. The dependent variables are the excess return over the event window being evaluated, and the dummy variable mentioned below relating to each of the categories of companies. The control variables include: book-to-market ratio, log of market capitalisation and the return on a company's stock over the previous six months, to control for the cross-sectional differences in stock price (Bird et al., 2012). Carhart (1997) included the momentum factor in the three factor model. The Carhart four factor model is one of many theoretical support that we have considered while modelling the regression equation. The regression model is as follows:

$$\begin{aligned}
 & X_{i,t} \\
 & = \alpha + \beta_1 D_{1,t} + \beta_2 D_{2,t} + \beta_3 D_{3,t} + \beta_4 BM_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 MOM_{i,t} \\
 & + \textit{Industry fixed effect}
 \end{aligned}$$

where $X_{i,t}$ = excess return over the event period of stock i in period t (t = 0 to +1)

$D_{1,t}$ = 1 for stocks that did not spend on CSR but now would have to (B); otherwise equals 0

$D_{2,t}$ = 1 for stocks that did spend on CSR but would not be required to do so (C); otherwise equals 0

$D_{3,t}$ = 1 for stocks that did not spend on CSR and would not be required to (D); otherwise equals 0

$BM_{i,t}$ = book-to-market of stock i ant time t

$SIZE_{i,t}$ = log of market value of equity of stock i at time t

$MOM_{i,t}$ = return over five trading days prior to the start of the event period of stock i at time t .

Industry fixed effects = a number of indicator (or dummy) variables that take a value of 1 when a firm falls into a particular sector and are otherwise equal to zero.

The rest of the chapter is divided into three sections. In Section Two we will describe our findings from the event study, Section Three presents the regression analysis results and in Section Four we present our concluding remarks.

4.2 Event study

In Table 2 we report our results of the cumulative average abnormal return (CAAR) and the corresponding t-values, for the four categories of companies, on the six event dates for three event windows.

On the **first event date** (i.e., 18 June 2008) the possibility of the introduction of mandatory CSR expenditure for large Indian companies was first mooted. We find that the CAARs for these companies are strongly positive over all three event windows. This observation suggests that investors reacted very positively to the expectation that these companies would have to divert greater resources to CSR activities in the future. The greatest reaction occurs at the time of the announcement, but there is some evidence that the news might have been anticipated and also that the upward drift in prices continued for several days after the announcement. The upward move in prices was greatest for companies that were not currently devoting any resources to CSR expenditures (Categories B and D). This upward trend for both categories of companies is not surprising as, at this time, there was also some uncertainty as to which companies would be required to undertake CSR expenditure.

There was a smaller increase in the prices of companies that were already spending on CSR activities, and which would most likely be required to do under the mandatory CSR legislation (Category A). The most likely explanation for this finding is that investors perceived that these companies as a group would increase their funding of CSR activities. The group for which there was only a slight increase in price is composed of companies that were currently funding CSR spend but were less likely to have to do so if it was to become mandatory (Category C). The implication is that investors thought that it was very unlikely that these companies would increase their expenditure on CSR activities to any significant extent. The overall conclusion that we draw from these findings is that investors perceived that an increase in CSR expenditure would have a positive impact on the future profitability of companies. This conclusion lends strong support to the proposition that at this time investors believed that there was that there is a positive relationship between CSR spend and corporate performance.

As a response to political and corporate pressure, on **the second event date** (3 August 2009) the government announced a watering down of its original intentions to make CSR expenditure mandatory. On this date, a draft bill was introduced under which CSR expenditure would remain voluntary. We find that at the time of the announcement it was only Category A companies (i.e. those already spending on CSR for whom future CSR expenditure would have most likely been mandatory) that experienced a significant upward movement in the price of their equities. This trend is surprising given that the announcement suggests either a decrease or no change in the expected level of CSR expenditure by Category A companies, and previous findings indicated that the response would be no change or a fall in the share prices of such companies. For Category B companies, the watering down of

the legislation resulted in investors assuming there would be a decrease in future CSR expenditure. For the remaining two categories, it is likely that the change in government intentions resulted in either no change or a reduction in future CSR expenditure. Over the entire event period, there was a small upward drift in abnormal returns for the Category B companies and a slightly larger one for the Category C companies. For Category D companies, there was a significant downward drift prior to the announcement but an important positive drift after the announcement. Overall, the market response to the switch in government policy to making CSR expenditure voluntary somewhat contrasts with the very positive response at the time when it was first mooted that it would be made mandatory. One would have expected that the backtracking by the Indian Government would have a negative impact on stock prices. However, overall we observe a positive investor reaction. This may reflect that investors no longer believed that there would be a positive relationship between CSR expenditure and company profitability. Alternatively, they may simply have been confused with respect to the final outcome of government policy on CSR expenditure, with the possibility being that the government might again change its policy back to making CSR expenditure mandatory in the future.

By 2011, the Indian Government had become discouraged about India Inc.'s attitude to spending resources on CSR. **The third event** occurred on 20 July when the government gave a firm indication that its intentions had changed back to making CSR expenditure mandatory (Press Trust of India, 2011b). The overall effect of this change for investor expectations was likely to be an increase in the expected level of future CSR expenditure, although the extent of this increase was likely to differ across the categories of companies. Therefore, the announcement

provided another opportunity to gauge investors' attitudes to such expenditures. It is interesting to note that at the time of the announcement there was a fall in the equity of companies that previously were undertaking CSR expenditure and that would be required to continue to do so (A companies) while the prices of other companies basically remained unchanged. In the post-announcement period, the CAARs were negative for all companies and significant for all but those companies who were currently undertaking CSR activities but would not be required to do so after the legislation was introduced. These findings are more in line with the reaction to the second event date which signalled a change in investor attitude to a position where they now associated CSR expenditure with a reduction in the profitability of companies. However, this view may be a little too simplistic as we see a significant abnormal return being earned by all categories of companies in the period leading up to the third event date. The reaction may well be reflective of the leakage of the news relating to a revision in government policy back to making CSR expenditure mandatory. If so, then one possible interpretation is that there was an initial overreaction that was corrected over the remainder of the event window. If we look at the response over the three event windows, we see fairly large positive abnormal returns for Category C companies, a slight increase for Category A companies, almost no change for Category B companies and a slight negative abnormal return for Category D companies. Overall, this suggests that the July 2011 decision to make CSR expenditure mandatory was far less enthusiastically received than the initial announcement back in June 2008.

On **the fourth event date**, 14 December 2011, the government tabled a revised bill proposing to make CSR expenditure compulsory for large Indian companies. The impact of this announcement would have been to decrease any remaining

uncertainty relating to the Indian Government's position on mandatory CSR expenditure and a more precise indication of just which companies would have to undertake such expenditure. The impact would be to increase the expected future CSR expenditures for Indian companies and particularly those that now would be required to undertake such expenditures for the first time (i.e. Category B companies). The most noteworthy finding is that Category B companies experienced abnormal negative returns of in excess of 5% over the three combined event windows, and almost half of the downturn occurred at the time of the announcement. All of the other three categories experienced negative abnormal returns over the same period. The accumulated abnormal returns over the three event windows was in excess of -5.0% for the Category C companies, and between -2.5% and -3.0% for the Category A and D companies. Overall, it would seem that the reactions of investors to the introduction of the draft bill was negative across all Indian companies. This observation may be reflective of the trend identified when analysing the previous two announcements that suggest that investors were developing a negative attitude towards CSR expenditure. However, an alternative explanation is that it may be reflective of the lack of confidence with respect to the proposed law being effective. The draft bill did not discuss the enforcement mechanism or penalties for non-compliance. It is therefore possible that investors feared the bill would prove to be an enforcement nightmare, exacerbating an already bad situation. Another loophole impacting on the effectiveness of the eventual bill was that a company could avoid being penalised for not allocating 2% of its sales to CSR expenditures simply by its CSR committee submitting an explanation for why it failed to do so. There was no discussion of what explanations would be

legally valid, leaving room for uncertainty as to the degree to which companies would comply with the 2% requirement.

On the **fifth event date**, 13 August 2012, the bill was passed. This announcement removed any outstanding uncertainty as to whether it would become mandatory for the larger Indian companies to spend some of their resources on CSR activities. The impact that this had on market expectations is unclear as the full effects of this mandatory requirement on market prices may have already been factored into prices. The suggestion is that the passing of the bill would have either slightly increased investor expectations of future CSR expenditures or left them largely unchanged. What is surprising is the large differences in the effects that the passing of the bill had on the share prices of each of the four categories of companies. In the case of the Category A (companies that had already been spending on CSR activities and were required to continue doing so under the new bill), there was a large initial increase in share price which was largely reversed in the period after the bill was passed. For Category B companies which would now have to devote resources to funding CSR activities, the passing of the bill seemed to have little impact on their share price which suggests that all of the information had been factored in previously. For the other two categories that would not be required to undertake CSR spending, the passing of the bill would seem to have had an inexplicable negative impact on their share prices. Overall, it is hard to draw conclusions from the reaction to this event about what impact investors expected CSR spending to have on corporate profits. The conclusion we draw is that the passing of the bill brought little in the way of new information to investors.

The **sixth event** that we consider occurred on 22 February 2014, 18 months after the bill was passed, when the government introduced an amendment that specified

ten CSR activities on which the funds must be spent. This amendment reflected government dissatisfaction with how companies were allocating their CSR expenditure in the first year that the law was operational. At the time of the announcement of this amendment, we saw a slight decline in the price of the equity of all companies. The decline was only significant in the case of Category A companies. There was no significant movement in stock prices in the period immediately after the announcement, suggesting that overall, investors believed that the amendment had little or no relevance for corporate valuations.

Originally, when the possibility of mandatory CSR expenditure was mooted, the market reacted very favourably. This response increased the price of the stocks in our sample, suggesting that investors saw a positive relationship between CSR expenditure and corporate profitability. However, this seemed to have changed when just over a year later the government stepped back from its original proposal and introduced a bill in which CSR expenditure was voluntary. One might have expected a decline in share prices at this time, but the opposite occurred, suggesting that investors no longer held the view that CSR spends reflected favourably on corporate profits. On balance, the market reaction to the subsequent four events evaluated in this study would seem to confirm that investors had changed from holding a positive view to now holding a negative view. A possible explanation is that they had become frustrated with the vacillation of the government over the four years it took to pass the bill, and also the previously discussed view that the bill was poorly drafted and would prove to be ineffective.

The finding of the event study analysis allows us to conclude that the shareholders had started considering that managers were better informed than the government about company performance and prospects (Jensen & Meckling, 1976) and were

therefore better qualified to make judgements about the optimal level of CSR expenditure from the company's perspective.. Hence, it appeared that according to investors, if the government forced the companies to allocate funds for CSR spending, then they would interfere with internal business strategies, and this could hamper innovation and prevent businesses from reaching an optimal point of productivity in the competitive market (Rahim, 2013).

Table 3: Study of six event dates

Event Study Results									
18 June 2008					3 August 2009				
		Mandatory		Non-Mandatory		Mandatory		Non-Mandatory	
		CSR	Non Csr	CSR	Non Csr	CSR	Non Csr	CSR	Non Csr
-19 to -1	CAAR	0.0177***	0.0271***	-0.0095	0.0464***	0.1566***	0.0175	0.0026	-0.0596***
0 to +1	CAAR	0.0264***	0.0427***	0.0171**	0.0466***	0.0133***	0.0098	0.0122	0.0002
+2 to 16	CAAR	0.0392***	0.0972***	0.0044	0.0902***	0.243***	0.0157	0.0461	0.038***
20 July 2011					14 December 2011				
		Mandatory		Non-Mandatory		Mandatory		Non-Mandatory	
		CSR	Non Csr	CSR	Non Csr	CSR	Non Csr	CSR	Non Csr
-19 to -1	CAAR	0.0294***	0.0346***	0.0494***	0.0290***	0.0035***	-0.0321**	-0.0092	0.0063
0 to +1	CAAR	-0.0054***	-0.0031	0.0041	-0.0002	-0.0199***	-0.02***	-0.024***	-0.0255***
+2 to 16	CAAR	-0.0099**	-0.0359***	-0.0161	-0.0402***	0.0006	-0.0053***	-0.0295**	-0.0002
13 August 2012					22 February 2014				
		Mandatory		Non-Mandatory		Mandatory		Non-Mandatory	
		CSR	Non Csr	CSR	Non Csr	CSR	Non Csr	CSR	Non Csr
-19 to -1	CAAR	0.0296***	-0.0214	-0.0431***	-0.0377***	-0.0097**	-0.0065	-0.0494***	0.0089
0 to +1	CAAR	0.0203***	0	-0.0102**	-0.0084	-0.0036**	0.0016	-0.0053	-0.0022
+2 to 16	CAAR	-0.0215***	0.0048	-0.0216	0.0024	0.0035	-0.0002	-0.0130	0.0133

Notes: The sample consists of six announcements from more than 500 companies listed on the Bombay Stock Exchange (BSE) for the six-year period June 2008 to February 2014. The sample has been divided into four categories of companies. We have used the market model event study for our analysis. The beta (β) estimation period is 100 days, starting before the event window of -19 to +16. CAAR is the sample average of cumulative abnormal return (CAR) for the day -19, +1 and +16. The symbols ***, ** and * denote significance at 1, 5 and 10 per cent levels respectively.

4.3 Regression analysis

In the previous section, we applied the event study methodology to examine the market reaction to announcements relating to the intention of the Indian Government to make it mandatory for companies to spend resources on CSR activities. Our focus was to use the share price movement around the time of each of the announcement to gain an insight into investors' perceptions of the impact that CSR expenditure on expected future corporate profits. Of course, these price movements might have been impacted by some other factors that have been found to influence a company's stock performance but for which there are no controls in an event study. It is for this reason that we further investigate the relationship between CSR expenditure and corporate performance by using regression analysis where we control for several of these factors. The actual regression applied is set out in Equation (6) where the control variables are book-to-market ratio, size, momentum and industry. The dependent variable in each case is the stock's excess return over the two-day event period, and separate regressions are run for each of our six event dates.

The results of the regression are reported in Panel A of Table 3. These results indicate that momentum is the only one of the control variables that is consistently found to have a significant impact on the returns. There are isolated instances in which the book-to-market and the size variables are significant, as is also the case in the (unreported) industry dummy variables.

We now switch our attention to Panel B of Table 3 which sets out the coefficients for each of the four categories of companies at each of the event dates. We see that investors reacted positively across all four categories of Indian companies when the

government first made known its intention to make CSR expenditure mandatory for large companies. This finding is consistent with, but slightly weaker than, those from our event study, with only the coefficient for Category D companies being significant. The overall conclusion that we draw from our two sets of analysis is that investors looked favourably on the intentions of the government to introduce compulsory CSR expenditure, consistent with expecting these expenditures to contribute to increased profitability for Indian companies.

The event study analysis suggested that investors reacted positively to the draft Companies Bill, 2009, which proposed a 2% voluntary CSR levy on profits. This finding seems to be at variance with our previous finding of a positive response to the initial announcement that a mandatory CSR expenditure law was to be imposed. We now see a clear example of the effect of introducing the control variables, as the findings from the regression analysis suggest that investors reacted in a negative way to the watering down of the original intentions. In effect, the watering down has resulted in a reduction in expected future CSR expenditure which our regression analysis suggests has had a negative impact on company share price. Hence, we conclude that investors associated the announcement with lower profitability of Indian companies, again an interpretation consistent with the belief that greater CSR activities would lead to greater profitability. However, the strength of this link must be questioned to a certain extent due the fact that strongest negative reaction at this second event date was for Category C and D companies who would have been unlikely to be subject to the mandatory CSR expenditure and so would be expected to be least affected by the watering down of government intentions.

The event study findings indicate that the investors reacted negatively to the news in July 2011 of the government reverting to their original intentions of making CSR

spend compulsory, especially in the case of large Indian companies that were already undertaking such expenditure. This finding would seem to be a reversal of investors' initial reaction when mandatory CSR spend was first mooted. The regression analysis suggests a small (insignificant) positive reaction at the time that the government announced that it had decided (again) to make CSR expenditure mandatory in the case of large companies that would be required to undertake this expenditure. For those companies not required to commit to CSR expenditure, the coefficient is positive but insignificant. These findings from the regression analysis suggest a change in investor sentiment at the time when mandatory CSR expenditure was first mooted, with investors no longer expecting that such expenditure would have a positive impact on corporate profits

The date of 14 December 2011 was the day on which the government first introduced a bill making CSR expenditure mandatory. This resolved some of the remaining uncertainty as to whether this would ever happen. The regression analysis confirms the findings from the event study that investors interpreted this announcement as having an adverse impact on share prices. This observation provides evidence of a further change in investor perceptions over the three-plus years after mandatory CSR was first mooted. Initially, investor opinion supported the view that making CSR spend mandatory would increase such expenditure by Indian companies and that this would increase the profitability of Indian companies. Now we see exactly the reverse situation, with investors associating an increase in CSR expenditure with a reduction in the profitability of Indian companies. A qualification of this conclusion is that the negative reaction may simply reflect a view previously expressed that the legislation might be largely ineffective, and that it would not result in any significant change in the CSR spend of Indian companies.

On 13th August 2012 the bill was passed and became law, and so any remaining uncertainty was finally removed. The event study suggests a somewhat confusing reaction to this announcement, with it having a positive impact on Category A companies but a negative impact for Category C companies. The clear impression we get from the regression analysis is that the passing of the bill had little or no effect on the share prices of any of the four categories of Indian companies. This would seem to be a more reasonable result and reflect that the passing of the bill brought little in the way of new information to the market.

After the legislation had been operational for over a year, the government became concerned with the effectiveness of its implementation and amended the legislation to specify more precisely how the CSR expenditure should be allocated. The event study analysis suggests that this amendment of 22 February 2014 had no impact on the share prices of companies, with the possible exception of Category A companies where there was evidence of a slightly negative impact. The regression results, on the other hand, suggest that this refinement in government policy had a negative impact for all companies, with this negative impact was greatest for Category A companies. This change in the legislation had no implications for the volume of CSR expenditure, but it did have implications for how these expenditures were allocated. Further, it did indicate the seriousness of the government intention to ensure that the legislation led to the desired outcomes. Our findings suggest that the investors' expectations concerning the closer regulation of where the expenditures could be allocated were that it would have a negative impact on corporate profitability.

