Impact of CSR Investments on the Financial Performance of a Firm: The Case of Government Mandate

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1. Introduction

Corporate Social Responsibility (CSR) has emerged as a critical component of modern business practices, reflecting the evolving expectations of stakeholders in a globalized economy. CSR encompasses a wide range of initiatives through which companies integrate social and environmental concerns in their business operations and interactions with stakeholders. This holistic approach to business not only seeks to enhance the well-being of society but also aims to create long-term value for companies by aligning their objectives with societal needs and expectations.

The concept of CSR has undergone significant evolution since its inception. Initially perceived as a voluntary or philanthropic endeavour, CSR has now become a strategic imperative for businesses worldwide. This shift is driven by various factors, including heightened awareness of environmental issues, increased public scrutiny, and the growing influence of socially conscious investors and consumers. The 21st century has witnessed a transformation in corporate ethos, where the traditional focus on profit maximization is being balanced with the pursuit of sustainable development goals. As argued by Carroll (1991), the pyramid of CSR posits that economic, legal, ethical, and philanthropic responsibilities are fundamental to corporate performance, with each layer building upon the other to create a comprehensive CSR strategy. Moreover, the integration of CSR into corporate strategy is increasingly seen as a driver of competitive advantage. Porter and Kramer (2006) propose the concept of "creating shared value," suggesting that businesses can achieve economic success by addressing societal challenges. This approach not only fosters innovation and operational efficiency but also strengthens a company's brand and reputation. For instance, companies like Patagonia and Unilever have successfully leveraged their CSR initiatives to differentiate themselves in the market, thereby enhancing customer loyalty and stakeholder engagement.

Environmental sustainability forms a crucial pillar of CSR, reflecting the growing concern over climate change and resource depletion. Companies are increasingly adopting sustainable practices, such as reducing carbon emissions, minimizing waste, and promoting renewable energy, to mitigate their environmental impact. According to the Global Reporting Initiative (GRI) (2021), more than 80% of large corporations now publish sustainability reports, demonstrating their commitment to transparency and accountability in environmental stewardship. Social dimensions of CSR are equally significant, encompassing initiatives aimed at improving labor practices, fostering diversity and inclusion, and contributing to community development. By promoting fair labor practices and investing in employee well-being, companies can enhance productivity and morale, thereby reducing turnover and attracting top talent. Additionally, community engagement programs, such as education and healthcare initiatives, help build strong relationships with local communities, fostering a positive social impact.

However, the implementation of CSR is not without challenges. Critics argue that CSR efforts can sometimes be superficial, serving as a means of corporate image management rather than genuine commitment to social and environmental causes. This phenomenon, often referred to as "greenwashing," undermines the credibility of CSR initiatives and highlights the need for robust standards and accountability mechanisms. Scholars like Visser (2011) emphasize the importance of embedding CSR into the core business strategy and operations to ensure its effectiveness and authenticity.

In conclusion, CSR represents a dynamic and multifaceted approach to business that seeks to harmonize economic, social, and environmental objectives. As the global business landscape continues to evolve, the importance of CSR in driving sustainable development and fostering corporate accountability will undoubtedly grow. By integrating CSR into their strategic frameworks, companies can not only contribute to the broader societal good but also enhance their own long-term viability and success.

The goal of most businesses is maximising profits but in the past decade, business leaders have recognised the responsibility they have towards society, leading to socially responsible behaviour (Stobierski, 2021). There are mainly four justifications for investing in Corporate Social Responsibility (CSR) – moral obligation that the firm does the right thing by being good citizens honouring ethical values, sustainability i.e. meeting present needs in a responsible way without compromising the needs of future generations, license to operate whereby every firm needs permissions from governments, stakeholders and other bodies to do business, and reputation of a company, its image, brand and stock (Porter and Kramer, 2006). CSR as a construct has many facets and reflects the response of a firm to the demands and expectations of the society, environment and a wide range of stakeholders including its customers, shareholders and government (McWilliams and Siegel, 2001). As a result of this, CSR has become a core activity of firms allocating significant budgets to CSR activities (Yuan et al, 2020). CSR can be a source of many benefits like changing people’s view about the firm, building trust and gaining competitive advantage (Ceglinski and Wisniewska, 2016). For many firms CSR is a differentiating strategy that need to be signalled to its stakeholders to gain competitive advantage (Nyuur et al, 2019). By integrating CSR into the core business, a firm can gain competitive advantage by deepening their relationships with their customers, increasing the awareness and recognition for their brand, improving the brand image by improving their image in society, attracting high level talent to their firm, increasing employee engagement and saving their costs (Nagy, 2020).

