

Does CSR Expenditure and Sustainability Reporting Improve Firm Performance? Mandatory CSR Regimes in India

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Abstract: This paper aims to investigate whether firms that comply with corporate social responsibility (CSR) expenditure and undertake voluntary sustainability reporting will have lower systematic risk and higher stock returns—the proxies for measuring firm performance—in mandatory CSR regimes in India. The instrumental approach of stakeholder theory asserts that firms considering stakeholders' interests, including societal interest, are likely to show better firm performance compared to others. Therefore, on the basis of such a theory, this study attempts to link sustainability reporting and CSR compliance with firm performance. One-way Analysis of Variance (ANOVA) and post-hoc tests were used to examine the proposed hypotheses and analyze the results for firms meeting the criteria of CSR provisions and are listed in the National Stock Exchange (NSE) of India. The period of study covers four financial years from 2015–16 to 2018–19, after India mandated CSR expenditure on April 1, 2014. Results reveal that markets value those firms that meet the mandatory CSR expenditure requirement but do not undertake voluntary sustainability reporting. The findings offer important implications for firms, investors, and policymakers of countries, including those that are planning for CSR legislation.

Keywords: CSR expenditure, firm performance, stakeholder theory, sustainability reporting, systematic risk.

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INTRODUCTION

The present study examines the firm performance of Indian firms complying with mandatory CSR expenditure requirement and undertaking sustainability reporting in line with the instrumental approach of the stakeholder theory. The instrumental approach of the stakeholder theory argues that social initiatives enhance firm value. The extant literature shows the linkage of CSR and sustainability reporting with firm performance. The available studies suggested positive (Burhan & Rahmanti, 2012; Sial et al., 2018), negative (Makni et al., 2009; Peng & Yang, 2014); and insignificant (Statman, 2006; Nair & Bhattacharyya, 2019) impact of CSR and sustainability reporting on firm performance. Another study revealed that CSR actions of best in class firms receive higher relative market valuations than industry peers (Awaysheh et al., 2020). Hence, results remain inconclusive. Therefore, it is imperative to evaluate the linkage of CSR expenditure compliance and sustainability reporting with firm performance. Since India has mandated CSR expenditure only six years ago and sustainability



reporting is also a relatively new endeavour for many Indian firms, a limited number of studies have examined the linkage of these two constructs with firm performance in the Indian context. The present study attempts to fill this gap in the existing literature. The findings could help firms in India to assess the benefits of sustainability initiatives. Further, the linkage of CSR compliance and sustainability reporting with firm performance can influence the inclination of the firms to undertake social initiatives. Hence, the results could also be important to regulators and government agencies in India as well as other countries that seek the participation of the corporate sector to improve the lot of their masses.

Sustainability reporting has been continuously evolving over the last few years. Over some time, various international frameworks and standards have developed. A company can follow guidelines given by Global Reporting Initiative (GRI), United Nation Global Compact (UNGC) principles, Organization for Economic Co-operation and Development (OECD), Business Impact Review Group, ISO 14001, ISO 26000, and others (Isaksson & Steimle, 2009; Poddar & Narula, 2018). However, GRI offers one of the most widely accepted frameworks for sustainability reporting (Poddar & Narula, 2018) and GRI guidelines are suitable to measure CSR (Ronald et al., 2019). Established in the year 1997, GRI works towards a sustainable global economy by offering a sustainability reporting framework as reporting guidelines to the organizations. In the year 2000, GRI launched the first version of the guidelines as a global framework for comprehensive sustainability reporting. Indian companies started reporting to the GRI in 2001 with Tata Steel being the first Indian company to do so. GRI released the second generation of the guidelines, G2 in the year 2002, followed by the release of the third generation of the guidelines, G3, in the year 2006 and the fourth generation of guidelines, G4, in the year 2013. Further, in the year 2016, GRI launched the first global standards for sustainability reporting to enable all organizations to report publicly on their economic, environmental and social impacts. Presently, there are four series of GRI standards viz., 100, 200, 300 and 400 series. The 100 series guide reporters in reporting and using the standards. The 200, 300 and 400 series of the GRI standards respectively include topic-specific standards to report information on an organization's material impacts related to economic, environmental and social topics (Global Sustainability Standards Board, 2016).

