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Mixed Findings on Mandatory CSR's Financial Impact in India: A Comprehensive Review

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The evolution of Corporate Social Responsibility (CSR) has transformed its role in business, becoming a critical element of corporate strategy rather than a secondary consideration. This shift underscores a growing recognition of the corporate obligation to tackle societal along with environmental concerns beyond financial returns. In Indian context, CSR has assumed a unique importance with the Companies Act of 2013 implementation, that mandates CSR spending for qualifying businesses. This regulatory approach aims to institutionalize CSR within corporate operations, promoting sustainable development and aligning business objectives with societal impact.

This literature review examines the implications of mandated CSR in India, with a particular focus on its effects on corporate financial performance (FP). Principal inquiries addressed are: (1) How does mandatory CSR spending influence financial outcomes for Indian companies? (2) Do companies treat CSR as a compliance measure or a strategic investment for long-term gains? (3) Which CSR activities have the most significant impact on financial performance? This study also explores factors moderating CSR-FP relationship, that includes industry, company size, along with CSR implementation quality.

Investigation into CSR-FP nexus has yielded mixed outcomes. Some studies point to positive outcomes, suggesting that CSR efforts can enhance brand reputation, foster customer loyalty, and reduce capital costs, thus strengthening financial performance. Conversely, other studies reveal a more complex interaction, where company characteristics and CSR strategies dictate financial impact. In some cases, the pressure to fulfil mandatory CSR requirements may encourage superficial engagement, limiting the social and financial returns of CSR investments.

This review synthesizes a diverse range of studies, utilizing various theoretical frameworks to analyze the Indian CSR landscape. By assessing trends and patterns, the review aims to elucidate nuanced dynamics of CSR's impact on financial performance (FP), drawing insights for policymakers along with businesses. It advocates for holistic method that incorporates CSR with core corporate strategies, encouraging companies to see CSR as more than just a compliance requirement as well as a genuine investment in future. The findings have practical implications for refining India's CSR regulatory framework to enhance corporate accountability and optimize social benefits, while also offering businesses strategies for leveraging CSR to support sustainable and profitable growth.

1. Introduction

The term CSR has altered suggestively in recent years, shifting from a peripheral concern to a central pillar of sustainable and ethical operations (Busch, 2018). This shift reflects a growing awareness among businesses, investors, and consumers that corporations have a responsibility to contribute to societal well-being beyond simply maximizing profits (Deng, 2021), (Simionescu, 2018). This responsibility encompasses a variety of activities, that include environmental protection, ethical sourcing, employee welfare, along with community engagement, all aimed at generating favorable effects on environment as well as society (Bunadi, 2022), (Hamdoun, 2021).

In India, notion of CSR has assumed a unique aspect after implementation of the Companies Act of 2013 (Raju, 2024). The legislation requires corporations that meet certain requirements, that include designated net worth, turnover, or profit, to allocate a mandated percentage of their profits to CSR efforts (Singhania, 2024). This legal framework aims to enhance corporate accountability and promote sustainable development, setting India apart as a pioneer in integrating CSR into its corporate landscape (Jarboui, 2022).

The obligatory nature of CSR expenditure in India provides a unique context for analyzing the correlation among CSR along with company FP. While legislation aims to promote socially responsible practices, it also raises questions about potential impact of mandatory CSR on a bottom line of company. Do companies view CSR as a mere compliance obligation or as a strategic investment that can contribute to long-term financial sustainability? (Raju, 2024). As per Chen et al., (2018) mandatory disclosure leads to changes in firm behaviour that positively impact the community but can negatively affect shareholders, resulting in a decrease in profitability for CSR reporting firms.

This literature review delves into the multifaceted connection among CSR along with FP, primarily concentrating on the Indian context where CSR spending is mandated. Studies suggest a positive (Rohit & Pinto (2021); Bag and Omrane (2022); (Oware and Mallikarjunappa (2022)) or negative (Fahad et al., (2021); Hayat et al., (2022)) correlation among CSR along with CFP, however a curvilinear relationship have been suggested by others (Maqbool & Bakr (2019)), some research show a negative correlation, but others suggest a positive correlation.

This review analyzes a diverse range of research papers focusing on the connection among CSR along with FP in India. This review primarily covers empirical investigation released after enactment of Companies Act, 2013, aiming to enhance comprehension of direct influence of the compulsory 2% CSR spending requirement on firm behavior, strategic orientations, and resulting financial outcomes. It explores various theoretical frameworks and methodologies employed in these studies, critically evaluate the findings, and identify key trends and patterns. This review analyzes current literature to elucidate intricate connections among CSR along with FP in India, providing essential insights for researchers, practitioners, along with policymakers.

