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Impact of Corporate Social Responsibility Reporting Practices on Financial Performance: A Study on Indian Oil Sector Industries

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Abstract

Corporate Social Responsibility (CSR) reporting practices refer to the methods and standards companies use to disclose their environmental, social, ethical and sustainable activities. These practices vary across countries, industries, and companies. The primary goal of this study is to explore how the company is contributing to sustainable development, ethical practices, and community well-being. It also establishes the cause-and-effect relationship between corporate social responsibility cost and corporate performance. The sample data are collected from the secondary sources i.e. annual reports over the period of 12 years from 2013-14 to 2024-25. To justify the objectives of this research statistical tools like descriptive statistics, correlation matrix, and regression model have been applied. This study concludes that CSR reporting is no longer just a legal or ethical requirement; it is a strategic instrument which positively contributes to a firm's market performance. A large sample and other factors like market indicators, financial and non- financial factors can be included for the extension of this study in future.

Keywords: Corporate Social Responsibility, Corporate Performance, Sustainable Development, Ethical Practices, Community Well-Being

INTRODUCTION

CSR refers to the business practices which voluntarily strives to create positive outcomes for the society, environmental sustainability, incorporating ethical practices and emphasising responsible relationships with all the stakeholders beyond profit generation, Maqbool, S., & Zameer, M. N. (2018). This means the

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company must adopt an equitable approach by undertaking those activities and practices that support both organisational success and community wellbeing, Quazi, A., & Richardson, A. (2012).

Since implementing CSR initiatives demands allocation of financial resources of a concern, understanding whether such spending is profitable for the concern or not is a question of debate. Therefore, it is imperative to study the impact of CSR on the financial performance of a company, Kabir, R., & Thai, H. M. (2017).

In today's world, CSR reporting is a key driver of corporate social responsibility behaviour and sustainable growth of the firm. CSR reporting helps the organisation to disclose their social initiatives in their annual reports which enhances the public perceptions, strengthen the brand loyalty, and differentiate the firm from other competitors. In countries like India, CSR reporting is mandatory for the companies to fulfill their social responsibility as per companies act 2013, however the noncompliance can lead to penalties as per the act. Every company should contribute 2 percent of the average net profit of the last 3 years, towards social welfare. Thus, CSR reporting in the corporate sector is no longer optional, it is essential.

The Oil and Gas sector is one of the most environmentally and socially impactful industries in the world due to the nature of its operation. Oil exploration, refining, transportation can cause serious environmental damage resulting in air pollution, climate change, water pollution, serious health issues in the society etc. Nowadays climate awareness is a sensitive issue in the global context for that reason the oil sector company must report how they positively contribute to mitigate environmental damage.

CSR and CFP are discussed widely across the globe but few researches have been made in India. Further many developing countries, including India, have increasingly adopted CSR practices making it vital to evaluate its financial implications. Hence, the present study aims to examine how CSR activities influence the financial performance of oil sector companies.

RESEARCH PROBLEM

In India, CSR reporting faces a lot of challenges on its effectiveness due to transparency concerns, absence in the strict CSR guidelines, lack of public awareness and insufficient capacity building of the corporate sector. In this study, the researcher has focused on the strategic framework of CSR reporting which may help to influence the financial performance of the Indian corporate sector.

So far as the Environmentally and Socially sensitive sector is concerned, the study explores the CSR performance of the oil sector companies in India.

CSR REPORTING AND FINANCIAL PERFORMANCE

Several scholars are of the opinion that there exists a strong theoretical relationship between CSR and Financial Performance of a firm. This relationship is primarily based on two contrasting foundational theories of finance- the stake-holders theory and the agency theory, Nyeadi, J. D. et. al. (2018). However, the conclusions differ due to contradictions between the theoretical and methodological frameworks, Preston, L.E. & O'Bannon, D.P. (1997).

According to stakeholder theory, CSR and financial performance may be positively correlated, Waddock, S.A. & Graves, S. B. (1997). The essence of stakeholder theory is that the company can perform better when it goes beyond the concept of just pleasing the shareholders. It must serve everyone involved in the organisation - the workers, customers, suppliers, investors, consumers, employees and the community as a whole, Nyeadi, J. D. et. al. (2018). It argues that engaging in socially responsible activities can enhance the long-term profitability of a concern through stronger stakeholder relations and enduring brand value, Quazi, A., & Richardson, A. (2012). Thus, companies seek the support and approval of stakeholders by

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disclosing the CSR reports in the websites, annual reports, online platforms etc. Oeyono, J. et. al. (2011). According to signalling theory, the CSR reports signal about the social and environmental responsibility undertaken by the companies thereby building stakeholders' trust and confidence in the companies resulting in increased corporate value. Non disclosure of CSR reports may cause stakeholders to undervalue the company by treating it similar to their peers that provides minimal reporting Kamatra, N., & Kartikaningdyah, E. (2015).

