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## **RELATIONSHIP OF CORPORATE SOCIAL RESPONSIBILITY WITH THE CORPORATE PERFORMANCE OF THE INDIAN FIRMS**

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### **ABSTRACT**

**Purpose:** Corporate Social Responsibility (CSR) has gained attention in recent years among the scholars globally. CSR plays a vital role in the sustainability of the corporates. For instance, CSR equips firms to build corporate image, gain legitimacy, adapt to opportunities, gain protection against external challenges and threats and maximize profits. The paper focuses on the contribution of the CSR activities made by the Indian Corporates and it also emphasizes the performance of the Indian corporates.

**Design/Methodology/Approach:** In the paper 30 companies has been selected from BSE30 Sensex. In the paper a comparative study was done on the CSR activities performed by the Indian Firms with the help of secondary data i.e. annual report and the data was also compared with moneycontrol.com. Further, the Corporate Social Responsibility Report or Business Responsibility Report or Business sustainability reports of the corporate were also collected, and the CSR spending was taken into consideration in a tabular format. It was further analyzed, and a comparative observation was made regarding the CSR contribution of the corporate for the last 4 financial years, i.e., 2014-2015, 2015-2016, 2016 – 2017 and 2017 -2018. Further, the Corporate Social Responsibility spending and advertisement was extracted from the Annual Reports and it was compared with the Financial Performance of the corporates' i.e., ROA (Return on Assets) and with the help of correlation and regression analysis, it was observed that CSR has positive impact on the financial Performance of the corporates as compared to the impact of advertisement.

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**Findings:** It was observed from the study that the companies investing in CSR activities can improve their financial performance. The impact of CSR contribution has a better and positive impact on the Financial Performance of the corporates as compared to the contribution towards advertisement.

**Keywords:** Corporate Social Responsibility, Corporate Performance, Indian Firms.

## INTRODUCTION

As corporations are operating in the society using their resources so the responsibilities and accountability of the corporations are towards the society. Further the legitimacy of the corporates is inherent to society, as the existence of the corporates are legitimized by society and thus the corporates has certain accountability to societal communities as described by Joseph W. McGuire in his book titled “Business and Society (1963)” which is cited in Carroll (1999). In inclusion the responsibilities of a firm outstrip the maximization of shareholder’s worth (Hummels and Timmer, 2004).

Corporate Social Responsibility (CSR) is defined as “the commitment of corporates to contribute to sustainable development of the economy by engaging with the employees, the local community, the family members of the employees and the society at large to improve their quality of life”- The World Business Council for Sustainable Development (WBCSD). The concept of CSR is underpinned by the concept that corporates cannot work in an isolated economic entity functioning in aloofness from broader society, neither concentrate their value only on financial worth. CSR advocates a vision of business responsibility and accountability to the stakeholders of the society in large apart from the usual investors and shareholders. The major areas of involvement are the well-being of the employees, protecting the environment, the civil society and the community which depicts the strong relationship with the Sustainable Development dimensions which is known as the Triple Bottom Line (TBL) of CSR (Profit, people and The Planet). According to the theory of TBL, the Corporates should be working on the three bottom lines:

- Profit: The corporates should focus on the traditional measure of corporate profit i.e. Profit and Loss Account.
- People: The corporate should measure how socially a corporate operates throughout its operations.

- **The Planet:** It measures how responsible a firm is towards the environment. The Link between CSR and its impact on Indian corporates is considered as an area of study for various reasons. Sparse literature, CSR reporting, evolvement of Companies Act 2013, Government regulations, corporates reporting structure, society's expectations and demand, corporates responsibilities and accountability, effect of CSR in the corporate performance (Jimmy. M. Kapadia, 2017) are the key.