Remainder of paper is structured as follows: 2nd section provides an outline of the mandatory regime of CSR in India. Report's 3rd section, Literature Review, emphasizes the most significant researchers and their findings and assessments of their research. The 4th section discusses reasons for mixed consequences of CSR's effect on FP. This study concludes in 5th section while 6th and 7th sections highlight future of CSR in India and implications of this review. Finally in the eighth section future research suggestions are highlighted.

2. Overview of Mandatory CSR in India

2.1. History of CSR in India

This section presents a timeline outlining development along with progression of CSR in India over time. This section is divided into two parts. CSR initiatives in pre-independence India are examined in initial section. Development of CSR in India since independence is the focus of subsequent section.

2.1.1. Corporate Social Responsibility in Pre-Independence India: In pre-1850s, Vedic philosophy stressed that primary purpose of financial resources was to meet needs of society as well as improve community welfare, which is when CSR in India first emerged. This concept had been developed by various charitable activities, including the construction of hospitals, schools, temples, and famine relief efforts.

Throughout the British occupation of India, which began with East India Company in 1757 as well as continued with the formal British raj from 1858-1947, concept of business philanthropy, which aimed to improve social causes while simultaneously offering businesses with commercial advantages, was main influence on corporate social responsibility.

In later stages of India's independence movement, the CSR landscape was greatly impacted by Gandhi theory of trusteeship (Sharma, 2009), that maintained that capitalists must serve as trustees of their property.

2.1.2. Trends in Corporate Social Responsibility in India Post-Independence: After a period of slow economic progress and independence, in 1990–1991, country experienced an enormous currency crisis, that made it easier to implement broad economic reforms along with eventually globalize. Stakeholder participation model (Freeman, 1984), which forms basis of this investigation, is an evolution of philanthropy-oriented CSR model.

2.2. Legal and Policy frame work of CSR in India:

2.2.1. The National Voluntary Guidelines, that provide principles to guide corporations in executing their obligations, had been adopted by the Indian government in August 2011 with goal of establishing regulations, guidelines, as well as frameworks for business responsibility disclosure in India.

2.2.2. Mandatory corporate social responsibility in India: Since 2014, enterprises with a net worth of minimum of INR 500crore, an annual turnover of minimum of INR 1000crore, or a net profit of minimum of INR 5crore have been mandated by Section 135 of the Companies Act, 2013 to devote 2percent of their average net earnings for previous 3years to CSR expenses. A CSR committee must be established by each eligible company to develop a policy, decide expenses along with disclosure of spending details in annual reports. All Indian businesses, both public and private, are bound by these guidelines. Schedule VII of companies act delineates categories of expenditures that are eligible for CSR funding. SEBI (Securities and Exchange Board of India) requires listed companies to issue a BRR (Business Responsibility Report) if they reach a certain size level.

2.3. Significance of Mandatory CSR in India:

Under Companies Act, 2013 CSR has significant implications for Indian firms due to country's socio-economic challenges along with evolving business environment. CSR is driven by macro-level drivers such as socio-economic challenges, policy imperatives, and national priorities. It is seen as a mechanism to direct corporate capital and expertise toward national priorities, fostering a sense of responsibility among businesses.

Micro-level motivations include reputational benefits, brand image, stakeholder expectations, risk management, community relations, investor and shareholder pressure, and long-term value creation. Compliance-focused CSR involves a minimalist approach, viewing CSR as an expense line item rather than a long-term investment. Strategically integrated CSR aligns with core business competencies, builds intangible assets, and includes well-defined goals, monitoring mechanisms, and impact assessments.

In conclusion, mandatory CSR in India is significant not just for its legal requirement but also for its potential to address developmental needs and create long-term value for firms. The interplay of macro-level socio-economic drivers and micro-level firm-specific motivations highlights the complex yet pivotal role CSR activities play in India's corporate ecosystem.

3. Literature Review

Mandatory CSR spending's effect on Indian companies' performance has been a complicated matter, with research providing mixed results and highlighting the influence of various factors. Although some research indicates that CSR activities along with FP are positively correlated, other studies indicate the connection is more complex and depends on the industry, company size, and specific CSR practices.

