Corporate social responsibility in India: Mandatory vs. voluntary investments

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Abstract

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Parul Singh

As corporate social responsibility (CSR) becomes increasingly relevant, India has moved from a voluntary regime to a mandatory one. This paper examines the CSR expenditure compliance of 490 publicly listed companies from 2014 to 2021 (i.e., the post-voluntary regime period) and explores the causes and consequences of firms making additional voluntary CSR investments. We analyze various firm characteristics, including price volatility, employee welfare, cash flows, and political party donations, to explore why some firms spend more on CSR than others and exceed the mandated CSR investment threshold. Our findings demonstrate that CSR expenditures provide various advantages to firms. Higher CSR activity reduces stock price volatility and improves employee performance with a reduced cost. However, CSR expenditures require higher ex-ante liquidity. Our results also show that firms that make political donations tend to be more socially responsible. The latter finding is of particular interest because it contrasts prior findings that have found CSR expenditures and political contributions to be substitutes rather than complements.

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I. Introduction

The board of directors oversees the interest of shareholders in a public company, and it is responsible for the welfare of the shareholders and the surrounding area of its business operation. The famous Friedman doctrine philosophy introduced in a 1970 essay for The New York Times, also known as shareholder or stockholder theory, states that a business's primary objective is to increase its profit and maximize profit as it is accountable to its shareholders. It states that the board of directors has a social responsibility solely towards its shareholders and no other parties.

This philosophy has attracted much criticism following the 2007-2008 financial crisis. Critics claimed that it neglects the society surrounding the entity (i.e., the corporation). The primary stakeholder in a business is the shareholder, but the community is the backbone of the business's success. Archie B. Carroll (1983) provides a comprehensive explanation of corporate social responsibility (CSR), which states that CSR enables a corporation to execute its business economically and profitably, abide by the law, and be ethically and socially supportive. It defines CSR as an ideology that represents the company-stakeholders relationship. Therefore, it is considered an ongoing duty by companies that compels them to behave ethically and contribute to economic growth while enhancing the quality of life of their workforce, local community, and society (Holme R. & Watts P., 2000). This definition raises an important point about whether social responsibility should be voluntary or whether it should require encouragement. A report published by the European Commission in 2016 expresses CSR as an activity wherein companies should voluntarily take action to contribute to a better community and more hygienic environment. However, governments have decided to make CSR-related expenditures mandatory as they could no longer rely on corporations' willingness to make sufficient contributions voluntarily. In emerging countries such as India, poverty, inadequate working conditions, and human rights misuse are critical matters which CSR can address.

According to the 2013 Wealth-X and UBS billionaire census report, the wealth of billionaires around the globe culminated to $180 billion, with India having the sixth largest super-rich (billionaire) population in the world (Mitra N., 2014, 2015; Mitra & Schmidpeter, 2017 and; Chatterjee & Mitra, 2017). Therefore, India is a country that displays a significant wealth disparity and characterizes by urban and rural centres (Chatterjee & Mitra, 2017). This inequality can threaten growth if ignored (Venkataraman, 2013). Decreasing the socioeconomic inequality can then be minimized, aiding an emerging nation to slowly move into a developed economy. Therefore, the national agenda must focus on empowering less fortunate members of society and bringing about inclusive development. (Mitra & Schmidpeter, 2017 and; Chatterjee & Mitra, 2017).

The implied voluntary nature of CSR, which relied on companies' generosity, did not prove beneficial for national development, as is apparent from the country's large wealth disparity. It

bled to the companies act of 2013, issued by India's Ministry of Corporate Affairs (MCA). Section 135 of the act, notified on April 1st, 2014, specifies that companies with a net worth of INR 5000 million or more, turnover of INR 10000 million or more, and net profit of INR 50 million or more are mandated to establish a CSR committee and carry out the CSR policies to spend the required CSR expenditure.

This paper examines the relevance of CSR expenditure compliance to publicly listed companies for seven financial years from 2014/15 to 2020/21 (i.e., which spans the post-voluntary regime period). The final sample consists of 490 listed companies in the National Stock Exchange (NSE) or Bombay Stock Exchange (BSE) index. We examined the various benefits for each firm due to CSR spending. Our findings show that CSR expenditures provide various benefits such as reduced stock volatility and improved employee performance with a reduced cost. These ventures, however, require a higher cash flow. Moreover, the results show that political donations, though not traditionally considered a sociable expense in previous literature, make companies more socially responsible. From these results, we can conclude that the notification of section 135 of the Companies Act of 2013, which mandated CSR committees for many publicly listed companies, had the desired positive effect.

II. Study of the 2013 corporate social responsibility act in India

Section 135 of the companies act, 2013 prescribes that every company coming under the purview of this section shall constitute the corporate social responsibility committee of the board. This committee formulated and recommended the corporate social responsibility policy to the board of directors. The CSR policy should indicate the activities to be undertaken by the company as specified in schedule VII. The committee will recommend the CSR spending and will monitor the CSR Policy of the company from time to time.

The section indicates that in every financial year, a company should spend at least 2% of the average net profits made during the three immediately preceding financial years on CSR projects and programs.

Section 135 of the companies act, 2013 prescribes three distinct criteria based on the company's total assets, total turnover, and net profit:

1. A net worth of Rs 5,000 million or more
2. Turnover of Rs 10,000 million or more
3. Net profit of Rs 50 million or more

Companies that meet any of the above criteria are required to follow the requirements of section 135. The provisions apply to all companies with private and unlisted companies meeting the criteria individually.

After considering the recommendation made by the corporate social responsibility committee, the board of directors should approve the policy, disclose the contents of such policy in its report, and place it on the company's website.

In the voluntary regime, companies were at liberty to decide their CSR policies, agendas, the type of projects and programs they chose to implement, and their financial commitment to CSR activities. However, the current mandatory law explicitly describes the projects and programs or activities which qualify as CSR expenditure. Moreover, it states that the company should prioritize the local area and surrounding area of its operation for spending the amount earmarked for corporate social responsibility activities. The government has no direct role in approving and executing the company's CSR projects.
Schedule VII of the companies act describes the type of CSR policy/projects that the CSR committee should be involved in:

- The eradication of extreme hunger and poverty;
- The promotion of education;
- The promotion of gender equality & women empowerment;
- The improvement of maternal health and the reduction of child mortality;
- Combat HIV, AIDS, malaria, and other diseases;
- The promotion of environmental sustainability;
- The development of employment-enhancing vocational skills and social business projects;
- The contribution to the Prime Minister's National Relief Fund (PMNRF) or any other fund set up for socio-economic development by the central or state government.

Moreover, rule 2(1)(d) of the companies (CSR policy) rules, 2014 expressly excluded some activities from being considered as eligible CSR activity. Such activities include activities undertaken in pursuance of the company's ordinary course of business, activities undertaken outside India, and the amount spent fulfilling statutory obligations.

Companies can carry over the unspent amount to spend across the next three financial years per company rules. If the firm spends less than the dedicated amount in the following three financial years, then the unspent amount is transferred to one of the funds specified in the Indian companies act, 2013[1]. A mandatory disclosure rule states that companies unable to spend the mandated amount will disclose this non-compliance in the director's report prepared

[1] Transfer to funds such as swach bharat kosh, clean ganga fund, Prime Minister's National Relief Fund (PMNRF), contributions to incubators or research and development projects, and contributions to public-funded universities.

at the end of each financial year specifying the reason for not spending the amount. It provides greater accountability for the company's stakeholders because they expect a logical explanation for the shortcoming. Despite improved accountability, the explanation provided is neither judged nor verified and entirely depends on the company's initiative to be provided (Chatterjee & Mitra, 2017).