Table 4: Regression table

Panel A						
Variable	18/06/2008	03/08/2009	20/07/2011	14/12/2011	13/08/2012	22/02/2014
Book-to-market	-0.0002	-0.0003	-0.0008***	0.0001	-0.0003	-0.0003
Size	-0.0006	0.0020	-0.0006	0.0038***	0.0006	0.0013*
Momentum	0.0539***	0.1870***	0.1620***	0.1920***	0.2140***	0.1500***
D ₁	-0.0002	-0.0008	0.0006*	0.0054*	0.0013	-0.0026
D ₂	0.0010	-0.0140**	-0.0057	0.0057	-0.0017	-0.0005
D ₃	0.0052	-0.0156***	-0.0022	-0.0022	-0.0011	0.0007
Constant	0.0147	-0.0003	0.0020	-0.0373***	0.0034	-0.0147**
Observations	499	461	556	535	474	525
Adjusted R ²	0.052	0.284	0.186	0.256	0.263	0.106
Panel B						
Coefficient	18/06/2008	03/08/2009	20/07/2011	14/12/2011	13/08/2012	22/02/2014
Category A	0.0147	-0.0003	0.0020	-0.0373***	0.0034	-0.0147***
Category B	0.0145	-0.0011	0.0026	-0.0319***	0.0047	-0.0173**
Category C	0.0157	-0.0143**	-0.0037	-0.0316***	0.0017	-0.0152**
Category D	0.0199***	-0.0159***	-0.0002	-0.0395***	0.0023	-0.0140*

Note: In this table, we report the results of OLS regression analysis as set out in equation (6). The dependent variables are the excess returns over two-day event period (0 to +1). Independent variables are dummy variables representing three categories of the company, i.e., B, C and D. Control variables are book-to-market, size, momentum and industry (unreported). Panel A provides the coefficients of dependent and control variables. Panel B sets out the coefficients for each of the four categories of companies at each of the event dates. The constant (Y intercept) of the regression is the coefficient for Category A companies. The constant plus the coefficients of D₁, D₂ and D₃ are the figures for B, C and D respectively. The notations ***, ** and * denote statistical significance at the 1%, 5% and 10% levels respectively.

4.4 Conclusion

The objective of this chapter is to gauge investor perceptions' of the impact of mandatory CSR expenditure on the profitability of corporate profits in the context of the Indian market. Our analysis indicates that investors viewed favourably the initial announcement by the government that they would make CSR expenditure compulsory for large Indian companies. The interpretation is that spending resources on CSR activities was expected to have a positive impact on the earning capacity of these companies. The analysis shows that the investors discriminated very little between the impacts that this legislation would have on our four categories of companies. This initial enthusiasm of investors for mandatory CSR expenditures waned over time. A year after the initial announcement, there was only a mild investor reaction to the reversal by the government of its intent to make CSR expenditure mandatory. One might have expected this would have a negative impact on the stock prices, but this proved only to be the case for companies that would fall outside the mandatory requirement. The subsequent announcement two years later that government policy had moved back to introducing mandatory CSR expenditure was again largely ignored by the market, which suggests that by this time investors had changed to taking a neutral stance on the relationship between the volume of CSR expenditure and corporate performance. When the legislation was introduced a few months later, we saw an overwhelmingly negative response, suggesting that investors had further changed their stance and now expected that greater CSR investment would result in a deterioration of fundamental performance. The subsequent passing of the legislation resulted in no significant investor reaction, but the amendment of the legislation two years later to tighten up how the funds should be allocated to CSR activities again had a negative impact on expected

performance. Bhaduri and Selarka (2016) mention that as a result of globalisation and internalisation Indian corporations are already under pressure to comply with international standards related to CSR. Moreover, as the outsourcing of production and manufacturing units flourished in India, the Indian corporations were forced to follow the labour and environmental standards imposed on them by western counterparts. Hence, investors believe that by forcing firms to invest in CSR, the government has created a situation where the additional expenditure has a negative impact on companies' profitability and therefore their share prices. In fact, the voluntary model of CSR may provide greater flexibility that enables participants to make decisions according to their needs and company type (Carraro & Siniscalco, 1994).

Therefore, to analyse the real impact of the mandatory CSR regulations on corporate profitability, we conducted further study. The second study of this thesis will analyse managers' perceptions of CSR regulations, and how CSR spending patterns have changed over time. The third study will empirically measure the impact of the CSR legislation on corporate profitability.

Chapter 5: Analysis of Indian corporate social responsibility: a survey

In this chapter we investigate the perceptions of the corporations regarding mandatory CSR regulation. This chapter analyses changes in the spending patterns of companies with the introduction of the new law governing CSR spending. Also, we explore the factors that motivated many companies to undertake CSR activities voluntarily before the legislation was enacted, and provide insight into the factors that stopped management from undertaking CSR activities or complying with the legislation.

An article based on this chapter has been accepted for publication.

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5.1 Introduction

In this chapter, we examine recent developments in corporate social responsibility (CSR) in the Indian corporate environment. Our focus is on the recently amended Indian Companies Act 2013 (2013 Act), which now requires large Indian companies⁸ to spend 2% of annual net profit on certain approved CSR activities, and also to disclose such expenditure in their financial statements and a separate CSR report.

We surveyed 223 Indian corporations between November 2014 and January 2015, investigating and analysing the drivers and barriers to undertaking expenditure on CSR activities, the CSR activities that are more valued, perceptions towards the

⁸ The legislation applies to all publicly listed companies and private enterprises whose net worth exceeds INR 5000 million, whose annual turnover exceeds INR 10000 million, or whose annual profits exceed INR 5 million.

mandatory regulation and managers' impressions of the impact of CSR spending on profitability. This study will help us understand the factors that motivated many companies to undertake CSR activities voluntarily, or not to undertake them, before the legislation was enacted and changes in the spending patterns of those companies with the introduction of the new law. We also provide insights into the factors that stopped management from undertaking CSR activities or complying with the legislation.

Although there is a long history of Indian corporations spending on CSR (Chapple & Moon, 2005b; Jose, Bandi, & Mehra, 2003) and many stellar examples in this arena (Balasubramanian, Kimber, & Siemensma, 2005; Mohan, 2001), the Indian Government became dissatisfied with the extent of such expenditure and in 2008 first mooted that it intended making it mandatory for companies to spend on CSR activities. One year later the Indian Government relented under pressure from business and issued voluntary guidelines proposing that companies allocate 2% of their revenue to CSR expenditure. Subsequently, the Indian Government found the response to these voluntary guidelines unsatisfactory and so in 2012 it again moved to make CSR expenditure mandatory (Press Trust of India, 2011b).

This mandatory framework for CSR expenditure in India provides us with a unique setting to analyse the spending patterns of Indian companies on CSR activities, before and after the introduction of the legislation. The insights that we obtain are further enhanced by being able to split the companies up into four categories: companies that were already spending on CSR activities prior to it being mandatory for them to do so; companies that did not spend significant resources on CSR but would now be required to do so; companies that were spending on CSR activities at the time that the legislation was passed but were not obliged under the legislation

to undertake CSR expenditure; and firms that did not spend any resources on CSR and would not be required to do so under the new legislation. Having these four categories of companies will enable us to understand better the impact that the new legislation had on Indian corporations.

We used a questionnaire survey approach to collect data for this chapter. The questionnaires were distributed by an Indian survey company, Corp Scan Business Consultants, to their panel of Indian corporate entities. In total, they collected completed surveys from 223 respondents, split equally, according to our instructions, between those who were and were not required to spend resources on CSR activities under the 2013 Act. The respondents included companies of different legal status, size, industry and region. The surveys were completed by a top official within each company (i.e. director, managing director, chief executive officer (CEO), chief financial officer (CFO) or a senior manager). The survey was designed to elicit responses from four categories of companies:

- i) Companies that already spent significant resources on CSR activities prior to it being mandatory for them to do (designated as A companies),
- ii) Companies that currently did not spend any resources on CSR but now would be required to do so (B companies),
- iii) Companies that did spend significant resources on CSR but would not be required to do so (C companies),
- iv) Companies that did not spend any resources on CSR and would not be required to do so (D companies).

Table 4 below provides data on the demographics of the companies in each of the four categories. Most of the responses were received from public listed and private equity companies. The average total sales, net profit and net worth of companies in Category A are much larger than they are for the other three categories of companies. More than half of our respondents were in the information technology, industrial and health sectors with little representation from consumer discretionary companies and utilities. The median age range of the responding companies was 25 to 34 years with the companies for which CSR is mandatory being slightly older. Finally, we have a fairly wide spread of respondents across geographical regions.

Table 5: Data description

	Companies			
	A	B	C	D
Total Responses	99	10	48	66
<i>Legal Status of Business</i>				
Public Listed Company	37.40%	30.0%	35.40%	30.30%
Private equity (not listed), Limited Liability Company	42.40%	40.0%	45.80%	37.90%
Partnership (unlimited liability company)	8.10%	20.0%	8.30%	10.60%
Government Company	4.00%	0.0%	6.30%	15.20%
Foreign ownership	8.10%	10.0%	4.20%	4.50%
Other	0.00%	0.0%	0.00%	1.50%
<i>Company Size (Mean: INR 10 Mill)</i>				
Total Sales	2409	612.7	251.06	206.73
Net Profit	378.43	124.6	52.33	46.86
Net Worth(Net Assets – Net Liabilities)	1441.3	502.8	160.1	128.32
<i>Industry</i>				
Energy.	11.10%	10.00%	2.10%	4.50%
Materials	14.10%	0.00%	8.30%	13.60%
Industrial	16.20%	30.00%	12.50%	22.70%
Consumer Discretionary	3.00%	0.00%	6.30%	6.10%
Consumer Staples	3.00%	10.00%	6.30%	3.00%
Health Care	5.10%	20.00%	18.80%	13.60%
Financials	16.20%	0.00%	12.50%	12.10%
Information Technology	25.30%	20.00%	22.90%	10.60%
Telecommunication Services	4.00%	10.00%	6.30%	9.10%
Utilities	1.00%	0.00%	2.10%	1.50%

Other	1.00%	0.00%	2.10%	3.00%
Age				
Greater than 55 yrs	8.08%	10.00%	8.33%	13.64%
45 yrs - 54 yrs	5.05%	0.00%	2.08%	6.06%
35 yrs - 44 yrs	17.17%	40.00%	10.42%	18.18%
25 yrs - 34 yrs	25.25%	10.00%	29.17%	13.64%
15 yrs - 24 yrs	28.28%	30.00%	22.92%	28.79%
5 yrs - 14yrs	16.16%	10.00%	27.08%	15.15%
Less than 5 yrs	0.00%	0.00%	0.00%	4.55%
Respondent				
Director	9.10%	0.00%	2.10%	12.10%
Managing Director	9.10%	0.00%	18.80%	12.10%
Chief Executive Officer	22.20%	40.00%	18.80%	13.60%
Chief Finance Officer	31.30%	10.00%	12.50%	13.60%
Senior Manager	27.30%	50.00%	43.80%	43.90%
Other	1.00%	0.00%	4.20%	4.50%
Region				
North India.	26.28%	28.57%	14.49%	25.58%
South India.	33.33%	7.14%	46.38%	32.56%
East India.	14.74%	14.29%	21.74%	24.42%
West India.	25.64%	50.00%	17.39%	17.44%

5.2 Methodology: survey structure⁹

As indicated previously, we investigated a number of issues related to CSR in India, and we first provide some background to the formation of the questions used.

5.2.1 Drivers and barriers to CSR spending:

Drawing upon the finding of Mishra and Suar (2010), we identified 16 drivers and 13 barriers for CSR spending in India. The drivers (barriers) for CSR expenditures were put to the respondents from A and C companies (B and D companies) in blocks of five (four) and in each case the respondent was asked to choose the factor which most/least influenced the choice that they made with respect to spending resources on CSR activities. This is a Balanced Incomplete Block Design (BIBD) (Goodman

⁹ A copy of the survey is included as an appendix to the thesis.

& Rемаud, 2015) where each of the drivers (barriers) appears with every other driver (barrier) and in each of the five (four) orders of listing.

5.2.2 Types of CSR expenditure

We identified 26 types of CSR expenditure, including those specified by the government, and respondents were asked to indicate all of those appropriate to this organisation. This question was asked both before and after the legislative change in order to gain insights into the impact of the legislation on the direction of CSR expenditure.

5.2.3 Various other questions (e.g. future intentions, views on mandatory CSR)

A set of Likert scale responses was designed (Likert, 1974) to collect information regarding the intention to increase, decrease or not change spending on CSR and this question was posed both before and after the legislative change. Data on attitudes towards mandatory CSR regulation was collected using a Likert scale question with five options: strongly positive, positive, neutral, negative and strongly negative. The question was followed by a closed ended question, which required the respondent to disclose the reason for their attitude. A similarly designed question was asked to elicit information on the impressions of managers of the impact that CSR spending had on profitability. This was followed a closed question that requires them to choose the reason for their perception. Finally, a question was asked to elicit information on the amount that a company spent on CSR activities.

5.3 Findings

5.3.1 Drivers of CSR

In Table 5 we outline the levels of importance of the drivers for CSR expenditure as reported by A and C companies; these are businesses that voluntarily chose to spend funds on CSR. The four most important driving forces for the A companies to spend on CSR that score above 5% all seem to have a common theme. The interpretation that we place on these responses from A companies is that they were mostly driven to expend voluntarily resources on CSR because of their concern for the community and their desire to have a good public image and good relations with both the community and government. Although improving economic performance ranked fifth, it was clearly a secondary concern that was probably a natural consequence of the realisation of the more moral reasons encapsulated in the four top-ranked responses. On the other hand, least important reasons for these companies spending on CSR activities are all related to the area of employment. These companies were clearly not driven to undertake this expenditure for the purposes of reducing absenteeism, increasing productivity or maintaining a better workforce. This could be interpreted as demonstrating a lack of concern for their employees. However, it has to be remembered that A companies were well-established companies that were almost ten times the size of C companies, and so they may well have believed that they already had a well-functioning workforce and so did not need to be concerned about gaining any further improvements in this area as a consequence of their CSR expenditures.

In complete contrast, the main drivers for C companies undertaking CSR expenditure were largely employee related, with combatting absenteeism, increasing productivity and improving employee satisfaction being three of the four

highest-ranked motivations for voluntarily undertaking such expenditures. It is interesting to investigate why the motivations for the two categories of companies are so different. If we turn to Table 4, we see that the major difference between the two categories is scale – on average, A companies are about 10 times the size of C companies when measured by either sales or net assets. Further, C companies tended to be substantially younger than A companies. These are important findings and suggest that the demographics of a company may play an important part in determining its attitude to CSR. C companies were clearly at a stage in their development where employee-related issues were much more important to them than they were for large well-established companies. The drivers for C companies extended beyond employee-related factors to include a concern to carry out their business/social responsibility, and a desire to improve economic performance and customer loyalty. Overall, an observation that we can make is that it would appear that C companies are a bit less selfless in their motivations for undertaking CSR expenditures than is the case with A companies.

This finding supports the argument of Russo and Perrini (2010) that the demographics of a company will have major consequences for determining the factors that cause it to undertake CSR expenditure. The larger firms are externally financed and diversified, and they comprehend the relevance of identifying their relationship with external stakeholders. Smaller companies are cash constrained and mostly dependent on the informal internal relationship (employer-employee relationship). As a result, they tend to divert most of the resources they have available for CSR initiative towards employee development.

Table 6: Levels of importance of drivers of CSR

Companies A	
Improve positive image of the company	10.44%
Company's concerned for its business/social responsibility.	9.43%
Increase marketing and public relations	6.06%
Improve relations with public administration (public/state authorities)	5.89%
Improve economic performance of the company (costs' reduction, sales' increase)	3.37%
Improve customers' loyalty	2.19%
Ethical/moral reasons	1.18%
Company's concern for the environment.	-1.01%
Apply/implement business code of conduct	-1.35%
Establish and/or retain competitive advantage	-1.68%
Improve relations with business partners and investors	-1.85%
Improve employees' job satisfaction	-2.02%
Company's philosophy and traditions	-2.19%
Increase productivity per employee	-4.71%
Help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)	-5.72%
Reduce absenteeism rate	-18.01%
Companies C	
Reduce absenteeism rate	9.03%
Company's concerned for its business/social responsibility.	7.64%
Increase productivity per employee	7.29%
Improve employees' job satisfaction	5.90%
Improve economic performance of the company (costs' reduction, sales' increase)	4.86%
Improve customers' loyalty	4.51%
Improve positive image of the company	1.39%
Company's concern for the environment.	-0.69%
Help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)	-0.69%
Company's philosophy and traditions	-1.74%
Improve relations with public administration (public/state authorities)	-3.13%
Ethical/moral reasons	-3.82%
Increase marketing and public relations	-5.21%
Apply/implement business code of conduct	-5.21%
Establish and/or retain competitive advantage	-8.68%
Improve relations with business partners and investors	-11.46%

Note: The question used for collecting the information about drivers and barrier of CSR was designed using the pairwise comparison approach provided by Louviere and Kaciak (1989). Based on the findings of Mishra and Suar (2010), we identified 16 drivers and 13 barriers for CSR spending in India. These choice influencers were developed into a most and least important choice experiment

using a Balanced Incomplete Block Design (BIBD) (Goodman & Remaud, 2015). In the design, there are 16 options for drivers and 13 options for barriers. Each statement appears five and four times respectively and co-appears once with every other statement. Each statement also appears in every order of position. The data is then transformed and analysed (Cohen, 2009), where the total number of times each attribute is mentioned as ‘least important’ is subtracted from the number of times it is mentioned as ‘most important’, leaving a score that is then standardised by dividing the score by the number of observations to enable samples with different numbers of respondents to be compared. The results are referred to as a ‘level of importance’ (Goodman & Remaud, 2015).

5.3.2 Barriers to CSR

In Table 6 we summarise the responses regarding barriers that dissuade B and D companies from undertaking CSR expenditure. Given that we have already highlighted the importance of company demographics in determining attitudes to CSR expenditure, it would be useful first to highlight any such differences for B and D companies. Two important differences are highlighted in the information provided in Table 1: the typical company B is significantly older than, and about three-times the size of, the typical D company. Our information on B companies is more limited than it is in the other three categories of companies. However, what is clear from the information that we have available is that these companies suffer from a lack of resources and know-how, and a lack of support from government, and that these are the main factors that cause B companies to refrain from spending resources on CSR activities. An examination of the least important reasons for them not undertaking such expenditure indicates that they may well see benefits from undertaking CSR expenditure, as they rate “impact on customer loyalty” as the least important reason. Overall, there is a suggestion from our findings that B companies may well have been willing to spend on CSR activities if they had the resources available to do so and they received more support from the government. However, this explanation has to be tempered, as their responses also suggest that there are

some cases where the company had previously expended on CSR, but a change in management caused them to stop doing so.

Similar to what we found with A and C companies, there would appear to be significant differences between the barriers articulated by B and D companies for why they did not voluntarily spend resources on CSR activities. The most obvious case in point is that a lack of financial resources and inadequate support are two of the lowest-ranked factors for D companies for their non-participation in CSR activities. Two of the highest-ranked reasons put forward by D companies for not spending are that they do not believe that this expenditure will have a favourable impact on the value and security of the company. The clear impression is that D companies are unlikely to commit voluntarily funds to CSR activities in the immediate future, unless required to do so, as they do not think such expenditure will have a favourable impact on the performance of the company. .

In summary, we have the larger companies (B) suggesting that they would commit to CSR expenditure if they had the resources available to do so. On the other hand, we have the small developing companies (D) saying that they have not chosen to do so because it is not in the company's best interests. In other words, we have the larger and older firms taking the high moral ground with the smaller companies acting more out of what they perceive as their own self-interest.