Table1. Details of Literature review of Articles with Indian sample after the introduction of mandatory CSR

S no	Author(s)	Sample	Methodology	Type of Relationship	CSR Measurement	CFP measurement	Findings
1	Babitha Rohit*;Prakash Pinto (2021)	30 companies in various sectors in India for the year 2014-20	Correlation and regression analysis	Positive	CSR Expense	NP, ROA,ROE, ROCE, EPS	There is very high correlation between CSR spending, net profit for Oil and Gas, Chemicals and Consumer durable sectors. EPS is negatively correlated with CSR spending for all sectors except Consumer durable.
2	Bag and Omrane (2022)	Top 100 companies listed on the NSE	Factor analysis and regression analysis; Durbin-Watson Test:	Mixed	CSR Expenses	1. Net Sales (NS) 2. Net Profit (NP) 3. Market Capitalization (MC) 4. EPS (Earnings Per Share) 5. ROE (Return On Equity) 6. Operating Profit (OP) through factor analysis	This investigation suggests that CSR activities possess a substantial, albeit moderate, positive impact on Indian companies' FP. Engaging in CSR can lead to competitive advantages, improved business image, and increased loyalty from employees and customers, ultimately contributing to better profitability. It recommends that Indian firms commit to CSR initiatives to enhance their financial outcomes. CSR significantly impacts profitability and market share.
3	Garg, A., & Gupta, P. K. (2020)	388 NSE listed firms, which includes 131 public sectors along with 257 private sectors between 2016-18	1. One-way ANOVA 2. Levene's Test: 3. Tukey's Honestly Significant Difference (HSD) Test	Negative	CSR Expenses	EVA,cumulative stock returns,	The study indicates that compliance with mandatory CSR expenditure doesn't enhance company's performance in India, as public sector firms show lower performance and private sector firms exhibit no significant performance difference based on CSR compliance. It suggests that the stipulated CSR spending levels may not be optimal for improving firm value or market performance. Overall, the findings challenge the assumption that mandatory CSR compliance leads to better firm performance.
4	Jha, A., & Aggrawal, V. S. (2020)	Study consisted of 172 responses to the questionnaire.	1. PLS-SEM (Partial Least Squares Structural Equation Modeling) 2. Bootstrapping Procedure: 3. Common Method Bias Assessment:	Positive	Institutional pressure, CSR implementation		The investigation discovered a statistically significant connection between CSR implementation along with FP, indicating that effective CSR practices might raise financial consequences for companies. Specifically, it was established that reputation partially mediates this relationship, meaning that a company's reputation has been boosted by CSR initiatives and that this has a favorable impact on FP. Overall, outcomes indicate that CSR has transitioned from mere philanthropy to a strategic component that might drive financial success in context of India.
5	Singhania, S., Arora, A., & Sardana, V. (2024)	BSE 100 firms from 2015 to 2021.	Content analysis for creating a CSR	Mixed	CSR index is created based on the schedule VII		Positive impact of CSR reporting on accounting-based performance (ROA), but

			reporting index; panel data analysis using GMM.		disclosures		negative on market-based performance (Tobin's Q).
							The PID (proportion of independent directors) possess a significant adverse impact on TQ (Tobin's Q) as well as a significant positive influence on ROA (Return on Assets). This positive relationship is attributed to independent directors' role in monitoring company operations, reducing agency problems, and ultimately improving firm performance.
							Based on stakeholder theory, a company's responsibility encompasses not only its FP but also the interests of various stakeholders. In relation to CSR reporting, it proposes that companies engaging in sustainability practices may foster positive relationships with stakeholders, this ultimately improves value creation along with commercial success. Importance of managing stakeholder interests effectively to achieve overall business success has been underlined by this theory.
6	Kaur, R., & Dave, T. (2020)	50 companies from 2016-19	fixed effect regression analysis	positive	Thir part rating csrhub.com	PAT, ROA, ROE,EPS	The results of the investigation demonstrate that CSR initiatives significantly and favorably impact firm's FP. Specifically, a higher CSR score correlates with increased EPS, with each one-point increase in CSR score resulting in approximately a 0.090 increase in EPS. Study concludes that firms committed to socially responsible initiatives can enhance their FP, validating previous research in this area.
7	Barman, S., & Mahakud, J. (2024).	1133 companies from 2016-2021	dynamic panel data models.	positive	Natural log of actual CSR expense and a dummy variable of 1 if 2% is spent	ROA, ROE, ROCE	A business group affiliation lessens sensitivity of CSR performance. CSR-performance relationships have been strongly impacted by mandatory CSR standards.
8	Feeroz HAYAT*, Hamza NAIM, Tariq AZIZ (2022)	348 private firms from manufacturing and services sectors, from the Nifty 500 Index from 2012 to 2019.	Ordinary Least Square Regression with a Fixed Effect Model	negative	CSR to be spent, spent, existence of csr committee and its chairman, no of meetings held	Tobin's Q and ROA.	Total CSR spending negatively impacts firm performance. Firm size moderates the CSR-performance relationship.
9	Fahad, P., & Busru, S. A. (2021)	100 NSE listed companies over a period from 2010 to 2020.	1. Correlation Analysis:	Negative	Questionanaire survey, contenet anlysis for GRI reporting and Bloomberg scores	ROA, ROE, Dividend per share, Tobin's Q	CSR disclosure possesses a negative correlation with profitability and firm value. This detrimental effect is significantly affected by social and environmental disclosure scores. Reverse effect

