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Article

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Corporate social responsibility and financial performance: does CSR strategic integration matter?

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ABSTRACT

This study aims to analyse the relationship between Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP) of Indian firms with the moderating role of CSR strategic integration on the relationship. This study examined a sample of 134 manufacturing firms listed on the National Stock Exchange of India from 2011 to 2021. The authors used a random effects panel regression model to study how CSR strategic integration affects the CSR-CFP relationship. The findings of this study show a significantly negative impact of CSR on CFP. Regarding the moderating effect, a positive interaction of CSR strategic integration is found, which means that the relationship between CSR and CFP is strengthened when CSR is undertaken by businesses that consider the goals of a firm. The study suggests that different measures of CSR strategic integration can be used in future studies, and market-based financial performance measures can be additionally used to test these relationships. The study contributes to the literature concerning CSR-CFP relationship by taking CSR strategic integration as the moderating variable, which is a novel idea. This study also provides suggestions to companies and policymakers who can incorporate strategic considerations in the business case of CSR, which will create positive outcomes for both companies and society.

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SUBJECTS

Business, Management and Accounting; Finance; Economics

Introduction

Business must connect company success with social progress. We believe that it can give rise of the major transformation of business thinking—Michael Porter

The motivations for companies to indulge in CSR has been explained in the literature through the lens of 'Instrumental' and 'Normative' viewpoints (Spitzeck, 2013). The instrumentalism aspect focusses on the financial benefits that a company accrues by engaging in CSR (Ofori-Parku, 2021). Instrumental CSR proposes that the ethical CSR practices are profitable. By linking a responsible course of action to revenue, organizations that participate in CSR efforts can be adequately rewarded. The most used term to address this is the 'business case of CSR' which explains that businesses would benefit in the long term by participating in social responsibility activities for the societies they occupy (Carroll & Shabana, 2010). The business case sets up the business's rationale for the benefit that engaging in CSR activities can have on the financial or economic performance of firms (Waddock & Graves, 1997).

On the other spectrum is the 'normative' CSR, which holds that businesses have a customary duty to generate the means for human existence and advance the human value of life (Spitzeck, 2013). The corporates have a duty to legitimize their conduct in front of a larger group of stakeholders (Donaldson & Preston, 1995; Freeman & Reed, 1983). 'Normative CSR' is based on the ethical principle that businesses have a responsibility to prevent harm to others and strive to do good for them, given the interdependence of business and society.

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There has been a scholarly interest to focus on integrating the two motives for creating a 'shared value' which is defined as the policies and operational procedures that improve a company's competitiveness while also improving the economic and social climate in the communities where it operates (Kramer & Porter, 2011). This concept of 'Creating Shared value' (CSV), was initially coined by Kramer and Porter in their article in 'Harvard Business Review', which since its introduction has been used to frame CSR policies by many global companies across the world (Kramer & Pfitzer, 2016). Even though there have been criticisms directed towards the construct, of being a mix of many previous concepts like 'stakeholder management' and 'social innovation' (Crane et al., 2014) but the core idea remains that when a company focuses on activities that endorse the companies' goals and societal aims simultaneously, it generates a win-win for both business and society (Kramer & Porter, 2011). In a real-world setting, the dismissal of Emmanuel Faber as CEO of Danone in March 2021 (Abboud, 2021) who advocated against 'profit only' approach in the company and inculcated inclusion of ESG, emphasizes the necessity and importance of research that reveals potential trade-offs between the business' role toward profit objective and social goals.

An organic and rational management view flowing from the association between CSR and CFP has been the notion of 'strategic CSR' (Carroll, 2021b). If CSR is fruitful, then managers should use CSR strategically for the greatest effect, that is, for upgrading CFP (Orlitzky et al., 2011). 'Strategic CSR' is developed as an idea that states that the companies gain financially by focusing on such CSR activities which emphasize on some social good (Vishwanathan et al., 2020). This focus on strategy takes a prominent place in the company decisions in Indian corporates specially with respect to the mandatory CSR, which is one of the hard laws which regulates the CSR practices for Indian companies. The section 135 of the Indian Companies Act 2013 mandates a certain class of companies to invest a percentage of average profits in CSR activities. The law offers a unique chance to observe numerous, diverse companies' CSR strategies in a growing market context.

There has been a consensus on the integration of CSR strategy to business strategy in Indian context and that it should be an integral part of any company's strategy (Kalagnanam & Rajeev, 2023). The motivation of our study lies in analysing this cohesion between the societal and business goals through a variable termed as 'CSR strategic integration' specifically for Indian companies. This variable implies the integration of company's CSR strategy with business objectives that can lead to favourable gains for the company. The global financial crisis, corporate fraud, the Sustainable Development Goals of the United Nations, and climate change have all contributed to the significant momentum that CSR talks, especially in the developing countries have gained in recent years (Murmura & Bravi, 2020). A notable shift in CSR has been also witnessed in India, where it has moved from being just altruistic to being leveraged for social and business sustainability (Majumdar & Saini, 2016). Stakeholders in India view corporate social responsibility (CSR) reporting as a sign of a company's long-term viability, shareholder confidence, and cordial public relations (Fahad & Busru, 2021). The study is primarily focussed on analysing the effect of CSR on the profitability from an organisational perspective with analysing the moderating impact of CSR strategic integration on the said relationship for Indian companies.