A final matter that we would like to consider with respect to the responses summarised in Tables 5 and 6 are the differing motives expressed by those for whom CSR expenditure has become mandatory under the 2013 Act (A and B) and those for whom it remains voluntary (C and D). The key difference between A and B companies is that B companies maintain that they do not have the resources to

spend on CSR activities. This claim may have some validity, given that the typical B company is younger than, and about a third the size of, the typical A company. What makes this situation interesting is that the new legislation requires B companies to spend on CSR activities provided they have the resources to do so. This might provide at least a partial explanation for why half of the India Inc. firm have failed to meet their target CSR spending for the financial year 2014–15 (Singh, 2016). The *Indian Express* news report reveals that ONGC, NTPC, TCS and Bharti Airtel are some of the big Indian domestic companies that failed to meet their social obligations. Indian arms of large multinationals such as Apple India, Pfizer and Nestle India also failed to spend even half the prescribed funds. Singh (2016) further reported that most companies that failed to comply with the requirement cited reasons such as: the delay caused due to the first year of implementation; suitable project not found and suitable implementing agency not found. Our survey results likewise show that the expected pickup in the level of expenditure on CSR activities after the introduction of 2013 Act failed to occur, with many companies claiming that they did not have the resources to meet their obligations under the act.

There is little difference between the major demographic features of the typical C company and the typical D company, with the former being only very slightly older and larger. Hence, our expectation, given that CSR expenditure is optional for both types of companies under the 2013 Act, is that a large majority of C companies would continue with such expenditures while very few D companies would switch to spending on CSR.

Table 7: Barriers to CSR

<i>Companies B</i>	
Inadequate free cash flow to undertake CSR activities	22.5%
Inadequate state/government support to cause it to undertake CSR activities	20.0%
Lack of technological know-how.	20.0%
Lack of human resources to undertake CSR activities	10.0%
CSR expenditure was perceived not to have a favourable impact on financial performance	5.00%
Inadequate public support/pressure to cause it to undertake CSR activities	5.00%
Increase operating cost.	2.50%
No impact on employee productivity.	0.00%
Competitive disadvantage if the money spent funds on CSR activities.	-5.0%
No favourable impact on the market value of the company.	-5.0%
CSR expenditure perceived not to have a favourable impact on the market risk of the company.	-12.5%
Change in management leads to a withdrawal of support for CSR activities	-30.0%
No impact on customer loyalty	-32.5%
<i>Companies D</i>	
Inadequate public support/pressure to cause it to undertake CSR activities	6.06%
Lack of human resources to undertake CSR activities	3.79%
No favourable impact on the market value of the company.	3.41%
CSR expenditure was perceived not to have a favourable impact on financial performance	3.03%
CSR expenditure perceived not to have a favourable impact on the market risk of the company.	1.52%
Increase operating cost.	1.52%
Lack of technological know-how.	1.52%
No impact on employee productivity.	0.38%
Change in management leads to a withdrawal of support for CSR activities	-1.89%
Competitive disadvantage if the money spent funds on CSR activities.	-3.03%
Inadequate state/government support to cause it to undertake CSR activities	-3.03%
Inadequate free cash flow to undertake CSR activities	-6.44%
No impact on customer loyalty	-6.82%

Note: This table provides a level of importance for the attributes that we considered as barrier to CSR spending. A higher percentage indicates that the respondents consider the attribute to be an important factor. A lower percentage indicates that the attribute is not such an important factor. A negative percentage indicates that the attribute is least important. The percentage scores have been calculated by subtracting the total number of times each attribute is mentioned as 'least important' from the number of times it is mentioned as 'most important', leaving a score that is then divided by the total number of responses.

5.3.3 Cross-sectional analysis of drivers and barriers

When discussing the drivers and barriers for spending on CSR activities, we highlighted both age and size as two characteristics that seemed to provide some explanation for the different behaviours across the four categories. In Table 7 we

present our findings on the drivers and barriers for CSR expenditure, but now broken up by some of the other company demographics: industry, company status and region. Aggregating the responses across the four categories of companies, we find that the standout drivers of CSR are the company's concern for its social responsibility, a desire to improve its public image, and a desire to improve its relationship with the public. Industrial companies are most driven by these three factors as they seem to be the industry group most concerned with their public image. Interestingly, it is companies in the service industries who are least driven to spend on CSR activities because of concern about their public image. Regarding types of company ownership, it is foreign owned companies who are very much driven to spend on CSR because of concerns about their social responsibility and corporate image, but not because of any concern with their relationship with government. Not surprisingly, government-owned companies do not undertake CSR expenditure in the hope of improving their public image or their relationship with government. Finally, there is little evidence of there being any difference in the drivers across the geographical regions.

A desire to reduce absenteeism is the only standout factor that was agreed across all four categories of companies as being the least important driver for spending on CSR. Of course, we have already seen that desire to reduce absenteeism was a major driver for younger and smaller firms, but this was obviously swamped by the fact that it was of least interest to the more established companies. Digging down further, we found that companies in the consumer and services industries, and foreign-owned companies who were the least motivated by a desire to reduce absenteeism. In fact, this is one of many instances where foreign-owned companies differed in terms of the drivers that led them to spend on CSR.

When it comes to the barriers to CSR expenditure, the two most telling reasons across the whole sample were a lack of either financial or human resources. We have seen that these reasons are the main motivating factors for the older and larger constituents of our sample. The information contained in Table 6 highlights that both government-owned and foreign-owned companies claimed a lack of human resources to be the issue, while partnerships and government-owned companies referred to a lack of financial resources being a major barrier. Government-owned companies also highlighted a lack of technical know-how as a major barrier to spending on CSR, foreign-owned companies cited inadequate public and government support.

The two barriers with the lowest rankings for not spending on CSR were a change in the support from management and a perception that such expenditure will have no impact on employee productivity. A change in manager support is a very particular reason, as it is largely restricted to companies who at some stage in the past did undertake CSR expenditure. It seems to apply largely to industrial companies, and to partnerships and foreign-owned companies.

Our analysis confirms that there are strong differences between the attitudes of companies on CSR spending across demographic characteristics. We see the greatest variations in the responses of drivers and barriers to be those related to age, size and type of ownership of companies. We also see some difference by industry but little by geographical region. These differences in attitude can be best explained when CSR is viewed through the lenses of the resource-based perspective (Hart, 1995; McWilliams, Siegel, & Wright, 2006). The resource-based view sees companies as collections of very different physical and intangible assets and capabilities. These assets and capabilities determine how effectively a firm

performs its functional activity (Collis & Montgomery, 2008). Therefore, the impact of CSR spending differs with size (Russo & Perrini, 2010; Udayasankar, 2008), industry (Russo & Fouts, 1997), geographic location of operation (Bird et al., 2012), age and ownership (Oh, Chang, & Martynov, 2011). As a result, the attitude towards CSR spending depends on the characteristics of companies.

These findings highlight the need to group the companies by characteristics when assessing their views on CSR spending. This is an important outcome that suggests policymakers should consider the different characteristics of the company when arriving at policy. Indeed, some of the problems with the effectiveness of the legislation introduced in India may be the direct result of insufficient targeting.

5.3.4 Types of CSR expenditure

Table 7 outlines our findings as to where Indian managers direct their CSR spending. The responses are divided into our four categories of company, and for the periods both before and after the 2013 Act became effective. The most popular area of CSR spending are training and development of employees, and policies covering health and safety at work.

Spending on the promotion of health care, eradicating poverty and education for society also rank highly regarding the level of CSR expenditure. All of these areas are crucial in the Indian context, and have been actively encouraged by the government. However as we have seen with the introduction of mandatory expenditure, significant reductions in the proportion of CSR expenditure applied to these areas, with “savings” being diverted to internal spending on developing employees, and health and safety. It is changes in expenditure like this that may

have motivated the government to specify more precisely where the CSR expenditures¹⁰ must be directed.

Other areas where significant CSR expenditure has been applied are areas related to sexual harassment, the representation of women and minorities on corporate boards, and environmental issues such as green purchasing and waste management. Expenditure aimed at combating sexual harassment is a particular area that has attracted a higher proportion of CSR expenditure since such expenditure was made mandatory

We do have some evidence on the spending activities of companies who had previously not been spending on CSR (i.e. B and D companies). In particular, the spending patterns of B companies are interesting because they are the companies being forced to undertake such expenditure as a result of the new legislation. We see that they channel the largest portions of their CSR expenditure mainly into the areas of sexual harassment and the promotion of healthcare, with smaller amounts going to staff training and health and safety (internal), eradicating poverty and promoting education (external). The D companies who voluntarily started spending on CSR activities after the introduction of the new act direct their expenditure mostly to promoting education, countering sexual harassment and staff training.

¹⁰ Under the Companies Act, 2013 (Schedule VII)

- Eradicating extreme hunger and poverty;
- Promotion of education;
- Promoting gender equality and empowering women;
- Reducing child mortality and improving maternal health;
- Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
- Ensuring environmental sustainability;
- Employment enhancing vocational skills;
- Social business projects;
- Contribution to the Prime Minister's National Relief Fund

The areas that have enjoyed least support in CSR expenditure have been contributions for the benefit of armed forces veterans, war widows and their dependents, contribution to the Prime Minister’s fund, setting up homes for women, orphans and/or senior citizens, and inspection of supplier facilities for health, safety and environmental status. As we have seen, the main focus of CSR spending has been on staff and the community. In the next section, we will discuss intentions by company group as to where the expenditure will be targeted in the future.

Table 8: Areas of CSR in which Indian companies were involved

	A		B	C		D
	2012 - 2013	2013 – 2014	2013 - 2014	2012 - 2013	2013 - 2014	2013 - 2014
Policies towards sexual harassment prohibition	18.2%	21.5%	50.0%	25.0%	35.1%	32.0%
Policies to ensure representation of women and minorities in the Board of Directors	20.2%	15.1%	0.0%	25.0%	35.1%	24.0%
Policies for the training and development of employees	46.5%	51.6%	25.0%	43.8%	45.9%	28.0%
Policies covering health and safety at work	29.3%	36.6%	25.0%	45.8%	37.8%	24.0%
Provision for formal worker representation in decision-making	19.2%	25.8%	12.5%	18.8%	29.7%	16.0%
Commitment to industry research and development and innovation	19.2%	22.6%	0.0%	14.6%	0.0%	12.0%
Direct involvement in providing products to the economically disadvantaged	17.2%	21.5%	25.0%	22.9%	5.4%	24.0%
Promoting shareholders’ participation in decision making and access to all relevant information	15.2%	11.8%	12.5%	12.5%	18.9%	12.0%
Eradicating hunger, poverty and malnutrition.	28.3%	24.7%	25.0%	27.1%	35.1%	24.0%
Promoting preventive healthcare.	35.4%	29.0%	37.5%	33.3%	21.6%	16.0%
Promoting education.	32.3%	26.9%	25.0%	31.3%	27.0%	36.0%
Promoting gender equality and empowering women.	16.2%	16.1%	12.5%	12.5%	24.3%	24.0%
Setting up homes for women, orphans and/or senior citizens.	13.1%	20.4%	0.0%	12.5%	13.5%	20.0%
Measures for reducing inequalities faced by socially and economically backwards groups.	12.1%	10.8%	12.5%	10.4%	5.4%	8.0%
Measures for the benefit of armed forces veterans, war widows and their dependents.	6.1%	12.9%	0.0%	4.2%	10.8%	4.0%

Contribution to the prime minister's national relief fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of Scheduled Castes, Scheduled Tribe, other backwards castes, minorities and women.	13.1%	14.0%	0.0%	14.6%	13.5%	24.0%
Contributions or funds provided to technology incubators located within academic institutions approved by the Central Government and rural development projects.	7.1%	12.9%	0.0%	12.5%	16.2%	16.0%
Ensuring environmental sustainability and ecological balance.	19.2%	24.7%	0.0%	18.8%	13.5%	20.0%
Animal welfare.	10.1%	17.2%	0.0%	12.5%	13.5%	16.0%
Reduction of resource consumption and waste generation during production, distribution and product usage	14.1%	11.8%	37.5%	4.2%	2.7%	0.0%
Preference for green products in purchasing	22.2%	20.4%	12.5%	12.5%	21.6%	12.0%
Selection of cleaner transportation methods	15.2%	18.3%	12.5%	4.2%	16.2%	20.0%
Responsible disposal of waste and residues, and recuperation and recycling systems	18.2%	20.4%	0.0%	18.8%	27.0%	8.0%
Implementing a production plan to reduce energy and natural resources consumption in operations	13.1%	12.9%	0.0%	20.8%	24.3%	16.0%
Inspection of supplier facilities for health, safety and environmental aspects	11.1%	9.7%	12.5%	16.7%	10.8%	8.0%
Policy restricting the use of child labour, sweat shops and violation of human rights at the supplier's workplace	12.1%	11.8%	37.5%	20.8%	21.6%	24.0%

Note: To collect the responses regarding the choice of CSR activity, we provided a list of 26 CSR activities. These options included government-specified activities as well. The respondents were allowed to choose as many options as they wanted. Also, we asked the same question pre- and post-regulation period; this allowed us to understand how the spending pattern has changed for those companies who were spending voluntarily before the regulation.

Table 9: Analysis of drivers and barriers

Drivers	All Sample	Industrial	Consumer	Services	Public Listed Company	Private (not listed), Limited Liability Company	Partnership (unlimited liability company)	Government Company	Foreign ownership	North	South	East	West	All-Region
Company's concerned for its business/social responsibility.	3.49%	5.51%	1.14%	1.67%	2.78%	3.03%	4.17%	5.36%	8.13%	4.17%	3.94%	6.25%	8.65%	5.47%
Improve positive image of the company	3.19%	5.06%	0.57%	3.75%	4.28%	2.64%	2.08%	-1.79%	5.63%	4.78%	3.50%	4.44%	3.85%	4.03%
Improve relations with public administration (public/state authorities)	2.38%	5.06%	3.41%	-0.42%	3.94%	1.86%	2.60%	0.00%	-1.25%	4.29%	2.75%	5.76%	3.13%	3.69%
Improve customers' loyalty	1.15%	-0.45%	4.55%	1.25%	1.39%	0.68%	2.08%	3.57%	0.00%	0.86%	1.71%	1.32%	-0.24%	1.00%
Increase marketing and public relations	1.06%	4.61%	2.84%	0.28%	0.35%	1.27%	7.29%	-2.68%	-1.25%	3.80%	0.89%	2.96%	2.64%	2.31%
Ethical/moral reasons	1.02%	0.74%	-1.14%	0.69%	0.12%	0.39%	2.60%	8.04%	3.13%	2.21%	3.27%	1.81%	2.88%	2.69%
Improve economic performance of the company (costs' reduction, sales' increase)	0.77%	-0.60%	1.70%	2.64%	-1.39%	2.73%	4.69%	-5.36%	-0.63%	-1.84%	0.30%	-3.62%	0.36%	-0.83%
Improve employees' job satisfaction	-0.34%	-1.34%	-1.14%	-0.14%	-0.23%	-0.10%	-2.08%	-0.89%	0.00%	-3.68%	-0.67%	-2.63%	-1.20%	-1.81%
Company's concern for the environment.	-0.34%	0.15%	-0.57%	-0.83%	0.46%	-0.98%	-5.73%	2.68%	3.75%	-0.86%	-0.15%	0.49%	0.48%	-0.06%

Help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)	-0.51%	-3.27%	-1.70%	-0.83%	-0.93%	0.10%	1.56%	-4.46%	-1.88%	-1.59%	-1.49%	-0.66%	-1.68%	-1.42%
Company's philosophy and traditions	-0.77%	-1.49%	3.41%	-1.11%	0.12%	-0.88%	-3.65%	0.00%	-1.88%	2.08%	0.45%	1.48%	0.24%	0.94%
Establish and/or retain competitive advantage	-1.06%	-1.93%	-2.27%	0.83%	-1.85%	-1.17%	-2.08%	3.57%	1.88%	-2.33%	-2.38%	-2.80%	-3.61%	-2.72%
Improve relations with business partners and investors	-1.53%	-3.27%	0.57%	0.97%	-0.93%	-1.37%	-4.69%	0.00%	-3.13%	-1.10%	-1.79%	-3.29%	-4.45%	-2.50%
Increase productivity per employee	-1.57%	-3.13%	-2.84%	-0.83%	-1.50%	-0.88%	-1.04%	-3.57%	-5.63%	-2.33%	-2.68%	-3.45%	-3.25%	-2.86%
Apply/implement business code of conduct	-1.74%	-1.93%	1.14%	0.42%	-3.01%	-1.76%	-1.04%	0.00%	3.13%	-1.23%	-1.12%	-2.63%	-2.28%	-1.67%
Reduce absenteeism rate	-5.19%	-3.72%	-9.66%	-8.33%	-3.59%	-5.57%	-6.77%	-4.46%	-10.00%	-7.23%	-6.55%	-5.43%	-5.53%	-6.28%
Barrier	All Sample	Industrial	Consumer	Services	Public Listed Company	Private (not listed), Limited Liability Company	Partnership (unlimited liability company)	Government Company	Foreign ownership	North	South	East	West	All-Region
Lack of human resources to undertake CSR activities	2.02%	1.68%	1.71%	2.56%	1.67%	2.92%	-1.71%	6.92%	-3.85%	-2.07%	0.53%	3.01%	1.75%	0.69%
Inadequate free cash flow to undertake CSR activities	1.72%	1.92%	2.14%	0.64%	2.01%	0.27%	4.27%	3.85%	1.92%	-0.30%	1.59%	2.68%	4.90%	2.08%
Inadequate public support/pressure to cause it to undertake CSR activities	1.21%	0.00%	0.85%	2.56%	1.67%	1.33%	-1.71%	-1.54%	11.54%	2.66%	1.59%	0.00%	1.40%	1.46%
Lack of technological know-how.	1.21%	3.85%	-0.85%	0.00%	1.34%	0.80%	2.56%	4.62%	-5.77%	0.89%	2.12%	-2.34%	1.40%	0.62%

CSR expenditure were perceived to not have a favourable impact on financial performance	1.11%	1.68%	2.56%	0.00%	-1.34%	1.33%	0.00%	3.08%	9.62%	0.89%	1.06%	2.01%	0.00%	1.00%
Inadequate state/government support to cause it to undertake CSR activities	0.00%	1.68%	-1.71%	-0.96%	-1.34%	1.06%	3.42%	-6.15%	7.69%	-2.07%	2.12%	-0.33%	0.70%	0.15%
No favourable impact on the market value of company.	-0.10%	0.96%	0.00%	-2.24%	-1.34%	1.33%	0.85%	-3.08%	1.92%	1.48%	-1.33%	-1.34%	0.70%	-0.15%
CSR expenditure perceived to not have a favourable impact on the market risk of the company.	-0.10%	0.00%	-2.14%	1.92%	0.67%	-1.06%	-4.27%	2.31%	5.77%	1.48%	1.86%	-3.34%	-2.80%	-0.46%
Increase operating cost.	-0.40%	0.00%	0.00%	-3.21%	-1.00%	2.92%	-5.13%	-0.77%	-13.46%	4.73%	-4.51%	3.01%	3.50%	1.38%
No impact on customer loyalty	-0.91%	-1.68%	-0.43%	-0.32%	0.00%	-1.33%	0.85%	-3.08%	0.00%	-0.89%	-1.59%	2.68%	-4.20%	-1.00%
Competitive disadvantage if money spent funds on CSR activities.	-1.01%	-0.72%	3.85%	-3.85%	-0.67%	-1.59%	9.40%	-8.46%	-3.85%	-1.78%	-1.33%	2.34%	-0.35%	-0.38%
No impact on employee productivity.	-1.82%	-2.64%	-2.14%	0.00%	-0.67%	-2.92%	0.85%	-3.85%	-1.92%	-2.66%	-0.53%	-5.35%	-1.05%	-2.31%
Change in management lead to a withdrawal of support for CSR activities	-2.94%	-6.73%	-3.85%	2.88%	-1.00%	-5.04%	-9.40%	6.15%	-9.62%	-2.37%	-1.59%	-3.01%	-5.94%	-3.08%

This table indicates the level of importance given to the attributes that we considered as drivers and barriers for CSR spending. A higher percentage value indicates that the respondents consider the attribute to be an important factor. A lower percentage value indicates that the attribute is not an important factor. A negative percentage value indicates that the attribute is one of the least important. The first column shows the scores for all respondents. Then the respondents have been categorised by industry, company status and region of operations. The percentage scores have been calculated by subtracting the total number of times each attribute is mentioned as ‘least important’ from the number of times it is mentioned as ‘most important’, leaving a score that is then divided by the total number of responses.