Against the above scenery, this study emphasizes to advocate the impact of CSR reporting in the performance of the corporates and the practices to CSR in the developing countries like India from the context of sustainability reporting theories. Furthermore, the definitive aim of the study is to delve into the CSR practices adopted by the Indian Corporates from the legitimacy theory outlook and the impact of CSR in the financial performance of the Indian Corporates. The study used content analysis method to extract the sample from the secondary sources i.e. Annual reports, Business Sustainability reports. The companies undertaken for the study has been extracted from BSE SENSEX 30 from moneycontrol.com. As the mandatory reporting of CSR has been implemented from the year 2014, so the data has been extracted for 4- financial years i.e. 2014-2015, 2015-2016, 2016-2017, 2017-2018. A model has been constructed for the purpose of analysis. The rest of the paper proceeds as follows: Section 2 reviews the existing literature on the impact of CSR in the financial performance of the corporates' in a systematic manner while Section 3 explores the pertinent theoretical aspects of CSR reporting and its impact on the corporate financial performance. Section 4 sketch out the research design adopted to depict the link between CSR and corporate financial performance followed by the CSR reporting of the Indian firms in Section 5. Furthermore, in Section 6 the findings and observation has been explained.

## **1. Review of Literature**

As per Companies Act 2013, Section 135 mandates all the Indian corporates to contribute 2% of PAT earned in preceding three years towards Corporate Social Responsibility taking into consideration the size and profit earned by the firms from financial year 2014-2015. Extensive exploration has been undertaken to pursuit significant research papers/articles and also various online database has been used to extract literatures such as Research gate, Google Scholar, SSRN, Shodhganga, Google book, EBSCO, J-Gate. The existing literature is branched on whether CSR contribution helps to improve firm's performance. The search

was undertaken on the key terms such as Corporate Social responsibility and Corporate Financial Performance, Relationship between Corporate Social Performance and Corporate Financial Performance etc. Based on the searched articles, a taxonomy was prepared which includes the author details, year of the research, sample size undertaken for the study, time duration undertaken for data collection, variables undertaken in the study and its measurement, methods adopted for study and the relationship between CSR and CFP.

### 1.1. Taxonomy on literature Review on CSR has a positive impact on the financial Performance:

Author (Year)	Duration of Study	Sample size	Variables used in the study			Method used for data analysis	Relationship of CSR and
			CSR Variables	Financial Performance Variables	Control Variables		
Jacob et al. (2019)	2011-17	50 Indian Manufacturing companies	EDU, EBE, ENV, COM, CUS, PDT, SRT	ROA, ROE, ROCE, LEV, PBT, PAT, MTB, TURN.	NOE, BS	Regression and correlation	Positive Relationship
Joseph (2019)	2011-13	56 firms	GOV, SOC, ENV, COBS.	ROA, TOBIN's Q	LEV, RD, SIZE, AGE.	Regression and Correlation,	
Najul et al. (2017)	2008-2014	28	HR, SO, PR	MBR	R&D, Firm's Size	Content Analysis and Regression Analysis.	
Priyanka Garg(2016)	2004-14	100	EMP, SOCL, and ENV.  CSR = Explanatory Variable.	ROA, EPS, EV.	AGE, INDC N, OWN R.	Panel data regression, T-test, Wilcoxon signed rank test, Independent t Test,	

						One way ANOVA.	
Samuel Famiye h (2017)	-	22	Stakeholder, Environment, Society	Sales Volume, Net Profit, Market share		SEM	
Aliyu Baba Usman (2014)	2010-12	63	ENVDISC, COMINV, HRDISC, PRCDISC,	ROA, SP	FIRM SIZE	Content Analysis, Regression Analysis and	
Theofanis Karagiorgos (2010)	2007-09	39	Social Performance Indicators such as Labour practices and decent work, Human Rights, Society, Product Responsibility	SR	RISK, SIZE, COMPANY, INDUSTRY	Regression	

### 1.2. Taxonomy on literature Review on CSR has a negative impact on the financial Performance:

Author (Year)	Duration of Study	Sample size	Variables used in the study			Method used for data analysis	Relationship of CSR and CSP
			CSR Variables	Financial Performance Variables	Control Variables		
Vicente Lima Criso'stomo et al.(2011)	2001-06	296	CSR, ER, ESA, ENV	ROA, ROE	SIZE,LEV, SD		Negative Relationship
	1998-2002	451	Community,	beta, price-	returns on a constant, the	Correlation	