Kong et al (2020) explains that although several researchers attempted to study the impact of CSR on the performance of a firm, the results remain inconclusive. Yang et al (2019) found that CSR has a positive and significant influence of a firm’s financial performance measured through Tobin’s Q, return on assets, return on equity and earnings per share. Ikram et al (2020) found that CSR has a significant impact on employee commitment and corporate reputation. Amini and Bianco (2017) denotes that in developing economies, the CSR effect is mixed and a better understanding for developing economies is required. Authors studying short term financial gains who used event study as a methodology have been inconsistent in their findings like Wright and Ferris (1997) found a negative relationship, Ponsikoff (1997) found a significant positive relationship while Teoh et al (1999) found an insignificant relationship between CSR and financial performance. Similarly, authors studying long term financial gains have also been inconsistent in their findings like Waddock and Graves (1997) found positive relationship, Mcguire et al (1988) found a negative relationship while Aupperle et al (1985) found mixed relationships. McWilliams and Siegel (2000) explain that these inconsistencies arise due to a variety of reasons like omitted variable bias, and found that when RND is taken into account, the effect is neutral.

All these inconsistencies make it necessary to study the impact of CSR on the financial performance of a company from a developing economy perspective. The goal of this research is to investigate the impact of CSR on financial performance in the Indian context, as India as a context is special. In the following sections, we justify why studying CSR in the Indian context is different from other contexts. Then we present an overview of the literature on CSR impact on performance metrics in the Indian context, followed by hypotheses development, methodology and results. We conclude by giving suitable directions for managers to act.

2. Why India is different from other developing and developed economies?

The Indian Companies Act 2013 mandates CSR compliance for any company – public, private, foreign, and even non-profit companies, that has a net worth of 5 billion Indian Rupees (INR) or more, or, has a turnover of 10 billion INR or more, or has a net profit of 50 million INR or more in the last financial year (CSR Portal, n.d.). The company must for a committee for CSR implementation comprising of three or more directors, at least one of whom is independent, approve a CSR policy and include it in the annual and financial report, and must spend at least 2% of its average net profits from the preceding three years (International Centre for Not-for-profit Law, ICNL, n.d.). Failing to do so, the board must specify the reasons for not doing so in the annual report. Till now India is the only country in the world to implement a policy that mandates expenditure of a fixed percentage of their profits for CSR activities. This makes the case of India unique and different from other developed and developing economies as this has widespread impact.

Panda (2024) reports that this mandatory CSR expenditure remarkably increased the resources allocated for development initiatives in the country, increased collaborations between government, private sector, local communities, trade associations, and non-profit organizations, enhanced deep-impact investing and social innovation. Companies can invest in CSR programmes directly or through an implementing agency, make contributions to an already existing fund set up by the government, or contribute to the RND programs of institutions or other organizations (Krafft and Pingleton, 2021). Schedule VII of Section 135 A states the various sectors on which CSR investment is valid (NSE Infobase, n.d.) –

I. Eradicating hunger, poverty and malnutrition, promoting health care including preventinve health care and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.
II. Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.
III. Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
IV. Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and

maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga.

V. Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts.

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

VII. Training to promote rural sports, nationally recognised sports, paralympic sports and olympic sports.

VIII. Contribution to the prime minister's national relief fund or any other fund set up by the central govt. for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women.

IX. Contributions or funds provided to technology incubators located within academic institutions which are approved by the central govt.

X. Rural development projects.

XI. Slum Area Development.

Numerous studies have been done on how CSR activities lead to financial performance of a company, the next section presents a brief literature review.