5.3.5 Intention of change in CSR activities in next five year

Table 9 summarises the responses of the participants to the question about their intentions of changing the extent of their CSR spending over next five years. The rating average is the weighted average of the responses. The number reported is the average score of respondents where the intention to increase CSR spending is weighted as 1, no change as 2 and a decrease as 3. Hence, a low (high) score is indicative of the intention to increase (decrease) CSR expenditure.

The low average score for A companies indicates that they have a strong intention to increase their CSR spending over the next five years. All of the indications are that the majority of A companies are very committed to CSR activities since they devoted resources to these activities before it being mandatory, and they intended to increase their spending over time. We see a similar pattern with C companies who continue to spend on CSR activities despite it being optional for them to do so, and they intend to increase their spending over the next five years. B companies, on the other hand, did not spend on CSR when it was optional for them, arguing that they do not have the resources to do so and their responses suggest that at best they will only meet minimum spending requirements in future. Indeed, the disappointing level of spending on CSR in 2013–2014 is most likely due to many B companies exercising the exemptions under the 2013 Act to avoid having to spend on CSR. D companies, like B companies, did not spend on CSR prior to 2013 but now show a greater willingness to do so and to increase their expenditures over time. The conclusion that we draw is that the Indian Government greatest challenge is trying to get companies to commit resources to CSR activities.

The other insight that we gain from Table 9 is to do with the intention of companies regarding where they intend to direct CSR expenditure over the next five years. The two areas where respondents indicate that there will be the greatest growth in expenditure is on items relating to employees and the environment. Interestingly, the category that targets employees the most is Category B companies, consistent with these reluctant companies directing internally the major proportion of the funds that they are mandated to spend on CSR activities. The area where there is the greatest reluctance to increase expenditure in the future is on activities relating to suppliers.

Table 10: Intention of change in CSR activities in next five years

	A	B	C	D
	Rating Average	Rating Average	Rating Average	Rating Average
Over All CSR activities	1.18	2.13	1.35	1.48
CSR activities relating to employees:	1.22	1.00	1.30	1.56
CSR activities relating to customers:	1.49	1.88	1.57	1.84
CSR activities relating to investors:	1.54	1.75	1.57	1.76
CSR activities relating to community:	1.47	1.75	1.78	1.52
CSR activities relating to environment:	1.46	1.38	1.35	1.52
CSR activities relating to suppliers:	1.56	2.25	1.62	1.96

Note: A Likert scale question was designed (Likert, 1974) to collect the information regarding the intention to increase, decrease or not change spending on CSR pre- and post-regulation. The scale scores are calculated using the weighted average method. The weights are 1 for Increase, 2 for No change and 3 for Decrease. The sum of the product is then divided by the number responses received for a particular statement. The statements are designed to collect the information about CSR activities relating to employees, customer, investors, community, environment and suppliers.

5.3.6 Impact of CSR spending on profitability

Table 10 summarises the responses of managers of A and C companies as to the impact that their CSR expenditures have had on the company's profitability. Their overwhelming response is that, based on both financial and market analysis, they concluded that the decision to devote resources to the CSR activities had contributed

to their companies being more profitable. Although this is the response that one might expect, the fact that these companies are willing to continue to grow the funds that they devote to CSR indicates their satisfaction with their consequences of these expenditures.

Table 11: Impact of CSR on profitability

Basis of perception

	A	C
Analysis of the financial statements	50.5%	41.7%
Market analysis of CSR expenditure.	59.6%	43.8%
Analysis of investors' perception about the impact of CSR expenditure	29.3%	37.5%
Environmental reporting focusing on the impact of CSR spending.	34.3%	31.3%
My (or the company's) own perception, without any detailed analysis.	17.2%	18.8%

Impact on profit

	A	C
Strongly Positive	37.4%	27.1%
Positive	54.5%	72.9%
No Effect	6.1%	0.0%
Negative	2.0%	0.0%
Strongly Negative	0.0%	0.0%

The managers' impressions regarding the impact CSR spending on profitability have been collected using a closed question that has five choices (i.e. strongly positive, positive, neutral, negative and strongly negative). The question is followed by a closed question which requires the respondent to disclose the reason for their attitude. The figures are calculated as a percentage of total responses to the question. Category A and C companies were involved in CSR voluntarily before the legislation. Thus, they were required to respond to these questions.

5.3.7 CSR spending patterns

Table 11 provides information about the level of CSR spending by companies expressed as a percentage of their profit. For Categories A and C, we can observe the data for two consecutive years prior to the 2013 Act becoming effective. During this period, 53.5% of the A companies were spending more than of 2% of profits on CSR, but this percentage increased to 93.4% in 2013–2014 with the introduction of mandatory CSR spending. Consistent with this, the average CSR spending for A companies amounted to 1.8% of profits prior to the 2013 Act, and increased by one-third to 2.4% in 2013–2014. Clearly, there was a high level of compliance by these companies, and to this extent, the government should be pleased with the impact of its legislation. For Category C companies, we can observe that 43.8% of them were spending more than 2% of profits on CSR activities in 2012–2013, but in 2013–2014, only 37.8% of companies were spending more than 2%.

Neither B companies nor D companies were spending any funds on CSR activities immediately prior to the 2013 Act becoming effective. In the subsequent year, 80% of our B companies undertook such expenditures, but it is noteworthy that most of them spent very close to the mandated 2% of profits. For D companies, we can observe from Table 11 that 92% are spending less than 2% of their profit on CSR activities.

Table 12: CSR spending pattern

% of profit	A		B	C		D
	2012 - 2013	2013 - 2014	2013 - 2014	2012 - 2013	2013 - 2014	2013 - 2014
Nothing	0.00%	1.01%	10.00%	0.00%	0.00%	0.00%
Less than 0.25%	7.10%	1.01%	10.00%	14.60%	13.50%	12.00%
0.26% to 0.50%	6.10%	2.02%	0.00%	10.40%	16.20%	36.00%
0.51% to 1.00%	13.10%	2.02%	0.00%	20.80%	21.60%	12.00%
1.01% to 2.00%	20.20%	0.00%	0.00%	10.40%	10.80%	32.00%
2.001% to 2.5%	30.30%	49.49%	80.00%	27.10%	18.90%	4.00%
2.51% to 3.00%	7.10%	37.37%	0.00%	10.40%	10.80%	4.00%
3.01% to 4.00%	12.10%	4.04%	0.00%	2.10%	5.40%	0.00%
More than 4.00%	4.00%	3.03%	0.00%	4.20%	2.70%	0.00%

Note: This table provides the range of the percentage of profit that each category of companies has spent on CSR. The figures are calculated as percentages of total responses to the question. The companies in categories A and C were spending in CSR voluntarily before the legislation in 2013. Therefore, we have reported figures for both financial years 2012–13 and 2013–14. For B and D companies, we have reported only 2013–14 figures, as they were not spending anything for CSR previously. Category B companies have to undertake CSR spending mandatorily, but for Category D companies CSR spending is not mandatory.

We report in Table 12 an estimate of the funds spent on CSR activities by the companies in our sample. In 2012–2013, the average CSR expenditure by our A companies was INR 7.27million with the largest expenditure by a company being just under INR 90 million. In the following year after the introduction of mandatory CSR expenditure, the average expenditure had risen to INR 9.29 million. This represents an increase in expenditure of almost 28%, demonstrating that these large companies increased their CSR spending by a relatively large amount in response to the introduction of mandatory CSR legislation. The other group spending on CSR activities immediately prior to the 2013 Act was Category C which comprised much smaller companies, each of whom outlayed on average INR 0.577 million. In contrast to the A companies, our C companies almost halved their average expenditure to INR 0.3030 million in 2013–2014. Hence, there was a significant drop-off in the allocation that these companies made to CSR when it was apparent that it was not mandatory for them to do so.

Table 13: Descriptive statistics of approximation of CSR spending

	A		B	C		D
	2012 – 2013	2013 – 2014	2013 – 2014	2012 – 2013	2013 – 2014	2013 – 2014
Nos of Obs	99	99	10	48	48	66
Total						
Spending (in INR 1 Mill)	719.8501	920.4450	2.8786	27.7007	14.5427	14.6033
Mean (in INR 1 Mill)	7.2712	9.2974	2.2879	0.5771	0.3030	0.2213
Std. Dev.	14.1661	16.0194	3.5026	1.3586	0.4524	0.6451
Min (in INR 1 Mill)	0.0025	0.0151	0.0275	0.0075	0.0000	0.0000
Max (in INR 1 Mill)	89.9734	81.3556	11.0950	9.1805	1.8226	4.2893

Note: This table provides the approximated figures for CSR spending for the four categories of companies. The figures were calculated by multiplying the median of the range of percentage of profit spent on CSR with the net profit figure for 2013–14. The companies in Categories A and C were spending in CSR voluntarily before the legislation in 2013. Therefore, we have reported figures for both financial years 2012–13 and 2013–14. For B and D companies, we have reported only 2013–14 figures, as they were not spending anything for CSR previously. Category B companies have to undertake CSR spending mandatorily, but the for Category D companies CSR spending is not mandatory.

5.3.8 Perceptions of the mandatory regulation

Panel A of Table 13 provides us with information on the perceptions of the managers towards the mandatory CSR regulation, while Panel B provides us with details on the reasons for these perceptions. We observe that the perceptions are largely positive for Category A and C companies who were all voluntarily undertaking such expenditure prior to it being made mandatory. This is consistent with their previous experiences being positive and the experience they have in implementing CSR expenditure. Although the actions of B companies are not consistent with them embracing mandatory CSR, the response of management suggests that they have a positive perception of CSR expenditures being made mandatory, with only 12.5% of the

companies holding a negative perception towards the regulation. The greatest opposition to mandatory CSR expenditure came from Category D businesses with 70% of them holding a neutral or negative stance. These companies had not been predisposed to spending on CSR before the new Act and, of course, had no reason to change this view given that such expenditure is not mandatory for them. They indicated that the main reason that they were opposed to (mandatory) CSR expenditure relates to issues associated with implementing CSR activities.

Table 14: Attitudes to mandatory regulation

Panel A: Perceptions

	A	B	C	D
Strongly Positive	43.00%	25.0%	35.1%	12.2%
Positive	50.50%	62.5%	62.2%	17.1%
Neutral	4.30%	0.0%	0.0%	39.0%
Negative	2.20%	0.0%	2.7%	26.8%
Strongly Negative	0.00%	12.5%	0.0%	4.9%

Panel B: Basis for Perceptions

	A	B	C	D
Issues relating to comprehending the regulation.	40.9%	37.5%	32.4%	22.0%
Issues relating to implementing CSR activity.	63.4%	37.5%	67.6%	48.8%
Issues relating reporting CSR activity.	40.9%	12.5%	59.5%	29.3%
Company view on transformation of CSR expenditure; voluntary to mandatory.	37.6%	75.0%	29.7%	29.3%
Company view towards Government involvement in CSR decision.	22.6%	50.0%	18.9%	24.4%

Panel A sets out views regarding mandatory CSR regulation which were collected using a closed question with five choices (i.e. strongly positive, positive, neutral, negative and strongly negative). Panel B provides the reasons for the responses reported in Table A. The reported numbers are calculated as percentages of total responses to the question.

5.4 Conclusion

This chapter provides insights into the drivers that cause companies to undertake CSR expenditure. Based on our survey of 223 companies, the three most important drivers are: a concern for the company's social responsibility, a desire to improve the company's image, and a desire to improve the company's relationship with government. On balance, corporate leaders seem to be more driven by the need to differentiate the company for strategic reasons rather than by ethical and moral motivations.

Our most important findings are that the motivating factors for Indian companies spending on CSR vary widely by company characteristic. The large well-established companies that voluntarily spent on CSR (i.e., A companies) did so because of their concern for the community and a desire to have a good image and relationship with external parties (e.g., community and government). In contrast, the younger and smaller companies that voluntarily spent on CSR activities (i.e., C companies) were driven by internal reasons largely revolving around improving employee conditions and productivity. The fact that a significant proportion of large companies did not spend on CSR until required to do so under the 2013 legislation (i.e., B companies) does not reflect a lack of appreciation of the strategic importance of CSR spending. Our survey identified that a major reason for not undertaking such expenditures is that companies are have a shortage of cash and/or do not have access to adequate support to execute CSR spending. Finally, smaller companies do not spend on CSR activities (i.e., D companies), largely because they do not think that it is in the strategic interests of the company to do so. There was general support for the introduction of mandatory CSR legislation.

Chapter 6: Mandatory corporate social responsibility: the Indian experience

In the previous chapter we found that the managers of large companies hold divergent views on the impact that CSR expenditure would have on the profitability of their companies. In this chapter we will empirically analyse the impact of the CSR regulations on the on the profitability of large Indian companies. The findings of this chapter will provide an explanation for why the actual volume of CSR expenditures in India since the legislation was passed has fallen well short of the expected level.

6.1 Introduction

The idea that companies service a wide range of stakeholders dates back to the 19th century but has gained increasing traction in more recent times. The question is what to do when the corporate sector fails to keep pace with societal expectations. The Indian Government was to make it mandatory for large corporations to spend funds on corporate social responsibility (CSR) activities. In this chapter, we investigate the impact of this legislation on both the companies and the intended beneficiaries. The new legislation and the controversy regarding this compulsory regulation provide us with a unique setting to test both the relationship between CSR expenditure and financial performance, and the impact of regulated CSR on firms' financial performances. In this chapter, we used a panel regression approach to analyse the direction of the relationship between CSR spending and firm performance, and then we used the difference-in-differences regression analysis to examine the overall impact of mandatory CSR regulation on firm performance.

In this study, we collected data from CMIE Prowess for firms listed on the Bombay Stock Exchange (BSE) from 2008 to 2015. We then divided our sample into the same four categories as in the previous studies (i.e. Categories A, B, C and D). The classification is based on the profit, networth and turnover for the year 2013. This is the year on which the Act was enacted and classifications are based on the act.

Waddock and Graves (1997), mention that there may be a time lag between firms earning greater profits and taking up corporate social initiatives. Also, there may be a time lag in the implementation of corporate social activities and consequently a time lag before improved financial performance in the form of increased sales revenue and profits (Blackburn, Doran, & Shrader, 1994). As in studies by Callan and Thomas (2009), Waddock and Graves (1997), Hart and Ahuja (1996), and Michael V Russo and Paul A Fouts (1997), this study examines a three-year lag between the CSR expenditure and financial performance outcomes. The CSR expenditure variable has been lagged by one, two and three years. This process of lagging also helps us to understand the longer-term impact of CSR on firm performance.

This study examines financial performance by employing accounting number-based profitability. As a dependent variable, return on equity (ROE) has been used as a proxy for profitability. ROE represents the short-term financial performance of a firm by measuring how a firm efficiently creates profits using its equity (assets) during a fiscal year (Kang, Lee, & Huh, 2010; Tsoutsoura, 2004). The control variables we have used in this study are firm size, the lag of ROE, capital structure, efficiency ratio, quick ratio and age following the studies of McWilliams and Siegel (2000) and of Tsoutsoura (2004). Log of sales has been used as a proxy for firm size (Kang et al., 2010). The

firm's capital structure has been estimated using the debt-to-asset ratio. The last control factor, which is frequently used in the financial literature, is a year dummy variable to control for any year effect. Table 14 provides the details of the variables used in this study.

Table 15: Description of variables

Dependent Variable	
ROE	Net Income/Shareholder's Equity
Independent Variable	
CSR (Category A) (t - 1), (t - 2), (t - 3)	Dollar value of CSR spending for A category companies lagged by 1,2 and 3 years
CSR (Category B) (t - 1), (t - 2), (t - 3)	Dollar value of CSR spending for B category companies lagged by 1,2 and 3 years
CSR (Category C) (t - 1), (t - 2), (t - 3)	Dollar value of CSR spending for C category companies lagged by 1,2 and 3 years
CSR (Category D) (t - 1), (t - 2), (t - 3)	Dollar value of CSR spending for D category companies lagged by 1,2 and 3 years
Control Variable	
ROE (t - 1)	Return on equity lagged by 1 year.
Firm size (t - 1)	Average of current and lagged 1 year firm size (log of total sales)
Leverage (t - 1)	Average of current and lagged 1 year leverage
Efficiency Ratio (t - 1)	1 year lag of efficiency ratio (operating expenses/sales)
Quick Ratio (t - 1)	Average of current and lagged 1 year quick ratio
Age	Current age of firm

Table 15 below provides a brief description of the data. The information contained in the table indicates that although the average CSR expenditure of Category A companies increased in the post-legislation period, there was a fall in the percentage of profits spent on CSR activities. The dispersion of the CSR expenditure for Category A companies increased by a third during this period, reflecting that the introduction of

mandatory CSR caused some companies to increase their CSR spending significantly while others took the opportunity to reduce their expenditure to the minimum 2%. Overall, it appears that the requirement for mandatory CSR expenditure did not stimulate the CSR activities of A companies. The Category C companies who were spending on CSR pre-legislation, but not required to do so post-legislation, took the opportunity to reduce their CSR expenditure. Category B companies who had not previously spent funds on CSR activities but were now mandated to do so complied with the legislation but interestingly their average spending was less than the minimum 2% specified by the government. Finally, we see that some D category companies began minimal expenditure on CSR activities after the introduction of the legislation, It was estimated that INR (Indian Rupees) 140 billion would be spent on CSR during 2014–15 as a result of the legislation (E T Bureau, 2014). However, an *Indian Express* news report reveals that more than half of the India Inc firms have failed to meet their target CSR spending. The report stated that there were a total of 266 non-compliant companies and they accounted for an aggregate unspent amount of INR 2.44 billion in the financial year 2014-15 (Singh, 2016). Our findings from Table 15 also indicate that none of our four groups responded enthusiastically to the government making such expenditure mandatory which explains, why the expenditure has fallen well short of the targets.

