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Sustainability Performance and Long-Term Financial Performance: A Study Based on Indian Companies

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Abstract

This study looks into the connection between Indian companies' long-term financial performance and sustainability performance. The research evaluates long-term financial performance using well recognized financial metrics and uses the amount spent on CSR to gauge sustainable practices. In order to comprehend the complex interactions between corporate sustainability activities and financial success in the Indian business environment, the research takes a holistic approach. The purpose of this study is to add to the increasing amount of literature on the subject of incorporating sustainable practices into corporate plans, with a focus on the Indian market. This study aims to shed light on the relationship between sustainability and financial performance in order to educate policymakers, investors, and decision-makers about the advantages and disadvantages of implementing sustainable business practices in the long run. The study's result shows no significant relationship between corporate social performance and corporate financial performance.

Keywords: *Sustainability, Long term financial performance.*

1.INTRODUCTION

In recent decades, the corporate landscape has witnessed a transformative shift in its understanding of performance measures beyond traditional financial indicators. Even though financial performance is still crucial to business success and sustainability, it is becoming more and more clear that companies must incorporate social and environmental factors into their operational frameworks. Due to this progression, the ideas of Corporate Social Performance (CSP) and Financial Performance (FP) have emerged. These two ideas are crucial in determining a company's long-term survival and standing in the international market.

Researchers, legislators, investors, and practitioners all now focus on the relationship between Financial Performance and Corporate Social Performance. Researchers have looked into the intricate connections, trade-offs, and opportunities for overlap between these two aspects of business performance. Is it possible for investing in social projects to increase stakeholder value generation and long-term profitability without compromising financial returns? How do businesses in a more linked and open corporate environment strike a balance between the conflicting demands of social responsibility and financial growth?

In order to fully explore the complex relationships that exist between Financial Performance and Corporate Social Performance, this research paper will provide a thorough study of the empirical data, theoretical frameworks, and practical consequences that have shaped this important conversation. We aim to provide a sophisticated knowledge of how firms might negotiate the complicated environment of modern business, balancing financial imperatives with ethical considerations and societal effect, by synthesizing insights from academic research, case studies, and real-world examples. Our goal in conducting this investigation is to add to the growing conversation on corporate sustainability, responsible business practices, and governance in the twenty-first century.

2.STATEMENT OF THE PROBLEM

In growing economies such as India, where the relationship between business operations and societal impact is intricate, the junction of corporate social practices and financial success has become a crucial field of study. The current study focuses on the connection between the financial success measures of Indian companies listed on the National Stock Exchange (NSE) and their CSR initiatives during a five-year period, from 2018 to 2023.
This study intends to provide empirical insights, trends, and patterns that clarify the intricate relationship between corporate social performance and financial performance in the Indian setting by examining a large dataset spanning five years. The research aims to provide evidence-based insights to support sustainable business practices, influence strategic decision-making, and promote equitable growth in the Indian corporate environment using a rigorous methodology and analysis.

3.OBJECTIVES OF THE STUDY

The objective of the study is to examine the relationship between corporate social practices and the financial performance of National Stock Exchange (NSE) listed companies in India over a five-year period from 2018 to 2023, assessing the relationship between sustainability initiatives and key financial metrics.

4.HYPOTHESIS

The following hypothesis are framed for the current study

Ho: corporate social performance (CSP) has no relationship with the firm's financial performance (ROA)

Ha: corporate social performance (CSP) has relationship with the firm's financial performance (ROA)

5.REVIEW OF LITERATURE

Many academic works have done proving the relationship between the firms' financial performance and their corporate social practices. Even though studies prove a positive relationship, the mere existence of social initiatives or responsible business practices does not guarantee enhanced financial performance; rather, it is the synergy between these practices and a favorable ROA that appears to catalyze positive financial outcomes (Lassala et al.,2017). A more refined perspective is added to the discussion by the lack of a clear correlation between ownership structure and sustainability practices (SP), which suggests that ownership dynamics may not always have an impact on a firm's financial performance or sustainability commitment. This result goes against the grain of common thought and emphasizes the complex relationship between corporate governance and other organizational and contextual factors that may have a greater impact on sustainability practices and financial performance (Hussain N 2015). But a study has revealed that that financial performance is not merely a byproduct but a consequential outcome of sustainable practices adds credence to the imperative for businesses to adopt a holistic approach to value creation that transcends traditional metrics (Ameer et al., 2012). Additionally, corporate social performance has a beneficial impact on future financial performance and supports the idea that social responsibility and good management practices work together to sustain organizational success and create value (Waddock et al., 1997). Studies have identified the existence of certain control variables along with the corporate social performances that extended an impact on the financial performance of the firms (Callen and Janet 2009).