3. Literature Review

3.1. Corporate Social Responsibility (CSR)

A majority of the definitions of CSR suggest that companies include environmental and social issues including society's ethical, legal and economic obligations, and sustainability practices (Demeke and Ravi, 2024). Thus along with balancing shareholder wealth, employee compensation, consumer goods and services, a firm must also take care of the society and the environment (Gordon, 2001). Meanwhile, society has also become aware about the growing environmental and social issues and has started demanding for management practices that are beneficial for the society and the environment (Guzzo et al, 2020). In the early 20th century CSR was viewed as a charitable activity but in today's world, it is seen as a strategic tool for businesses (Yang et al, 2020). CSR activities were found to enhance the brand value by creating awareness and enhancing the image in the minds of customers, building trust and identification, enhancing reputation through word of mouth, increasing customer satisfaction and loyalty towards the brand (Thirumalesh Madanaguli et al, 2023).

3.2. **Financial Performance**

Financial performance is a critical measure of a firm's overall health and its ability to achieve its financial objectives. This concept encompasses various metrics and dimensions, including profitability, liquidity, solvency, and operational efficiency. Analyzing financial performance allows stakeholders to make informed decisions regarding investments, resource allocation, and strategic planning. The theoretical underpinnings of financial performance analysis are grounded in several fundamental theories. Agency theory, as proposed by Jensen and Meckling (1976), examines the relationship between managers and shareholders, emphasizing the impact of managerial decisions on financial outcomes. This theory suggests that financial performance can be influenced by aligning managers' incentives with shareholders' interests to mitigate agency costs. Another critical framework is the resource-based view (RBV), articulated by Barney (1991), which posits that a firm's resources and capabilities are pivotal in achieving sustainable competitive advantage and superior financial performance. This perspective highlights the importance of strategic resource management in enhancing a firm's financial metrics.

The assessment of financial performance typically employs both qualitative and quantitative methodologies. Quantitative measures often involve financial ratios, such as return on assets (ROA), return on equity (ROE), and net profit margin, which provide insights into a firm's profitability and efficiency. Additionally, Tobin's Q ratio, which compares market value to asset replacement cost, is frequently used to gauge market perceptions of a firm's value (Chung & Pruitt, 1994). Qualitative methodologies, on the other hand, include case studies and surveys that explore managerial practices, corporate governance, and strategic decision-making processes. These approaches provide a more nuanced understanding of the factors influencing financial performance beyond mere numerical analysis (Eisenhardt, 1989).

Profitability is a cornerstone of financial performance, often measured by metrics such as ROA, ROE, and net profit margin. Studies have consistently shown that profitability is influenced by a variety of internal and external factors. For instance, Panigrahi et al. (2014) found that efficient working capital management significantly enhances profitability. Their research highlighted that firms maintaining optimal inventory levels and receivables turnover ratios tend to exhibit better financial outcomes. Fullerton et al. (2014) demonstrated that firms adopting lean practices experience improved profitability and asset utilization, thereby enhancing overall financial performance. Studies by Eljelly (2004) indicate a strong relationship between liquidity and profitability, suggesting that firms with adequate liquidity are better positioned to capitalize on investment opportunities and achieve higher returns. Research by Titman and Wessels (1988) revealed that firms with lower leverage tend to exhibit better financial performance, as excessive debt can lead to financial distress and limit growth opportunities. Bhagat and Bolton (2008) found that firms with more independent boards and higher institutional ownership tend to perform better financially. The role of executive compensation in driving financial performance has also been extensively studied. Core et al. (1999) showed that appropriately structured executive compensation packages, which align managerial incentives with shareholder interests, can enhance financial performance. Fama and French (1997) highlighted the impact of macroeconomic factors, such as GDP growth and interest rates, on firm profitability. Porter (1980) emphasized the importance of competitive strategy in navigating industry dynamics and achieving superior financial outcomes. Studies by Schumpeter (1942) and more recent research by Hagedoorn and Cloodt (2003) indicate that innovative firms tend to exhibit better financial performance due to their ability to create and sustain competitive advantages. The relationship between research and development (R&D) expenditure and financial performance has been extensively explored. Eberhart et al. (2004) found a positive correlation between R&D intensity and long-term financial performance, suggesting that investments in innovation yield substantial returns over time.