Table 16: Descriptive statistics

Variable	Pre Legislation Period		Post Legislation Period	
	Mean	S.D.	Mean	S.D.
CSR (Category A) (Mln. US dollar)	22.325	62.59284	30.109	84.14289
CSR (Category B) (Mln. US dollar)	-	-	12.694	50.35933
CSR (Category C)	2.0575	4.420105	1.9647	4.861342

(Mln. US dollar)				
CSR (Category D)	-	-	0.8885	3.756414
(Mln. US dollar)				
CSR as a % of profit	3.54	9.32	3.18	2.42
(Category A)				
CSR as a % of profit	-	-	1.77	0.73
(Category B)				
CSR as a % of profit	2.62	2.37	1.75	0.78
(Category C)				
CSR as a % of profit	-	-	0.74	1.20
(Category D)				
Firm size (t - 1)	4.67	2.15	5.08	2.24
Leverage (t - 1)	1.98	27.05	1.86	7.22
Quick Ratio (t - 1)	3.23	15.21	1.93	11.61
Age (Years)	29.94	22.02	33.99	22.5

6.2 Methodology

6.2.1 Panel regression analysis

To test the impact of CSR expenditure on the financial performances of firms, we conduct two sets of panel regression analysis. First, we test the effect of CSR spending with and without a fixed-effect pre-legislation period (i.e. 2008–2013). Then we repeat the same analysis for the post-legislation period. We use the following regression model for our analysis:

$$\begin{aligned}
 ROE_{it} = & \beta_0 + \beta_1 CSR_{A,t} + \beta_2 CSR_{A,t-1} + \beta_3 CSR_{A,t-2} + \beta_4 CSR_{A,t-3} + \\
 & \beta_5 CSR_{B,t} + \beta_6 CSR_{B,t-1} + \beta_7 CSR_{B,t-2} + \beta_8 CSR_{B,t-3} + \beta_9 CSR_{C,t} + \\
 & \beta_{10} CSR_{C,t-1} + \beta_{11} CSR_{C,t-2} + \beta_{12} CSR_{C,t-3} + \beta_{13} CSR_{D,t} + \beta_{14} CSR_{D,t-1} + \\
 & \beta_{15} CSR_{D,t-2} + \beta_{16} CSR_{D,t-3} + Control\ Variables + e_{it} \quad (i)
 \end{aligned}$$

where all variables are defined in Table 14.

$CSR_{(A, t-n)}$, $CSR_{(B, t-n)}$, $CSR_{(C, t-n)}$, and $CSR_{(D, t-n)}$ are the products of dummy variables (where the variable takes a value of 1 when it represents the category of the relevant company, and it takes a value of 0 in all other cases) and the actual CSR spending of those companies. Hence, to get the coefficients of CSR for Category B, for

Category C and for Category D we add the coefficient of CSR for Category A to the coefficient of the relevant category obtained from equation above. Then we use the Wald test to determine the significance of those coefficients. This methodology allows us to understand the impact of CSR expenditure on the financial performance of individual categories of companies.

After conducting the panel regression analysis for the periods before and after the introduction of the legislation, we compared the regression coefficients of CSR variables for these two period (Bruin, 2006). Here our null hypothesis was $H_0: \beta_{\text{pre-legislation}} = \beta_{\text{post legislation}}$. Through this hypothesis test, we found the significance of the difference of the $\beta_{1, 2, 3, 4 \text{ \& } 9,10,11,12}$ pre and post legislation. We used this analysis to comment on the impact of the mandatory legislation on the relationship between CSR expenditure and financial performance for Category A and Category C companies (these companies were spending on CSR voluntarily before the legislation). We also conducted a Chow test to identify if there was a structural break between the responses before and after the introduction of the legislation in our sample (Chow, 1960). This testing procedure splits the sample into two sub-periods, estimates the parameters for each sub-period, and then tests the equality of the two sets of parameters using a standard F statistic (Hansen, 2001).

6.2.2 Difference-in-differences

The Indian compulsory CSR legislation provides us with a natural setting to test the impact of regulated CSR on firms' financial performances. We have used the Difference-in-Differences (DiD) regression approach to test the impact of the legislation on firm performance. The DiD regression methodology compares different

groups of objects at different times. In our case, the first two object groups are the Category A companies and Category C companies. These companies were voluntarily spending in CSR before the legislation, but after legislation Category C companies were not required to carry out CSR activity. So, we compared the performances of these two groups using a DiD regression approach for before and after the introduction of the legislation. Similarly, the other two groups were the Category B and Category D companies. The companies in these groups were not spending any money on CSR before the regulation, but after the legislation, Category B companies were required to spend money on CSR. So, we used the DiD regression approach to compare the performances of these companies in the pre- and post-legislation periods. Therefore, in our case the Category A and B companies are the treated group and the Category C and D companies are the non-treated group. The coefficient of the interaction variable will allow us to interpret the effect of CSR legislation on firm performance.

The equation that we used is as follows:

$$ROE = \beta_0 + \beta_1 D^{post} + \beta_2 D^{Tr} + \beta_3 D^{post} * D^{Tr} + Control Variable + \varepsilon \quad (ii)$$

Where:

D^{post} = Time dummy = 1 if the year of observation is after 2013, 0 otherwise.

D^{Tr} (Treatment group dummy for models 1 and 2) = 1 if the firm is in Category A or Category C.

D^{Tr} (Treatment group dummy for models 3 and 4) = 1 if the firm is in Category B or Category D.

$D^{post} * D^{Tr}$ = Interaction variable = Time dummy * Treatment group dummy.

The coefficients of each of the individual variables are calculated in the following manner:

Table 17: Description difference-in-differences regression coefficient calculation

	Post- Treatment	Pre- Treatment	Difference
Treatment	$\beta_0 + \beta_1 + \beta_2 + \beta_3$	$\beta_0 + \beta_2$	$\beta_1 + \beta_3$
Control	$\beta_0 + \beta_1$	β_0	β_1
Treatment – Control	$\beta_2 + \beta_3$	β_2	β_3

The estimated coefficients have the following meanings:

β_0 = The coefficient of the control group (i.e. Category C or D) before the legislation was implemented.

$\beta_0 + \beta_1$ = The coefficient of the control group (i.e. Category C or D) after the legislation was implemented.

β_1 = The difference in the coefficient of the control group (i.e. Category C or D) coefficient pre- and post-legislation periods.

$\beta_0 + \beta_2$ = The coefficient of the treatment group (i.e. Category A or B) before the legislation was implemented.

$\beta_0 + \beta_1 + \beta_2 + \beta_3$ = The coefficient of the treatment group (i.e. Category A or B) after the legislation was implemented.

$\beta_1 + \beta_3$ = The difference in of the treatment group (i.e. Category A or B) coefficients in the pre- and post-legislation periods.

β_2 = The difference between coefficients for control group and treatment group in the pre-legislation period.

$\beta_2 + \beta_3$ = The difference between coefficients for control group and treatment group post-legislation period.

β_3 = The difference-in-differences impact.

6.3 Findings

6.3.1 Panel regression

We conducted the regression analyses on the pre- and post-legislation periods. We have considered a six-year pre-legislation period from 2008 to 2013 and a two-year post-legislation period (i.e. 2014 and 2015). This will allow us to understand the relationship between CSR and financial performance during each of the sub-periods and then assess the importance of each of the variables in determining performance before and after the implementation of the new legislation.

In Table 17, we present the results from our various panel regressions. The first two columns report our findings for the pre-legislation period both without time fixed effects (Model 1) and with time fixed effects (Model 2). The next two columns report our findings for the post-legislation period again both without time fixed effects (Model 3) and with time fixed effects (Model 4). The final two columns provide information on a test of the significance of any changes in the impacts of each of the variables between mandatory CSR expenditures in the pre-legislation and post-legislation periods. In all of our models, ROE has been used as a proxy for performance. We have considered the relationship between current performance and current CSR spending, and CSR spending lagged one, two and three-years, which allows us to understand the short- and long-term impacts of CSR spending on firm performance (Callan & Thomas, 2011).

Comparing the first two columns of results reported in Model 2, we see that our findings are similar whether we include fixed time effects or not. Further, the same applies to the next two columns where we get similar results for the post-legislation

period whether we include fixed time effects or not. Hence, in the discussion that follows, we will concentrate on the results for Models 2 and 4 and the comparison of the coefficients generated using each of these models.

Commencing with Model 2, we see that CSR expenditure has a significant positive impact on the profitability of Category A companies both in the year in which the expenditure is made and in the subsequent year. When we revisit this relationship in the post-legislation period (Model 4), we find that the impact of CSR spend on profitability remains positive over both periods. Indeed, a comparison of the coefficients in the two models suggests that little has changed with CSR expenditures by Category A companies translating into high profits. As we have seen these companies have increased their absolute levels of expenditure on CSR activities, after the introduction of the legislation, undoubtedly partially spurred on not only by the fact that such expenditure is mandated, but also by their positive experiences in the past as to how CSR spending impacts on profitability. However, as we have seen, the hoped-for increase in CSR expenditure as a result of making it compulsory for A and C companies has not been realised substantially because A companies have reduced the percentage of their profits that they direct to CSR expenditures. To some extent this reduction may be due to a turnaround in the attitude of Indian investors towards CSR expenditure. Bird, Duppati, & Mukherjee (2016) found that Indian investors reacted very positively to the initial announcement by the Indian government in 2008 that they were going to make it mandatory for Indian companies to spend on CSR. However, they found that the attitude of investors gradually changed as time went by and was clearly negative by the time that the legislation was enacted. Hence, the falloff in the

proportion of earnings that A companies devote to CSR activities may be a result of taking a lead from investors as to the likely longer term impact that any additional investment in CSR would have on company profits.

Category C companies were the only others that spent resources on CSR activities prior to the legislation. We find that the immediate impact of the expenditures is positive for profits for these firms, but in contrast to Category A companies, this impact reverses in the subsequent year. The introduction of the legislation weakens the previous relationship between CSR spend and profitability, with the contemporaneous impact still having a positive sign but no longer being significant, while the impact lagged one year is still negative but only weakly significant. Our comparison of the coefficients for the pre-legislation period with the post-legislation period highlights that the strong reversal in the year after the expenditure was undertaken has now largely been eroded. Post-legislation Category C companies are not required to undertake any expenditure, and given that their past experience suggests that such expenditure has had little overall impact on profitability, it is perhaps not surprising to find that many of them took the opportunity to reduce their expenditure on CSR activities.

Neither Category B companies nor Category D companies spent on CSR in the period immediately prior to the introduction of the legislation. We know that many Category B companies were reluctant to undertake the spending after it became mandatory for them to do so (Mukherjee & Bird, 2016). We find that when companies did invest in CSR after they were mandated to do so, there was no impact on their profits in the year in which the expenditure was undertaken, but a small positive impact in the subsequent year. We surmise that one reason why Category B companies do not benefit from CSR

expenditure to the same extent as Category A companies is that they are inexperienced in CSR initiatives and so they are inexperienced in converting them to beneficial outcomes for their company (Mukherjee & Bird, 2016). For those Category D companies that chose to embark on CSR expenditure despite them not being mandatory, we see a mixed outcome, with the immediate impact of the expenditure on profits being positive but with this being somewhat reversed in the subsequent year. Again, their lack of experience in undertaking these expenditures might have contributed to this relatively poor outcome.

From the panel regression analysis, we can conclude that the performance of larger companies (Category A), who were spending on CSR voluntarily before the legislation was introduced benefited from this expenditure both in the year that the expenditure was undertaken and in the subsequent year, and that this relationship holds both pre- and post-legislation. In contrast, the performance of larger companies who were not spending on CSR prior to being required to do so by the legislation (Category B) benefited very little from their CSR expenditure. Finally, the smaller companies (both Category C and Category D) whose profits were positively impacted by CSR expenditures in the year that they were undertaken saw this positive result being largely reversed in the subsequent year.

Before leaving our discussion of the panel regression result, we should comment briefly on our findings for the control variables. We consistently find that last year's profitability, a company's size, its efficiency and its age all have a positive impact on its profitability. In addition we find that privately owned entities perform much better than government-owned entities.

In columns 6 and 7 of Table 17, we report the significance of the differences in the coefficients for the pre- and the post-legislation periods for Category A and Category C companies. The significance is measured using the seemingly unrelated estimation test and it allows us to throw light on whether a mandatory regulation has an impact the relationship between CSR expenditure and corporate profitability. The null hypothesis for our test is $H_0: \beta_{(\text{category A pre legislation})} = \beta_{(\text{category A post legislation})} \& \beta_{(\text{category C pre legislation})} = \beta_{(\text{category C post legislation})}$

The analysis reveals that there is no significant difference for Category A companies. In other words, we can say that there is no evidence to suggest that the mandatory legislation has impacted the relationship between CSR and financial performance for Category A companies. However, interestingly for Category C companies, we observe a significant chi-square value, suggesting that the pre- and post-legislation coefficients are significantly different for these companies. Also, we see that for Category C ($t - 1$), the post-legislation coefficient is significantly less negative than the pre-legislation coefficient. This may indicate that the relationship between CSR and performance is improving. From Table 15 we can observe that the C category companies have reduced their CSR spending from 2.62 per cent of profits to 1.67 per cent of profits. This finding indicates that for smaller companies CSR may impact the performance positively in the long run if it is left at the company's discretion.

We also conducted the Chow test to see if there is any evidence of a structural break in our data (Cantrell, Burrows, & Vuong, 1991). In our test, we contrast the pre-legislation period (2008 FY to 2013 FY) and post-legislation period (2014 FY and 2015 FY) to evaluate whether there has been a structural change. The F value for the Chow test is

5.92 against a critical value of 3.097. Hence, we can say that there has been a significant structural break at the time of introducing mandatory CSR expenditure with the suggestion being that the legislation has a significant impact on the relationship between CSR spending and firm performance. We will provide evidence on the direction of this change when we report on the difference-in-differences analysis in the next sub-section.

Table 17: Panel Regression table - In this table we provide the results of regression equation (i). The dependent variable is ROE, and the independent variables are the current, lag 1, lag 2 & lag 3 of actual CSR spending. Please see table 1 for more details about the variables. The table set out the coefficients for each of the CSR spending for the four categories of companies. The coefficient of category A companies plus the coefficient of B, C and D provides us the figures for the respective categories of companies.

Dependent Variable: ROE	Pre-Legislation Period		Post Legislation Period		Comparison	
	Model 1	Model 2	Model 3	Model 4	Model 1 & 3 Chi2	Model 2 & 4 Chi2
CSR (Category A)	0.113**	0.123**	0.248*	0.230*	0.01	0.22
CSR (Category A) (t-1)	0.174***	0.169***	0.269***	0.261**	0.76	0.45
CSR (Category A) (t-2)	0.0755	0.0748	0.1287	0.149	0.16	0.41
CSR (Category A) (t-3)	-0.0024	-0.0106	-0.0364	-0.0324	0.63	0.04
CSR (Category A) (Current + lag1 + lag2 + lag3)	0.399***	0.3511***	0.6106***	0.6088***		
CSR (Category B)			0.06*	0.05		
CSR (Category B) (t-1)			0.03**	0.02*		
CSR (Category C)	2.97***	3.11***	1.07	0.62	0.79	1.95
CSR (Category C) (t-1)	-2.90***	-3.05***	-0.40**	-0.41*	4.82**	5.46**
CSR (Category C) (t-2)	-0.35	-0.29	-0.46	-0.30	2.67*	3.59*
CSR (Category C) (t-3)	-0.11	-0.09	-0.63	-0.65	.90	0.43
CSR (Category C) (Current + lag1 + lag2 + lag3)	-0.536***	-0.7158***	-1.3512	-1.365		
CSR (Category D)			2.90***	2.95***		
CSR (Category D) (t-1)			-1.01***	-0.82***		
Control Variables						
ROE (t - 1)	0.299***	0.297***	0.0568***	0.0565***		
Firm size (t - 1)	8.99***	8.71***	13.37***	13.44***		

Age	0.282***	0.262***	0.615***	0.438***
Efficiency Ratio	14.76***	14.89***	26.42***	26.43***
Leverage (t - 1)	-0.0158	-0.0143	-0.0675	-0.0734
Quick Ratio	0.0129	0.0241	-0.0049	-0.0027
Ownership	-17.36***	-16.12***	-39.56***	-39.33***
Constant	-32.19***	-29.23***	-52.41***	-51.06***
Time Effect (Chi2)		13.43		8.47
N	4256	4256	1860	1860
R-sq	0.6518	0.6544	0.3914	0.3912
CHOW TEST (F)			5.92	
			0.0000	

* $P < 0.1$, ** $P < 0.05$, *** $P < 0.01$

6.3.2 Difference-in-differences

DiD is a popular empirical approach for estimating the effect of certain policy interventions and policy changes. In our case, we use the method to determine the impact of the Indian legislation which makes CSR spending mandatory. We have used the equation (ii) to compare Category A with C companies and Category B with D companies, both with and without control variables.¹¹ Table 18 reports the results of our DiD regression where Category A companies are the treatment variable and Category C companies are the control variable. Both the Category A and Category C companies were voluntarily spending on CSR prior to the legislation, whereas it is only Category A companies that are required by the legislation to spend on CSR activities. This set up allows us to compare the impact on the performance of the mandatory CSR

¹¹ As the findings were very similar with and without control variables, we will concentrate our discussion on the analysis which included control variables.

regulation on the affected companies as compared with the unaffected companies. In regression equation (ii) the coefficient of time dummy (D^{Tr}) will capture the variation in ROE over the period. The coefficient of the treatment group dummy captures the variation in ROE for differences in the firm-specific characteristics. The coefficient of interest is that of the interaction variable, $D^{post} * D^{Tr}$, that captures the difference between the treated and non-treated companies, and so the variation in ROE attributable to the introduction of CSR regulation.

We can see from Table 18 that the difference in the pre- and post-legislation performances of Category A companies is -10.961, and this is significant at a 1% confidence level. However, difference in the pre- and post-legislation performances of Category C companies is not significant. Therefore, the mandatory CSR legislation has a negative impact on Category A companies. β_3 , the coefficient of the interaction term ($D^{post} * D^{Tr}$) provides us with the DiD factor after controlling for time and firm fixed effects. In this case, the coefficient is -10.05 and significant at a 1% confidence level. Hence, we can conclude from the analysis that the legislation has a negative impact on the profitability of Category A companies.

Table 18: Difference-in-differences (Category A and C companies)

In this table we provide the pre- and post-legislation period coefficients of difference-in-differences (DiD) regression analysis as set out in equation (ii) and Table 3. The treatment group in this equation is Category A companies and the control group is Category C. The interaction variable is the product of time dummy and treatment group dummy. The coefficient of interaction variable provides the DiD results

Dependent Variable:	Post- Legislation	Pre- Legislation	Difference
ROE			
Treatment Group (Category A)	-34.967***	-24.006***	-10.961***
Control Group (Category C)	-31.961***	-30.95***	-0.911
	-3.106***	6.944	-10.05***

* $P < 0.1$, ** $P < 0.05$, *** $P < 0.01$

In Table 19, we observe that the legislation had a similar effect on Category B companies. The difference in performance in the pre- and post-legislation periods for these companies is -13.632, and this is significant at a 1% confidence level. However, the difference in performance for the control group (i.e. Category D companies) is not significant. Therefore, the mandatory CSR legislation negatively impacted the performances of these companies as well. β_3 , the coefficient of DiD factor is -12.47 and significant at a 1% level. So, after controlling for both time and firm fixed effects, we can conclude that the legislation has had a negative impact on the profitability of those Indian companies bound by the legislation. The conclusion that we draw based on the Indian experience is that the legislation to mandate large Indian companies to spend on CSR activities has had a negative effect on the impact that such expenditure has on their profits, and this negative impact has been larger for those companies who were not previously spending on CSR (i.e. B companies).