							observed: higher firm performance leads to lower CSR disclosure.
10	Bikrant Kesari; Nimisha Rawat (2023)	Top 15 CSR spending companies,	regression and correlation analysis.	positive	CSR expenses, CGI index,CSR Disclosures, Stakeholder engagement	PBT,EBIT,ROA, ROE, ROI, LR	CSR positively influences FP, particularly PBT, but other factors also play a crucial role.
11	Deepa Sharma and Suman Chakraborty (2024)	134 manufacturing NSE listed from 2011 to 2021.	random effects panel regression	Negative	The measures for Corporate Social Responsibility (CSR) include strategic integration of CSR with business goals and various proxies for CSR activities.	ROA,ROCE,ROE	The research's consequence demonstrate that CSR has a substantially detrimental impact on CFP. Correlation between CFP and CSR is reinforced when CFP has been implemented by companies that take into account their goals, according to a positive interaction of CSR strategic integration regarding the moderating effect.
12	Nayana N; Mr.Haresh R (2020)	Top 25 companies from 2014-19	analyzed using panel data techniques.	positive	CSR Expenses	Net sales, Net profit, ROCE	Investigation indicates a significant positive correlation between CSR along with Net Profits. This implies that increased CSR spending has been linked with higher net profits for the companies analyzed. The regression analysis confirms that this relationship is statistically significant, highlighting CSR's impact on FP.
13	Kaur, N., & Singh, V. (2021)	40 companies over 14 years	panel regression and ANOVA.	Mixed	CSR disclosure as per schedule VII	VAM,PM, MM, GM	CSR has a positive correlation with growth, profitability, along with value-added measures. There is no significant link between market measures and CSR.
14	Oware, K. M., & Mallikarjunappa (2022)	800 firm year observations from 2010-2019 using regression models.	hierarchical regression, along with panel regression with fixed impact	Positive	Natural log of actual CSR expenses		Positive correlation between CSR expenditure along with FP (ROA, Tobin's q). CSR spending rises when mandatory CSR reporting is implemented.
15	Maqbool, S., & Hurrah, S. A. (2021).	NSE listed 79 companies (2008 to 2015).	Random effect panel regression	Bi directional	ESG indocators from Bloomberg	ROA	CSR positively impacts current and future FP. Only social dimension of CSR significantly affects financial performance. Financial performance also positively influences CSR, supporting slack resource theory.
16	Kaur, S. R., Puneeta, G., & Sachin, B. (2023)	NSE listed 50 companies from 2010-18 to cover pre and post mandatory.	Pearson Fixed effects panel regression.	negative	CSR Expenses and CSR disclosure	EPS, ROA, ROE, Tobin's Q	No significant impact of CSR on FP metrics (EPS, Tobin's, QROA).
17	Bhatnagar, C. S., Bhatnagar, D., & Bhullar, P. S. (2023)	165 BSE listed companies from 2008 - 2019	Panel data analysis	non linear	CSR expenses/ sales, CSR Expenses/ Assets	ROA, ROS,ROE, MC,Tobin's Q,EVAL	Return on Sales (ROS): BRR has a strong positive impact, with significant coefficients indicating improved performance when considered alongside CSR expenditure.
18	Kofi Mintah Oware;Abdul-Aziz Iddrisu	80 listed firms between 2010-19	panel regression with random effect assumptions has been consistent with Hausman test	negative	CSR Index based on strengths and concerns		Mandatory CSR reporting increases moral capital value. Voluntary moral capital reporting shows no significant correlation with market performance (SPR) or else firm value (Tobin's q).

			and F test				
19	Beloskar, V. D., & Rao, S. N. (2022)	1262 firms between 2014-19	To address reverse causality Regression Discontinuity Design (RDD) are utilized.	non linear	Excesss of CSR expenses incurred more than 2%; a dummay variable to show if excess spent	Long Term Investor Value Appropriation (LIVA), Enterprise Value (EV), and Tobin's Q	Slight financial performance improvement for firms exceeding CSR spending requirements. Non-linear relationships are observed in financial metrics (Tobin's Q, ROA, etc.).
20	Shafat Maqbool, Abu Bakr (2019)	43 BSE listed companies over ten years (2008-2017).	Panel regression model	U shaped	Thomson Reuter's ESG scores	ROE, ROCE, and Total Returns (TR).	A curvilinear association exists between CSR and FP in Indian firms. Initial CSR investments may negatively impact FP, but benefits increase after reaching a threshold.
21	Nair, A.K.S. and Bhattacharyya, S.S. (2019),	Data from top 1000 Indian firms (2010-2018) was analyzed.	Difference-in-Differences (DiD):	Insignificant			Findings indicate that mandatory CSR increased spending among firms, while voluntary spenders reduced their CSR intensity. CFP was positively impacted by R&D and advertising intensity, while staff welfare showed a negative impact.