4. Hypotheses Development

Corporate Social Responsibility (CSR) has been widely studied, with most research indicating a positive impact on financial performance, though the strength of this impact can vary. CSR initiatives often enhance a company's reputation, leading to increased customer loyalty and higher sales, and improve employee morale and productivity, which can reduce costs and boost profitability. Additionally, sustainable practices associated with CSR can result in significant cost savings and better risk management, further stabilizing financial performance. Empirical evidence supports this positive relationship. For instance, metaanalyses by Margolis and Walsh (2003) and Orlitzky, Schmidt, and Rynes (2003) found a positive correlation between CSR and financial performance. The Ernst and Young report of 2013 underscores these findings, highlighting that companies integrating CSR into their core operations are better positioned to meet stakeholder expectations and regulatory requirements, thus gaining competitive advantage.

However, the impact of CSR is not uniform across all sectors. Industry visibility, specific CSR activities, and strategic alignment with core business objectives influence the extent of financial benefits. Overall, CSR is increasingly viewed not as a cost but as a strategic investment that can significantly enhance financial health, suggesting its growing importance in the evolving business landscape. Thus, investment on CSR activities should impact the financial performance of a company in a positive way. However, the case of India is different. Indian government has mandated CSR expenditure. So, a company, if it satisfies the threshold, must invest 2% of its average annual profit in the last three years on CSR activities. This regulatory requirement can impose significant compliance costs. Companies must allocate resources not only for the CSR activities themselves but also for planning, reporting, and auditing these activities. The administrative burden associated with complying with these regulations can divert resources away from core business operations, potentially reducing financial performance. When CSR is mandated by the government, it can be perceived as a compliance activity rather than a genuine commitment to social and environmental causes. This perception can diminish the authenticity of the company's CSR efforts, reducing the positive impact on goodwill. Voluntary CSR allows companies to differentiate themselves by going beyond legal requirements and demonstrating leadership in social responsibility. Mandatory CSR can erode this competitive advantage by making it harder for companies to stand out based on their CSR efforts alone.

Hypothesis 1: When CSR is mandated by the government, CSR expenditure will lead to a decrease in financial performance of a company.

Now, if a company wishes to overemphasize its investments in CSR activities, the managers may choose to spend more amount on CSR activities than what is actually mandated by the government. What the effect of mandatory investment on CSR being unclear, a company may choose to increase the goodwill and eventually the financial performance of the company by investing more than 2% of its profits on CSR. This will lead to added societal development, added environmental development and actually enhance the perception about the company. But when the CSR expenditure is mandated, communicating this added investment over and above the 2% range is tricky and effective communication may not take place. Spending more than the mandated 2% on CSR can enhance a company's reputation, leading to increased consumer trust and loyalty. Consumers today are more socially conscious and tend to support companies that demonstrate a strong commitment to social and environmental causes (KPMG, 2017). In a competitive market, going beyond the minimum CSR requirements can differentiate a company from its competitors, potentially attracting more customers and increasing market share. Exceeding the mandated CSR spending can build goodwill with regulators, potentially leading to more favourable treatment in other areas of business regulation.

Spending more than 2% on CSR means diverting funds from other potential investments such as R&D, marketing, or expansion. This could negatively impact a company’s short-term financial performance. If CSR activities are not aligned with the company’s core business strategy, the additional spending may not yield significant benefits. CSR initiatives need to be strategically integrated to enhance overall business objectives (McWilliams & Siegel, 2001; Barnett and Salomon, 2012). Companies need to ensure that their CSR activities are strategically aligned with their business goals, effectively implemented, and well-communicated to stakeholders.

Hypothesis 2: Investing more than the mandatory requirement on CSR may or may not lead to increased financial performance.