Table 19: Difference in differences (Category B and D companies)

In this table, we provide the pre- and post-legislation period coefficients of difference-in-differences (DiD) regression analysis as set out in equation (ii) and Table 3. The treatment group in this equation is Category B companies, and the control group is Category D. The interaction variable is the product of time dummy and treatment group dummy. The coefficient of interaction variable provides the DiD results.

Dependent Variable:	Post- Legislation	Pre- Legislation	Difference
ROE			
Treatment Group (Category B)	-48.932***	-35.3***	-13.632***
Control Group (Category D)	-51.202***	-50.04***	-1.162
	2.27***	14.74***	-12.47***

* $P < 0.1$, ** $P < 0.05$, *** $P < 0.01$

Waagstein (2010), indicated that the idea of mandatory CSR regulation might sound novel, but the practical implementation is problematic. The enactment of the legislation

requires precise interpretation of CSR, identification of the duty bearer and mechanisms for verifying the impact. In the case of the Indian CSR regulation we have observed a number of amendments since the mandatory regulation was enacted in 2013 and in recent years the amendments have lacked clear direction (Mukherjee & Bird, 2016). Subramaniam et al. (2015) conducted a study of the CSR of Indian Government-owned firms. They indicated that CSR implementation in India was still nascent, fraught with bureaucratic hurdles, insufficient human and knowledge resources, and limited stakeholder analysis. Our finding provides support for those who question the introduction of a requirement to force corporations to spend on CSR activities.

6.4 Conclusion

The analysis of investor perceptions about the mandatory CSR regulation revealed that the investors first thought the impact of profitability would be positive but they eventually changed their minds and came to think it would be negative. In fact, the investors seem to have eventually got it right, as the results of this study indicate that due to the introduction of the mandatory spending there was a structural break in the relationship between CSR spending and profitability. We found that the overall impact of the legislation has been to have an adverse impact on the profitability of Indian companies. We see from the panel regression analysis that those large Indian companies that were spending on CSR prior to the legislation (A companies) benefited from the CSR spending in the pre-legislation period, but DiD regression analysis discloses that during the post-legislation period they have experienced a negative impact on profitability. For those large Indian companies that were forced to spend on CSR for the first time (B companies), the spending did not seem to have a material

impact on their profits. The companies whose profits seem to have been affected most by the legislation are the smaller Indian companies who were already spending on CSR (C companies). The introduction of legislation has weakened the longer-term relationship between CSR and profitability for these companies. We notice a negative relationship between profitability and CSR lagged by one year for the Category C companies. Finally, there are the smaller Indian companies spending on CSR for the first time (D companies). A small number of them began to spend a relatively small amount on CSR and this does not seem to have had any significant impact on their profits.

The DiD regression analysis reveals that the introduction of mandatory CSR legislation has negatively impacted the returns on equity for both A and B category companies. This indicates that the legislation has had a negative impact on the relationship between CSR spending and corporate profitability. Thus, our findings suggest that the legislation has fallen short of expectations regarding its impact on the level of CSR spending, and the benefits that such spending brings to the owners of the companies.

Chapter 7: Conclusion

If it is deemed desirable for corporations to spend on socially responsible activities, then an important question to ask is whether they can be expected to do so voluntarily in sufficient volume and to direct it to the right activities. The Indian Government clearly thought otherwise when they legislated in August 2012 to mandate that large Indian companies must spend a minimum of 2% of their profits on CSR activities, and when they amended this legislation in February 2014 to specify the areas where these funds must be allocated. The objective of this PhD thesis is to get insights into the effectiveness of making CSR expenditure mandatory and its implications for corporate performance. In this thesis, we have used the case of India to make a more generalised assessment of the impact of making CSR spending mandatory. Our findings are focused on answering the following research questions:

- How do market participants perceive the impact of mandatory CSR regulation on corporate profitability?
- What are the key factors that encourage or discourage managers to engage in CSR activities in India?
- How does mandatory CSR regulation impact firm performance?

7.1 How do market participants perceive the impact of mandatory CSR regulation on corporate profitability?

The objective of the first study of this thesis was to gauge the investor response to the announcement of mandatory CSR regulations in the context of the Indian environment. The vehicle that we used to undertake this analysis was a string of government

announcements relating to CSR expenditure being made mandatory for certain Indian companies. The extended period over which the Indian Government contemplated and then introduced mandatory CSR expenditure provides us with the opportunity to trace how investors reacted to a series of information signals. Each of the announcements had implications for the volume (and/or allocation) of future CSR expenditure. We used both event study methodology and regression analysis to provide insights into how investors saw the association between the incremental CSR spending attributable to the legislation and the future performance of Indian companies.

Our analysis certainly indicates that investors viewed favourably the initial announcement by the government that they would make CSR expenditure compulsory for Indian companies. Our interpretation is that the additional spending of resources on CSR activities was expected to have a positive impact on the earning capacity of businesses. The analysis shows that the investors discriminated very little between the impacts that this legislation would have on our four categories of companies. This initial enthusiasm of investors for mandatory CSR expenditure waned over time. A year after the initial announcement, there was only a mild investor reaction to the reversal by the government of its intent to make CSR expenditure mandatory. One might have expected this would have an adverse impact on stock prices, but this proved only to be the case for companies that would have fallen outside the mandatory requirement. The subsequent announcement two years later that government policy had moved back to introducing mandatory CSR expenditure was again largely ignored by the market, which suggests that by this time investors had changed to taking a neutral stance on the relationship between the volume of CSR expenditure and its implications for corporate

performance. When the legislation was introduced a few months later, we saw an overwhelmingly negative response, suggesting that investors had further changed their stance and now expected that the increased investment in CSR would result in a decrease in profits. The later passing of the legislation resulted in no significant investor reaction, but the amendment of the legislation two years later to tighten up how the funds should be allocated to CSR activities again had a negative impact on expected performance.

The overall impression that we gained from our analysis is that investors started out with the expectation that more CSR expenditure would increase future corporate profitability and they then moved slowly to taking the opposite view. One possible explanation for this finding is that the market came to the conclusion that managers are much better placed to determine the optimal level of CSR expenditure of a company, and so the additional CSR expenditure mandated by the government will prove to have a negative impact on the profitability of the companies required to increase their CSR expenditure. Alternatively, the change in the perceptions of investors might more reflect the specifics of the Indian legalisation rather than represent a more general view of the profit implications of making it mandatory for companies to allocate funds to CSR activities. We have conducted further studies to assess the relationship between a company's resource allocation to CSR activities and its profitability. In the second study of this thesis we surveyed the views of corporations on how CSR expenditures impact performance, and then as the data became available we examined the impact that the legislation has had on the actual profitability of Indian companies.

7.2 Firm perception toward mandatory CSR regulation

The second study provides insights into the drivers that cause companies to undertake CSR expenditure. Based on our survey of 223 companies, the three primary drivers are a concern for the company's social responsibility, a desire to improve the company's image and a desire to improve the company's relationship with government. On balance, corporate leaders seem to be more driven by the need to differentiate the business for strategic reasons rather than ethical and moral motivations

However, one of our most important findings is that the motivating factors for Indian companies spending on CSR vary widely by company characteristics. The large well-established companies that voluntarily spent on CSR (i.e. Category A companies) did so because of their concerns for the community and their desire to have a positive image and a good relationship with external parties (e.g. community and government). In contrast, the younger and smaller companies that voluntarily spent on CSR activities (i.e. Category C companies) were driven by internal reasons largely revolving around improving employee conditions and productivity. The fact that a significant proportion of large corporations did not spend on CSR until required to do so under the 2013 legislation (i.e. Category B companies) does not necessarily mean that they did not appreciate the strategic importance of CSR spending. Our survey identified that a major reason for their not undertaking such expenditure was that the companies were constrained by the limited availability of cash and/or they did not have access to adequate support to execute CSR spending. Finally, smaller companies who do not spend on CSR activities (i.e. Category D companies), refrain from doing so because they do not think that it is in their strategic interests.

There was general support for the introduction of mandatory CSR expenditure from all types of businesses other than D companies whose lack of support was mainly due to difficulty in implementation. However, as reported by Singh (2016) more than half of India Inc. firms have failed to meet their target CSR spending in the financial year 2014–15 and also the findings from our survey study reveal that the level of expenditure after it being made mandatory fell well short of expectations. In response to the 2013 legislation, Category A companies increased their spending by almost 28% and indicated that they intended to grow this expenditure over the next five years. In contrast, the response of the Category C companies for whom CSR expenditure was still voluntary was to decrease their expenditure even though they indicated that they would reinstate it in subsequent years. Many Category B companies did not comply with the legislation, arguing that they did not have the resources available. The impression is that many of those that did were reluctant to do so, as they tended to spend the bare minimum and indicated that they would not be increasing the level of their expenditure in subsequent years. Finally, a number of D companies began to spend small amounts on CSR activities, and indicated that they intended to continue to grow this expenditure in subsequent years.

Prior to the introduction of the new legislation, CSR spending was largely directed to employee training and development and health and safety at work. Other major areas were preventive healthcare, education and the eradication of poverty and malnutrition, and policies relating to health and safety at work. These latter areas are highly valued by the government who were very disappointed to see funds diverted from such areas to internally focused employee-related areas after the introduction of the legislation.

As a consequence, the government amended the 2013 Act to specify the areas to which CSR expenditures have to be directed.

Our findings have several policy implications for the Indian Government. One of the government concerns must be that the actual level of investment is not keeping pace with expectations. This suggests that the government may have to consider extending the requirement to smaller companies and/or increase the requirement to greater than 2% of profits. Another option would be to close off the loopholes that enable companies to avoid allocating 2% of profits to CSR expenditure, especially as we have identified that many large companies are reluctant to commit to such expenditure. A further concern is the areas to which the CSR expenditure is directed with the result that the government is now being more prescriptive about what these can be. It will need to monitor trends in the direction of such expenditure in order to determine whether the amended legislation is being effective.

7.3 Impact of mandatory CSR regulation on firm performance

The third study of this thesis supports the Singh (2016) report “Corporate social responsibility spend in FY15: Majority fails to do the minimum” published in *The Indian Express*. This is consistent with our finding that large mandated companies who were already spending on CSR activities actually reduced their spending as a proportion of profits while those who previously were not spending on CSR activities were somewhat reluctant to do so. The smaller companies who were previously spending on CSR activities actually reduced their expenditure once it was determined

they were not required to do so. Finally, some of the small Indian companies who previously had not spent on CSR activities began to make minimal allocations.

A major concentration of the paper has been on gauging the relationship between CSR spending and corporate profitability, both before and after the introduction of mandatory spending for larger Indian companies. We found that there was a structural break in this relationship with the introduction of the mandatory CSR spending. Further, our DiD regression analysis suggests that overall impact of the introduction of mandatory CSR legislation has been negative for those companies for whom CSR spending has become compulsory. We see that for those large Indian companies that were spending on CSR prior to the legislation (A companies), any change in the previously positive relationship between CSR spending and profitability has been insignificant. For those large Indian companies that were forced to spend on CSR for the first time (B companies), the spending did not seem to have a material impact on their profits. The companies whose profits seem to have been affected most by the legislations are the smaller Indian companies who were already spending on CSR (C companies). After the introduction of the legislation, these companies both reduce the level of their expenditures on CSR plus this expenditure has an increased negative impact on profits. Finally, there are the smaller Indian companies who after the introduction of the legislation begin to spend minimal amounts on CSR (D companies) which does not seem to have had any significant impact on their profits.

One might ask why have A companies reduced the proportion of profits that they spend on CSR, especially given that they would seem to have enjoyed higher profitability as a consequence of such expenditure. One possible contributing factor is that Indian

companies are taking the lead from investors who have ceased to look favourably on CSR expenditure. Bird, Duppati, & Mukherjee, (2016) found that investors reacted favourably to CSR spending being made compulsory when it was first proposed. However, this reaction gradually weakened and had turned negative by the time that the legislation was enacted suggesting that investors had come to the view that increased CSR spending would not translate into larger profits. Hence the reduction in the level of CSR expenditure may reflect a concern of management of the impact that such spending will have on their share price. In addition, Mukherjee & Bird (2016) found that the major reason expressed by A companies for spending on CSR was to improve the image of the company. It is possible that the perceived advantage of doing this has been diluted with all large companies now being required to spend on CSR and this may have translated into a reduced level of spending.

The contribution of B companies to increased CSR spending has also fallen short of expectations with many of them spending much less than the required 2% of profits. These companies had not been willing to undertake this expenditure in the past putting forward a lack of cash flow and inadequate know-how as major reasons for not doing so (Mukherjee & Bird, 2016). Hence it may not come as a surprise to find that they use the “comply or explain” option to (largely) escape such expenditure. We find that C companies cut the proportion of their profits that they spend on CSR by a third with it not be compulsory for them under the new legislation while there has been a slight pickup in D companies spending on CSR.

Not only did the impact of the mandatory requirements disappoint in terms of quantity but the Indian government was also unhappy with how the funds were being directed.

The fact that the government initially gave no direction resulted in a large proportion of the funds being directed internally with the focus being on improving the productivity in organisations (Mukherjee & Bird, 2016). Within a year of the initial legislation being passed, the government introduced amendments to more specifically direct the expenditures on CSR. The lack of success of the Indian legislation to date may not be all that surprising given the indecision displayed by the government whose commitment to the legislation waxed and waned over the four year period that elapsed between when it was first proposed to when it was passed. Over this period, the attitude of investors certainly turned negative towards CSR spending and one might surmise that the same happened to corporate management. The indecision of the government can be further seen in the “comply or explain” feature of the legislation which provided an easy escape clause for those that did not want to comply. The inadequacy of the initial legislation can be further seen by the need for the government to amend within a year to provide increased direction as to where the expenditures can be directed.

7.4 Synthesis of the three studies

The first study examined the market's response to the likely outcome that firms would be forced to increase their expenditures. By doing this we gain an insight into the market's perception as to the impact that CSR expenditure would have on corporate profitability. We found that initially the response was positive but it gradually changed to a situation where by the time mandatory CSR was introduced, the market felt that it would have a negative impact on corporate profits.

The second study was a sample survey aimed at providing us with insights as to the attitudes of companies to CSR and also what they did when confronted with mandatory CSR. The evidence is that the legislation did not lead to the hoped for increases in expenditure and we obtained useful insights as the attitudes of management which assist in explaining the behaviour of the corporations.

The third study returned to try and ascertain the actual impact that the mandatory legislation had on corporate profitability. The findings of third study is the most telling. In this study we observed an overall positive relation between CSR and firm performance. But, DiD regression results shows that the regulation had a negative impact on performance. Due to the market devaluation that we observed in our first study the Indian corporates has reduced spending in CSR. Thus, we can conclude that due to the introduction of this new legislation the Indian companies has reduced their spending in CSR and as result of this they are experiencing reduction in profitability. This finding indicates that the legislation has had a negative impact on the relationship between CSR spending and corporate profitability. Thus, our findings suggest that the legislation has fallen short of expectation in terms of level and direction of CSR spending, and the benefit that such spending has on the owners of the companies.

Undoubtedly, constituents of governments around the world will require them to put increasing pressure on companies to devote more resources to CSR activities. As a consequence, many governments will have to give serious consideration to introducing some form of compunction for corporations to spend on CSR activities. The question that we pose is what can they learn from the Indian experience? Our first response is that it would appear that the legislation is not working in India, which suggests that

companies might be better placed to determine the optimal level of CSR expenditure from their perspective. However, if governments are to force companies to spend on CSR beyond the level they would do voluntarily, then they would need to be more obviously committed than would seem to have been the case in India, and they should not include escape clauses that make it easy for companies to avoid CSR expenditure. Further, they may need to be more prescriptive in how the CSR funds are to be spent, as the Indian Government soon came to realise. Finally, they would need to give consideration to assisting the companies required to spend on CSR for the first time to construct an appropriate decision-making framework and operational infrastructure as shortcomings in this area have been found to be a constraint on spending (Albareda, Lozano, & Ysa, 2007). Most importantly, we have found that the Indian legislation had a negative impact on corporate profits and this will only discourage companies in spending on CSR. Hence, governments when framing legislation will need to take this into account in order to not have a perverse effect on company behaviour.

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Appendices: Questionnaire

1. Which of the following best expresses the status of your company? (choose only ONE):
 - Public Listed Company
 - Private equity (not listed), Limited Liability Company
 - Partnership (unlimited liability company)
 - Government Company
 - Foreign ownership
 - Other: _____

2. Please provide the following information as at the end of the of the financial year, **2013 – 2014** (i.e. as at 31/03/2014), that allows us to type the size of your company in three dimensions
 - a. Total Sales: _____
 - b. Net Profit: _____

c. Net Worth(Net Assets – Net Liabilities): _____

3. Please indicate which of the following best describes the industry in which your company operates (choose only ONE):

- Energy.
- Materials
- Industrial
- Consumer Discretionary
- Consumer Staples
- Health Care
- Financials
- Information Technology
- Telecommunication Services
- Utilities

4. In which year was your company established?Select One

5. Which of the following best describes your position within the organization (chosed only ONE)?

- Director
- Managing Director
- Chief Executive Officer
- Chief Finance Officer
- Senior Manager
- Others Please specify:

6. In which region(s) does your company mainly operate (choose only ONE)?

- North India.
- South India.
- East India.
- West India.

7. Was it mandatory under the company bill 2013 for your company to spend funds on CSR activities in the most recent financial year, **2013 - 2014**?

- Yes.
- No.

[If “Yes” go to Block A, if “No” please go to Block E]

Block A

8. Did your company spend funds on CSR activities in the previous financial year **2012-2013**?

Yes. No.

[If “Yes” please answer Block B and D, if “No” know please answer Block C and D]

Block B

1. In what financial year did your company commence spending funds on CSR activities? _____

A balanced Incomplete Block Designs (BIBD) method has been adopted; in order to control for all biases and obtain true preferences of respondents. In the design for 16 preferences each statement appears 5 times & co-appears once with every other statement, each statement also appears in every order position. We appreciate your tolerance and patience.

2 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Least
Important Important

The expenditures on CSR were undertaken for ethical/moral reasons

The expenditures on CSR were perceived to improve economic performance of the company (costs’ reduction, sales’ increase)

The expenditures on CSR were undertaken due to the company’s concern for the environment.

The expenditures on CSR were viewed as being consistent with the company’s philosophy and traditions

The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)

The expenditures on CSR were perceived to increase productivity per employee

3 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Least
Important Important

The expenditures on CSR were undertaken due to the company’s concerned for its business/social responsibility.

The expenditures on CSR were perceived to apply/implement business code of conduct

The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)

The expenditures on CSR were perceived to increase marketing and public relations

The expenditures on CSR were perceived to reduce absenteeism rate

The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions

- 4 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to improve positive image of the company

The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

The expenditures on CSR were undertaken due to the company's concern for its business/social responsibility.

The expenditures on CSR were undertaken due to the company's concern for the environment.

The expenditures on CSR were perceived to improve relations with business partners and investors

- 5 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to establish and/or retain competitive advantage

The expenditures on CSR were undertaken due to the company's concern for the environment.