Sustainability reporting, also known as triple bottom line reporting or CSR reporting, by an organization is the practice of measuring, disclosing and being accountable to various stakeholders for organizational performance towards the goal of sustainable development (Global Sustainability Standards Board, 2016). Sustainability reporting has evolved as an important tool for maintaining healthy relationships with the stakeholders (Lourenço et al., 2012) as reporting demonstrates a company's commitment towards economic, social and environmental initiatives (Laskar & Maji, 2016). Thus, sustainability reporting indicates the dedication of a firm to the interests of society and various stakeholders. Therefore, in the last few years, disclosure of their sustainability performance in the form of sustainability reporting to disclose sustainability performance in respect of social, economic and environmental initiatives has become an important consideration for businesses (Wu et al., 2012).

A large number of studies suggested linkage between corporate social and financial performance of the firms (Lourenço et al., 2012; Szegedi et al., 2020). Many studies, Burhan & Rahmanti (2012); Laskar & Maji (2016) reported that sustainability reporting influences the financial performance of the firms in a positive direction. CSR efforts by firms reduce excessive risk-taking or avoidance and influence firm value positively (Albuquerque et al., 2019). Sustainability reporting and CSR activities also improve market value of the firms (Moser & Martin, 2012; Mohammadi et al., 2018). Such a positive association of CSR and sustainability reporting with firm value does not stand for other studies. López et al. (2007) revealed a short-term negative impact of sustainability practices on firm performance. The previous studies also reported a negative linkage of CSR with market value/stock market returns (Makni et al., 2009; Peng & Yang, 2014). Some other studies, Statman (2006); Odeh

et al. (2020) reported an insignificant, and inconclusive (Aifuwa, 2020) relationship between sustainability and financial performance. Social and environmental disclosures are found to have no direct relation with share returns (Murray et al., 2006). Buallay (2019) found that sustainability reporting affects manufacturing sector positively and banking sector negatively. Further, studies reveal an insignificant (McWilliams & Siegel, 2000; Soana, 2011) relationship between CSR and financial performance. Thus, no real consensus concerning relationship between CSR and financial performance among the researchers has been documented (Usman, 2020).

The companies in India are also realizing the advantages of adopting sustainable and responsible practices in their operations (Planken et al., 2010). India has emerged as the top CSR reporting country along with Japan and Malaysia in Asia. CSR reporting by the companies has seen an improvement following the implementation of CSR rule of the Indian Companies Act, 2013 (KPMG, 2018). Many studies, Kapoor & Sandhu (2010); Bihari & Pradhan (2011); Sial et al. (2018) reported a positive relationship between CSR disclosure/activities and firm performance in the Indian context. Most of the researchers conducted these studies when CSR was not mandatory in India. Post the implementation of CSR mandate, smaller firms that were undertaking CSR activities voluntarily before the CSR legislation reduced their spending on CSR while larger firms increased their spending (Mukherjee & Bird, 2016). Nair & Bhattacharyya (2019) found an increase in total corporate spending on CSR after implementation of the CSR regulations with mandatory spenders increasing their spending and voluntary spenders reducing it. Further, post the CSR regulations in India, the available studies have reported positive (Bhagawan & Mukhopadhyay, 2019), negative (Kuntluru, 2019) and insignificant (Dharmapala & Khanna, 2018; Nair & Bhattacharyya, 2019) effect of CSR initiatives on financial performance. Garg & Gupta (2020) revealed a lower firm performance in case of the mandatory CSR expenditure compliant public-sector firms. The previous review indicates that a large number of studies examined the linkage of CSR and sustainability reporting with firm performance. However, a limited number of studies examined such linkage in the Indian context. With effect from April 2014, CSR expenditure has been made mandatory in India for firms above a certain size. Further, India is slowly extending the mandate to include Business Responsibility Reports as part of the Annual Reports for the listed companies. However, many Indian companies have been voluntarily releasing their sustainability reports on the GRI framework over the last two decades. Hence, it is imperative to study the association of mandatory CSR expenditure and sustainability reporting with firm performance. The review puts forth that majorly the studies have considered sustainability or CSR disclosures and initiatives by firms to explore the linkage between sustainability and firm performance. Hardly any study has included both CSR expenditure and sustainability reporting while researching in this regard in India. The present study attempts to fill this gap in research.