Brammer (2006)			Envi- ron- ment and Em- ployee Perfor- mance based on EIRIS data	to- book, market capital- ization, and the previ- ous year's return, stock return.	CAPM beta, firm size (CAP), price-to- book value (PTBV)	using Spear- man's Rank, Regres- sion Analy- sis	
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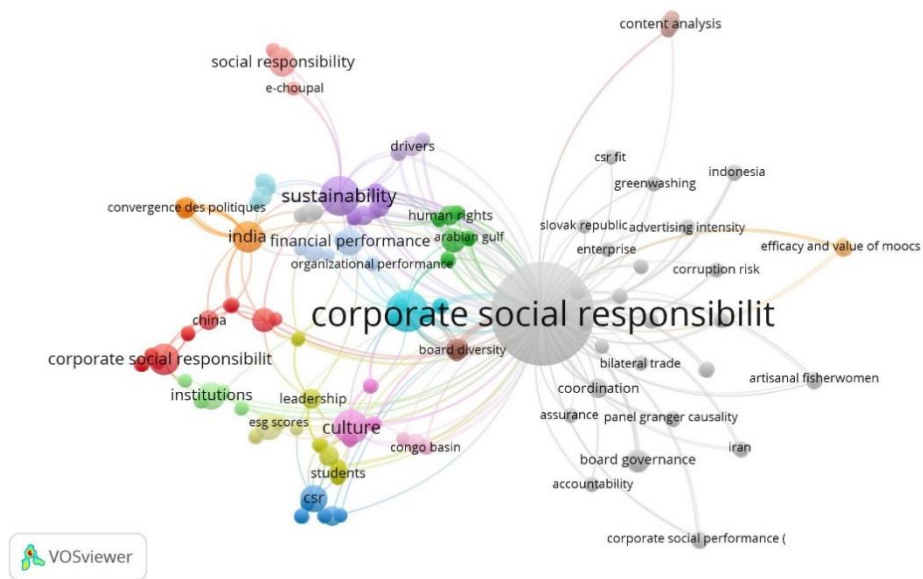
### 1.3. Taxonomy on literature Review on CSR has neutral impact on the fi- nancial Performance:

Author (Year)	Duration of Study	Sample size	Variables used in the study			Method used for data analysis	Relationship of CSR and CSP
			CSR Variables	Financial Performance Variables	Control Variables		
Igbal et.al.(2012)	2010- 11	156	Corporate social In- dex	ROA, ROE	-	Content Analysis and Re- gression	No Effect
Hasan Fauzi (2009)	2004- 06	120	7 items de- veloped ini- tially by Michael Jantzi Re- search As- sociate.	ROA, ROE	Size, Lever- age, Type of Indus- try	Multiple regression Analysis	

Aras et. al.(2009)	2005-07	40	Content analysis of social and environmental disclosures	ROA, ROE, ROS	Size, Risk. R&D	Regression Analysis
Maria-Gaia Soana (2011)	2005	21	Content Analysis	ROAE, ROAA, Cost to Income Ratio	-	Regression and Correlation, T-test, ANOVA and Event studies.
Fiori et. al. (2016)	2004-06	-	CSR parameters (employee, environment, community), debt/equity (D/E) ratio, ROE ratio, Beta levered (as a proxy of firms' risk)	Firm's stock price	-	Regression Analysis

## RESEARCH GAP

Figure 3.1: Network visualization of CSR and its impact on the Corporate Financial Performance.



**Source:** VOSviewer.

VOSviewer is a software tool for constructing and visualizing bibliometric networks. These visualization networks include journals collected from Science Direct Website based on the research keywords Impact of CSR on Corporate Financial Performance.