Since its inception, the ministry of corporate affairs (the regulating body) has constantly amended the Companies Act of 2013. The penalties for non-compliance with CSR norms were introduced and will be effective after the 2020-2021 financial year[2]. Furthermore, effective as of 22nd January 2021, after inserting the new proviso in sub-section (5) of section 135 states that if a company spends more than the mandated amount as per the provisions of this section, the such excess amount may be set off against the expenditure required for CSR activities as per the companies act, 2013 up to immediately succeeding three financial years. Therefore, these amendments provide a prospect to analyze the impact of these new provisions for future study.

Before introducing these amendments, non-compliance was proposed as a criminal offense but accepted as civil liability (PTI, 2019)[3]. The rules corresponding to non-compliance treatment as a criminal offense backtracked due to industry concerns over penal provisions for non-compliance with CSR norms (PTI, 2019; Guha P., 2020). Implementing CSR provisions in the companies act in an emerging market is an excellent step toward a corporate grant to the country's development since mandating these expenses, in the case of non-compliance, delivers a direct signal to shareholders and prospective investors, as opposed to the more convoluted disclosure requirement previously established.

Regardless, this mandated provision still attracted much criticism from all over India. Critics highlighted that CSR spending is associated with the average profit of the last three years without any reference to the current year's profit. Therefore, a company that has reported a loss for the current year but still has a positive average profit per section 135 is bound to allocate funds for CSR. It could prove unjust to shareholders. Similarly, a company may earn profits, but its return on assets (ROA) may be meager. Therefore, any expenditure towards CSR activities based upon the accounting profits would be at the expense of the shareholders.

[2] As per section 135(8): The said non-compliance is a civil wrong, and the company must spend twice the unspent amount required to be transferred to any fund included in schedule VII of the act or unspent CSR account, as the case may be, or one crore rupees, whichever is less. Every officer in default should transfer 1/10th of the unspent amount required to any fund included in schedule VII of the act or unspent CSR account, or two lakh rupees, whichever is less.

[3] Section 135(7) of the act, as introduced by the companies (amendment) act, 2019, provided the imposition of a fine for non-compliance with section 135 of the act. Moreover, officers in default were also liable to fine together with imprisonment by punishment or both. The companies (amendment) act, 2020 substituted the above sub-section, replaced the fine with a penalty, and withdrew the imprisonment punishment of officers in default.

The mandatory law specifies the projects as per schedule VII of the companies act, 2013, forbidding companies to implement their CSR policies and exploit this CSR expenditure regime to their advantage.

Furthermore, expenditures incurred in pursuance of section 135 of the companies act are not eligible as a deduction in computing the taxable income, according to the explanation provided in section 37(1) of the Income tax act, 1961. Therefore, there is no direct/indirect benefit for the companies to make CSR expenditures, especially when the companies act, 2013 has mandated the expense. An exception is that contributions to the Prime Minister's National Relief Fund (PMNRF) would be eligible for deductions under section 80G of the Income tax act, 1961. Thus, contributing to the PMNRF would be more tax efficient for firms than direct spending on CSR activities per schedule VII of section 135 of the companies act 2013.

Despite the criticism, studies show that participating in social performance strengths the firm in mitigating its' risk leading to lower volatility and providing employee benefits even during the economic crisis period of 2008-2009 (Bouslah et al., 2018). The study of stock price volatility by adopting actual CSR expenditure in an emerging market such as India is limited, especially since the country implemented a compulsory CSR structure less than a decade ago.

Similarly, socially responsible firms exploit the benefits related to workforce expenses. For example, investors may look at various aspects of the firm, such as whether it provides a healthy and sound working environment to its workforce or allocates adequate resources to give back to its communities. Therefore, companies that neglect health and safety standards and do not perform their established social duties may seem unattractive to potential employees and shareholders. In contrast, companies face lower risk and can benefit from workers' increased productivity while attracting better-skilled employees when they treat them fairly (Lindholm, 2018) and (Shen and Zhang, 2019).

However, rule 4(5) of section 135 of the companies act, 2013 states that eligible CSR activities exclude CSR expenditure that benefits only the employees. Therefore, it will provide new grounds for analyzing how the CSR expenditure affects the employee's performance and cost, provided the previous study included employee expenses as a socially responsible factor in CSR studies. CSR expenditures impact firm performance since they reduce its risk, a view corroborated by stakeholder value maximization. Cash flow is a measure of liquidity to assess the company's financial performance. Therefore, a firm contributing to CSR activities has more significant returns, total assets, and cash to operate the company's business. The existing literature suggests that cash flow from operations facilitates or attracts stakeholder demand for CSR expenditures (Campbell, 2007; Lys T. et al., 2015 and; Azmi et al., 2021), thereby supporting that more cash is generated through socially responsible firms but is left with less cash to pay off its existing current liabilities in day to day operations.

Section 135 specifies that certain activities are not eligible for CSR activities. These include activities outside India, any contribution of any amount — directly or indirectly — to any political party, and activities that benefit company employees, amongst others. Since these expenditures are not a part of the mandated CSR activities, investment in them may impact shareholders. Why would companies invest in these activities if the mandatory CSR activities exclude them? Further, even if political donations do not benefit companies as CSR spending, why would corporations choose to contribute to any political party? There are many possible answers to these questions. First, donations can represent an investment made into the political party, similar to an investment by shareholders in a company. Consequently, firms will contribute because they expect the political party to return their investment in favorable legislation or financial benefit (Wang and Qian, 2011; Aggarwal, Meschke & Wang, 2012; Liang et al., 2015; Liang & Renneboog, 2017). Such as, any contribution made by an individual/corporation to a registered national political party under section 29A of the Representation of the People Act of 1951 (RPA) is fully deductible as per sections 80GGC and 80GGB of the Income tax act, 1961 for individuals and corporations respectively. Similarly, they will benefit from low-cost loans from banks, especially from government (PSU) banks or government-run businesses (Houston et al., 2014).

Second, donations represent an agency issue (Aggarwal, Meschke & Wang, 2012; Liang & Renneboog, 2017). In India, political donations are disclosed to the government by the political parties. Under section 29-C of the RPA, political parties must submit to the Election Commission of India (ECI) a list of any donations of over INR 20,000. If a political party cannot submit a report, that party will not be entitled to tax relief under that act. However, companies need not disclose detailed information. Companies can only disclose the donation amount under the head of other expenses in the profit and loss account. Thus, shareholders can easily miss this corporate political donation. Companies do not discuss these donations in board and annual shareholder general meetings and are small enough to escape shareholder scrutiny. Therefore, if donations represent an agency problem, they will not generate returns for the shareholders. Instead, contributions could be a prerequisite consumption made by the higher managers. They may have personal discretions over candidates and political parties they wish to support that are irrelevant to the firm's operations.

Concluding under the first view, donations are an investment in political capital that should generate positive returns for the firm, showing a positive relationship between CSR donation and political donation. According to the alternate view, donations are symptomatic of an agency problem that should lower returns for the firm and negatively affect CSR and political donations relationships (Aggarwal, Meschke & Wang, 2012; Liang & Renneboog, 2017; and Muttakin et al., 2022).

This study contributes to the existing literature in three ways. First, this paper examines the relevance of mandatory CSR expenditure to firms in India (Bhattacharyya & Rahman, 2020).

CSR expenditure for Indian firms legislated only seven years ago is continuously amended with new rules and provisions. Hence, very few studies in India, being an emerging market, investigate firms' mandated CSR expenditure requirement while analyzing its effect on price volatility, employee welfare expenses, cash flow, and political contribution. This paper is an effort in this direction. The aim is also to explore, apart from directed variables, whether the determinants of CSR expenditures under a voluntary regime remain relevant in a mandatory system. The regime wherein no penal fine for non-compliance exists, but due to mandated disclosure requirements by the company as per companies act 2013, can have an indirect effect on the public at large. Second, it examines this relation using actual CSR spending rather than a CSR proxy score for voluntary CSR spending (Servaes and Tamayo, 2013; Lys T. et al., 2015). Third, it aims to examine if the firms investing in a national political party by donating affect their CSR expenditure and whether the employee cost or performance is affected due to CSR activity due to the existence of a proviso in the companies act 2013.