METHODS

In line with the instrumental approach of the stakeholder theory, the present study is to examine whether the firms with mandatory CSR expenditure and volunteer sustainability reporting will have higher firm performance in the Indian context. The firms listed on the NSE of India and meeting the specified criterion (concerning stipulated net worth or turnover or net profit before tax) to comply with the laid down CSR provisions during the study period are considered for the study. In the mandatory reporting scenario in India, a company has to include Business Responsibility Reporting as part of the Annual Report. However, such reporting as part of the Annual Report does not lead to the availability of comprehensive standalone sustainability report to the stakeholders of the company and thus, will not provide complete information on

sustainability initiatives of the company. However, many Indian companies have been submitting their standalone sustainability reports on the GRI framework since 2001. Hence, the firms that qualify to be part of the sample are categorized based on whether they undertake voluntary submission of standalone sustainability report on the GRI framework in addition to meeting mandatory CSR expenditure requirement during the study period. The period of study is four financial years from 2015–2016 to 2018–2019. In India, April–March constitutes a financial year. Hence, the financial year 2015–2016 means April 2015 to March 2016. India mandated CSR expenditure for the firms from the year 2014 onwards. Since 2014–15 was the initial financial year of mandatory CSR expenditure, the data for a sizeable number of companies for 2014–15 were not available. Further, the most recent data available in respect of mandatory CSR expenditure and sustainability reporting on the GRI framework was for the financial year 2018–19. Therefore, the data for the four financial years from 2015–2016 to 2018–2019 has been included in the study.

The cumulative stock returns and market risk of a firm are used to capture its firm performance. The systematic risk or stock beta value of the firms represents market risk. The list of Indian firms voluntarily reporting on the GRI framework is extracted from the GRI disclosure database. GRI is the most reliable, consistent, comprehensive and widely accepted framework for evaluating sustainability initiatives (Poddar & Narula, 2018). Further, the requisite data of the firms listed on NSE for the four financial years from 2015–16 to 2018–19 is extracted from the Prowess Database of Centre for Monitoring Indian Economy (hereafter, CMIE). It is one of the most comprehensive databases and various published empirical studies (Gupta et al., 2016; Bhullar et al., 2018) on the Indian corporate sector have used it. The data variables extracted from the Prowess Database of CMIE include figures of CSR expenditure, net profit before tax, stock closing prices, and stock beta values as on 31st March of every selected financial year. The mean percentage of CSR expenditure incurred by a firm over the study period has been estimated and compared with the mandatory requirement of CSR expenditure. The closing stock prices on March 31, 2015, and March 31, 2019, were extracted to estimate the cumulative stock returns from 2015–2016 to 2018–2019. The firms with incomplete or missing values of any of the required data variables during the study period were ignored. The final sample consists of 409 firms listed on NSE of India. From the extracted data, the values of the required variables have been estimated as follows:

- 1) The mean value of percent CSR expenditure for the four years (2015–2016, 2016–2017, 2017–2018, 2018–2019)

$$= (\sum \text{percent CSR Expenditure } t) / 4$$
 Where:
 $t_1 = 2015-2016, t_2 = 2016-2017, t_3 = 2017-2018, t_4 = 2018-2019$
 $\text{percent CSR Expenditure } t = \text{CSR Expenditure at year } t \times 100 / \text{Net profit before tax of the immediately preceding three financial years}$
 For example,
 $(\text{Percent CSR Expenditure}_{2015-2016} = \text{CSR expenditure in } 2015-2016 \times 100 / \text{Net profit before tax in } 2012-2013, 2013-2014, 2014-2015)$
- 2) The mean value of the four years' (2015–2016 to 2018–2019) data of stock beta values (BV)

$$= \text{Log} [(\sum BV_t) / 4]$$
 Where:
 $BV_t = \text{Beta Value in year } t;$
 $t_1 = 2015-2016, t_2 = 2016-2017, t_3 = 2017-2018, t_4 = 2018-2019$