The expenditures on CSR were perceived to improve employees' job satisfaction

The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)

The expenditures on CSR were undertaken due to the company's concern for its business/social responsibility.

	The expenditures on CSR were perceived to improve customers' loyalty		
6	Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?		
		Most Important	Least Important
	The expenditures on CSR were perceived to increase productivity per employee		
	The expenditures on CSR were undertaken due to the company's concern for its business/social responsibility.		
	The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)		
	The expenditures on CSR were perceived to establish and/or retain competitive advantage		
	The expenditures on CSR were perceived to improve relations with business partners and investors		
	The expenditures on CSR were perceived to apply/implement business code of conduct		
7	Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?		
		Most Important	Least Important
	The expenditures on CSR were perceived to improve relations with business partners and investors		
	The expenditures on CSR were undertaken for ethical/moral reasons		
	The expenditures on CSR were perceived to increase marketing and public relations		
	The expenditures on CSR were perceived to reduce absenteeism rate		
	The expenditures on CSR were perceived to establish and/or retain competitive advantage		
	The expenditures on CSR were undertaken due to the company's concern for the environment.		
8	Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?		
		Most Important	Least Important
	The expenditures on CSR were perceived to apply/implement business code of conduct		
	The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)		

The expenditures on CSR were perceived to establish and/or retain competitive advantage

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

The expenditures on CSR were perceived to improve positive image of the company

The expenditures on CSR were undertaken for ethical/moral reasons

- 9 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions

The expenditures on CSR were perceived to improve customers' loyalty

The expenditures on CSR were perceived to improve relations with business partners and investors

The expenditures on CSR were perceived to apply/implement business code of conduct

The expenditures on CSR were undertaken for ethical/moral reasons

The expenditures on CSR were perceived to improve employees' job satisfaction

- 10 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to increase marketing and public relations

The expenditures on CSR were perceived to increase productivity per employee

The expenditures on CSR were undertaken due to the company's concern for its business/social responsibility.

The expenditures on CSR were undertaken for ethical/moral reasons

The expenditures on CSR were perceived to improve customers' loyalty

The expenditures on CSR were perceived to improve positive image of the company

11 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to improve customers' loyalty

The expenditures on CSR were perceived to reduce absenteeism rate

The expenditures on CSR were perceived to improve positive image of the company

The expenditures on CSR were undertaken due to the company's concern for the environment.

The expenditures on CSR were perceived to apply/implement business code of conduct

The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)

12 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)

The expenditures on CSR were perceived to improve relations with business partners and investors

The expenditures on CSR were perceived to improve customers' loyalty

The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)

The expenditures on CSR were perceived to increase marketing and public relations

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

13 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)

The expenditures on CSR were perceived to increase marketing and public relations

The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions

The expenditures on CSR were perceived to improve positive image of the company

The expenditures on CSR were perceived to improve employees' job satisfaction

The expenditures on CSR were perceived to establish and/or retain competitive advantage

- 14 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to reduce absenteeism rate

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

The expenditures on CSR were undertaken for ethical/moral reasons

The expenditures on CSR were perceived to improve employees' job satisfaction

The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)

The expenditures on CSR were undertaken due to the company's concern for its business/social responsibility.

- 15 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were undertaken due to the company's concern for the environment.

The expenditures on CSR were perceived to improve employees' job satisfaction

The expenditures on CSR were perceived to apply/implement business code of conduct

The expenditures on CSR were perceived to increase productivity per employee

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

The expenditures on CSR were perceived to increase marketing and public relations

16 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to improve employees' job satisfaction

The expenditures on CSR were perceived to improve positive image of the company

The expenditures on CSR were perceived to reduce absenteeism rate

The expenditures on CSR were perceived to improve relations with business partners and investors

The expenditures on CSR were perceived to increase productivity per employee

The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)

17 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

The expenditures on CSR were perceived to establish and/or retain competitive advantage

The expenditures on CSR were perceived to increase productivity per employee

The expenditures on CSR were perceived to improve customers' loyalty

The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions

The expenditures on CSR were perceived to reduce absenteeism rate

18. What proportions of the company's profit were spent on CSR activities in the previous financial year, **2012 - 2013**?

Less than 0.25%

0.26% to 0.50%

0.51% to 1.00%

1.01% to 2.00%

2.001% to 4.00%

More than 4.00%

19. Indicate the CSR activities on which these funds were spent in the financial year, **2012-2013** (please indicate all that applies)

Policies towards sexual harassment prohibition

Policies to ensure representation of women and minorities in the Board of

Directors

Policies for the training and development of employees

Policies covering health and safety at work

Provision for formal worker representation in decision-making

Commitment to industry research and development and innovation

Direct involvement in providing products to the economically disadvantaged

Promoting shareholders' participation in decision making and access to all relevant information

Eradicating hunger, poverty and malnutrition.

Promoting preventive healthcare.

Promoting education.

Promoting gender equality and empowering women.

Setting up homes for women, orphans and/or senior citizens.

Measures for reducing inequalities faced by socially and economically backward groups.

Measures for the benefit of armed forces veterans, war widows and their dependents.

Contribution to the prime minister's national relief fund or any other fund set up by the Central Government for socio economic development and relief and welfare of Scheduled Castes, Scheduled Tribe, other backward castes, minorities and women.

Contributions or funds provided to technology incubators located within academic institutions approved by the Central Government and rural development projects.

Ensuring environmental sustainability and ecological balance.

Animal welfare.

Reduction of resource consumption and waste generation during production, distribution and product usage

Preference for green products in purchasing

Selection of cleaner transportation methods

Responsible disposal of waste and residues, and recuperation and recycling

systems

Implementing a production plan to reduce energy and natural resources consumption in operations

Inspection of supplier facilities for health, safety and environmental aspects

Policy restricting the use of child labour, sweat shops and and violation of human rights at the supplier's workplace

20. What is your perception of the impact that CSR expenditures had on the company's profit in the financial year **2012 - 2013**?
- Strongly Positive Positive No effect Negative Strongly Negative
21. What was the basis for the answer that you gave to the previous question (indicate all that apply)?
- Analysis of the financial statements
- Market analysis of CSR expenditure.
- Analysis of investors' perception about the impact of CSR expenditure
- Environmental reporting focusing on the impact of CSR spending.
- My (or the company's) own perception, without any detailed analysis.
- Others:
- _____
- _____
22. Indicate how the allocation of CSR activities has changed over the last 5 years:
- a. CSR activities relating to employees: Increase Decrease No Change
- b. CSR activities relating to customers: Increase Decrease No Change
- c. CSR activities relating to investors: Increase Decrease No Change
- d. CSR activities relating to community: Increase Decrease No Change
- e. CSR activities relating to environment: Increase Decrease No Change
- f. CSR activities relating to suppliers: Increase Decrease No Change

Block C

- 1 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?
- | | Most
Important | Least
Important |
|--|-------------------|--------------------|
| Company perceived that there was inadequate state/government support to cause it to undertake CSR activities | | |
| Company had inadequate free cash flow to undertake CSR activities | | |
| CSR expenditure were perceived to not have a favourable impact on financial performance | | |

2	<p>CSR expenditure were perceived to increase operating cost.</p> <p>From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?</p>	<p>Most Important Least Important</p>
	<p>CSR expenditure perceived to not have a favourable impact on the market risk of the company.</p> <p>CSR expenditure were perceived to have no impact on employee productivity.</p> <p>CSR expenditure perceived to not have a favourable impact on the market value of company.</p>	
3	<p>CSR expenditure were perceived to not have a favourable impact on financial performance</p> <p>From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?</p>	<p>Most Important Least Important</p>
	<p>Company experienced lack of technological know-how for establishment of such a system/program in the company.</p> <p>CSR expenditure were perceived to not have a favourable impact on financial performance</p> <p>It was perceived that the company would experience competitive disadvantage if it spent funds on CSR activities.</p> <p>Company perceived that there was inadequate public support/pressure to cause it to undertake CSR activities</p>	
4	<p>From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?</p>	<p>Most Important Least Important</p> <p>CSR expenditure were perceived to not have a favourable impact on financial performance</p>

Change in management lead to a withdrawal of support for CSR activities

Company lacked the experienced human resources to undertake CSR activities

CSR expenditure were perceived to have no impact on customer loyalty

- 5 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

It was perceived that the company would experience competitive disadvantage if it spent funds on CSR activities.

CSR expenditure were perceived to have no impact on customer loyalty

CSR expenditure were perceived to increase operating cost.

CSR expenditure were perceived to have no impact on employee productivity.

- 6 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

Change in management lead to a withdrawal of support for CSR activities

CSR expenditure were perceived to increase operating cost.

Company perceived that there was inadequate public support/pressure to cause it to undertake CSR activities

CSR expenditure perceived to not have a favourable impact on the market risk of the company.

- 7 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

CSR expenditure were perceived to increase operating cost.
CSR expenditure perceived to not have a favourable impact on the market value of company.

Company experienced lack of technological know-how for establishment of such a system/program in the company.

Company lacked the experienced human resources to undertake CSR activities

8 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

CSR expenditure were perceived to have no impact on employee productivity.

Company experienced lack of technological know-how for establishment of such a system/program in the company.

Company perceived that there was inadequate state/government support to cause it to undertake CSR activities

Change in management lead to a withdrawal of support for CSR activities

9 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

Company lacked the experienced human resources to undertake CSR activities

Company perceived that there was inadequate state/government support to cause it to undertake CSR activities

CSR expenditure perceived to not have a favourable impact on the market risk of the company.

It was perceived that the company would experience competitive disadvantage if it spent funds on CSR activities.

10 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

CSR expenditure perceived to not have a favourable impact on the market value of company.

Company perceived that there was inadequate public support/pressure to cause it to undertake CSR activities

CSR expenditure were perceived to have no impact on customer loyalty

Company perceived that there was inadequate state/government support to cause it to undertake CSR activities

11 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

Company perceived that there was inadequate public support/pressure to cause it to undertake CSR activities

Company lacked the experienced human resources to undertake CSR activities

CSR expenditure were perceived to have no impact on employee productivity.

Company had inadequate free cash flow to undertake CSR activities

12 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

CSR expenditure were perceived to have no impact on customer loyalty

CSR expenditure perceived to not have a favourable impact on the market risk of the company.

Company had inadequate free cash flow to undertake CSR activities

Company experienced lack of technological know-how for establishment of such a system/program in the company.

13

From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

Company had inadequate free cash flow to undertake CSR activities

It was perceived that the company would experience competitive disadvantage if it spent funds on CSR activities.

Change in management lead to a withdrawal of support for CSR activities

CSR expenditure perceived to not have a favourable impact on the market value of company.

14. Has your company ever spent funds on CSR activities?

Yes No

15. If "Yes" to 14; in what year did this expenditure commence _____

16. If "Yes" to 14; what was the most recent year on which your company undertook such expenditures _____

17. If "No" to 14: What were the reasons for the company to stop spending on CSR (indicate all that apply)?

CSR expenditure was found to have no impact on employee productivity.

CSR expenditure was found to increase operating cost.

CSR expenditure was found to have no impact on customer loyalty

It was found that the company would experience competitive disadvantage if it spent funds on CSR activities.

CSR expenditure was found to not have a favourable impact on financial performance

CSR expenditure was not found to have a favourable impact on the market value of company.

CSR expenditure was not found to have a favourable impact on the market risk of the company.

Company had inadequate free cash flow to undertake CSR activities

Company experienced lacked of skilled human resources to undertake CSR activities

Company found that there was inadequate public support/pressure to cause it to undertake CSR activities

Company found that there was inadequate state/government support to cause it to undertake CSR activities

Company did not have technological know-how for establishment of such a system/program in the company.
Change in management lead to a withdrawal of support for CSR activities

Block D

1. Have your company allocated the required 2% of profit CSR expenditure in the financial year, 2013-2014? Yes_____ No_____ (If “Yes” go to Block D(a) question 2 if “No” go to Block D(b) question

Block D(a)

2. What proportion of profit did your company spend on CSR activities in the financial year, 2013 -2014?

2.00% to 2.5%: _____

2.51% to 3.00%: _____

3.01% to 4.00%: _____

More than 4.00%: _____

3. Indicate the CSR activities on which these funds were spent in the financial year, **2012-2013** (please indicate all that applies)

Policies towards sexual harassment prohibition

Policies to ensure representation of women and minorities in the Board of Directors

Policies for the training and development of employees

Policies covering health and safety at work

Provision for formal worker representation in decision-making

Commitment to industry research and development and innovation

Direct involvement in providing products to the economically disadvantaged

Promoting shareholders’ participation in decision making and access to all relevant information

Eradicating hunger, poverty and malnutrition.

Promoting preventive healthcare.

Promoting education.

Promoting gender equality and empowering women.

Setting up homes for women, orphans and/or senior citizens.

Measures for reducing inequalities faced by socially and economically backward groups.

Measures for the benefit of armed forces veterans, war widows and their dependents.

Contribution to the prime minister's national relief fund or any other fund set up by the Central Government for socio economic development and relief and welfare of Scheduled Castes, Scheduled Tribe, other backward castes, minorities and women.

Contributions or funds provided to technology incubators located within academic institutions approved by the Central Government and rural development projects.

Ensuring environmental sustainability and ecological balance.

Animal welfare.

Reduction of resource consumption and waste generation during production, distribution and product usage

Preference for green products in purchasing

Selection of cleaner transportation methods

Responsible disposal of waste and residues, and recuperation and recycling systems

Implementing a production plan to reduce energy and natural resources consumption in operations

Inspection of supplier facilities for health, safety and environmental aspects

Policy restricting the use of child labour, sweat shops and violation of human rights at the supplier's workplace

4. Do you think that the amount of funds allocated to CSR expenditure will change in next five years?

Increase Decrease No Change

5. Indicate how the allocation of CSR activities has changed over the next 5 years:

Increase Decrease No change

CSR activities relating to employees

CSR activities relating to customers

CSR activities relating to investors

CSR activities relating to community

CSR activities relating to environment

CSR activities relating to suppliers

6. What is your company's attitude to the mandatory requirement for companies to spend funds on CSR activities?

Strongly Positive ____

Positive ____

Neutral ____

Negative ____

Strongly Negative ____

7. What are the factors that influenced you in determining your attitude towards mandatory CSR (please indicate all that applies)?

Issues relating to comprehending the regulation.

Issues relating to implementing CSR activity.

Issues relating reporting CSR activity.

Company view on transformation of CSR expenditure; voluntary to mandatory.

Company view towards Government involvement in CSR decision.

Other (please specify)
Block D(b)
<p>9. What proportion of profit did your company spend on CSR activities in the financial year, 2013 -2014?</p> <p><input type="checkbox"/> Less than 0.25%</p> <p><input type="checkbox"/> 0.26% to 0.50%</p> <p><input type="checkbox"/> 0.51% to 1.00%</p> <p><input type="checkbox"/> 1.01% to 1.99%</p> <p>10. What were the reasons for not meeting the 2% CSR spending requirement (indicate all that apply)?</p> <p>Company had inadequate free cash flow to undertake CSR activities</p> <p>Company lacked the experienced human resources to undertake CSR activities</p> <p>Company received inadequate public support/pressure to undertake CSR activities</p> <p>Company received inadequate state/government support to undertake CSR activities</p> <p>Company experienced lack of technological know-how for establishment of such a system/program in the company.</p> <p>Other (please specify)</p> <p>11. Indicate the CSR activities on which these funds were spent in the financial year, 2012-2013 (please indicate all that applies)</p> <p><input type="checkbox"/> No CSR undertaken</p> <p><input type="checkbox"/> Policies towards sexual harassment prohibition</p> <p><input type="checkbox"/> Policies to ensure representation of women and minorities in the Board of Directors</p> <p><input type="checkbox"/> Policies for the training and development of employees</p> <p><input type="checkbox"/> Policies covering health and safety at work</p> <p><input type="checkbox"/> Provision for formal worker representation in decision-making</p> <p><input type="checkbox"/> Commitment to industry research and development and innovation</p> <p><input type="checkbox"/> Direct involvement in providing products to the economically disadvantaged</p> <p><input type="checkbox"/> Promoting shareholders' participation in decision making and access to all relevant information</p> <p><input type="checkbox"/> Eradicating hunger, poverty and malnutrition.</p> <p><input type="checkbox"/> Promoting preventive healthcare.</p> <p><input type="checkbox"/> Promoting education.</p> <p><input type="checkbox"/> Promoting gender equality and empowering women.</p> <p><input type="checkbox"/> Setting up homes for women, orphans and/or senior citizens.</p> <p><input type="checkbox"/> Measures for reducing inequalities faced by socially and economically backward groups.</p> <p><input type="checkbox"/> Measures for the benefit of armed forces veterans, war widows and their dependents.</p> <p><input type="checkbox"/> Contribution to the prime minister's national relief fund or any other fund set up by the Central Government for socio economic development and relief and welfare</p>

of Scheduled Castes, Scheduled Tribe, other backward castes, minorities and women.

Contributions or funds provided to technology incubators located within academic institutions approved by the Central Government and rural development projects.

Ensuring environmental sustainability and ecological balance.

Animal welfare.

Reduction of resource consumption and waste generation during production, distribution and product usage

Preference for green products in purchasing

Selection of cleaner transportation methods

Responsible disposal of waste and residues, and recuperation and recycling systems

Implementing a production plan to reduce energy and natural resources consumption in operations

Inspection of supplier facilities for health, safety and environmental aspects

Policy restricting the use of child labour, sweat shops and and violation of human rights at the supplier's workplace

12. Do you think the company will start allocating 2% of profit for CSR activity in the financial year, 2014-2015? Yes _____ No _____

13. What is your company's attitude to the mandatory requirement for companies to spend funds on CSR activities?
 Strongly Positive Positive No effect Negative Strongly Negative

14. What are the factors that influenced you in determining your attitude towards mandatory CSR (please indicate all that applies)?

Issues relating to comprehending the regulation.
 Issues relating to implementing CSR activity.
 Issues relating reporting CSR activity.
 Company view on transformation of CSR expenditure; voluntary to mandatory.
 Company view towards Government involvement in CSR decision.
 Other (please specify)

Block E
<p>1. Did your company spend funds on CSR activities in the previous financial year, 2012-2013?</p> <p><input type="checkbox"/> Yes. <input type="checkbox"/> No.</p> <p>[If "yes" please answer Block F and H, if "no" please answer Block G and H]</p>

Block F
<p>1. In what year did your company first start spending funds on CSR expenditure?</p> <p>_____</p>

2. What proportion of profit did your company spend on CSR in the financial year **2012 - 2013**?

Less than 0.25%

0.26% to 0.50%

0.51% to 1.00%

1.01% to 2.00%

2.01 to 4.005

More than 4.00%

3. Indicate the CSR activities on which these funds were spent in the financial year, **2012-2013** (please indicate all that applies)

Policies towards sexual harassment prohibition

Policies to ensure representation of women and minorities in the Board of

Directors

Policies for the training and development of employees

Policies covering health and safety at work

Provision for formal worker representation in decision-making

Commitment to industry research and development and innovation

Direct involvement in providing products to the economically disadvantaged

Promoting shareholders' participation in decision making and access to all relevant information

Eradicating hunger, poverty and malnutrition.

Promoting preventive healthcare.