The second theory i.e., the agency theory proposes that a company's sole responsibility is to serve exclusively for its shareholders, Galant, A., & Cadez, S. (2017). The theory believes that the CSR activities utilise scarce resources of the company without offering any substantial return. In other words, involvement in social activities demands heavy expenditures which is said to diminish the overall profit margin of a company Maqbool, S., & Zameer, M. N. (2018). Further, the idea that social and financial performance are negatively correlated is supported by neoclassical economists, Simpson, G.W., Kohers, T., (2002). They argue that because such social expenses can be avoided or paid by others, businesses that fulfill the social needs of their stakeholders would suffer a competitive disadvantage and notice a decline in profitability.

RESEARCH OBJECTIVES

This study highlights specific objectives of CSR reporting which are having different aspects.

1. To explore the corporate social responsibility approaches of Indian oil sector companies.
2. To investigate the influence of CSR reporting on performance parameters of Indian oil sector companies.
3. To examine the impact of CSR reporting on performance parameters of Indian oil sector companies.

RESEARCH QUESTION

1. To what extent does CSR reporting influence the performance indicators of sample companies?
2. How does CSR reporting affect the performance indicators of sample companies?

HYPOTHESIS OF THE STUDY

In connection with this hypothesis, CSR can be viewed as an independent variable describing the firm's performance, with a positive sign. A number of research studies suggesting the existence of this link Fernandez, J. L., & Luna, L. (2007); Prado, J. M. et al. (2008); Molina, M. C., & Clemente, I. M. (2010) also point in this direction. The recent studies of meta-analyses support the assumption that implementing CSR policies and responding to shareholder expectations can create a competitive advantage while increasing a company's results (Margolis, J. D. et al. 2007; Peloza, J. 2009; Wu, M. L. 2006).

This study formulates the following hypothesis by reviewing past literatures:

H_1: There is a positive association of CSR reporting practices with the financial performance of the sample oil sector companies

H_2: CSR reporting techniques have a considerable impact on the financial performance of the sample oil companies.

VARIABLE DESCRIPTION

Market Value (MV)

The Market Value refers to the total value of a company's equity as determined by the stock market. In this study, Market Capitalisation is considered as the market value of the firm. It represents the number of

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outstanding shares multiplied by the share price. Here the market value of the firm is considered as the dependent variable of the study.

Corporate Social Responsibility Cost (CSRC)

CSRC refers to the total expenditure incurred by a company to perform its CSR initiatives or programs which are contributing a positive impact to the society and environment. It is calculated by adding all the expenditure amount towards CSR activities during the period. Here the CSRC is considered as an independent variable. The "CSR instrument" has been created based on an analysis of the literature Abbott, W.F., & Monsen, R.J. (1979).

Size of the Firm (SIZ)

Size of the firm is most widely used as the controlled variable of the firm's financial performance. In the study the total asset is considered as the size of the firm which has the capacity to influence its financial performance Wahba, H., & Elsayed, K. (2015). Big businesses have greater resources available to them for gathering and analyzing social data, which increases their competitiveness Russo, M.V., & Fouts, P.A. (2017).

Leverage (LEV)

The leverage of the firm refers to the extent to which it uses debt financing relative to its owner's fund. In the study the leverage of the firm is considered as the controlled variable. It has the potential to influence the financial performance of the firm due to variation in the financial risk. Leverage in the form of a fund is used as an indicator of risk. Waddock, S.A. & Graves, S. B. (1997), it illustrates how management's attitude toward social activities is influenced by its risk tolerance.

METHODOLOGY

The study exclusively analyses the secondary sources of data. For this study, data are collected from the annual reports of sample Indian oil sector companies for the period of 12 years from 2013-14 to 2024-25. The sample companies include Reliance Industries ltd, ONGC ltd, Oil India ltd, Petronet LNG ltd, Veedol India ltd. In the study dependent variables are considered as an indicator of company's performance whereas independent variables are considered as an indicator of CSR performance. CSRC is the independent variable, MV of the firm is taken as dependent variable however Size and leverage are taken as controlled factors of this model.

