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Harmonizing Sustainability: "Exploring The Interplay Of CSR, SDGs, And Financial Performance In The Indian Corporate Landscape"

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Abstract

The Sustainable Development Goals (SDGs) and India's Corporate Social Responsibility (CSR) laws were implemented at the same time, providing a great chance for cooperative efforts toward a more sustainable future. These two frameworks are mutually reinforcing pillars in the path toward sustainability since they have similar areas of focus and sets of requirements for achievement. This study intends to investigate the dynamics of Corporate Social Responsibility (CSR) and its relationship with Sustainable Development Goals (SDGs) in the context of the Indian corporate landscape, with a special focus on their influence on financial performance, as measured by Return on Assets (ROA). Numerous obstacles stand in the way of India's 2030 SDG goal, such as economic downturns, pandemics, unstable policies, social unrest, natural disasters, and complex regional political dynamics. Determining the critical roles that CSR and the SDGs play in assisting businesses in achieving their goals is the main focus of this research. It in turn advances India's economic development and raises societal well-being.

Key words: SDGs, CSR, Financial Performance, ROA

Introduction:

The Sustainable Development Goals (SDGs) serve as a comprehensive framework, outlining a long-term vision for leveraging corporate resources and capabilities. Despite the pivotal role of businesses in achieving these global objectives, many still struggle to align their strategies with the SDGs. Within the corporate landscape, there exists a fundamental responsibility for companies to not only pursue profitability but also to address the broader societal and environmental impacts of their operations. This is particularly crucial for industries engaged in high-risk activities that pose significant threats to health, safety, and the environment. In the quest for sustainability, it becomes imperative for industries with substantial environmental and societal footprints to transparently document their commitment to the SDGs. Through comprehensive Sustainability Reports, companies can showcase their efforts to integrate sustainability principles into their business strategies. Corporate Social Responsibility (CSR) emerges as a strategic imperative for companies seeking to enhance their sustainability performance and strengthen community relationships. By addressing social issues and environmental concerns, businesses aim to foster positive societal outcomes while ensuring their long-term viability. Beyond financial metrics, sustainability reporting mandates that companies provide a holistic view of their performance, encompassing social, environmental, and governance dimensions. These non-financial factors not only influence a company's reputation but also have implications for its future success and resilience. Previous research has predominantly explored either the sectoral perspective on CSR practices or the company-level reporting of SDG contributions in Sustainability Reports. These studies have sought to uncover the intricate relationship between corporate sustainability efforts and financial performance.(Prasetyo, 2017) conducted a study on the impact of corporate CSR disclosure on Return on Assets (ROA) and found a significant and positive effect on ROA. (Alfiah, 2021) demonstrated the positive influence of company disclosure related to SDGs on profitability, measured by ROA. (Khan, 2022) conducted a more specific study, exploring the direct relationship between environmental and social SDGs and a company's financial performance, while also examining the moderating role of green innovation.

Numerous studies have examined the correlation between sustainability reporting and a company's financial performance, yielding diverse conclusions. Adams (2012) posited that while Sustainability Reports might not exert immediate influence on financial performance, they could significantly affect it over the long term, aligning with Zumente's (2021) findings. Conversely, Kumar (2018) conducted a thorough investigation into sustainability reporting and concluded that disclosures pertaining to environmental performance positively affect financial well-being, while those related to social performance have an adverse effect, consistent with Meiryani's (2023) research.

The pursuit of the SDGs by 2030 faces numerous challenges, including economic downturns, pandemics, fluctuating policies, social unrest, natural disasters, and regional political complexities. This research aims to comprehend the pivotal roles of CSR and SDGs in guiding companies toward their objectives, ultimately contributing to India's economic progress and societal well-being.

This paper understands how CSR and SDGs play a pivotal role in steering mining companies towards their objectives, which, in turn, bolsters India's economic progression and societal well-being. With this backdrop, the study grapples with the following research Questions:

1. Does implementation of Corporate Social Responsibility (CSR) influence Sustainable Development Goals (SDGs)?
2. How Sustainable Development Goals (SDGs) impact Financial Performance?
3. Role Sustainable Development Goals (SDGs) as a mediating factor between Corporate Social Responsibility (CSR) and Financial Performance?