3) The cumulative stock returns from 2015–2016 to 2018–2019 = $\text{Log} (P_{2019} / P_{2015})$

Where:

P_{2019} = Closing Stock Price on March 31, 2019

P_{2015} = Closing Stock Price on March 31, 2015

The mandatory CSR expenditure in a given financial year has to be no less than 2 percent of the average net profits before tax of the company made during the three immediately preceding financial years. Hence, over the period from 2015-16 to 2018-19, the firms which incur a mean percent CSR expenditure (calculated as per (1) above) of 2 percent or more fulfil the mandatory CSR expenditure requirement, and the firms which incur less than 2 percent do not fulfil this requirement. Further, as mentioned in the previous paragraphs, the list of the firms undertaking sustainability reporting on the GRI framework during the study period is extracted from the GRI disclosure database. Hence, the selected 409 firms are segregated into the following four groups whether they meet the mandatory CSR expenditure criteria and undertake voluntary sustainability reporting on the GRI framework or not.

Group 1: The firms fulfil the mandatory CSR expenditure requirement and undertake voluntary sustainability reporting. A total of 65 firms meets the criterion of Group 1.

Group 2: The firms fulfil the mandatory CSR expenditure requirement but do not undertake voluntary sustainability reporting. A total of 103 firms meets the criterion of Group 2.

Group 3: The firms do not fulfil the mandatory CSR expenditure requirement but undertake voluntary sustainability reporting. A total of 83 firms meets the criterion of Group 3.

Group 4: The firms do not fulfil the mandatory CSR expenditure requirement and do not undertake voluntary sustainability reporting. A total of 65 firms meets the criterion of Group 4.

Since Group 1 consists of firms meeting the mandatory CSR expenditure requirement and undertaking voluntary sustainability reporting on the GRI framework; hence, hypothesis H1 and hypothesis H2 examine significant differences in respect of stock returns and market risk respectively across Group 1 and the rest of the Groups viz., Group 2, 3 and 4. To examine differences across four groups, one-way ANOVA and the most commonly used post-hoc test viz., Tukey's Honestly Significant Difference (hereafter, HSD) are used to test the hypotheses. By using ANOVA, it is inspected if means of two or more groups are significantly different from each other and by using post-hoc tests, it is further identified which particular differences between pairs of means are significant.

RESULTS AND DISCUSSION

The results of one-way ANOVA in respect of cumulative stock returns and stock beta (to capture firm performance) are presented in Table 1 given in the next page. Table 1 shows that in the case of cumulative stock returns, a statistically significant difference exists among the four groups as determined by one-way ANOVA ($F = 4.194$, $p = 0.006$). In the case of systematic risk (stock beta), a statistically significant difference also exists among the four groups as determined by one-way ANOVA ($F = 5.813$, $p = 0.001$). To decide about the post-hoc test to be applied, the assumption of homogeneity of variances using Levene's test was tested. Levene's Test indicates homogeneity of variance (at 5 percent level) across the four groups in respect of cumulative stock returns ($F = 1.047$, $p = 0.371$) and stock beta ($F = 2.175$, $p = 0.90$). Hence, Tukey's HSD post-hoc test is applied to confirm where the significant differences occurred among the four groups in case of cumulative stock returns and systematic risk (stock beta), respectively. Table 2 gives post-hoc comparisons using Tukey's HSD Test in respect of cumulative stock returns and systematic risk (stock beta) from 2015-16 to 2018-19.

Table 1 One Way ANOVA Results

		Sum of Squares	Degree of freedom	Mean Square	F-statistics	Significance
Cumulative Stock Returns	Between Groups	7.969	3	2.656	4.194	0.006*
	Within Groups	256.516	405	0.633		
	Total	264.485	408			
Stock Beta	Between Groups	2.846	3	0.949	5.813	0.001*
	Within Groups	66.087	405	0.163		
	Total	68.933	408			

*Indicates significance level at 1 percent.