India is the first country to implement CSR on mandate basis for the corporates. According to Companies Act 2013, Sec 135 mentions firms whose Net worth is above Rs. 5 Billion or turnover is above Rs. 10 billion or profit (PBT) is above Rs. 50 million should contribute 2% of its average net profit earned over the three preceding years towards CSR activities

There is extensive research in the area of CSR and its relation towards corporate financial performance but there exists very few research work in the area of CSR and its relation to the performance in Indian Corporate. In the above network diagram, it has been clearly observed that there exist a few literatures in Indian Corporates regarding CSR and its impact on the corporate performance as compared to other countries.

### Objectives of the Study

1. To study the CSR activities performed by the Indian Corporates.
2. To study the impact of CSR and advertisement on the financial Performance on the Indian Corporates.



## **METHODOLOGY**

The below mentioned methodology has been adopted to fulfill the objectives of the present study:

### **2.1. Scope of the Study**

The scope of the study is confined to all the firms listed in BSE Sensex 30 Index of Bombay Stock Exchange for the financial period of four years i.e. 2014-2015, 2015-2016, 2016-2017 and 2017-18. The CSR Performance of the sample corporates' undertaken for the study would be analyzed for the period of 4 years.

### **2.2. Sample and Data**

This data has been collected using secondary methods i.e. through Annual Reports of the companies, Business Sustainability Report, Corporate Social Responsibility Report of the corporates and money control official website to find out the CSR Activities performed by the companies and also the other variables used to determine the financial performance of the company such as ROA.

### **2.3. Measures of Financial Performance indicators**

Empirical studies have identified and used different measures to estimate financial Performance and CSR of the companies (Table 2.1, 2.2 and 2.3). In line with the above literature, the present study adopted Return on Assets (ROA) to measure the financial Performance of the companies.

Return on Assets measures the returns that a company realize from its capital employed. It is generally used to measure the performance between business and to find out whether the business generates enough return to pay for its cost of capital. Consistent with prior research (Lopez et al.2007; Joseph 2019; Griffin and Mohan 1997; Hasan Fauzi 2009), ROA has been measured as:

Return on Assets (ROA) = (Profit Before Tax)/Total Assets) \*100

### **2.4. Measures of CSR Disclosures**

Corporate Social Responsibility (CSR) has been calculated on the basis of total spending company incurs on the CSR activities in the financial year.

### **2.5. Tools for Analysis**

The following statistical tools has been adopted to analyze the data collected from the sample on the variables under the study:

- a. As the large companies incur more profit and contribute towards more CSR activities so to bring consistency in the analysis the Independent variables (CSR, Advertisement) has been divided by Total Net Income.
- b. Correlation has been used to see the association between two variables i.e. CSR and advertisement.
- c. Regression Analysis has been used to observed the impact between CSR, Advertisement on the financial performance (ROA) of the companies.
- d. One-way ANOVA to compare the CSR Performance of the companies. The data have been analyzed using SPSS 20.0 and Excel.

## 2.6. Empirical Model

The following model is framed to check the objectives of the study:

$$ROA = \alpha + \beta_1 CSR + \beta_2 ADV + \varepsilon$$

Where, ROA = Return on Assets

CSR= Corporate Social Responsibility incurred by the companies

Advertisement = Advertisement expenses incurred by the companies.

$\alpha$  = intercepted,  $\beta$  = coefficient, and  $\varepsilon$  = error term

## Empirical Analysis and Findings

Table 1: Table showing the correlation between CSR and Advertisement

	<i>CSR_NI</i>	<i>ADV_NI</i>
<i>CSR_NI</i>	<b>1</b>	
<i>ADV_NI</i>	<b>-0.09699</b>	<b>1</b>

As we know that correlation is the measure of association between two variables and if two independent variables are correlated than it would be difficult to assess the relative importance in determining the dependent variable. So, prior to the analysis, there was a need to examine the correlation between two independent variables i.e. Corporate Social Responsibility (CSR) and advertisement. In the correlation table below (Table 1), it has been observed that the CSR is not correlated to advertisement.