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) in India stands as a pioneering initiative, with the country becoming the first globally to mandate CSR through an amendment to the Companies Act in April 2014. Under section 135 of the Companies Act, 2013, compliance with CSR provisions is obligatory for eligible companies in India. These entities are mandated to allocate a minimum of 2% of their net profit over the preceding three years towards CSR activities. Such initiatives encompass areas such as education, poverty alleviation, gender equality, and hunger eradication. The fundamental objective of CSR is to instil social responsibility within organizations, fostering positive impacts on the environment, stakeholders, consumers, suppliers, employees, and society at large. Typically, CSR initiatives are classified into four categories: environmental stewardship, ethical/human rights obligations, philanthropic endeavours, and economic responsibilities. Embracing CSR entails a strategic approach wherein companies endeavour to operate in manners that contribute to societal and environmental betterment rather than detriment. Consequently, CSR initiatives have the potential to enhance various facets of society while simultaneously cultivating a favourable brand image for companies.

Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs), comprising 17 goals and 169 targets, constitute a transformative agenda known as the 2030 Agenda for Sustainable Development. Adopted by 193 Member States during the UN General Assembly Summit in September 2015, this agenda took effect on January 1, 2016. Central to this global initiative is the principle of universality, encapsulated by the motto "Leave No One Behind." Emphasizing inclusive development across all dimensions, the agenda underscores the imperative of involving all individuals, particularly the most vulnerable and marginalized, in the pursuit of progress. Recognizing that mere economic growth is insufficient, the agenda advocates for the creation of fairer, more equitable societies, and a safer, more prosperous planet.

India's role in achieving the SDGs on a global scale is paramount. At the 2015 UN Sustainable Development Summit, Prime Minister Narendra Modi underscored India's significance, stating, "Sustainable development of one-sixth of humanity will be of great consequence to the world and our beautiful planet." NITI Aayog, the Indian government's premier think tank, has been tasked with coordinating SDG efforts, mapping relevant schemes and targets, and identifying lead and supporting ministries for each objective. Additionally, the Ministry of Statistics and Programme Implementation (MoSPI) has spearheaded discussions on developing national indicators for the SDGs.

The involvement of state governments is crucial to India's SDG progress, as they are best positioned to prioritize the needs of their constituents and ensure inclusivity. The UN Country Team in India collaborates with NITI Aayog, Union ministries, and state governments to address the interconnectedness of the goals, advocate for inclusivity, and secure adequate financing for SDG attainment.

Sustainability Reports serve as a vehicle for companies to outline their contributions to the SDGs. However, the approach to SDG reporting and communication varies among companies based on their unique activities and objectives. According to Sebrina et al. (2022), the quality of reporting in Sustainability Reports furnishes investors with pertinent and reliable information for equity investment decisions. Meanwhile, Hummel and Szekely (2022) have observed an improvement in the quality of SDG reporting over time, though challenges remain in achieving quantitative and forward-looking assessments.

Financial Performance

Information regarding a company's financial standing is highly sought after by both internal stakeholders and external parties, serving as a reflection of its fundamental performance. Financial performance is typically assessed through data presented in financial statements, which offer insights into a company's past financial health and future prospects. Various metrics, including the return on assets (ROA), are employed to gauge financial performance. As Natalia (2022) suggests, ROA serves as a tool for measuring a company's profitability within a specific timeframe, assessing the efficiency of its asset utilization in generating profits. This metric is calculated by comparing total assets to net profit after taxes (Sietasetal., 2022). According to Sietaseta (2022), the use of net profit after taxes in ROA calculations ensures that the ratio accurately reflects a company's profit potential. A higher ROA indicates a more efficient utilization of assets and better prospects for growth (Natalia, 2022). As asserted by Sietas et al. (2022), superior return on assets corresponds to enhanced company performance.

Hypothesis

The Influence of CSR on SDGs

CSR is one of the business strategies of companies to achieve sustainability in terms of economic, social, and environmental aspects. The CSR variable has a significant positive effect on SDGs with the explanation that CSR is a form of a company's strategy in improving its sustainability report. Based on the above explanation, the hypothesis is as follows.

H1: ***CSR has a significant effect on SDGs.***

The Influence of CSR on Financial Performance

Companies that invest more in CSR practices can improve their financial performance and CSR as a form of creating long-term customer loyalty (D'Amato & Falivena, 2020). Based on the above research that has been conducted, the hypothesis is proposed as follows.

H2: ***CSR has a significant effect on financial performance.***

SDGs as an Intervening Variable

SDGs play a crucial role in the relationship between CSR and financial performance. When companies invest in CSR activities, they are not only directly improving their financial performance but also contributing to the achievement of SDGs. This commitment to SDGs, in turn, enhances the company's reputation and trust among stakeholders, investors, and society, leading to further improvements in financial performance. Thus, it is plausible that SDGs could serve as a mediating variable, helping to explain the relationship between CSR and financial performance. By incorporating SDGs as an intervening variable, researchers can gain a more comprehensive understanding of how CSR activities can lead to improved financial performance, while also emphasizing the importance of companies' commitment to achieving SDGs. Thus, the hypothesis is as follows.