MODEL SPECIFICATION

Regression model is represented as:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \ldots\ldots + \varepsilon$$

Where:

Y = Dependent factor

β0 = Constant

β1, β2, β3= coefficients

X1 = Independent factor

X2, X3 = Control factors

ε = Error

The Regression Equation can be restated in econometric form as:

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$$MV = \beta 0 + \beta 1\ CSRC + \beta 2SIZ + \beta 3LEV + \varepsilon$$

ANALYSIS AND INTERPRETATION

Table No 1: Descriptive Statistics

	N	Min. Value	Max. Value	Mean		SD Value
				Value	Std. Error	
CSRC	60	-0.56	7.37	4.1422	0.33991	2.52082
SIZ	60	6.36	13.79	10.6284	0.32148	2.38413
LEV	60	0.00	0.65	0.1945	0.02708	0.20080
MV	60	7.18	14.52	10.7480	0.28473	2.11164

Source: Author Compiled

Interpretation:

The table no-1 describes the descriptive statistics of sample oil sector companies in India. It reveals the mean value and SD value of dependent factor (MV), independent factor (CSRC) and controlled factors: (SIZ and LEV). The minimum value of CSRC is -0.56 and maximum value is 7.37 with a mean value of 4.14, standard error value is 0.33 and the standard deviation is 2.52 which indicates maximum variability in the data set due to wider gap between minimum and maximum values of CSRC. Size and leverage are the controlled variables which can influence the market value of the firm. The table shows contrasting results, the leverage data set is more consistent due to lower value of SD i.e., 0.20 whereas, the size indicates more variability in the data set due to higher value of SD i.e., 2.38. The minimum score of the MV is 7.18 and maximum value is 14.52. Here the mean value of the MV is 10.74, standard error is 0.28 and standard deviation value is 2.11 which indicates that there is less consistency due to the wide range of minimum and maximum value of the data set.

Table No 2: Correlation Matrix

		CSRC	SIZ	LEV	MV
CSRC	Correlation	1	0.965**	0.416**	0.907**
	Sig.		0.000	0.002	0.000
SIZ	Correlation	0.965**	1	0.473**	0.968**
	Sig.	0.000		0.000	0.000
LEV	Correlation	0.416**	0.473**	1	0.420**
	Sig.	0.002	0.000		0.001
MV	Correlation	0.907**	0.968**	0.420**	1
	Sig.	0.000	0.000	0.001	

Source: Author Compiled

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Interpretation:

The table no-2 describes the relationship between dependent factors i.e., Market Value (MV), independent factor i.e., Corporate Social Responsibility Cost (CSRC) and controlled factors: Size (SIZ) and Leverage (LEV). The correlation value between CSRC and MV is 0.90, which highlights there is a strong and positive relationship between CSRC and MV. This means if the CSRC will increase the MV will rise significantly and vice-versa. The significant value is 0.000 which is less than the critical value i.e., 0.01, suggesting acceptance of the alternative hypothesis (H1). The correlation between SIZ and MV is 0.968 exhibiting an even stronger correlation. which means the size of the firm and market value is significantly related to each other. This implies that larger size firms will have higher MV and vice-versa. Here the relationship between the LEV and MV is 0.42, it indicates that there is a moderately low link between LEV and MV of the firm. This means when the LEV will increase the MV will be moderately influenced and vice versa.

Table No 3: Regression Results of Market Value of Firm

MODEL 1	R	R^2	Adj. R^2	Std. Error	
	0.975[a]	0.951	0.948	0.48321	
ANOVA					
MODEL 1	Sum of Sqr.	Df	Mean Sqr.	F	Sig.
Regression	228.879	3	76.293	326.748	0.000[b]
Residual	11.908	51	0.233		
Total	240.787	54			
COEFFICIENT					
		Unstandardized Coefficients B	Std. Error	T	Sig.
MODEL 1	(Constant)	-0.913	0.756	-1.208	0.233
	CSR	-0.356	0.101	-3.534	0.001
	SIZ	1.249	0.110	11.378	0.000
	LEV	-0.735	0.377	-1.949	0.057

Source: Author Compiled

Interpretation:

Table number 3 indicates that there is a very strong correlation between predictors and the outcome due to high degree of correlation value i.e., 0.97. Here the R square value is 0.95 which explains 95 percent of the variation in the dependent variable. Whereas adjusted R square value indicates there is a strong fit of this model due to highly influenced predictors.

Here the F value is 326.74 which is very high and the significant value is 0.000 which is less than the critical value i.e., 0.05, here the alternative hypothesis H2 is accepted. This means the model is statistically

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significant hence there is a significant impact of CSR practices on financial performance.

CONCLUSION

Over recent years, CSR reporting has evolved as an important aspect in influencing the long-term financial performance of a company. CSR reporting is no longer just a legal or ethical requirement; it is a strategic instrument which positively contributes to a firm's market performance. Companies that actively and clearly communicate their CSR initiatives are more likely to attract their stakeholder support and increase shareholder value. In this study the CSRC is positively influencing Market Value performance, encouraging the sample oil sector companies to give more focus towards different CSR activities.

SCOPE FOR FURTHER STUDY

This study leaves a room for further research:

1. The study focuses only on the Indian context.
2. The sample companies include only five companies.
3. The study has taken only two controlled factors i.e., size and leverage, where other factors are also responsible to influence the performance.

Conflict of Interest

The authors have declared that they have no conflicts of interest.

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