3.1 Positive Correlation with Financial Performance

In Indian context, FP along with CSR activities are positively correlated, based on several research. These studies suggest that industry actively engaging in CSR practices can experience better financial consequences, driven by factors that include customer loyalty, greater reputation, along with reduced cost of capital.

Abilasha & Senam Raju, (2024) Investigated correlation among CSR practices and FP of 77 companies in Mumbai, India. CSR initiatives and FP indicators like profitability along with shareholder value had been found to be positively correlated by investigation. This implies that firms that practice CSR can gain a competitive edge, especially in a market as socially conscientious as Mumbai.

Impact of sustainability committee (SC) attributes on CSR performance had been investigated by Singhania, 2024, in 60 Indian non-financial companies that have been listed on Bombay Stock Exchange. Investigation discovered that independence, scale, along with experience in sustainability committees have a favorable impact on CSR performance. This indicates that strong governance structures, including dedicated sustainability committees, can enhance CSR effectiveness and positively impact financial performance.

In 2023, Du investigated connection among financial results along with CSR performance in the BRICS nations, including India. As per investighation, companies with higher CSR performance typically have healthier financial results as well as lower bank debt costs, indicating that CSR initiatives have an advantageous financial influence.

These investigation provides compelling evidence for potential of CSR to positively influence FP in Indian context. Companies demonstrating commitment to social responsibility can build robust relationships with stakeholders, resulting in greater brand loyalty, enlarged market share, along with ultimately, improved financial performance.

3.2 The Nuances of the Relationship:

Even though a variety of investigations indicate that CSR promotes financial performance, certain investigations show conflicting findings or even implicate a negative relationship. This highlights complexity of CSR-FP relationship as well as highlights the influence of various factors, including company size, industry type, and specific CSR practices.

3.2.1 Negative relationship: There are studies specifically highlighting that the (mandatory) CSR negatively impacts financial performance. Kofi Mintah Oware (2022); Abdul-Aziz Iddrisu (2021) conclude mandatory reporting negatively affects Stock Price Returns but has no significant impact on Tobin's q. Garg, A., and Gupta, P. K. (2020) challenge the instrumental stakeholder theory, indicating mandatory CSR may not yield expected benefits for firms. CSR activities may not enhance financial performance, particularly for small-cap industry, while large-cap industry show a positive relationship (Feeroz HAYAT, Hamza NAIM, Tariq AZIZ, 2022). The conclusion of the study by Fahad, P., & Busru, S. A. (2021) is that CSR disclosure negatively affects both firm profitability and firm value in India, highlighting a contradiction to the notion that CSR activities enhance FP. Findings suggest that firms may prioritize short-term profit maximization over CSR initiatives because of high competition and an absence of consumer awareness regarding CSR. Additionally, the study emphasizes the need for greater awareness and support for CSR activities among consumers, investors, managers, and policymakers to improve CSR's overall impact in market. Mandatory CSR spending is viewed as a tax-like obligation, lacking strategic benefits for firms (Kaur, S. R., Puneeta, G., & Sachin, B. 2023).

3.2.2 U shaped relationship: Findings demonstrate a U-shaped curvilinear relationship among CSR along with FP in Indian companies. This suggests, initially, higher CSR investments might negatively impact FP, but as CSR efforts increase beyond a certain point, the FP improves significantly. Specifically, the study found significant U-shaped relationships for ROE and ROCE, while TR showed an insignificant coefficient. (Shafat Maqbool & Abu Bakr, 2019). A non liner relationship also has been established by Beloskar, V. D., & Rao, S. N. (2022). Further, relationship is characterized as inverted-U, indicating that after a certain point, the positive effects diminish and may lead to a decline in performance (Bhatnagar, C. S., Bhatnagar, D., & Bhullar, P. S. 2023).

3.2.3 Bi directional relationship: Maqbool, S., & Hurrah, S. A. (2021) have found a bi directional relationship between CSR and financial performance. According to them, CSR positively impacts current and future FP. Only CSR's social dimension significantly affects FP. CSR is also positively influenced by FP, supporting slack resource theory.

3.2.4 Other Studies: Bag & Omrane (2022) found out that Engaging in CSR can lead to competitive advantages, improved business image, and increased loyalty from stakeholders like employees and customers, ultimately contributing to better profitability while symbolic actions do not have the same effect. This suggests that in a context like India, where CSR is mandatory, companies might need to focus on substantive actions to meet stakeholder expectations and improve financial outcomes.