III. Literature review and hypothesis development

Many view social responsibility as a "donation" transferred from shareholders to stakeholders, resulting in reduced profits (Vance, 1975; Freedman & Jaggi, 1982; Aupperle et al., 1985; Waddock & Graves, 1997 and; Friedman, 2007). In contrast, others see CSR activity as a social commitment by management driven by individual social preferences or the desire to establish friendly relationships with specific stakeholders (Sethi, 1979; Donaldson & Preston, 1995; Jensen, 2002). Freeman's stakeholder theory (1984) encapsulates this later view, which argues that corporations should consider the interests of everyone who can significantly affect, or be impacted by, the company's welfare.

In the last twenty decades, corporate social responsibility (CSR) has become increasingly significant in business operations. Numerous stakeholders such as consumers, government, shareholders, activists, potential investors, and the general public have recognized its impact and demanded a corporate response (Campbell, 2007; Chen et al., 2020). Corporate social responsibility has firmly embedded its seeds in an emerging market such as India. Major stakeholders compel corporate entities to adhere to ethical, social, and environmental standards. However, in emerging and transitional markets where the market-based establishments and other stakeholders' influences are relatively unsubstantial, the government has played a significant role in making sure companies perform socially responsible to society (Yin J. & Zhang Y., 2012; Zhao M., 2012).

Studies both in India and globally have been unable to establish a definitive answer as to the impact of CSR expenditures on corporate performance in an environment where management has discretion regarding the amount it can spend on related projects and policies (Bhardwaj et al., 2018; Price & Sun, 2018). Hence the introduction of legislation in India to make CSR

spending mandatory for large companies provides an ideal opportunity to test the incremental impact of this provision relative to the findings associated with a voluntary CSR expenditure. The Companies Act of 2013 has fixated the magnitude of CSR expenditures and is therefore not under the company's management or shareholders' control.

In the Indian context, prior to 2013, many researchers analyzed the effect of CSR activities or their scores without considering their association with firm characteristics or performance. Many authors focused only on the CSR attributes (Arora & Puranik, 2004; Sood & Arora, 2006; Singh, 2010), while others considered only the policies and practices usually adopted for fulfilling CSR activities (Gupta D. K. & Saxena K., 2006 and; Arora D. & Rana G. A., 2010). Prior (Khan A. F. & Atkinson A., 1987; Jain & Kaur, 2004) used questionnaire surveys, while a recent study (Bhattacharyya A., Wright S. & Rahman M.L., 2021) on the other end used the actual CSR expenditure. However, (Sen et al., 2006; Kansal M., Joshi M. & Batra G. S., 2014) findings show the competitive CSR benefit to a firm.

Many author's findings show that higher levels of spending on CSR activities helped firms to

1. attract and retain high-quality, qualified employees (Greening D.W. & Turban D.B., 2000);
2. produce goodwill that can restore performance during legal breaches by reducing liabilities (Godfrey P.C., 2005);
3. improve product and service advertising efficiency (Fombrun, 2005); and
4. increase customer satisfaction and market value (Luo and Bhattacharya, 2006).

In contrast, some report a negative relationship between a firm's return on assets (ROA) and stock return with increased CSR undertakings or ratings (Di Giuli & Kostovetsky, 2014). Similarly, CSR is positively linked with the cost of equity, indicating that investors do not treat CSR as a value-augmenting factor (Dahiya & Singh, 2020).

Studies that examine the period after the mandated rule change show that although the required CSR expenditure regulations may impose certain costs on shareholders, there may also be some advantages. A firm's CSR policies become more formalized and transparent under a mandatory CSR expenditure rule, providing a stronger signal to shareholders. Strategic CSR reporting and spending involve more visible CSR and financial disclosures, which have the potential to improve a company's reputation both locally and nationally. The literature reports below countries show positive reactions to formalizing a law by increasing a firm value.

(DeFond, Hu, Hung & Li, 2011) examined the effect of the mandatory EU's adoption of IFRS in 2005. It found a greater increase in foreign investment among firms in countries with strong implementation credibility. The Korean governance reforms of 1999, which mandated large public firms to constitute an audit committee and have 50% outside directors, enhanced the firm's values (Black B. & Kim W., 2012). Similarly, a study by Frost (2007) shows a substantial

increase in CSR performance after enforcement of section 299(1)(f) of the Australian Corporations Act in 2001, which requires companies to declare their environmental performance.

In the Indian context, Black and Khanna (2007) show a positive stock market reaction to Indian governance reforms, adopted in early 2000, that include for public companies to have audit committees and CEO/CFO certification of financial statements and internal controls to improve corporate governance. Moreover, Kapoor and Dhamija (2017) find that mandatory CSR spending has shown the desired positive results in the first year of implementation itself.

In summary, most literature reports that CSR can positively affect firm performance. Furthermore, CSR benefits include improved public relations, financial performance, and worker productivity (Burlingame, 1994). Similarly, Hammond and Slocum (1996) emphasize that CSR could improve corporate reputation and lower financial risk, thus, leading firms to have a lower bankruptcy risk than non-CSR firms. The findings of McVea and Freeman (2005) show that lower employee turnover reduces hiring and training expenses, supportive societies lessen legal and public relations overhead, and stable shareholders reduce stock market volatility. CSR also helps create favorable customer relationships, attract motivated workers, reduce company risks, and increase goodwill, which can otherwise incur costs (Bird, Hall, Momentè & Reggiani, 2007).

Short-term investors generally expect instantaneous results from their funded capital, and they withdraw their funds and invest elsewhere if a firm is not generating returns from their invested capital. Therefore, the short-term investor's decisions increase the volatility in the markets. Thus, ESG/CSR is an essential factor.

In contrast to short-term, responsible investors consider a firm's social and environmental policy, focusing on ethics and less than a profit-generating capacity. These responsible investors enable firms with better ESG to outperform in the market, leading to lower firm volatility even during the financial downturn and pandemic situation and providing market stability. Prior studies have determined that CSR can positively and negatively influence risk (Nguyen and Nguyen, 2015; Utz S., 2017; Chollet P. & Sandwidi B.W., 2018). Similarly, in the Indian context, a recent Beloskar & Rao (2022) study shows that ESG performance leads to a decline in stock return volatility during crisis periods. Therefore, in this direction, this paper will analyze the stock price volatility in mandatory regimes using CSR expenditure instead of ESG score, including both noncrisis and crisis periods. Therefore we hypothesize the following:

Hypothesis 1: Higher (lower) CSR expenditure leads to lower (higher) stock price volatility in the market.

Likewise, ethical and socially responsible firms exploit the benefit related to workforce expenses. Employee welfare expenses have been treated as CSR measures even though employee expenses are essential to company survival. According to past studies, the ESG score is used as a proxy for the CSR score, implying that the ESG score is included in analyses to study the impact CSR has on firm performance. (Gillan S. L., Koch A. & Starks L.T., 2021). The environmental, social, and governance (ESG) score pulls information from ten key variables in its three pillars, measures a company's exposure to long-term risks, and can also prove influential to shareholder opinions. The' S' factor in ESG represents the firms' being socially responsible to various stakeholders, including employees. Moreover, social identity theory (SIT) proposes that individuals strengthen their confidence and boost their self-image by identifying with their organization's activities, such as CSR (Mael and Ashforth, 1992). It helps explain how CSR activities influence employee work attitudes (Kim et al., 2016; Gond et al., 2017).

Many other studies focus on the impact of CSR on various aspects of the employee sphere. Some establish that better human resource management practices such as employee training and development, adequate health and safety standard, addressing employee issues, and progressive remuneration policies reduce employee turnover and increase employee productivity and the firm's financial performance (Huselid M.A., 1995; Youndt et al., 1996 and; Shen & Zhang, 2019). A company's social responsibility factors into its reputation and is an attractive force for potential and current employees (Greening D.W. & Turban D.B., 2000; Tanwar & Prasad, 2017). Porter and Kramer (2006) argue that CSR can increase employee commitment to a company while boosting morale and suggest that employees work harder in socially responsible companies. Studies confirmed that CSR activities lead to higher employee motivation and job retention in the Indian context (Sharma & Mishra, 2019; Chaudhary, 2020; Bharadwaj & Yameen, 2021) and have a positive impact on corporate and employee performance.