While all the CSR sectors mandated by the government do well to the society, CSR expenditures which lead to lead to product and process changes in the company should do well to the company as well when other factors remain the same. CSR investment in environment may leads to better waste disposal, investment in green energy for the company, manufacturing of green products etc. which should impact the financial performance of a company in a positive way. Investing in environmental CSR initiatives often necessitates adopting more sustainable practices and technologies. For example, implementing energy-efficient systems, reducing waste generation, and optimizing resource use can lead to substantial cost savings over time (Delmas & Pekovic, 2018). Companies that effectively manage their environmental impact through innovative processes can lower production costs, improve resource efficiency, and reduce operational risks associated with regulatory compliance and resource scarcity (Eccles, Ioannou, & Serafeim, 2014).

By proactively investing in environmental CSR, companies can preemptively address regulatory requirements, avoiding fines and legal liabilities. This proactive approach not only ensures compliance but also enhances the company's reputation for sustainability and responsible business practices, thereby mitigating potential risks (Delmas & Toffel, 2008). Consumers and investors increasingly prefer companies that demonstrate a commitment to environmental stewardship. Adopting environmentally responsible practices can enhance brand reputation, attract environmentally conscious consumers, and improve customer loyalty (Dangelico & Pujari, 2010). A positive brand image as an environmentally responsible company can differentiate the business from competitors, potentially commanding premium pricing and increasing market share (Porter & Kramer, 2011). Companies that lead in environmental innovation can establish themselves as industry pioneers, fostering long-term competitiveness and profitability (Hoffman & Bazerman, 2007).

Hypothesis 3: CSR investment in environment leads to better financial performance of a company.

5. Methodology

5.1. Measurements and Data Source

Financial performance of a company is the dependent variable, and it has been measured in various ways in the extant literature. We take two among them Return on Assets as out financial performance parameter and make it our dependent variable.

Total CSR investment and the CSR investment on the individual sectors make up our independent variables including one dummy variable which takes 1 when the CSR investment is more than 2% and 0 otherwise. The Control variables include a) Size of the Company measured by Total Expenses, b) Investment in R&D, c) Risk of the Company measured by the ratio between Total Liabilities and Total Assets.

Data regarding CSR expenditures have been collected from the NSE Infobase database which provides data regarding all NSE listed companies. A total of thirty companies have been selected at random from the Nifty 100 group of companies and CSR data of those companies were collected. The eleven sectors stated by the government were reduced to six by clubbing together 2 or more and the six sectors are – Health and Sanitation, Energy and Environment, Education and Livelihood, Rural Development, Women Empowerment and Reducing Inequality, Art-Heritage-Sports.

Financial performance data and the data on CSR expenditure in different avenues have been collected from the Annual Reports of the 30 companies randomly chosen from the Nifty 100 group of companies.

5.2. Study 1: Effect of CSR expenditure on financial performance

The purpose of this study was to test Hypothesis 1, that whether CSR expenditure actually increases the financial performance of the company when the CSR expenditure is mandatory. Return on assets was taken as the dependent variable and the total expenditure on CSR was taken as the independent variable with RND expenditure, the size of the company measured as total expenses and risk of the company measured by the ratio between total liabilities and total assets being taken as the control variables. Table 1 shows the results of this study.

The results indicate that Total CSR expenditure has a negative and significant impact on the financial performance of a company. This can be attributed to the fact that since the CSR investment is mandated, investment in CSR does not carry the same importance as it would have carried. If any mandate was not made, the perception would be that the company wishes to do good to the society, however as the mandate exists the general perception may be that the company is forced to invest in CSR and would not have done so if the law didn't exist.

Table 1: Effect of CSR expenditure on financial performance

Variables	**Estimate**	**Standard Error**	**P-value**
Intercept	1.597	3.33e (-01)	6.31e (-05) ***
Total CSR Expenditure	-3.54e (-04)	1.06e (-04)	0.003 **
Size of Company	9.21e (-07)	3.15e (-07)	0.007 **
RND Expenditure	-2.19e (-06)	2.25e (-05)	0.92
Debt-Asset Ratio	-1.06	5.69e (-01)	0.07
Multiple R-Squared: 0.347 Adjusted R-Squared: 0.243 F-Statistic: 3.322 on 4, Degrees of freedom – 25			
Significance: *** (0.001), ** (0.01), * (0.05)			