Babitha Rohith & Pinto (2021) found out that there has been very high connection among CSR spending along with net profit for Oil and Gas, Chemicals and Consumer durable sectors. EPS is negatively correlated with CSR spending for all sectors except Consumer durable.

CSR spending's effectiveness might also differ per sector along with specific initiatives undertaken (Oduro, 2021). For example, While there was no clear correlation among CSR along with financial performance, Susilawati et al. (2024) discovered that environmental performance substantially boosted profitability. This implies that companies might prioritize environmental initiatives over other CSR aspects, particularly in sectors where environmental impact is more readily quantifiable and beneficial to profitability.

Both internal along with external factors impact connection among CSR and an FP, that includes competitive strategy, innovativeness, as well as firm risk. Various organizations and CSR performance levels have different implications on FP. However, investigation on CSR firm FP has been limited, with only few examining situational factors. Multiple investigations have found that CSR influences financial outcomes through a number of mediators, that include marketing proficiency, competitive advantage, innovation, as well as management effectiveness.

These studies demonstrate that correlation among CSR along with FP is not always straightforward and might be impacted by numerous factors. Specific dimensions of CSR implemented, the company's strategic orientation, the industry context, and specific financial metrics used can all impact the observed relationship.

3.3 Stakeholder Engagement

This section explores the ways in which mandatory CSR spending has influenced stakeholder engagement, examining how companies are navigating this new landscape and the implications for both businesses and stakeholders.

Businesses must now provide information about their CSR initiatives in their yearly reports, providing stakeholders with greater insight into their social and environmental commitments (Raju, 2024), (Salvi, 2018). This increased transparency has empowered stakeholders to hold companies accountable for their CSR actions, fostering a more engaged and critical dialogue between businesses and their constituents. Salvi, 2018 found that CSR reporting is essential for creating awareness among investors and market players regarding the relevance of CSR in India, which can enhance FP. This discovery underscores importance of transparency in CSR reporting, as it allows stakeholders to better understand a commitment of company to social responsibility along with assessing its potential influence. Proactive engagement with stakeholders and a genuine commitment to CSR initiatives might significantly boost a firm's reputation as well as build trust with stakeholders. Businesses that take an active role in their communities, address social issues, demonstrate a commitment to ethical practices have been more probable to attract as well as retain customers, employees, along with investors, thus have competitive advantage (Raju, 2024; Salvi, 2018).

Greater employee retention along with satisfaction may additionally arise from effective CSR strategies. Employees feel prouder to work for socially responsible firms, leading to increased morale, commitment, and loyalty (Raju, 2024). Companies that prioritize employee well-being, promote diversity and inclusion, and engage in ethical business practices have been more probable to attract and retain top talent. (Lopa, 2019)

This finding indicates that CSR might be a strategic tool for companies to set themselves apart in marketplace and attract stakeholders who value social responsibility.

Mandatory CSR spending in India has created new landscape for stakeholder engagement, driving firms to be more accountable, transparent, and proactive in addressing social issues. As a consequence, stakeholders now have a better understanding of CSR, increased pressure on companies to engage with their communities, and a potential for improved corporate reputation and stakeholder trust. However, companies must navigate the challenges of avoiding CSR "washing," ensuring stakeholder inclusivity, measuring impact, and embracing a long-term perspective to ensure the effectiveness of their CSR initiatives. Businesses might employ CSR as a potent instrument to promote change, raise their financial performance, along with create a more sustainable future by tackling these issues and seizing the opportunities.

3.4 The Need for a Holistic Approach

Several studies highlight value of adopting a holistic approach to CSR, encompassing multiple dimensions and integrating with corporate strategy (Salvi, 2018), (Schons, 2016). Isolated CSR actions may not significantly impact financial performance, and a broader, integrated approach is crucial for a strong positive effect (Salvi, 2018). However, implementing a holistic CSR strategy can be challenging, requiring significant resources, expertise, and a commitment from all levels of the organization.

In an environment where CSR spending is mandatory, companies might concentrate on fulfilling minimum necessities instead of pursuing a comprehensive as well as impactful CSR strategy, several key areas warrant further exploration. It is crucial to move beyond simply measuring financial outcomes and delve into social influence of CSR initiatives. (Salvi, 2018) This requires developing robust frameworks and methodologies to assess the social value created by CSR activities.

3.5 Challenges and Limitations

Even while literature now in publication provides insightful information about the connection among CSR along with FP, a number of issues and restrictions still exist, especially when considering India's required CSR investment. These drawbacks emphasize necessity of greater investigation to resolve these issues and offer a more complicated interpretation of the connection.