H3: ***SDGs act as an intervening variable***

Based on the three hypotheses presented above, the research model can be illustrated as follows (see Fig. 1).

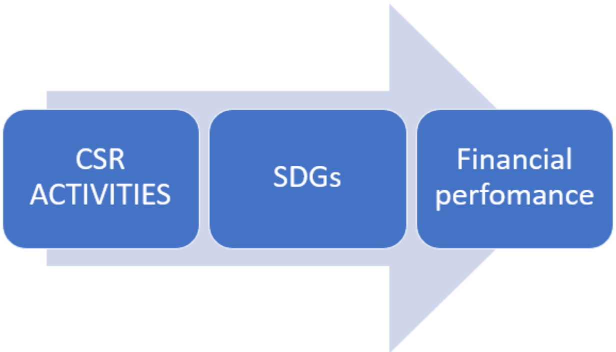

Figure 1

Research Method

This research adopts a quantitative methodology, leveraging both descriptive and inferential analysis methods to scrutinize interrelationships between distinct variables (Sekaran & Bougie, 2016). The population for the study encompasses five mining corporations listed on the Indian Stock Exchange (SEBI). A purposive sampling strategy was employed to curate a relevant sample (Saunders et al., 2009). The inclusion criteria were as follows: (1) firms that are listed on the SEBI; (2) entities that disseminated Annual Reports for the years 2022-23;and (3) firms that issued Sustainability Reports during the same timeframe. To assess the relationships and understand the direct and indirect effects among the variables, this research implements Structural Equation Modeling (SEM) (Sarstedt et al., 2017). SEM facilitates a comprehensive analysis of the paths between the independent variable (CSR) and the dependent outcome (financial performance), with SDGs functioning as a mediating element. The analytical procedure in SEM encompasses Normality Tests, along with Hypothesis Tests for each specific variable. To measure the variables in this study, the following indices are used

1. **CSR:** The Global Reporting Initiative (GRI)-G4 index is employed to assess the level of CSR disclosure in the selected companies. The GRI-G4 index provides a standardized framework for companies to report on their sustainability initiatives, enabling a consistent comparison across companies.
2. **SDGs:** The SDGs index is used to evaluate the extent to which companies are addressing and disclosing information related to the 17 SDGs established by the United Nations. The SDGs index provides a comprehensive and integrated framework to assess a company's progress towards achieving the global goals.
3. **Financial Performance:** The ROA metric is used as a proxy for financial performance in this study. ROA measures a company's profitability relative to its total assets, which reflects the efficiency of management in using assets to generate earnings.

Leveraging these indices and implementing SEM, the study delves into the intricate interrelationships between CSR, SDGs, and financial performance within the mining sector. The insights garnered from this SEM analysis aim to enlighten researchers, investors, and policymakers about the repercussions of CSR initiatives and SDG disclosures on a firm's financial health. Furthermore, the study provides a nuanced understanding of the mediating role that SDGs play in this dynamic.

Results and Discussion

The validity and reliability of the constructs were first established to ensure the integrity of the study's findings (see Table 1). The Average Variance Extracted (AVE) serves as a measure of construct validity. For all constructs, the AVE values exceeded the recommended threshold of 0.50 (Sarstedt et al., 2017), specifically, CSR at 0.54, SDGs at 0.56, and Financial Performance at 0.58, confirming their validity. In terms of construct reliability, the Composite Reliability (CR) values were considered. All three constructs—CSR, SDGs, and Financial Performance—registered CR values of 0.73, 0.75, and 0.77, respectively, surpassing the benchmark of 0.70 (Lind et al., 2018; Sarstedt et al., 2017). This reinforces the reliability of the constructs used in the study.

Table No1 Average Variance Extracted and Composite Reliability

Particulars	AVE	CR
CSR	0.54	0.73
SDGs	0.56	0.75
Financial Performance	0.58	0.77

Model fit (see Table 2), an essential aspect of SEM, was evaluated using various indicators. The χ2 (Chi-Square) statistic yielded a value of 324.75 and was not significant, which is desirable, indicating a good model fit. The RMSEA value stood at 0.056, being well below the cut-off value of 0.08, thus suggesting an acceptable fit of the model. Other metrics, the Comparative Fit Index (CFI) and the Tucker-Lewis Index (TLI), were observed at 0.93 and 0.92 respectively, both surpassing the accepted threshold of 0.90, further signaling a well-fitted model (Gaskin, 2013).