5.3. Study 2: Effect on CSR Expenditure beyond mandate on financial performance

The purpose of this study was to test Hypothesis 2, that is whether CSR expenditure beyond the mandatory requirement of 2% will lead to an increase in financial performance or not. For this purpose, we created a categorical variable called p-dummy which took the value of 1 if CSR expenditure of the company was above 2% of the average profits for the preceding three years and took the value 0 if not. We regressed financial performance measured through return on assets on total CSR expenditure, p-dummy and an interaction term (p-dummy*total CSR expenditure) and took RND expenditure, debt-asset ratio and size of the company as controls. Table 2 shows the results of this analysis.

Next, we created a dummy variable called q-dummy which took the value of 0 if the CSR expenditure is less than 2% of the average profits for the preceding three years, and 1 otherwise.

We regressed the financial performance on total CSR expenditure, q-dummy and the interaction term (q-dummy*total CSR expenditure) with the same controls as before. Table 3 shows the results of this analysis.

From Table 2, we see that the effect of total CSR expenditure on financial performance becomes insignificant once we bring p-dummy into the equation, which is significant and positive. So, when the CSR expenditure is above the mandatory requirement of 2%, the financial performance increases, because now, the public goodwill becomes positive. Also, the interaction term becomes significant and negative. This means that beyond 2% expenditure as well, as the CSR expenditure increases, the financial performance decreases. Thus, managers should keep in mind that they need to spend more than the mandatory requirement of CSR for earning goodwill but should limit their spending to as low as possible beyond the mandatory requirement, because the more they will spend, less will be the financial performance.

Table 2: Effect of CSR expenditure beyond mandate on financial performance

Variables	**Estimate**	**Standard Error**	**P-value**
Intercept	9.795e (-01)	3.875e (-01)	0.019*
Total CSR Expenditure	-1.97e (-04)	1.26e (-04)	0.133
P-dummy	9.17e (-01)	3.61e (-01)	0.018*
Size of Company	1.01e (-06)	2.97e (-07)	0.002**
RND Expenditure	1.43e (-05)	2.23e (-05)	0.53
Debt Asset Ratio	-6.97e (-01)	5.39e (-01)	0.21
Interaction: P-dummy*Total CSR Expenditure	-3.83e (-04)	1.67e (-04)	0.031*
Multiple R-squared: 0.498 Adjusted R-squared: 0.367 F-statistic: 3.082 on 6, Degrees of freedom: 23			
Significance: *** (0.001), ** (0.01), * (0.05)			

Table 3: Effect of CSR expenditure below mandate on financial performance

Variables	**Estimate**	**Standard Error**	**P-value**
Intercept	1.72	3.41e (-01)	4.16e (-05)***
Total CSR Expenditure	-4.90e (-04)	1.35e (-04)	0.001**
Q-dummy	-5.50e (-01)	3.77e (-01)	0.158
Size of Company	1.03e (-06)	3.21e (-07)	0.004**
RND Expenditure	1.84e (-06)	2.27e (-05)	0.936
Debt Asset Ratio	-8.71e (-01)	5.73e (-01)	0.143
Interaction: Q-dummy*Total CSR Expenditure	2.78e (-04)	1.78e (-04)	0.132
Multiple R-squared: 0.415 Adjusted R-squared: 0.263 F-statistic: 2.724 on 6, Degrees of freedom: 23			
Significance: *** (0.001), ** (0.01), * (0.05)			

From Table 3, we can draw the conclusion that spending less than the mandate has no significant effect on the financial performance as both q-dummy and the interaction term is insignificant and the total CSR expenditure is negative and significant indicating that whether the company fulfils the mandatory requirement or not, the increase in CSR expenditure leads to a decrease in financial performance. Since spending 2% of the average annual profit for the preceding three years is mandatory, firms have to take the hit on financial performance, but they should spend a little beyond the requirement to earn the goodwill.

5.4. Study 3: Effect of CSR expenditure in environment on financial performance

The purpose of this study is to find out whether the CSR expenditure on environment leads to an increase in financial performance of the company. For this purpose, we split the CSR investment into different sectors – energy and environment, education and livelihood, women empowerment and reducing inequality, health and sanitation, rural development, and art-heritage and sports. With the control variables being the same as the previous studies, we regressed financial performance on these individual components of CSR to see what the effect of these individual components are on financial performance.