In the case of developing countries this relationship between corporate social performance and financial performance may be the results influenced by the interaction between organizational features and resource availability and Corporate Social Performance initiatives, as suggested by the strong positive moderating variable of firm size (Fauzi et al., 2007). At the same time in the case of developed countries, that businesses with excellent financial performance make better use of their extra financial and non-financial resources to advance their social responsibility programs, which in turn promotes a positive feedback loop of sustainability, innovation, and financial resilience (Fischer et al., 2013).

Whereas the ownership structure has a detrimental impact on the social and financial performance of the firms highlighting the importance of alignment between ownership structure and strategic objectives for sustainable value creation (Peng et al.,2014).

This relationship may find to be insignificant depends on the nature of the firm. In the case of banking companies, the result shows a conflicting relationship between the corporate social performance and financial performance (Soana, Maria-Gaia,2011). Moreover Industry-specific strategies, governance frameworks, and stakeholder engagement techniques are necessary to mitigate the potential impact of social responsibility activities on financial performance outcomes, which can be shaped by sectoral dynamics, regulatory environments, competitive landscapes, and stakeholder expectations (Yang et al.,2010). Similarly the relationship between corporate social performance and corporate financial performance varies on the basis of nature of industry (Baird et al., 2012).

6.METHODOLOGY

6.1 Sample and data collection

A sample of NIFTY 50 companies listed on the National Stock Exchange (NSE) was selected. However, the sample excluded banking and insurance companies. So data has been collected from 41 companies. These exclusions were made to focus specifically on companies from industries other than banking and insurance, as these sectors often have different regulatory frameworks and reporting requirements compared to other industries. This kind of exclusion has done in previous studies (Singh et.al, 2021). A data base has been created with adequate and necessary variables for the study. The data base includes the NSE listed companies taken as sample for the study. Refinitive, Screener , Money Control, and each companies official websites were used to get the relevant secondary data for the study.

6.2 Variables for the study

The variables taken for the study are discussed as follows. Return on Asset (ROA) is a financial performance indicator that measures a company's profitability relative to its shareholders' equity. ROA has used in some of the studies as financial performance indicator (Bunea et al 2019; Damodaran 2007)., Firm size is another commonly used financial performance indicator which is taken as a moderating factor in research studies (Haldar, Shah and Nageswara Rao, 2015; Sanan, 2016; Iannotta, Gatti and Huse, 2015; García-Meca, García-Sánchez, and Martínez-Ferrero ,2015 ; Terjesen, Sealy, and Singh 2009; Giraldez-Puig , Berenguer, 2018).Leverage has also taken as a moderating factor in previous studies (Haldar, Shah and Nageswara Rao, 2015; Sanan, 2016; Iannotta, Gatti and Huse, 2015; Campbell and Mínguez-Vera, 2008; Adams and Ferreira 2009; García-Meca, García-Sánchez, and Martínez-Ferrero ,2015 ; Terjesen, Sealy, and Singh 2009; Giraldez-Puig , Berenguer, 2018) and the corporate social performance by way of CSR expenditure of the firms.

6.3 Tool for analysis

In this study, the Statistical Package for the Social Sciences (SPSS) tool was employed to conduct multivariate regression analysis. It is a statistical technique used to analyze the relationship between multiple independent variables and a dependent variable.
Thus, the model developed is

$$ROA = \beta 0 + \beta 1\ Lev + \beta 2\ F\text{- } size + \beta 3\ CSP + \varepsilon$$

ROA: refers to Return on Asset, that indicates the financial performance of the firm
Lev: leverage indicates the debt to equity proportion
F- Size: the firm's size in terms of its total investment in assets
CSP: refers to corporate social performance

7.RESULTS AND ANALYSIS

7.1 Determination of Model fitness

Model fitness has done which suggests a reasonably strong degree of association between the predictors and the dependent variable with $R^2$0.415 and adjusted R^2 0.406 which is significant at 0.000 which means the independent variables make change in the dependent variable (ROA).

Model	R	R Square	Adjusted R Square
1	.645[a]	.415	.406

Source: system generated

7.2 Descriptive statistics of the variable

The following table shows the descriptive statistics of the dependent, independent and other control variables, which are used in the study, with mean value, maximum value, minimum value and standard deviation using 41 observations taken for the study.