The Challenge of Genuine CSR Implementation : Despite the positive impacts documented in some studies (Dakhli, 2021), (Raju, 2024), (Salvi, 2018), (Simionescu, 2018), some firms struggle with the implementation of CSR initiatives due to a lack of expertise and resources (Lopa, 2019). In an environment where CSR spending is mandatory, there is a risk of CSR being viewed as a mere compliance exercise rather than a genuine effort to make a positive impact (Bunadi, 2022), (Salvi, 2018). This can lead to “CSR washing,” in which firms engage in superficial activities to fulfil regulatory requirements without genuine commitment to social responsibility (Salvi, 2018).

The Difficulty of Measuring CSR Impact: Measuring influence of CSR initiatives on FP presents substantial challenges, particularly in the context of mandatory spending. Many studies rely on quantitative measures, such as CSR scores, financial ratios, and regression analysis (Dakhli, 2021), (Raju, 2024), (Salvi, 2018), (Susilawati et al., (2024). These metrics can be useful in identifying correlations but might not completely capture complex and multifaceted nature of CSR (Schons, 2016), (Oduro, 2021).

For example, (Bunadi, 2022) found that CSR did not have a significant impact on FP, although impact of CSR on financial performance was adversely mitigated by earnings management. This highlights the limitations of relying solely on quantitative measures, as other factors, such as earnings management practices, can influence financial consequences and complicate assessment of CSR impact.

4. Discussion on the mixed results on the impact of CSR on financial performance

Following are a few reasons for mixed findings on mandatory CSR's influence on FP: Theoretical underpinnings, CSR heterogeneity along with measurement, multiple FP metrics, direction of causality and selection of firms. These factors are discussed below.

4.1 Theoretical underpinnings

Majority of authors explained CSR-firm FP relationship utilizing one or more theories. Nevertheless, almost half of these studies lack theoretical background and assumptions, hindering systematic and precise understanding of CSR practices' influence on firm FP (Nguyen, T., & Nguyen, C. H. L. 2020).

4.2 Heterogeneity and measurement

One of the reasons for the mixed response is that the measurement of CSR itself is complex, involving various dimensions, such as social, environmental, and governance aspects (Schons, 2016), (Oduro, 2021). CSR is a complex, multi-dimensional business environment, lacking an internationally agreed-upon measure. India's studies rely on content analysis and social expenditure, making information less objective. Different metrics capture different aspects of CSR, leading to potentially varying conclusions about relationship among CSR and FP (Oduro, 2021).

4.3 Multiple Financial performance indicators:

Additionally, choice of FP measures affects how CSR affects FP. Common accounting-based measures include net profit, ROA, ROCE, RONW, EPS and ROE, while market-based measures that includes Tobin's Q and stock returns are popular. However, selection of financial measurements or else indicators gives rise to controversies. Bag and Omrane used more than one financial metrics and through factor analysis found the influence of CSR on financials. Investigation suggests that CSR activities possess a significant, albeit moderate, positive influence on FP of Indian companies. Bikrant Kesari; Nimisha Rawat (2023) have used liquidity ratios also as one of the financial metrics in their investigation as well as noted a positive impact. Beloskar, V. D., & Rao, S. N. (2022) proxied LIVA, EV, along with Tobin's Q as financial performance metrics, concluded a non linear connection among CSR and FP is found.

Certain authors demonstrated that CSR has changeable influence on various FP indicators when they simultaneously employ multiple indicators. As financial metrics, Kaur, N., & Singh, V. (2021) utilize value added measures, growth measures, profit measures, along with market measures. They found a positive association among CSR along with growth, profitability, as well as value-added indicators, but no meaningful relationship among CSR and market measurements.

Because of the diversity of FP metrics along with heterogeneity of CSR, findings on relationship among CSR and FP produced by various writers have been less similar.

4.4 Direction of the Causality:

Another important aspect is that the direction of causality is not clear in the international literature as many authors proved bi directionality. Even in India Maqbool, S., & Hurrah, S. A. (2021) have tested for bi directionality and concluded that CSR positively influences current along with future FP. Only social dimension of CSR significantly affects FP. FP also positively influences CSR, supporting slack resource theory. However, in Indian mandated environment, increase in CSR commitments in case of better FP of company for the last three years is evident.

4.5 Selection of firms

Most of the studies, if not all, focused on large listed companies with high visibility, financial resources, and innovation capacity, while smaller, less visible companies with limited resources may have a different relationship with CSR along with FP. Definitely selection of firms does matter for study.