The results of Table 4 show that, although the effect of all the components of CSR expenditure on financial performance are insignificant, the expenditure on energy and environment positively affects financial performance, while almost all others negatively affect it. This weakly satisfies out hypothesis that expenditure on energy and environment being associated with changing the products and processes on the firm, making it more sustainable, has a positive impact on financial performance.

Table 4: Effect of environmental CSR expenditure on financial performance

Variables	Estimate	Standard Error	P-value
Intercept	1.45	4.24e (-01)	0.003**
Energy and Environment	3.46e (-04)	7.45e (-04)	0.65
Education and Livelihood	-5.31e (-04)	5.30e (-04)	0.33
Women Empowerment and Reducing Inequality	-3.12e (-05)	1.32e (-03)	0.98
Health and Sanitation	-6.52e (-04)	4.63e (-04)	0.17
Rural Development	4.09e (-06)	5.13e (-05)	0.94
Art Heritage and Sports	-9.62e (-04)	2.01e (-03)	0.64
Size of Company	1.15e (-06)	4.42e (-07)	0.02*
RND Expenditure	-6.91e (-07)	2.63e (-05)	0.98
Debt-Asset Ratio	-9.8e (-01)	6.60e (-01)	0.15
Multiple R-squared: 0.356 Adjusted R-squared: 0.065 F-statistic: 1.226 on 9, Degrees of freedom: 20			
Significance: *** (0.001), ** (0.01), * (0.05)			

6. Theoretical and Managerial Implications

Researchers have pondered for decades over the question of whether CSR expenditures influence financial performance of organizations and have found both positive and negative results. Early results of the 80s and 90s were criticized by stating that they have not controlled for RND expenditures in their studies and because of this omitted variable bias, results have shown negative consequences of CSR expenditures. Recent studies have incorporated this variable as a control and have largely found CSR expenditures to positively influence financial performance, although the debate still exists. This paper incorporates another important variable in this context – government mandate. Different governments all over the world have made different legislations regarding CSR but mostly these have been regarding reporting of CSR expenditures in various categories. However, the Indian government have made CSR expenditure mandatory, and firms should spend at least 2% of their average profits of their preceding three years on CSR. This makes the case of India special as no other government in the world have made CSR expenditure mandatory for firms.

In this context, the hypothesis that CSR expenditure leads to financial performance of firms comes into question and thus this paper revisits the hypothesis in the Indian context. This paper hypothesized that due to the government mandate, the goodwill that companies elsewhere in the world enjoy by spending on CSR is mitigated, and CSR expenditure will no longer enhance the financial performance. Instead, the financial performance will take a hit because of excessive spending on avenues that are not related to their business. Data collected from annual reports of firms listed in the NSE database validates this hypothesis. Moreover, it is seen that even if the company spends more than the required mandate, the CSR expenditure affects the financial performance negatively, but spending more than the mandate affects the financial performance positively. To the extent of the author's knowledge this result is the first in this domain and gives completely new implications. Future researchers can try to replicate these results by specifying the industry, area of operations, and testing different moderators and mediators.

Managers need to be vigilant while allocating budget for CSR activities. On one hand there is government mandate specifying the minimum requirement for CSR expenditure, on the other hand CSR expenditure decreases the financial performance but if the company spends more than the required mandate, the financial performance increases. Thus, managers need to spend more than the required amount prescribed by the government, but just increasing the spending above the mandate is sufficient as beyond that again increase in CSR expenditure decreases the financial performance. Finally, firms should focus more on CSR expenditure on energy and environmental issues as, although the results came out to be insignificant, there was a positive relationship between CSR expenditure on energy and environment on firm performance. This may be attributed to the fact that spending on environment leads to internal product and process change and this makes the operations more efficient thereby enhancing the financial performance. However, it needs to be tested by future researchers whether spending on environmental CSR more than the required mandate leads to the increase in financial performance or not.

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