Table 2 Model Fit

Fit Metric	Value	Threshold	Information
χ^2 (Chi-Square)	324.75	$p > 0.05$	Good fit as ρ-value is not significant
RMSEA	0.056	< 0.08	Acceptable fit
CFI	0.93	> 0.90	Good model fit
TLI	0.92	> 0.90	Indicative of a well-fitting model

Potential multicollinearity was assessed using the Variance Inflation Factor (VIF). Both CSR and SDGs showcased VIF values (2.1 for CSR and 2.5 for SDGs) well below the accepted threshold of 3.5 (Gaskin, 2013; Hair et al., 2014), ensuring no multicollinearity issues within the constructs (see Table 3).

Table No. 3 Multicollinearity Test

Particulars	CSR	SDGs
VIF Values	2.1	2.5
Threshold	<3.5	<3.5

Path analysis revealed some crucial insights regarding the relationships between constructs (see Table 4). A significant positive effect was identified between CSR and SDGs with a coefficient of 0.320 ($p < 0.01$). Similarly, SDGs were found to exert a significant positive effect on Financial Performance with a coefficient value of 0.470 ($p < 0.01$). Direct effects of CSR on Financial Performance were also identified as significant with a coefficient of 0.270 ($p < 0.05$). More interestingly, SDGs were observed to play a mediating role in the relationship between CSR and Financial Performance, with an indirect effect coefficient of 0.350 ($p < 0.01$). Further, the model explained 46% of the variance in Financial Performance, as indicated by the R^2 value.

Table 4 Path Analysis & R^2

Metric/Path	Value/Coefficient	Information
CSR -> SDGs	0.320***	Significant positive effect
SDGs -> Financial Performance	0.470***	Significant positive effect
CSR -> Financial Performance (Direct)	0.270**	Significant positive effect
CSR -> Financial Performance (Indirect)	0.350***	SDGs significantly mediate the relationship between CSR and Financial Performance
R^2 for Financial Performance	0.46	CSR and SDGs explain 46% of the variance in financial performance

*Note: *** represents p < 0.01, ** represents p < 0.05*

Results

The Influence of CSR on SDGs

Our investigation into the influence of CSR on SDGs for mining companies listed on the SEBI for 2022-2023 revealed a distinct positive and significant impact. This underlines a longstanding association between the CSR undertakings of companies and their SDG disclosures.

The Influence of CSR on Financial Performance

Delving into the correlation between CSR and Financial Performance, our data clearly indicate that CSR exerts a positive and significant influence on a company's fiscal outcomes. Study pinpoint CSR as a driving force enhancing financial performance, often measured via indicators like ROA.

The Influence of SDGs on Financial Performance

Our analysis also highlighted a significant positive relationship between SDGs and financial performance for the top five mining entities listed on the SEBI 2022-2023. According to the signaling theory, corporations ought to disseminate positive signals or pertinent activity-related data to the public, achievable via SDG disclosures.

The Role of SDGs as a Mediating Variable

A key revelation from our data was the contrast between direct (0.270) and indirect (0.350) influences of CSR on financial performance. The higher value of the indirect influence underscores the pivotal mediating role SDGs play in this relationship. By acting as an intermediary, SDGs amplify the impact of CSR on financial outcomes.

Conclusion

In conclusion, our study reveals a significant correlation between CSR, SDGs, and the financial performance of the top five mining companies listed on SEBI during the 2022-2023 period. The findings suggest that higher levels of CSR disclosure are linked to improved SDG attainment and enhanced financial performance. Moreover, the results indicate that SDGs act as a crucial intervening factor, influencing the relationship between CSR and financial performance. Nonetheless, this study has certain limitations. Firstly, it focuses exclusively on the top five mining companies listed on SEBI, potentially limiting the generalizability of the findings across different industries and geographical locations. Secondly, the data only covers a one-year period (2022-2023), possibly failing to capture the long-term effects of CSR and SDGs on financial performance. Lastly, the study does not incorporate other variables that could impact companies' financial performance. Despite these limitations, the implications of our findings are noteworthy. Companies are encouraged to enhance their CSR disclosure, given its positive association with SDG achievement and financial performance. Policymakers can also develop guidelines and incentives to promote the incorporation of CSR and SDGs into corporate practices, fostering a more sustainable and financially viable business environment. Regulatory bodies may incentivize firms to integrate SDGs into their CSR strategies, leading to both societal and economic benefits.

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Top Five Mining Companies in SEBI on the basis of revenue for the Financial year 2022-2023.

- Gujarat Mineral Development Corporation

India's main lignite seller, with six operating mines in Gujarat alone

- Hindalco Industries

World's biggest aluminum rolling company

- Hindustan Copper

India's only vertically integrated copper producer

- Vedanta

Largest miner of zinc in India.

- National Mineral Development Corporation

India's sole mechanised diamond mine