Promoting education.

Promoting gender equality and empowering women.

Setting up homes for women, orphans and/or senior citizens.

Measures for reducing inequalities faced by socially and economically backward groups.

Measures for the benefit of armed forces veterans, war widows and their dependents.

Contribution to the prime minister's national relief fund or any other fund set up by the Central Government for socio economic development and relief and welfare of Scheduled Castes, Scheduled Tribe, other backward castes, minorities and women.

Contributions or funds provided to technology incubators located within academic institutions approved by the Central Government and rural development projects.

Ensuring environmental sustainability and ecological balance.

Animal welfare.

Reduction of resource consumption and waste generation during production, distribution and product usage

Preference for green products in purchasing
 Selection of cleaner transportation methods
 Responsible disposal of waste and residues, and recuperation and recycling systems
 Implementing a production plan to reduce energy and natural resources consumption in operations
 Inspection of supplier facilities for health, safety and environmental aspects
 Policy restricting the use of child labour, sweat shops and and violation of human rights at the supplier's workplace

5 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

	Most Important	Least Important
--	-------------------	--------------------

The expenditures on CSR were undertaken for ethical/moral reasons

The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)

The expenditures on CSR were undertaken due to the company's concern for the environment.

The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions

The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)

The expenditures on CSR were perceived to increase productivity per employee

6 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

	Most Important	Least Important
--	-------------------	--------------------

The expenditures on CSR were undertaken due to the company's concerned for its business/social responsibility.

The expenditures on CSR were perceived to apply/implement business code of conduct

The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)

The expenditures on CSR were perceived to increase marketing and public relations

The expenditures on CSR were perceived to reduce absenteeism rate

	The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions		
7	Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?	Most Important	Least Important
	The expenditures on CSR were perceived to improve positive image of the company		
	The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions		
	The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)		
	The expenditures on CSR were undertaken due to the company's concern for its business/social responsibility.		
	The expenditures on CSR were undertaken due to the company's concern for the environment.		
	The expenditures on CSR were perceived to improve relations with business partners and investors		
8	Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?	Most Important	Least Important
	The expenditures on CSR were perceived to establish and/or retain competitive advantage		
	The expenditures on CSR were undertaken due to the company's concern for the environment.		
	The expenditures on CSR were perceived to improve employees' job satisfaction		
	The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)		
	The expenditures on CSR were undertaken due to the company's concern for its business/social responsibility.		
	The expenditures on CSR were perceived to improve customers' loyalty		
9	Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?	Most Important	Least Important

The expenditures on CSR were perceived to increase productivity per employee

The expenditures on CSR were undertaken due to the company's concern for its business/social responsibility.

The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)

The expenditures on CSR were perceived to establish and/or retain competitive advantage

The expenditures on CSR were perceived to improve relations with business partners and investors

The expenditures on CSR were perceived to apply/implement business code of conduct

- 10 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to improve relations with business partners and investors

The expenditures on CSR were undertaken for ethical/moral reasons

The expenditures on CSR were perceived to increase marketing and public relations

The expenditures on CSR were perceived to reduce absenteeism rate

The expenditures on CSR were perceived to establish and/or retain competitive advantage

The expenditures on CSR were undertaken due to the company's concern for the environment.

- 11 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to apply/implement business code of conduct

The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)

The expenditures on CSR were perceived to establish and/or retain competitive advantage

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

The expenditures on CSR were perceived to improve positive image of the company

The expenditures on CSR were undertaken for ethical/moral reasons

- 12 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions

The expenditures on CSR were perceived to improve customers' loyalty

The expenditures on CSR were perceived to improve relations with business partners and investors

The expenditures on CSR were perceived to apply/implement business code of conduct

The expenditures on CSR were undertaken for ethical/moral reasons

The expenditures on CSR were perceived to improve employees' job satisfaction

- 13 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to increase marketing and public relations

The expenditures on CSR were perceived to increase productivity per employee

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The expenditures on CSR were undertaken for ethical/moral reasons

The expenditures on CSR were perceived to improve customers' loyalty

The expenditures on CSR were perceived to improve positive image of the company

- 14 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to improve customers' loyalty

The expenditures on CSR were perceived to reduce absenteeism rate

The expenditures on CSR were perceived to improve positive image of the company

The expenditures on CSR were undertaken due to the company's concern for the environment.

The expenditures on CSR were perceived to apply/implement business code of conduct

The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)

15 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)

The expenditures on CSR were perceived to improve relations with business partners and investors

The expenditures on CSR were perceived to improve customers' loyalty

The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)

The expenditures on CSR were perceived to increase marketing and public relations

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

16 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)

The expenditures on CSR were perceived to increase marketing and public relations

The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions

The expenditures on CSR were perceived to improve positive image of the company

The expenditures on CSR were perceived to improve employees' job satisfaction

The expenditures on CSR were perceived to establish and/or retain competitive advantage

- 17 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to reduce absenteeism rate

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

The expenditures on CSR were undertaken for ethical/moral reasons

The expenditures on CSR were perceived to improve employees' job satisfaction

The expenditures on CSR were perceived to improve economic performance of the company (costs' reduction, sales' increase)

The expenditures on CSR were undertaken due to the company's concern for its business/social responsibility.

- 18 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were undertaken due to the company's concern for the environment.

The expenditures on CSR were perceived to improve employees' job satisfaction

The expenditures on CSR were perceived to apply/implement business code of conduct

The expenditures on CSR were perceived to increase productivity per employee

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

The expenditures on CSR were perceived to increase marketing and public relations

- 19 Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Important Least Important

The expenditures on CSR were perceived to improve employees' job satisfaction

The expenditures on CSR were perceived to improve positive image of the company

The expenditures on CSR were perceived to reduce absenteeism rate

The expenditures on CSR were perceived to improve relations with business partners and investors

The expenditures on CSR were perceived to increase productivity per employee

The expenditures on CSR were perceived to improve relations with public administration (public/state authorities)

20. Among the below six reasons what motivated the company to first start spending funds on CSR activities (choose the most important and least important reasons)?

Most Least
Important Important

The expenditures on CSR were expected to help in the recruitment and retention of suitable employees (i.e. an improvement in employees' loyalty)

The expenditures on CSR were perceived to establish and/or retain competitive advantage

The expenditures on CSR were perceived to increase productivity per employee

The expenditures on CSR were perceived to improve customers' loyalty

The expenditures on CSR were viewed as being consistent with the company's philosophy and traditions

The expenditures on CSR were perceived to reduce absenteeism rate

21. What is your perception of the impact of CSR expenditures on profit in the financial year **2012 - 2013**?

Strongly Positive Positive No effect Negative Strongly Negative

22. What was the basis for the answer that you gave to the previous question (indicate all that apply)?

Analysis of the financial statements

Market analysis of CSR expenditure.

Analysis of investors' perception about the impact of CSR expenditure

Environmental reporting focusing on the impact of CSR spending.

My (or the company's) own perception, without any detailed analysis.

Others:

23. Do you think that the amount of funds allocated to CSR expenditure will change in next five years?

- Increase Decrease No Change

24. Indicate how the allocation of CSR activities has changed over the next 5 years:

Increase Decrease No change

CSR activities relating to employees

CSR activities relating to customers

CSR activities relating to investors

CSR activities relating to community

CSR activities relating to environment

CSR activities relating to suppliers

Block G

A balanced Incomplete Block Designs (BIBD) method has been adopted; in order to control for all biases and obtain true preferences of respondents. In the design for 13 preferences each statement appears 4 times & co-appears once with every other statement, each statement also appears in every order position. We appreciate your patience and tolerance.

1 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

Company perceived that there was inadequate state/government support to cause it to undertake CSR activities

Company had inadequate free cash flow to undertake CSR activities

CSR expenditure were perceived to not have a favourable impact on financial performance

CSR expenditure were perceived to increase operating cost.

2 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

CSR expenditure perceived to not have a favourable impact on the market risk of the company.

CSR expenditure were perceived to have no impact on employee productivity.

CSR expenditure perceived to not have a favourable impact on the market value of company.

CSR expenditure were perceived to not have a favourable impact on financial performance

3 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

Company experienced lack of technological know-how for establishment of such a system/program in the company.

CSR expenditure were perceived to not have a favourable impact on financial performance

It was perceived that the company would experience competitive disadvantage if it spent funds on CSR activities.

Company perceived that there was inadequate public support/pressure to cause it to undertake CSR activities

4 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

CSR expenditure were perceived to not have a favourable impact on financial performance

Change in management lead to a withdrawal of support for CSR activities

Company lacked the experienced human resources to undertake CSR activities

CSR expenditure were perceived to have no impact on customer loyalty

5 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

It was perceived that the company would experience competitive disadvantage if it spent funds on CSR activities.

CSR expenditure were perceived to have no impact on customer loyalty

CSR expenditure were perceived to increase operating cost.

CSR expenditure were perceived to have no impact on employee productivity.

- 6 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

Change in management lead to a withdrawal of support for CSR activities

CSR expenditure were perceived to increase operating cost.

Company perceived that there was inadequate public support/pressure to cause it to undertake CSR activities

CSR expenditure perceived to not have a favourable impact on the market risk of the company.

- 7 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

CSR expenditure were perceived to increase operating cost.

CSR expenditure perceived to not have a favourable impact on the market value of company.

Company experienced lack of technological know-how for establishment of such a system/program in the company.

Company lacked the experienced human resources to undertake CSR activities

- 8 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

CSR expenditure were perceived to have no impact on employee productivity.

Company experienced lack of technological know-how for establishment of such a system/program in the company.

Company perceived that there was inadequate state/government support to cause it to undertake CSR activities

Change in management lead to a withdrawal of support for CSR activities

- 9 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

Company lacked the experienced human resources to undertake CSR activities

Company perceived that there was inadequate state/government support to cause it to undertake CSR activities

CSR expenditure perceived to not have a favourable impact on the market risk of the company.

It was perceived that the company would experience competitive disadvantage if it spent funds on CSR activities.

- 10 From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?

Most Least
Important Important

CSR expenditure perceived to not have a favourable impact on the market value of company.

Company perceived that there was inadequate public support/pressure to cause it to undertake CSR activities

CSR expenditure were perceived to have no impact on customer loyalty

11	<p>Company perceived that there was inadequate state/government support to cause it to undertake CSR activities</p>	<p>Most Important Least Important</p>
	<p>From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?</p>	
12	<p>Company perceived that there was inadequate public support/pressure to cause it to undertake CSR activities</p> <p>Company lacked the experienced human resources to undertake CSR activities</p> <p>CSR expenditure were perceived to have no impact on employee productivity.</p> <p>Company had inadequate free cash flow to undertake CSR activities</p>	<p>Most Important Least Important</p>
	<p>From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?</p>	
13	<p>CSR expenditure were perceived to have no impact on customer loyalty</p> <p>CSR expenditure perceived to not have a favourable impact on the market risk of the company.</p> <p>Company had inadequate free cash flow to undertake CSR activities</p> <p>Company experienced lack of technological know-how for establishment of such a system/program in the company.</p>	<p>Most Important Least Important</p>
	<p>From the following 4 options which has been a barrier to your company deciding to allocate funds to CSR activities in the past (choose the most important and least important reasons)?</p>	
	<p>Company had inadequate free cash flow to undertake CSR activities</p>	

It was perceived that the company would experience competitive disadvantage if it spent funds on CSR activities.

Change in management lead to a withdrawal of support for CSR activities

CSR expenditure perceived to not have a favourable impact on the market value of company.

14. Have your company ever spent funds on CSR activities? Yes No
(If “Yes” go to block H(a), if “No” please go to block H(b))

15. If “Yes” to 14, in what year did your company first allocate funds to CSR activities? _____

16. If “Yes” to 14; what was the last year that your company ceased allocating funds to CSR activities? _____

17. What were the reasons for the company to stop spending on CSR (indicate all that apply)?

CSR expenditure was found to have no impact on employee productivity.

CSR expenditure was found to increase operating cost.

CSR expenditure was found to have no impact on customer loyalty

It was found that the company would experience competitive disadvantage if it spent funds on CSR activities.

CSR expenditure was found to not have a favourable impact on financial performance

CSR expenditure was not found to have a favourable impact on the market value of company.

CSR expenditure was not found to have a favourable impact on the market risk of the company.

Company had inadequate free cash flow to undertake CSR activities

Company experienced lacked of skilled human resources to undertake CSR activities

Company found that there was inadequate public support/pressure to cause it to undertake CSR activities

Company found that there was inadequate state/government support to cause it to undertake CSR activities

Company did not have technological know-how for establishment of such a system/program in the company.

Change in management lead to a withdrawal of support for CSR activities

Block H(a)

1. Did your company allocate funds to CSR activities in financial year **2013 – 2014**?

Yes. No.

2. If “Yes” to 1, was it motivated by the requirement under the company bill 2013 for larger companies to spend funds on CSR activities?

Yes. No.

3. What proportion of profit did your company spend on CSR activities in financial year, **2013-2014**?

Less than 0.25%

0.26% to 0.50%

0.51% to 1.00%

1.01% to 2.00%

2.01to 4.005

More than 4.00%

4. Indicate the CSR activities on which these funds were spent in the financial year, **2013-2014** (please indicate all that applies)

Policies towards sexual harassment prohibition

Policies to ensure representation of women and minorities in the Board of

Directors

Policies for the training and development of employees

Policies covering health and safety at work

Provision for formal worker representation in decision-making

Commitment to industry research and development and innovation

Direct involvement in providing products to the economically disadvantaged

Promoting shareholders’ participation in decision making and access to all relevant information

Eradicating hunger, poverty and malnutrition.

Promoting preventive healthcare.

Promoting education.

Promoting gender equality and empowering women.

Setting up homes for women, orphans and/or senior citizens.

Measures for reducing inequalities faced by socially and economically backward groups.

Measures for the benefit of armed forces veterans, war widows and their dependents.

Contribution to the prime minister's national relief fund or any other fund set up by the Central Government for socio economic development and relief and welfare of Scheduled Castes, Scheduled Tribe, other backward castes, minorities and women.

Contributions or funds provided to technology incubators located within academic institutions approved by the Central Government and rural development projects.

Ensuring environmental sustainability and ecological balance.
Animal welfare.
Reduction of resource consumption and waste generation during production, distribution and product usage
Preference for green products in purchasing
Selection of cleaner transportation methods
Responsible disposal of waste and residues, and recuperation and recycling systems

Implementing a production plan to reduce energy and natural resources consumption in operations
Inspection of supplier facilities for health, safety and environmental aspects
Policy restricting the use of child labour, sweat shops and and violation of human rights at the supplier's workplace

5. Do you think that the amount of funds allocated to CSR expenditure will change in next five years?

Increase Decrease No Change

6. Indicate how the allocation of CSR activities has changed over the last 5 years:

a. CSR activities relating to employees: Increase Decrease No Change

b. CSR activities relating to customers: Increase Decrease No Change

c. CSR activities relating to investors: Increase Decrease No Change

d. CSR activities relating to community: Increase Decrease No Change

e. CSR activities relating to environment: Increase Decrease No Change

f. CSR activities relating to suppliers: Increase Decrease No Change

7. What is your company's perception of mandatory requirements for companies to spend funds on CSR activities?

Strongly Positive Positive No effect Negative Strongly Negative

8. What are the factors that influenced in determining your attitude towards mandatory CSR (please indicate all that applies)?

Issues relating to comprehending the regulation.
Issues relating to implementing CSR activity.
Issues relating reporting CSR activity.
Company view on transformation of CSR expenditure; voluntary to mandatory.
Company view towards Government involvement in CSR decision.
Other (please specify)

Block H(b)

1. Did your company allocate funds to CSR activities in financial year **2013 – 2014**?

Yes. No.

(If “No” go to Block I)

2. If “Yes” to 1, was it motivated by the requirement under the company bill 2013 for larger companies to spend funds on CSR activities?

Yes. No.

3. What proportion of profit did your company spend on CSR activities in financial year, **2013-2014**?

Less than 0.25%

0.26% to 0.50%

0.51% to 1.00%

1.01% to 2.00%

2.01to 4.005

More than 4.00%

4. Indicate the CSR activities on which these funds were spent in the financial year, **2013-2014** (please indicate all that applies)

Policies towards sexual harassment prohibition

Policies to ensure representation of women and minorities in the Board of

Directors

Policies for the training and development of employees

Policies covering health and safety at work

Provision for formal worker representation in decision-making

Commitment to industry research and development and innovation

Direct involvement in providing products to the economically disadvantaged

Promoting shareholders’ participation in decision making and access to all relevant information

Eradicating hunger, poverty and malnutrition.

Promoting preventive healthcare.

Promoting education.

Promoting gender equality and empowering women.

Setting up homes for women, orphans and/or senior citizens.

Measures for reducing inequalities faced by socially and economically backward groups.

Measures for the benefit of armed forces veterans, war widows and their dependents.

Contribution to the prime minister's national relief fund or any other fund set up by the Central Government for socio economic development and relief and welfare

of Scheduled Castes, Scheduled Tribe, other backward castes, minorities and women.

Contributions or funds provided to technology incubators located within academic institutions approved by the Central Government and rural development projects.

Ensuring environmental sustainability and ecological balance.

Animal welfare.

Reduction of resource consumption and waste generation during production, distribution and product usage

Preference for green products in purchasing

Selection of cleaner transportation methods

Responsible disposal of waste and residues, and recuperation and recycling

systems

Implementing a production plan to reduce energy and natural resources consumption in operations

Inspection of supplier facilities for health, safety and environmental aspects

Policy restricting the use of child labour, sweat shops and violation of human rights at the supplier's workplace

5. Do you think that the amount of funds allocated to CSR expenditure will change in next five years?

Increase

Decrease No Change

6. Indicate how the allocation of CSR activities has changed over the last 5 years:

a. CSR activities relating to employees: Increase Decrease No Change

b. CSR activities relating to customers: Increase Decrease No Change

c. CSR activities relating to investors: Increase Decrease No Change

d. CSR activities relating to community: Increase Decrease No Change

e. CSR activities relating to environment: Increase Decrease No Change

f. CSR activities relating to suppliers: Increase Decrease No Change

7. What is your company's perception of mandatory requirements for companies to spend funds on CSR activities?

Strongly Positive Positive No effect Negative Strongly Negative

8. What are the factors that influenced in determining your attitude towards mandatory CSR (please indicate all that applies)?

Issues relating to comprehending the regulation.

Issues relating to implementing CSR activity.

Issues relating reporting CSR activity.

Company view on transformation of CSR expenditure; voluntary to mandatory.
Company view towards Government involvement in CSR decision.
Other (please specify)

Block I

1. Do you think that the company will start allocating fund in CSR in future?
Yes _____ No _____
2. What is your company's perception of mandatory requirements for companies to spend funds on CSR activities?
Strongly Positive Positive No effect Negative Strongly Negative
3. What are the factors that influenced in determining your attitude towards mandatory CSR (please indicate all that applies)?
Issues relating to comprehending the regulation.
Issues relating to implementing CSR activity.
Issues relating reporting CSR activity.
Company view on transformation of CSR expenditure; voluntary to mandatory.
Company view towards Government involvement in CSR decision.
Other (please specify)

If you wish to have a copy of the finding of this survey please provide the following details:

Name: _____

Email: _____