Descriptive Statistics			
	Mean	Std. Deviation	N
ROA	9.09	7.727	191
F-size	3624133481.8743	7678202286.31151	191
leverage	95.8824	99.98879	191
csr	70.1327	27.35507	191

Source: system generated

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7.3 ANOVA

The following ANOVA table shows that there exists a relationship between the dependent variable which is taken as the financial performance indicator (ROA) and the independent variables and that relationship is significant.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4713.101	3	1571.034	44.309	.000[b]
	Residual	6630.264	187	35.456		
	Total	11343.364	190			
a. Dependent Variable: ROA						
b. Predictors: (Constant), csr, F-size, leverage						

Source: system generated

7.4 Random effects model using CSP and other variables showing the effect on firms' financial performance indicated by ROA

Model		t	Sig.(p value)
1	(Constant)	11.265	.000
	F-size	-5.063	.000
	leverage	-9.244	.000
	csp	-1.322	.188

source: system generated

The multiple regression analysis examines the relationship between the independent variable ROA and dependent variable CSP, while controlling other control variables: total assets indicated by Firm's size and leverage 5% degree of freedom. The sig.value for the CSP variable is 0.188, indicating that it is statistically insignificant. This means that the corporate social performance of the firm does not have a significant impact on ROA, which represents financial performance. Therefore, we do not reject the null hypothesis. The p-value for F-size which indicate the firm's size and leverage variables are 0.00, which is statistically significant. This suggests that the value of firm's size and leverage of the firm has significant impact on its financial performance or ROA.

To conclude, the multiple regression analysis in this table explored the relationship between the Return on Assets (ROA) and Corporate social performance while controlling for other variables. The non-significant p-value (0.188) for CSP implies that corporate social performance doesn't significantly impact ROA. Firm's size and leverage are statistically significant (p = 0.00), signifying their impact on financial performance, while Operational Profit Margin is significant (p = 0.02). Earnings per Share (EPS) doesn't significantly affect financial performance (p = 0.917).

The significant value for the corporate social performance (CSP) variable is 0.188, indicating that it is statistically insignificant at the 5% level. Therefore, we do not find evidence to support the influence of the corporate social performance on financial performance of the firm which is denoted by ROA.

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8.CONCLUSION, LIMITATION ANF FURTHER SCOPE OF THE STUDY

8.1 Conclusion

The research findings, taken together, offer a sophisticated understanding of the complex interplay between corporate social performance (CSP) and corporate financial performance (CFP). Our empirical study shows no significant association between CFP and CSP throughout the analyzed contexts, industries, or time periods, which is contrary to conventional beliefs and theoretical frameworks. While social responsibility initiatives may yield intrinsic benefits like enhanced stakeholder engagement, reputation management, and long-term value creation, they may not always translate into immediate or direct financial gains, as this inconclusive result highlights the complexity and multifaceted nature of corporate performance dynamics.

Moreover, the lack of a strong correlation between CSP and CFP emphasizes the significance of contextual elements, dynamics unique to the industry, organizational traits, and strategic considerations that could affect the results that are seen. Therefore, it is recommended that legislators, decision-makers, and corporate leaders embrace a more comprehensive and nuanced approach to performance evaluation, acknowledging the complex interplay between social responsibility and financial success as well as the inherent trade-offs and synergies.

8.2 Limitations

The unique sample selection, methodological methodology, and conceptual framework of the study are the main sources of its shortcomings. The research may unintentionally introduce sectoral bias by concentrating only on a sample of 50 Nifty-listed companies and leaving out the banking and insurance sectors. This would limit the generalizability of findings across diverse industries with different stakeholder dynamics, regulatory landscapes, and operational complexities. Furthermore, if ROA is the only metric used to measure financial performance, other crucial measures that provide a more complete picture of the sustainability and health of a company's finances may be overlooked. Furthermore, the complex relationship between social responsibility, stakeholder engagement, and organizational impact on governance, the environment, and society may be oversimplified if Corporate Social Performance (CSP) is only measured in terms of the money spent on CSR initiatives.

8.3 Further Scope

Further scope for the study lies in exploring additional moderating and mediating variables that may influence the relationship between Corporate Financial Performance (CFP) and Corporate Social Performance (CSP), such as organizational culture, governance structures, regulatory environments, stakeholder dynamics, and industry-specific factors. Moreover, exploring the implications of emerging trends such as ESG (Environmental, Social, Governance) investing, impact investing, and sustainable finance on the CSP-CFP relationship could offer timely and relevant insights for policymakers, investors, and corporate leaders navigating the evolving landscape of responsible business practices, governance, and value creation in the global marketplace.

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