Table 2 Post-hoc Test – Tukey's Honestly Significant Difference (HSD)

	I(Group)	J(Group)	Mean difference (I-J)	Significance
Cumulative Stock Returns (Dependent Variable)	1.00	2.00	-0.3094***	0.069
		3.00	-0.0599	0.969
		4.00	-0.1918	0.360
	2.00	1.00	0.3094***	0.069
		3.00	0.3692**	0.010
		4.00	0.1176	0.648
	3.00	1.00	0.0599	0.969
		2.00	-0.3692**	0.010
		4.00	-0.2517***	0.092
	4.00	1.00	0.1918	0.360
		2.00	-0.1176	0.648
		3.00	0.2517***	0.092
Stock Beta (Dependent Variable)	1.00	2.00	-0.1079	0.332
		3.00	0.0943	0.494
		4.00	-0.1122	0.236
	2.00	1.00	0.1079	0.332
		3.00	0.2022*	0.004
		4.00	-0.0043	1.000
	3.00	1.00	-0.0943	0.494
		2.00	-0.2022*	0.004
		4.00	-0.2065*	0.001
	4.00	1.00	0.1122	0.236
		2.00	0.0043	1.000
		3.00	0.2065*	0.001

*, **, and *** indicate significance levels at 1 percent, 5 percent, and 10 percent, respectively.

Table 2 indicates that, statistically, the pairs of groups with significantly different cumulative stock returns are Group 1 and Group 2 (at 10 percent level), Group 2 and Group 3 (at 5 percent level), and Group 3 and Group 4 (at 10 percent level). However, statistically, Group 1 and Group 3, Group 1 and Group 4, and Group 2 and Group 4 do not have significantly different (at 10 percent level) cumulative stock returns. Further, statistically, the pairs of groups with significantly different stock beta are Group 2 and Group 3 (at 1 percent level), and Group 3 and Group 4 (at 1 percent level). However, statistically, the values of stock beta are not

significantly different (at 10 percent level) for the rest of the pairs of groups, that is, Group 1 and Group 2, Group 1 and Group 3, Group 1 and 4, and Group 2 and 4.

The post-hoc comparisons in Table 2 further show that when firms meet mandatory CSR expenditure requirement, the cumulative stock returns of firms which undertake voluntary sustainability reporting (Group 1) are significantly lower (at 10 percent level) than that of the firms which do not undertake voluntary reporting (Group 2). The cumulative stock returns of Group 1 are also not (statistically) significantly different than that of the rest of the groups, viz., Group 3 and Group 4. Hence, hypothesis H1 is rejected. Further, the findings reveal that, statistically, the stock beta of firms comprising Group 1 is not significantly different than that of the firms belonging to the rest of the groups, viz., Group 2, Group 3 and Group 4. Hence, hypothesis H2 is rejected. Thus, the firms which meet mandatory CSR expenditure requirement and undertake voluntary sustainability reporting on the GRI framework (Group 1) do not have higher firm performance.

Table 2 also reveals that cumulative stock returns (at 5 percent level) and stock beta (at 1 percent level) of the firms which meet mandatory CSR expenditure criteria and do not undertake sustainability reporting (Group 2) are significantly higher than that of the firms which do not meet mandatory CSR expenditure criteria and undertake sustainability reporting (Group 3). Thus, firms belonging to Group 2 earn higher cumulative stock returns at higher market risk when compared with firms comprising Group 3. However, if firms do not meet mandatory CSR expenditure requirement, the firms which do not undertake sustainability reporting (Group 4) have significantly higher cumulative stock returns (at 10 percent level) and stock beta (at 1 percent level) than the firms which undertake sustainability reporting (Group 3). Thus, firms belonging to Group 4 earn higher cumulative stock returns at higher market risk when compared with firms comprising Group 3. The comparison of Group 1 and Group 2 for significant differences in respect of cumulative stock returns and market risk indicates that even if firms meet mandatory CSR expenditure criteria, the voluntary sustainability reporting by the firms does not give a positive signal to the investors and it is rather destructive of the shareholder value. The contribution of voluntary sustainability reporting in reducing stock returns is further confirmed from the comparison of firms comprising Group 3 and Group 4 which do not meet mandatory CSR expenditure compliance. Further, when CSR expenditure compliance is met, the firms not undertaking voluntary sustainability reporting (Group 2) earn higher cumulative stock returns at higher market risk as compared to the firms which do not meet CSR expenditure criteria but undertake voluntary sustainability reporting (Group 3). Hence, it can be presumed that mandatory CSR expenditure requirement in the absence of voluntary sustainability reporting gives a positive signal to the investors and enhances the shareholder value at higher risk. Thus, mixed results in partial support of the instrumental approach of the stakeholder theory are reported.