These employees are also willing to work for less when they work for socially responsible companies (Roberts & Dowling, 2002). Similarly, (Sun & YR, 2015) states that if employees believe that job satisfaction does not depend merely on their profitability or monetary gains, then employee costs may be lower in socially responsible firms. Likewise, (Nyborg K. & Zhang T. 2013) found a significant negative association between wage and CSR scores, and it states that CSR irresponsibly employers must pay more to recruit equally qualified employees.

As such, CSR in previous studies included expenses on employees as social responsibility of the firm, and the public & investors treated expenditure on employees as a positive sign. However, per rule 4(5) of section 135 of the companies act 2013, activities benefiting employees do not qualify as eligible CSR activities. The recent literature in the Indian context uses different CSR measure scales. Bharadwaj & Yameen (2021) suggest analyzing the effect of actual CSR expenditure on different employee attributes such as employee performance or cost. Therefore we hypothesize the following:

Hypothesis 2(i): Employee productivity or performance will increase with increased CSR expenditures.

Hypothesis 2(ii): The higher CSR expenditure will reduce the company's employee costs.

Some existing literature also suggests that the level of cash balance and cash flow from operations, a liquidity measure of firm performance, facilitates or attracts stakeholder demand for CSR expenditures (Campbell, 2007; Lys T. et al., 2015; Azmi et al., 2021). Many have contradicted this finding and found a negative association between financial performance and CSR (Wright & Ferris, 1997; Baird et al., 2012; Peng & Yang, 2014). Many other studies reported an insignificant relationship between CSR and the firm's financial performance (McWilliams A. & Siegel D., 2000; Prado-Lorenzo et al., 2008; Soana M.G., 2011). Additionally, in the Indian context, the findings of existing literature reported a positive effect of CSR on firm performance before the mandatory CSR regime in India (Kapoor & Sandhu, 2010; Mishra & Suar, 2010; Bihari & Pradhan, 2011; Dhaliwal et al., 2011). In their examination of the post-CSR regulation period in India, available studies report positive (Kapoor and Dhamija, 2017; Bhagawan & Mukhopadhyay, 2019), negative (Kuntluru S., 2019), and insignificant (Dharmapala & Khanna, 2016; Sydlowski J., 2018; Mukherjee et al. 2018 and; Nair & Bhattacharyya, 2019) effects of CSR activities on a firm's financial performance. The previous literature analyzes the various measures of firm performance, including operating cash and cash holdings. In line with that literature, this paper analyses the liquidity measure of firm performance using the operating cash flow ratio and cash flow per share. Consequently, we hypothesize the following:

Hypothesis 3(i): As the CSR expenditure increases, firms will have lower operating cash available to pay off current liabilities.

Hypothesis 3(ii): CSR expenditure helps the companies to generate more cash in the business operation.

Although analyzing donations is interesting, corporate political gifts are different. A political contribution is a particular type of donation that confers a more direct benefit to the donor, herein the company donating to the political party. The resulting government usually returns the favor if that particular political party's government comes into power (Ramsay, Stapledon & Vernon, 2001, and Houston et al., 2014). In contrast, charitable donations, including CSR expenditure, might indirectly benefit the donor, whether mandatory or voluntary. A firm's political donations are of interest for various reasons, such as expecting commercial interest favors by donating funds to specific political parties. In public companies, directors determine the fund distribution, but the funds belong to the shareholders and, therefore, can create agency problems (Ramsay, Stapledon & Vernon, 2001; Aggarwal, Meschke & Wang, 2012; Liang & Renneboog, 2017; and Muttakin et al., 2022). The underlying political economy defines the

scope and nature of corporate political donations and suggests a link between corporate grants and political leverage (Gallop, 1997). When corporations make political donations, they will hope for favorable treatment from the leaders of the party in question, like expecting an empathetic response on matters that affect them (Ramsay, Stapledon & Vernon, 2001; Wang and Qian, 2011; Aggarwal, Meschke & Wang, 2012; Liang et al., 2015; and Liang & Renneboog, 2017). Gunningham's public choice theory 1992 provides insights into such views and general corporate political donations. The public choice theory views governments and law-making as a market. Different political parties struggle amongst themselves on the demand side, resulting in legal regulations to redistribute wealth in their favor. In contrast, they reflect politicians' efforts to maximize the political support they receive from interest groups' constituencies on the supply side.

Even after considering the advantages and disadvantages of CSR, it is doubtful whether it can justify making political contributions. Many do not consider the political party donation a social action; those interests are elevated by CSR and often represent only limited political interests. Corresponding to rule 4(7) of section 135 of the companies act 2013, the contribution of any amount to any political party, whether indirectly or directly, under section 182 of the act does not qualify as eligible CSR activity. Although CSR expenditures can justify a political donation implying politically donating firms are more socially responsible, the more suitable rationalization would seem to be profit-maximization for the various stakeholders. Following the latest Australian literature review (Muttakin et al., 2022), this paper analyzes the impact of CSR expenditures on corporate political donation. Therefore, we hypothesize the following:

Hypothesis 4: Political donation and CSR expenditure are substitutes. An increase in political donations decreases CSR spending.

The sample of the previous literature includes only firms subject to mandatory CSR expenditure (Bhattacharyya A. & Rahman M. L., 2019). The study's initial sample shows that even in a mandated setting where a 2% average annual profit in the last three years is required, only 32% of the companies spend the strictly directed amount. 25% of companies spend more than the required amount; however, 46% spend less than 2%. This finding suggests, in addition to the regulatory requirement, that firm-specific economic characteristics may have crucial roles in examining the effect of CSR expenditure. The previous literature has analyzed various firm-specific economics (Lys T. et al., 2015; Manchiraju & Rajgopal, 2017). These factors include firm size, leverage, asset turnover, and company age. Large firms have better significant resources, which can induce higher expectations of CSR expenditure (Wu M.L., 2006). Firms with lower risk generally spend more on CSR activities and show a positive influence, as per (Orlitzky & Benjamin, 2001) and (Kolbel et al., 2017).

After the mandatory regime's implementation, many researchers examined its binding effect. Still, further research exists due to the recent enforcement of acts and continuous

amendments. The further constraint of this literature is its mixed findings. After reviewing the literature on the association between CSR activities and firms' financial performance and its other characteristics, Margolis et al. (2009) note that a few studies report significant positive relations between CSR activities and firm performance, while others report negative associations. Therefore, most prior studies document the different relationships between CSR activities and firm performance regardless of the nature of CSR policy, project, or spending and are available for further research.

IV. Data

IV(i). Data sample:

The study includes firms listed on either the National Stock Exchange of India (NSE) or the Bombay Stock Exchange of India (BSE) indexes and fulfilling one of the stipulated criteria for net worth, turnover, or net profit before tax for complying with the CSR provisions in effect from 1st April 2014. The study considers data for the seven financial years from 2014/15 to 2020/21, following the mandatory regime in India. Compliances with section 135 of the Indian companies act 2013 were made mandatory in 2014, so CSR expenditure data is primarily available from 2015. In India, a financial year starts on 1st April and ends on 31st March. The data sample excludes variables that were incomplete or missing data values for the select financial year. Hence, the final sample consists of 490 firms listed on the NSE or BSE of India with 3,430 firm/year observations. This study includes three types of data. The first type of data is CSR data, collected from the National CSR Website (official CSR site in India)[4]. The second data from the Election Commission of India (ECI) is the political donation to a political party. The third data type is financial data such as stock price volatility, return on assets, total assets, and other financial characteristics obtained from databases such as Datastream, Morningstar, and WRDS.