Table 2: Table showing the Variables Entered/R

Model	Variables Entered	Variables Removed	Method
1	ADV_NI, CSR_NI <sup>b</sup>		. Enter

a. Dependent Variable: ROA

b. All requested variables entered.

In the (Table 2), it has been observed that all the variables have been taken in a ratio manner. The Independent variables CSR and advertisement has been divided by Total Net Income that the company has earned during the particular financial year. As we know that larger companies would be earning high income and contributing to more CSR activities than smaller companies. So, to bring consistency in the analysis the independent variables has been divided by Total Net income.

Table 3: Table showing the Model Summary of the variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.838 <sup>a</sup>	.702	.695	9.67287

a. Predictors: (Constant), ADV\_NI, CSR\_NI

Table 4: Table showing the ANOVA<sup>a</sup> of the variables

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17848.139	2	8924.070	95.379	.000 <sup>b</sup>
	Residual	7578.712	81	93.564		
	Total	25426.852	83			

a. Dependent Variable: ROA

b. Predictors: (Constant), ADV\_NI, CSR\_NI

It has been observed (Table 4), “F value” is 95.379 which indicates that the linear model is more compatible with the data. It has also been observed (Table 3) that R value (0.838) and value of R<sup>2</sup> (0.702), As we know that the value of R should be between -1 to +1 and in the study it is showing a positive relation between the

independent and dependent variables.  $R^2$  measures the proportion of variance for ROA that's' is explained by CSR and Advertisement.

Table 5: Table showing the Coefficients<sup>a</sup> of the variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.956	1.372		2.884	.005
CSR_NI	13.609	1.173	.707	11.599	.000
ADV_NI	3.435	.400	.524	8.591	.000

a. Dependent Variable: ROA

It has been observed (Table 5) that the P values of CSR/Total Net Income (0.000) and Advertisement /Total Net Income (0.000) is significant i.e. it is less than 0.05. It has also been observed that the Beta value of CSR (13.609) is more than Advertisement (3.435) which indicated that CSR has more positive impacts in the financial performance of the Companies than advertisement. Thus we can say that companies should contribute more on CSR than advertisement as it helps to improve the performance of the companies in the long run and improves the performance of the corporates. Standardized Beta Coefficient compares the strength of the effect of CSR and advertisement and the standardized beta coefficient has high value for CSR (0.707) as compared to advertisement (0.524) on the financial Performance (ROA).

## CONCLUSION

The study has analyzed the impact of Corporate Social Responsibility (CSR) on the financial Performance of the companies using correlation and regression analysis. At the very outset it has been checked that the two independent variables are not correlated with each other and it has been observed from (Table 1) that CSR and Advertisement are not correlated with each other. It has also been observed from (Table 2) that the regression between the independent variables and dependent variable is positive and the model has been fitted by the data taken under study. The "F" value (95.379) has also explained that the regression model is fitted with the data. Table 5 interprets that CSR performance of the company has more impact on the performance of the firms as compared to advertisement.

Although it can be said CSR performance impacts the financial performance of the firms in a positive manner but with low intensity but in the overall effect of the firm is impacted with greater intensity. Companies committed in CSR lead to have positive impact towards employee satisfaction, preserve talents, improve the reputation of the firm, improve environmental impact and plays a confident role in community. After the incorporation of the Companies Act 2013, it has been made mandatory that Companies should contribute 2% of PAT towards CSR activities and at present it has been observed that companies contributing towards CSR activities can positively improve its performance in the long run.

### **Implications, Limitation and Scope for Further Research**

The results and findings expresses that a company improves quality, flexibility, and overall financial performance if it contributes towards the CSR activities. For the management, it pinpoints that they should emphasize to make investment in CSR Activities to enhance their operational competitive effectiveness in terms of overall performance such as ROA, PAT, Sales, ROE, market share, ROI. Such augment benefits would make the companies stronger and competitive.