5. Conclusion

The comprehensive review of research exploring association among CSR along with FP reveals a complex and nuanced picture. Findings highlight influence of several factors, methodologies, as well as contextual variables, emphasizing requirement for a nuanced considerate of CSR-financial performance relationship. Literature suggests that isolated CSR actions may not significantly impact financial performance. Holistic CSR practices, encompassing multiple dimensions and integrating with corporate strategy, are essential for a strong positive effect (Salvi, 2018).

The research reviewed in this context reveals several key findings regarding influence of mandatory CSR spending in India:

Increased Focus on Social Responsibility: Mandate has undoubtedly led to a greater focus on social responsibility among industries in India. Companies have been now actively engaging in CSR activities, recognizing their legal obligation and the potential benefits of demonstrating social commitment, (Raju, 2024). This shift has resulted in increased CSR reporting as well as a greater awareness of social along with environmental issues among companies (Simionescu, 2018).

Impact on Financial Performance: The investigation of influence of mandatory CSR on FP in India presents mixed outcomes. While several investigations find a positive association among CSR and FP (Raju, 2024), (Salvi, 2018), others report a more nuanced relationship or no significant impact. This implies that relationship among required CSR along with FP is intricate and probably influenced by a number of variables, including company's specific CSR activities, the quality of implementation, and the broader economic context.

Challenges and Opportunities: The mandatory CSR regime in India has presented both challenges as well as opportunities for firms. Challenges include potential for CSR activities to be seen not as a compliance burden rather than a strategic investment, as well as the need for effective measurement and reporting of CSR outcomes to demonstrate impact. However, the mandate also presents opportunities for companies to advance innovative CSR programs that complement their business strategies along with address critical societal needs.

CSR heterogeneity and measurement, multiple FP metrics, direction of causality along with selection of firms are the perceived reasons for mixed conclusions in relationship among CSR along with FP.

6. The Future of CSR in India

Mandatory CSR regime in India is still evolving, and its long-term impact on both corporate behavior and FP remains to be fully understood. The research reviewed in this section highlights potential for mandatory CSR to encourage constructive change in India, promoting social responsibility, enhancing corporate performance, and contributing to sustainable development.

Continued emphasis on strategic CSR practices, effective stakeholder engagement, and robust measurement and reporting will be crucial for the future of business in India. Companies that embrace these principles will be better positioned to navigate the evolving regulatory landscape, build sustainable businesses, and help make society more prosperous along with equitable.

7. Implications

7.1 Theoretical Implications

The study makes several theoretical contributions to the literature on the relationship between CSR and FP, particularly in the context of India's mandatory CSR regime under the Companies Act, 2013.

First, it highlights the complexity of the CSR-FP relationship, demonstrating that outcomes are influenced by factors such as firm size, industry type, CSR implementation quality, and specific financial metrics. The review enriches the theoretical understanding by integrating multiple perspectives, including stakeholder theory, institutional theory, and slack resource theory, to explain the bidirectional and curvilinear relationships between CSR and FP.

Second, the paper underscores the heterogeneity of CSR measures, advocating for more robust, multi-dimensional frameworks to evaluate CSR impact. By addressing the challenges of measuring CSR's influence through diverse financial metrics, the study encourages more nuanced methodologies in CSR research.

Finally, it contributes to the discourse on mandatory versus voluntary CSR, positing that mandatory CSR leads to different strategic behaviors and outcomes. The findings emphasize the need for a holistic approach, integrating CSR with corporate strategies, and provide insights for policymakers and practitioners to refine CSR frameworks to enhance both social and financial outcomes. These contributions advance the understanding of CSR in emerging economies and regulated environments.

7.2 Implications for Practice

The conclusions of the present investigation of research have important implications for practitioners in India, where CSR spending is mendatory:

Strategic CSR Implementation: Companies in India must take a strategic method to CSR, integrating it with their overall business strategy and focusing on holistic practices that address multiple stakeholder concerns.

Transparency and Disclosure: Open and transparent communication about CSR activities is essential to boost the company's reputation and foster trust with stakeholders.

Measurement and Reporting: Developing robust metrics and reporting frameworks to track CSR performance and demonstrate its impact on financial outcomes is crucial.

Continuous Improvement: CSR has been a continual process that needs to be expanded upon and adjusted to changing societal trends as well as stakeholder expectations.

8. Future research suggestions

Further investigations must develop a strong theoretical foundation and underlying presumptions to explain how CSR along with firm financial success are related. To give a deeper comprehension of business influence of CSR, a multi-theoretic approach is advised. Since CSR is a multifaceted concept, there is no one ideal way to quantify it. Future research should investigate intermediate factors and mechanisms behind positive influence of CSR on performance. To determine actual causal relationship between CSR along with company FP, a thorough investigation design is required.

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