IV(ii). Variable selection:

This study used the actual corporate social responsibility (CSR) expenditure reported by the companies in their annual reports, similarly to previous studies (Rai S. & Bansal S., 2015; Mukherjee et al., 2018; Bhattacharyya A. & Rahman M. L., 2019 and; Garg A., Gupta P.K. & Bhullar P.S., 2021). The actual CSR expenditure's logarithms normalize the variables across the firms. Other studies used stock price volatility to measure the effect of market risk on CSR

[4] The National CSR portal is launched in the period 2018. Section 135(4) of the companies act, 2013 mandates the company to mention the CSR amount in the annual report. Before 2014, the company had the liberty to mention the amount of CSR amount made in the year or not. Furthermore, the company can decide to show the CSR amount in the annual report, website, or any medium. Therefore, this study is from the period 2014 only.

expenditure (Nguyen & Nguyen, 2015; Utz S., 2017; Chollet P. & Sandwidi B.W., 2018; Benlemlih et al., 2018; Shakil M.H., 2020).

Following the prior studies of Stuebs and Sun (2010) and Sanchez and Benito-Hernandez (2015), the present study also considers two alternative ratios, one (net income per employee) to capture employee performance and the other (employee cost per employee) to measure the employee cost. The analysis also considers two accounting-liquidity-based measures of firm performance, the operating cash flow ratio (*OFCR*) and cash flow per share (*CFS*). The former denotes the operating cash flow to pay off the current liabilities, whereas the latter is an overall ratio representing the cash flow generated from the business (Lys T. et al., 2015; Sekhon A.K. & Kathuria L.M., 2019).
In some previous studies, political donations are not considered sociable; therefore, analyzing its effect on CSR expenditure. The dependent variable is the actual political donation (Indian rupee in thousand). (Aggarwal, Meschke & Wang, 2012; Di Giuli & Kostovetsky, 2014; Muttakin et al., 2022).

The regression models include several control variables to mitigate the omitted variable problem. Similar to previous studies, ours uses firm-related control variables such as firm size (*Size*: natural log of total assets), firm profitability (*ROA*), risk (*LEV*), and age (*AGE*) of the company as the logarithm of the age of the company (years) and growth (*MTB*), asset turnover (*AT*) as efficiency ratio, and C*urrent Ratio*. (Di Giuli & Kostovetsky, 2014) used selling, general, and admin expenses scaled by sales (*SGASales*). (McWilliams A. & Siegel D., 2000; Tsoutsoura M., 2004; Jiraporn et al., 2014; Lys T. et al., 2015; Habbash, 2016; Chauvet & Jacolin, 2017; Manchiraju & Rajgopal, 2017 and; Mukherjee et al., 2018)

Industry type significantly affects CSR expenditure (Banerjee, Iyer & Kashyap, 2003). Therefore, the study uses industry-fixed effects. As widely practiced in the financial literature, the last control factor is a year dummy variable to control for any year effect. Contribution to a no. of a political party (log of no of political party) is included as a control variable to examine the relationship between CSR and political donation. Since a company can donate to more than one political party, it will influence the relationship of the contribution.

IV(iii). Regression models:

This study used linear regressions with fixed effects to test the impact of CSR expenditure on financial performance at the industry level and year level. The regression is done first, including industry effects only, and then both industry and year fixed effects.

We use the following regression models for analysis:

1. $Price\_vol_{it} = \beta * LN\_CSR_{,t} + control\_variables + e_{it}$ (i)

$$2.\ EMPPER_{it} = \beta * LN\_CSR_{,t} + control\_variables + e_{it}\ (ii)$$

OR

$$EMPCOST_{it} = \beta * LN\_CSR_{,t} + control\_variables + e_{it}\ (iii)$$

$$3.\ LN\_CSR_{it} = \beta * OCFR_{,t} + control\_variables + e_{it}\ (iv)$$

OR

$$LN\_CSR_{it} = \beta * CFS_{,t} + control\_variables + e_{it}\ (v)$$

$$4.\ LN\_CSR_{it} = \beta * P\_C_{,t} + control\_variables + e_{it}\ (vi)$$

Where *LN_CSR* is the logarithm of the amount spent on CSR activities, *Price_vol* is the stock price volatility, *EMPPER* is the employee performance, *EMPCOST* is the employee's welfare expenses, *OCFR* is operating cash flow ratio, *CFS* is cash flow per share, and *P_C* is an actual political donation (Indian rupee in thousand).

The *EMPPER* is the sum of (net income and employee costs) scaled by the number of employees (in thousand), whereas the *EMPCOST* is the total employee cost scaled by the number of employees in the company (in thousand). The *OCFR* is the operating cash flow from the business scaled by its current liabilities.

The control variables include firm-specific economic factors, commonly used in the previous literature as determinants of CSR expenditure. *Size, LEV, AT, AGE, ROA, MTB, SGASales, LN_PP*, and *Current Ratio*.

The *Size* variable is the log of total firm assets; *LEV* is the debt and equity ratio; *AT* is the asset turnover. The *AGE* is the log of the company years from the date of incorporation till the year 2021. *ROA* is the return on assets; *MTB* is the market to book ratio; SGASales is the selling, general, and administrative expenses scaled by the company's sales. The *Current Ratio* is the current assets divided by the company's current liabilities.

The regression uses the industry and year-fixed effects to estimate the models; While the year-fixed effect aims to remove the influence of trends over time, the industry-fixed effect helps mitigate industry-specific heterogeneity.

The industry fixed effect is essential in this context because the variation in the level of environmental impact, governance and disclosure requirements, regulatory impediments, and overall growth opportunities in different industries may influence the actual amount of CSR expenditure.

V. Results

V(i). Industry-wide CSR activities:

Table 1 lists the CSR activities undertaken by the various sectors, which have been calculated based on a qualitative study of the CSR activities of the companies during the whole sample period from 2014/15 to 2020/21. The companies incur CSR expenditures in various sectors, including rural development, environment, education, and health.

Public companies spent the most on education in the industrial sector, followed by the cyclical consumer sector. Public companies in the financial sector spend the most on rural development, while the non-cyclical consumer industry contributes the most to their environment—the financial sector benefits by developing and supporting the rural sector (Nwanna G. I., 1995). Similarly, Sims (2009) shows that the consumer non-cyclical industry will benefit by developing their environment.

Insert Table 1 Here

V(ii). Descriptive statistics:

Tables 2 and 3 report descriptive statistics and the correlation matrix, respectively. Per table 2, for firm characteristic variables, the observed average of *Price_vol* is 32%, and *OCFR* and *CFS* are 1.21% and 10.58%, respectively. *CFS* exhibits higher volatility (standard deviation is 93.17%) than *OCFR*. The average of variables *EMPPER* and *EMPCOST* is INR 11021.30 (thousand) and INR 3137.87 (thousand). The average political donation is INR 879842.23 (thousand).

The CSR expenditure variable shows that, despite the regulatory requirement, the average actual CSR is INR 127,600,000. The summary statistics show the values before taking the logarithm value. While focusing on other control variables, we find that the average size (total assets) is INR 267300000 (in thousand), and debt (*LEV*) constitutes an average of 79.1% of the capital structure of the Indian firms. Average asset turnover (*AT*) is just below 0.9, and the *AGE* of a company is 45 years. Around 7% of the total assets stem from net earnings (*ROA*). The average market-book ratio (*MTB*) and *SGASales* costs are around 3.21 and 0.239. The average C*urrent Ratio* is 21.91 for all companies. In the regression models, excluding *Size* from the control variables, the *Current Ratio* is the most volatile (standard deviation 693.49), while *SGASales* and *No_of_PP* show the lowest volatility (standard deviation 0.31) among the control variables.