The results of the study show that mandatory CSR expenditure is financially valuable to the shareholders. CSR spending may have a positive effect on the consumers and other key stakeholders due to better waste management during production, reduced cost of operations (Sprinkle & Maines, 2010), enhanced brand image, customer base and customer loyalty (Sprinkle & Maines, 2010; Bauman & Skitka, 2012), and better pricing (Wang & Bansal, 2012). Thus, increased revenue and profit margin can be expected for the firms spending on CSR activities. Hence, investors may assign a higher value to the firm because the implementation of CSR leads to increase value for firm (Ronald et al., 2019). Similar results have been reported by (Luo & Bhattacharya, 2009). The findings further reveal that voluntary sustainability reporting is negatively related to firm performance. These findings are consistent with the existing studies (Bansal, 2005; Ho & Taylor, 2007). The failure to communicate the relevance of sustainability initiatives to the market can contribute to the shareholders' negative perception of reporting by the firms. The investors may perceive sustainability reporting as indicative of the additional burden (beyond mandatory CSR expenditure, at times) that the firm undertakes to serve society without commensurate returns. This could be viewed as diversion of firm resources

from more remunerative purposes to such initiatives that are not closely associated with the core business operations of the firms. Hence, expenditure on sustainability initiatives could clash with the interests of the shareholders in line with the viewpoint of Friedman (1970). Thus, the positive association between mandatory CSR expenditure and firm performance turns out to be negative if voluntary sustainability reporting intimates that sustainability initiatives incur higher costs than the benefits received from such initiatives. A study by McWilliams & Siegel (2000) also reported similar results. Therefore, for firm profitability, the firms should spend optimally on socio-environmental initiatives (Lantos, 2001). The quality of sustainability reporting and sustainability dimensions (Hussain et al., 2018; Laskar & Maji, 2018) may also be instrumental in influencing market perception and hence, firm performance. The less profitable firms may tend to disclose more information about their socio-environmental initiatives so that shareholders view these firms more positively and hence, concerns about low financial performance are alleviated (Bansal, 2005; Ho & Taylor, 2007).

The study has implications for the policymakers, government agencies and firms in India and abroad. The findings reveal as to why Indian firms should attempt to meet the mandatory CSR expenditure compliance. The government agencies may further encourage firms to undertake mandatory CSR expenditure by offering incentives and rewards at least in the initial few years. India has also recently extended the mandate to include Business Responsibility Reports as part of the Annual Reports for the top 1000 listed companies. However, in the near future, if the regulators plan to further extend this mandate to the release of independent sustainability reporting by the firms, they should carefully prescribe the reporting guidelines after a thorough discussion with experts, practitioners and international agencies as market reaction and firm value are linked with the quality of the report (Laskar & Maji, 2018). The national and international agencies which offer reporting guidelines should seek better and more aligned dimensions for sustainability reporting and measurement (Hussain et al., 2018). GRI is already working in this regard. Further, policymakers and government agencies should also consider the firm size and the nature of the industry while proposing any mandate concerning socio-environmental initiatives as previous research (Bansal, 2005) shows that the relationship of CSR or disclosures and firm performance varies significantly based on company size and industry. The realization of profitability while undertaking sustainability initiatives may result in sustained sustainability participation by firms in India. Bansal & Roth (2000) also opined that when managers sense a business case for socio-environmental initiatives, they undertake such activities voluntarily. The government agencies should also encourage firms to spend on meaningful activities and create social, economic and environmental value by giving due recognition to the quality of such initiatives rather than only to the CSR expenditure or sustainability disclosure. Hence, the government agencies should create enabling conditions including offering research and training facilities in respect of sustainability activities to seek the participation of the firms to undertake these initiatives. These findings are also expected to be of interest to the policymakers and government agencies of other countries that are also willing to solicit the participation of the corporate sector in the socio-environmental domain.