Despite its valuable findings and implications, the study encloses some limitations. The study is confined to the companies that are enlisted in BSE Sensex 30 Index. Therefore, researchers circumspect while generalizing the findings of the study. The time period taken for the study is confined to 4 years only and the study would be better if the sample of the companies are more and the period would have been more. In the study more variables could be taken into account to observe the link between CSR and Financial Performance. The independent variables should also be included more to see the other impact and few control variables such as size of the company, type of industry, age of the company, risk level can be added to see the impact of CSR in the financial performance of the corporates. Also in the literature it has been observed that many accounting and market indicators has been taken into consideration such as ROE, ROA, ROS, Tobin Q, EPS, SR, P/E Ratio, PAT, Stock Price were used to measure the financial performance of the companies. Future studies can take into consideration various theories to examine the relationship between CSR and Firms' reputation.

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### Appendix 1

List of Surveyed Institutions: The institutes sample surveyed for the study has been taken from BSE 30 Sensex. Out of the 30 Companies only 21 has been considered for the study based on the availability of data.

Sl. No.	Company Name	Considered/Not Considered for study
1	ASIAN PAINTS	Considered for the study
2	AXIS BANK	
3	BAJAJ AUTO	
4	BAJAJ FINANCE	
5	BHARTI AIRTEL	
6	COAL INDIA	
7	HCL TECH	Not considered due to unavailability of data
8	HDFC	
9	HDFC BANK	Considered for the study
10	HERO MOTOCORP	
11	HUL	
12	ICICI BANK	
13	INDUSIND BANK	
14	INFOSYS	
15	ITC	
16	KOTAK MAHINDRA	Not considered due to unavailability of data.
17	LARSEN	
18	M&M	Considered for the study
19	MARUTI SUZUKI	
20	NTPC	
21	ONGC	Not considered due to unavailability of data.
22	POWER GRID CORP	Considered for the study
23	RELIANCE	Not considered due to unavailability of data.
24	SBI	Considered for the study
25	SUN PHARMA	Not considered due to unavailability of data.
26	TATA MOTORS	Considered for the study



27	TATA STEEL	Not considered due to unavailability of data.
28	TCS	
29	VEDANTA	
30	YES BANK	Considered for the study

Source: <https://www.moneycontrol.com/markets/indian-indices/>

## Appendix 2: List of Abbreviation used in the study

Sl. No.	Abbreviation	Full Form
1	ROA	Return on Assets
2	ROE	Return on Equity
3	ROS	Return on Sales
4	EPS	Earnings Per Share
5	SSRN	Social Science Research Network
6	COM	Company
7	ROCE	Return on Capital employed
8	LEV	Leverage
9	PBT	Profit Before Tax
10	PAT	Profit after Tax
11	MTB	Market to Book Ratio
12	TURN	Turnover
13	R&D	Research and Development
14	INDCN	Industry
15	OWNR	Ownership
16	EMV	Excess market value
17	AMV	Average Market Value
18	SR	Stock Return
19	P/E	Price Earnings Ratio
20	ROAA	Return on Average Assets
21	ROAE	Return on Average equity
22	DPS	Dividend per share
23	ENV	Environment
24	COM	Community
25	D/E	Debt equity ratio
26	ROI	Return on Investment
27	EV	Enterprise Value
28	EMP	Employee welfare and training
29	SOCL	Social and Community Expenses
30	ENV	Environmental and pollution control related expenses
31	TBL	Triple Bottom line
32	GRI	Global Reporting Initiative

33	HR	Human Related
34	SR	Society Related
35	PR	Product Related
36	LnS	Log of sales revenue
37	GOV	Governance index
38	SOC	Social Index
39	ENV	Environmental Index
40	CV	Coefficient of Determination
41	TOB	Tobin Q
42	EDU	Education
43	EBE	Employee Benefit expenses
44	CUS	Customer
45	PDT	Products
46	SRT	Stock Return
47	TURN	Turnover
48	NOE	No. of Employees
49	BS	Board Size
50	CSR	Corporate Social Responsibility