Insert Table 2 Here

Table 3 interprets the correlation matrix. *EMPPER* moderately correlates with *EMPCOST* (r = 0.33) between the two employee welfare variables. This result indicates that *EMPPER* and *EMPCOST* capture different aspects of employee attributes. Other firm economic variables are also not highly correlated with CSR expenditure, below 0.2, and a very low correlation exists between different control variables. However, *SGASales* with *CFS* and *Age* with *Size* have a moderate correlation of about 0.5. Additionally, *Price_vol*, *EMPCOST*, and *OCFR* negatively correlate with CSR expenditure. While *P_C* (political contribution), *EMPPER*, and *CFS* positively correlate to CSR expenditure.

Insert Table 3 Here

V(iii). Regression results:

Multicollinearity and heteroscedasticity are two main problems in regression analysis that can lead to inefficient results (Gujarati et al., 1995). We conducted the Variance Inflation Factor (VIF) and Breusch-Pagan-Godfrey tests to control for these. As per the derived results (not presented), the VIF of all the independent variables is less than 2.01 for all the regression models. Hence, multicollinearity is not a severe problem in these models. We also applied robust standard errors to provide a better fit for these models to handle the heteroscedasticity issue.

Statistical inference concerning CSR expenditure, firm-level characteristics, and performance derives from the heteroscedasticity-consistent robust t-statistics procedure. Tables 4-7 present the main results based on robust t-statistics.

Table 4 provides the regression results of the impact of CSR on stock price volatility (*Price_vol*). It shows a significant negative relationship, including industry fixed effect and, with and without the year fixed effect, at a 1% significance level. An increase of one standard deviation in CSR causes a 0.05 standard deviation decrease in price volatility. Thus, the stock price volatility of higher ESG/CSR firms is comparatively low compared to firms that have a relatively low ESG score. The study's findings support the perception that higher ESG decreases stock price volatility (Benlemlih et al., 2018; Chollet P. & Sandwidi B.W., 2018; Shakil M.H., 2020). Similarly, findings align with many previous studies that find a negative relationship and argue that CSR disclosure helps reduce stock price volatility and risk (Jo & Na, 2012; Benlemlih et al., 2018; Xu & Liu, 2018; Chollet P. & Sandwidi B.W., 2018 and; Tasnia M., AlHabshi S.M.S.J., & Rosman R., 2020 and; Beloskar & Rao, 2022). The price volatility also has a significant association with all control variables. The control variables for *ROA* and *LEV* are significantly negative and positive, respectively, which supports the findings of Jo and Na (2012) and Benlemlih et al. (2018) after including fixed industry and year effects. The *MTB* variable is significantly negative, similar to the results of Tasnia, AlHabshi, and Rosman (2020).

Insert Table 4 Here

Table 5 presents the employee relationship results. Employee performance is positively associated with corporate social responsibility with and without year-fixed effects, indicating that actively participating in CSR activities can improve employee performance. An increase of one standard deviation in CSR causes an increase of 0.0011 of a standard deviation in employee performance without year fixed effects but increases to 0.02 of a standard deviation with year effect. In other words, employees work more productively in socially responsible companies. These findings support previous studies (McGuire et al., 1988; Heal, 2005; Porter & Kramer, 2006; Sun & YR, 2015; Chaudhary, 2020).

Models 3 & 4 of table 5 show that CSR has a negative and significant relationship with employee costs irrespective of fixed effects suggesting that socially responsible companies pay lower salaries to their employees. An increase of one standard deviation in CSR leads to a decrease of 0.05 of a standard deviation in employee cost. This evidence supports that employee cost is lower for socially responsible firms. (Nyborg K. & ZhangT., 2013) state that CSR irresponsible employers must pay more to recruit equally qualified employees. The finding aligns with the findings of (Podolny, 1993 and Nyborg K. & Zhang T. 2013) that socially responsible firms pay lower salaries to their employees. These findings do not align with Sun and YR (2015) but support the second hypothesis of this study. The variable control *Size* is significantly positive with employee performance and costs, though *LEV* is negative with employee performance, similar to the findings of Stuebs and Sun (2010). The company's age significantly negatively affects employees' performance and cost, and asset turnover is only significant with employee costs.

Insert Table 5 Here

The regression results of table 6 present the liquidity measure of firms and CSR expenditure. The findings show a significantly negative relationship with the operating cash flow ratio (*OCFR*). It shows that companies paying CSR expenditures have lower cash available to pay off their current liabilities. The results support (Atif, Liu & Nadarajah, 2022) findings but contradict (Lys T. et al., 2015), which show a positive relationship. The negative value for operating cash flow shows that making CSR expenditure results in a lower operating cash flow within the company. The results show a significantly positive association with cash flow per share (*CFS*) which supports the results of (Lys T. et al., 2015; Bhattacharyya & Rahman, 2020; Azmi et al., 2021 and; Atif, Liu & Nadarajah, 2022). It supports that business generates more cash with increased CSR, and a company can spend more on CSR. We further establish that the control variables *Size* & *MTB* are significant and positive with CSR expenditure while leverage is significantly negative; these findings coincide with much of the pre-established literature (Lys T. et al., 2015; Sekhon A.K. & Kathuria L.M., 2019 and; Bhattacharyya & Rahman, 2020).

Insert Table 6 Here

Table 7 shows the relationship between CSR and political contributions made by the company. The results show a significantly positive relationship, showing that an increase of one standard deviation in political donation causes an increase of 0.01 of a standard deviation in CSR, which leads to a 0.03 standard deviation with the year effect. The results support the findings of the United States and China papers; Di Giuli and Kostovetsky (2014), Huang and Zhao (2016), Xu and Liu (2020), and Luo & Wang (2021) but contradict those of an Australian paper (Muttakin et al., 2022), wherein they show that political donation has a negative relationship with CSR expenditure. It may be due to the different forms of government present in these countries. India, the United States, and China have a republic form of government, while a constitutional monarchy government exists in Australia[5]. Moreover, after including the year fixed effect, the significance of results increased from a 10% level to a 1% level.

The control variable *LEV* has a significant negative relationship, while *ROA* and *Size* have a significantly positive association; these findings are similar to Di Giuli and Kostovetsky (2014) and Xu and Liu (2020).

Insert Table 7 Here

VI. Conclusion

This paper studies the relevance of CSR compliance in mandatory expenditure to Indian firms from 2014/15 to 2020/21. To this end, we investigated a sample of 490 publicly listed firms on the NSE or BSE in India, fulfilling the criteria to comply with the established CSR provisions. This study used the actual CSR expenditure by the eligible companies and examined each firm's financial characteristics, such as price volatility, employee welfare, cash flows, and political party donation.

Our findings reveal that mandatory CSR expenditure significantly reduces a company's stock price volatility. The previous literature supports the findings and shows that the market and responsible investors consider the mandatory CSR expenditure in the case of listed firms and view this spending as being in the interests of the shareholders.

Employees' costs and political contributions not included in the CSR activities provide proper insight into the mandated regime structure. The findings of this paper coincide with the previous literature that socially beneficial activities by firms enhance their employee's performance. CSR can increase employee commitment to a company while boosting morale

[5] https://en.wikipedia.org/wiki/List_of_countries_by_system_of_government.

and suggesting that employees work harder in socially responsible companies. There is limited research on the effect of CSR expenditure on employee costs, and the findings reveal mixed positive and negative associations. Employee cost dramatically depends upon the country and its culture. A prior study states that if employees believe only profitability or monetary gains do not drive job satisfaction, employee costs may be lower in socially responsible companies. Similarly, other studies show that CSR irresponsibly employers must pay more to recruit equally qualified employees and found a significant negative association between wage and CSR score. This paper supports the finding of this study and coincides with the results under the mandatory regime that employee costs have a significant negative association with CSR expenditure.

This paper also analyzes the CSR expenditure compliance with the firm's liquidity to show that CSR is negatively associated with the operating cash flow ratio but positively associated with the cash generated by the company. It supports the hypothesis that more cash is generated through socially responsible firms but is left with less cash to pay off its current liabilities in day-to-day operations.