The findings suggest that firms in India can enhance their shareholder value and thus, the firm performance by fulfilling mandatory CSR expenditure criteria without voluntary sustainability reporting. The results further show that voluntary sustainability reporting is destructive of the shareholder value. However, these findings should not discourage firms from undertaking voluntary sustainability reporting. A large majority of the publications have reported that in the long-run, sustainability reporting positively influences financial performance (Alshehhi et al., 2018). Hence, it is imperative to examine a longer time frame to reach conclusive results. It is suggested that firms should also be mindful of the quality of sustainability reporting as firm value is influenced by the quality of the report (Laskar & Maji, 2018). Further, the firms should ensure that markets do not perceive sustainability reporting negatively. They should select such sustainability initiatives that are

closely aligned with the core business of the firm, and enhance its brand image and reputation. The firms should also communicate the relevance of these initiatives to the stakeholders via effective communication channels and media (Servaes & Tamayo, 2013). The firms may further make efforts to determine the level of spending on sustainability initiatives as there has to be an optimum level of spending on socio-environmental initiatives for firm profitability (Lantos, 2001).

CONCLUSION

India mandated CSR and CSR expenditure with statutory provisions for companies meeting the specified criteria with effect from April 2014. Based on the instrumental approach of the stakeholder theory, the study hypothesizes that firms complying with mandatory CSR expenditure and undertaking voluntary sustainability reporting on the GRI framework will have higher firm performance in terms of cumulative stock returns and stock beta of the firms. The findings reveal partial support for the instrumental approach of the stakeholder theory with the hypothesis being rejected. It is found that the firms meeting mandatory CSR expenditure requirement without voluntary sustainability reporting earn higher cumulative stock returns at higher market risk, and thus, shareholder value of the firm is enhanced at a higher risk. The findings further show that voluntary sustainability reporting, irrespective of whether firms meet mandatory CSR expenditure criteria or not, does not make a firm attractive to its investors and is rather destructive of the shareholder value. Thus, the firms which do not release voluntary sustainability reports may be perceived positively by the markets, and positive association between mandatory CSR expenditure and firm performance can turn negative if firms undertake voluntary sustainability reporting. This decrease in firm performance in case of firms releasing sustainability reports can be due to various factors including negative market perception regarding expenditure on non-remunerative activities, spending on socio-environmental initiatives beyond optimum level, low quality of disclosures, the tendency on the part of non-profitable companies to disclose more and failure by firms to communicate the relevance of sustainability projects and reporting. Hence, in line with the stakeholder theory, it is argued that the real impact of the costly initiative of the standalone reporting can only be achieved by a considerable and visible commitment to sustainability goals that positively influence the society and all the stakeholders. The study is based on a sample of 409 firms with a four-year dataset only. Hence, in the future, the studies should examine a longer time frame with a larger dataset. Future studies can use panel data regression models and show more conclusive results when several years of CSR data are available. There is also scope to explore the dimensions and quality of sustainability reports or projects, and their linkage with firm performance. In the future, longitudinal studies can be undertaken to ascertain the significance of mandatory CSR expenditure, mandatory business responsibility reporting and voluntary reporting across various industries and countries with different socio-economic conditions. Future studies may also offer suggestions regarding the optimum level of spending on sustainability initiatives to achieve firm profitability so that firms remain motivated to undertake such expenditure. Another potential area of research could be ascertaining the influence of Indian values and leadership style on the managerial approach towards sustainability initiatives and the resultant effect on firm performance. Future studies can also examine the effect of mandatory CSR expenditure on qualitative features like employee morale, corporate image, customer loyalty, etc. that influence firm profitability.

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