Moreover, political contributions align with the CSR policies and support the rationale that political donations are an investment in the political fund to the political party that should generate positive returns for the firm, showing a positive relationship between CSR donation and political donation. Therefore, the results show a positive association and that politically connected firms behave socially, and a socially responsible corporate brings many benefits to its various stakeholders.

To conclude, mandatory CSR spending has shown the desired results, such as reduced risk and greater employee performance with a reduced cost. Though it requires more cash to make CSR expenditure, making a political donation makes the company more socially responsible alongside reaping other benefits. Therefore, despite mandatory law enforcement, CSR can benefit the company more than non-CSR paying companies. Recently companies act was amended and introduced penalties for non-compliance with CSR norms. Also, the new provision states that if a company spends more than the mandated, the such excess amount may be set off against the required CSR expenditure up to immediately succeeding three financial years. Therefore, these amendments will provide a prospect to analyze the impact of these new provisions on CSR expenditure for further research.

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TABLES:

Table 1:

Industry wide CSR activities:

Industry	Rural development	Environment	Education	Relief fund	Health care	Social	Others	Total
Basic materials	11.76%	8.66%	33.51%	2.31%	21.91%	7.95%	13.89%	100%
Consumer cyclicals	6.04%	17.42%	43.79%	2.51%	18.53%	3.82%	7.88%	100%
Consumer non-cyclicals	2.96%	28.34%	19.68%	1.62%	24.84%	13.49%	9.08%	100%
Energy	15.01%	14.38%	33.53%	4.68%	21.99%	2.36%	8.06%	100%
Financials	28.71%	7.81%	14.85%	0.57%	15.49%	4.64%	27.93%	100%
Healthcare	8.47%	6.28%	26.43%	1.02%	42.41%	6.13%	9.26%	100%
Industrials	3.97%	13.63%	46.51%	1.26%	23.79%	3.35%	7.49%	100%
Real estate	12.28%	22.81%	30.52%	0.00%	9.46%	23.79%	1.13%	100%
Technology	2.35%	12.88%	30.73%	4.48%	7.87%	13.90%	27.79%	100%
Utilities	12.17%	14.68%	25.57%	2.28%	12.46%	25.26%	7.57%	100%

Note: CSR activities undertaken by sector, calculated based on a qualitative study of the CSR activities of the companies during the whole sample period from the year 2014/15 to 2020/21.

Table 2:
Descriptive statistics:

Variables	Obs.	Mean	Std. dev.	Min.	Max.
ACSR	3430	127600000	580700000	0	9220000000
Price_vol	3430	32.007	12.346	0	63.586
EMPPER	3430	11021.304	93709.167	-2512207.1	2071861
EMPCOST	3430	3137.869	26220.592	0	761398
OCFR	3430	1.217	52.065	-108.727	3047.19
CFS	3430	10.582	93.173	-4462.162	1231.082
P_C	3430	879842.23	27170341	0	1538000000
Size	3430	267300000	1090000000	100	18000000000
AT	3430	0.803	0.619	-0.011	5.554
LEV	3430	0.791	8.834	0	473.05
ROA	3430	7.536	9.494	-121.648	245.212
AGE	3430	45.06	24.241	1	120.326
MTB	3430	3.141	4.617	0	80.15
SGASales	3430	0.239	0.31	-0.717	9.718
Current Ratio	3430	21.914	693.492	0	34727.87
No_of_PP	3430	0.047	0.316	0	4

Note: *ACSR* is the actual amount spent on CSR activities; *Price_vol* is the stock price volatility; *EMPPER* is the employee performance (thousand) = (net income + employee cost)/ (no of employees); *EMPCOST* (thousand) = employee cost/ no of employees; *OCFR* is operating cash flow ratio; *CFS* is the cash flow per share and *P_C* is an actual political donation (thousand). The control variables include *Size* = total assets (thousand); *AT* = asset turnover ratio; *LEV* = debt/equity; *ROA* = return on assets*; AGE* = age of firm (years); *MTB* = market to book ratio; *SGASales* = selling, general and admin expenses scaled by sales; *Current Ratio* = current assets/current liabilities and *No_of_PP* = number of political party donations.

Table 3:

Pairwise correlation coefficient matrix:

Variables	LN_CSR	Price_vol	P_C	EMPPER	EMPCOST	OCFR	CFS	Size	AT	LEV	ROA	AGE	MTB	SGASales	Current Ratio	LN_PP
LN_CSR	1.000															
Price_vol	-0.071*	1.000														
	(0.000)															
P_C	0.020	-0.019	1.000													
	(0.252)	(0.259)														
EMPPER	0.004	-0.005	-0.001	1.000												
	(0.810)	(0.792)	(0.930)													
EMPCOST	-0.049*	0.013	-0.002	0.335*	1.000											
	(0.004)	(0.462)	(0.894)	(0.000)												
OCFR	-0.023	0.011	0.000	0.151*	0.105*	1.000										
	(0.171)	(0.529)	(0.993)	(0.000)	(0.000)											
CFS	0.045*	-0.029	0.005	0.051*	-0.025	0.030	1.000									
	(0.009)	(0.092)	(0.769)	(0.003)	(0.145)	(0.077)										
Size	0.195*	0.041*	0.027	0.050*	0.073*	0.000	0.047*	1.000								
	(0.000)	(0.017)	(0.120)	(0.003)	(0.000)	(0.978)	(0.006)									
AT	0.072*	0.059*	-0.007	-0.078*	-0.064*	-0.021	-0.022	-0.073*	1.000							
	(0.000)	(0.000)	(0.682)	(0.000)	(0.000)	(0.218)	(0.192)	(0.000)								
LEV	-0.022	0.012	-0.002	0.000	0.022	-0.002	-0.008	0.061*	-0.062*	1.000						
	(0.189)	(0.475)	(0.915)	(0.990)	(0.202)	(0.905)	(0.627)	(0.000)	(0.000)							
ROA	0.150*	-0.079*	0.026	0.056*	-0.029	0.007	0.137*	0.054*	0.240*	-0.045*	1.000					
	(0.000)	(0.000)	(0.127)	(0.001)	(0.094)	(0.662)	(0.000)	(0.002)	(0.000)	(0.008)						
AGE	0.132*	0.075*	0.025	-0.036*	-0.052*	-0.026	0.014	0.552*	0.135*	-0.012	0.069*	1.000				
	(0.000)	(0.000)	(0.138)	(0.035)	(0.002)	(0.124)	(0.403)	(0.000)	(0.000)	(0.471)	(0.000)					
MTB	0.135*	-0.121*	0.005	-0.031	0.004	-0.005	0.017	0.094*	0.254*	0.213*	0.284*	0.084*	1.000			
	(0.000)	(0.000)	(0.762)	(0.067)	(0.836)	(0.761)	(0.313)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)				
SGASales	-0.045*	0.037*	-0.001	-0.045*	-0.012	-0.010	-0.513*	0.017	-0.095*	0.027	-0.054*	0.031	0.028	1.000		
	(0.009)	(0.029)	(0.975)	(0.008)	(0.476)	(0.543)	(0.000)	(0.308)	(0.000)	(0.114)	(0.002)	(0.068)	(0.095)			
Current Ratio	-0.013	-0.004	-0.001	0.032	0.001	-0.001	0.019	0.007	-0.036*	-0.003	-0.019	0.005	-0.019	-0.007	1.000	
	(0.432)	(0.800)	(0.959)	(0.060)	(0.961)	(0.972)	(0.257)	(0.671)	(0.034)	(0.873)	(0.278)	(0.789)	(0.277)	(0.676)		
LN_PP	-0.007	0.016	0.319*	-0.013	-0.012	-0.002	0.003	0.005	0.001	-0.005	0.010	-0.009	0.006	-0.017	-0.004	1.000
	(0.678)	(0.348)	(0.000)	(0.457)	(0.485)	(0.888)	(0.858)	(0.772)	(0.951)	(0.774)	(0.544)	(0.593)	(0.733)	(0.332)	(0.821)	

Note: *LN_CSR* is the log of actual amount spent on CSR activities; *Price_vol* is the stock price volatility; *P_C* is an actual political donation (thousand); *EMPPER* is the employee performance (thousand) = (net income + employee cost)/no of employees; *EMPCOST* (thousand) = employee cost/ no of employees; *OCFR* is operating cash flow ratio and *CFS* is cash flow per share. The control variables include *Size* = log of total assets; *AT* = asset turnover ratio; *LEV* = debt/equity; *ROA* = return on assets; *AGE* = log of age of firm (years); *MTB* = market to book ratio; *SGASales* = selling, general and admin expenses scaled by sales, *Current Ratio* = current assets/current liabilities and *LN_PP* = log of number of political party donations. Significant at: *10, ** 5 and *** 1% levels, respectively; we use robust standard errors (in parentheses) in our regressions.

Table 4:

CSR expenditure and price volatility (Price_vol):

	(1)	(2)
Variables	Price_vol	Price_vol
LN_CSR	-0.0730***	-0.150***
	(0.0269)	(0.0333)
Size	0.171*	0.213**
	(0.101)	(0.102)
AT	2.399***	2.646***
	(0.415)	(0.410)
LEV	0.0542***	0.0543***
	(0.0114)	(0.0132)
ROA	-0.0700**	-0.0628**
	(0.0320)	(0.0300)
AGE	1.073**	1.043**
	(0.469)	(0.467)
MTB	-0.358***	-0.391***
	(0.0505)	(0.0503)
Constant	26.06***	26.94***
	(2.484)	(2.539)
Observations	3,430	3,430
R-squared	0.063	0.086
Industry FE	Yes	Yes
Year FE	No	Yes

Note: The independent variable *LN_CSR* is the log of the actual amount spent on CSR activities and the main dependent variable *Price_vol* is the stock price volatility. The control variables include *Size* = log of total assets; *AT* = asset turnover ratio; *LEV* = debt/equity; *ROA* = return on assets; *AGE* = log of age of firm (years); *MTB* = market to book ratio. The industry and year-fixed effects are used to estimate the models. Significant at: *10, ** 5 and *** 1% levels, respectively; we use robust standard errors (in parentheses) in our regressions.

Table 5:

CSR expenditure and employee performance & cost (EMPPER & EMPCOST):

Variables	(1) EMPPER	(2) EMPPER	(3) EMPCOST	(4) EMPCOST
LN_CSR	12.59	207.0	-167.9**	-226.3**
	(215.3)	(286.9)	(74.31)	(88.79)
Size	1,533***	1,401**	1,031***	1,059***
	(559.5)	(576.7)	(348.0)	(353.7)
AT	-1,434	-1,002	1,078**	1,120**
	(2,108)	(2,199)	(520.6)	(534.1)
LEV	-95.38	-80.78	19.75	17.76
	(111.2)	(112.9)	(38.29)	(39.11)
ROA	765.7**	768.1**	-29.77*	-28.20
	(314.3)	(314.1)	(17.87)	(17.44)
AGE	-10,128***	-10,034***	-5,102***	-5,111***
	(3,813)	(3,802)	(1,921)	(1,924)
SGASales	-8,108**	-8,208**	-45.56	-45.12
	(3,173)	(3,380)	(593.5)	(617.4)
Constant	7,721	2,422	-2,026*	-3,002**
	(6,290)	(6,171)	(1,155)	(1,396)
Observations	3,430	3,430	3,430	3,430
R-squared	0.044	0.045	0.035	0.036
Industry FE	Yes	Yes	Yes	Yes
Year FE	No	Yes	No	Yes

Note: The main independent variable *LN_CSR* is the log of actual amount spent on CSR activities and the main dependent variables are *EMPPER* = the employee performance (thousand) = (net income +employee cost)/number of employees and *EMPCOST* (thousand) = employee cost/ number of employees. The control variables include *Size* = log of total assets; *AT* = asset turnover ratio; *LEV* = debt/equity; *ROA* = return on assets; *AGE* = log of age of firm (years) and *SGASales* = selling, general, and admin expenses scaled by sales. The industry and year-fixed effects are used to estimate the models. Significant at: *10, ** 5 and *** 1% levels, respectively; we use robust standard errors (in parentheses) in our regressions.

Table 6:

Operating cash flow ratio & cash flow per share (OCFR & CFS) and CSR expenditure:

Variables	(1) LN_CSR	(2) LN_CSR	(3) LN_CSR	(4) LN_CSR
OCFR	-0.00324***	-0.00406***		
	(0.000185)	(0.000157)		
CFS			0.00168*	0.00149**
			(0.000891)	(0.000688)
Size	0.420***	0.470***	0.417***	0.468***
	(0.0511)	(0.0451)	(0.0511)	(0.0451)
AT	-0.166	-0.436*	-0.150	-0.419*
	(0.277)	(0.239)	(0.277)	(0.240)
LEV	-0.0333**	-0.0378***	-0.0332**	-0.0376***
	(0.0142)	(0.0137)	(0.0143)	(0.0137)
ROA	0.0783***	0.0564***	0.0754***	0.0538***
	(0.0237)	(0.0207)	(0.0235)	(0.0205)
AGE	0.0952	-0.0624	0.107	-0.0487
	(0.256)	(0.219)	(0.256)	(0.219)
MTB	0.142***	0.0984**	0.143***	0.0987**
	(0.0440)	(0.0396)	(0.0439)	(0.0395)
Current Ratio	-0.000144	-0.000095	-0.000149	-0.000099
	(0.000185)	(0.000103)	(0.000185)	(0.000103)
Constant	0.616	2.288**	0.619	2.281**
	(1.067)	(1.073)	(1.067)	(1.074)
Observations	3,430	3,430	3,430	3,430
R-squared	0.098	0.385	0.098	0.385
Industry FE	Yes	Yes	Yes	Yes
Year FE	No	Yes	No	Yes

Note: The dependent variable *LN_CSR* is the log of actual amount spent on CSR activities and the main independent variables are *OCFR* = operating cash flow ratio and *CFS* = cash flow per share. The control variables include *Size* = log of total assets; *AT* =asset turnover ratio; *LEV* = debt/equity; *ROA* = return on assets; *AGE* = log of age of firm (years); *MTB* = market to book ratio and *Current Ratio* = current assets/current liabilities. The industry and year-fixed effects are used to estimate the models. Significant at: *10, ** 5 and *** 1% levels, respectively; we use robust standard errors (in parentheses) in our regressions.

Table 7:

Political contribution (P_C) and CSR expenditure:

Variables	(1) LN_CSR	(2) LN_CSR
P_C	0.0000042*	0.0000079***
	(0.0000025)	(0.0000025)
Size	0.419***	0.469***
	(0.0512)	(0.0452)
AT	-0.156	-0.423*
	(0.277)	(0.239)
LEV	-0.0333**	-0.0377***
	(0.0143)	(0.0137)
ROA	0.0780***	0.0557***
	(0.0237)	(0.0206)
AGE	0.0924	-0.0632
	(0.256)	(0.219)
MTB	0.143***	0.0992**
	(0.0441)	(0.0396)
LN_PP	-2.019	-1.599
	(1.329)	(1.167)
Constant	0.643	2.344**
	(1.069)	(1.073)
Observations	3,430	3,430
R-squared	0.099	0.385
Industry FE	Yes	Yes
Year FE	No	Yes

Note: The dependent variable *LN_CSR* is the log of actual amount spent on CSR activities and the main independent variable is *P_C* = the actual political donation (thousand). The control variables include *Size* = log of total assets; *AT* = asset turnover ratio; *LEV* = debt/equity; *ROA* = return on assets; *AGE* = log of age of firm (years); *MTB* = market to book ratio and *LN_PP* = log of number of political party donations. The industry and year-fixed effects are used to estimate the models. Significant at: *10, ** 5 and *** 1% levels, respectively; we use robust standard errors (in parentheses) in our regressions.