The gaps that the study addresses have been identified as follows:

Firstly, empirical observations have found that companies that engaged in social responsibility practices improved their financial performance, as evidenced by decades of research, leading scholars to theorize that CSR has a positive impact on firms' Corporate Financial Performance (CFP) (Griffin & Mahon, 1997; Orlitzky et al., 2003). The literature documents that CSR leads to a gain in competitive advantage, building reputation, value creation, and significant alleviation in costs and risks (Zadek, 2004; Kurucz et al., 2009). In contrast, there is evidence of the negative impact of CSR on CFP. Studies (Jyoti & Khanna, 2021; Mutuc & Cabrilo, 2022) have even remarked that investing in CSR puts a strain on the valuable resources of a firm, as it is an additional expense (Barnett, 2007). Although researchers have focused on analyzing the connection between CSR and corporate performance, conflicting evidence has been found in the empirical studies assessing the effect of CSR on businesses' financial performance (Khuong & Anh, 2023). The relationship between CSR and CFP have yielded mixed relationship in the Indian Context specially when we focus on the recent documents (Bag & Omrane, 2020; Beloskar & Rao, 2022; Hasan et al., 2021; Jaisinghani & Sekhon, 2020; Singhania et al., 2024; Waris & Din, 2024). So, research in CSR and CFP is warranted in the Indian context.

Secondly, giving regard to the intricacy of the relationship between CSR and the financial performance of firms is more valuable than a simple viewpoint that identifies a direct relationship between the two constructs (Carroll & Shabana, 2010). This has led researchers to advocate for studies investigating the underlying mechanisms that impact the effect of CSR on CFP (Aguinis & Glavas, 2012; Vishwanathan et al., 2020). Studies related to CSR and CFP do not provide a precise and clear picture of the relationship they possess; instead, they show the need for a narrow and targeted investigation (Aguinis & Glavas, 2012). These narrow explanations have prompted researchers to emphasize the need for focused investigations that examine specific moderators to elaborate closely on the factors that determine CSR's impact of CSR on CFP (Vishwanathan et al., 2020). These moderators found that the impact of CSR on the CFP relationship depended on many external and internal factors specific to organizations. So, the study of moderator is imperative as it gives several insights to the CSR-CFP relationship.

Thirdly, the concept of CSV explains that when profit objectives are embedded with CSR goals, it creates favourable gains for the companies. If CSR investments are fruitful for companies, they should engage in 'strategic CSR' to enhance their financial performance (Carroll & Shabana, 2010). In this regard the CSV concept focuses on identifying issues that intersect with a company's core business activities. Research has shown that businesses can increase their competitiveness by implementing the CSV strategy, which converts social issues into commercial possibilities (Cuevas Lizama & Royo-Vela, 2023). The focus should be on setting CSR goals embedded in a company's brand, business strategy, and culture (Upshaw, 2021). Studies have identified the integration of CSR with business strategy as an underlying mechanism or conditional variable that affects the relationship between CSR and CFP (Aluchna & Roszkowska-Menkes, 2019) but this is yet to be empirically tested in the context concerning this study. Testing this interaction of the strategic integration of CSR in the CSR-CFP relationship through the variable 'CSR strategic integration' is the primary novelty of this study.

Fourthly, the focus on India is justified, as the academic community's rebirth of interest in CSR in developing countries has been one of the most dramatic developments during the past five years (Carroll, 2021a). Studies measuring the indirect effect of CSR and CFP and the conditions under which CSR is beneficial to firms are finding focus amongst the Indian researchers (Oware & Mallikarjunappa, 2019). It has also been argued that many Indian companies are yet to align their business and CSR strategy, and it is gradual progression for most of those companies. Indian companies are yet to blend the strategy with CSR for creating shared value (Mony & Babu, 2020). However, to our knowledge, studies have yet to take 'CSR strategic integration' as a moderator between CSR and CFP.

Fifthly, this study uses proxies for the different measures of financial performance of firms using Return on Assets (ROA), Return on Capital Employed (ROCE), and Return on Equity (ROE), and provides deeper insight into the relationship between CSR and CFP.

The strategic considerations of CSR have attracted scholars to focus on the role of strategic considerations in explaining the relationship between the responsibility and performance of companies. We assess the strategic integration of companies' CSR by taking CSR strategic integration as a moderator and analyze whether a company that attempts to merge a business strategy with a CSR strategy is more beneficial to engage it.

This paper is structured as follows: Section 2 provides an overview of the literature review and hypothesis development. Section 3 presents the study's techniques, models, and data. We present our findings in Section 4, followed by our conclusions and recommendations in Section 5.

Theory, literature review, and hypothesis development

CSR and Corporate financial performance

Theoretical background

Different theoretical constructs regarding CSR and CFP relationships postulated different viewpoints regarding the kind of effect CSR might have on CFP. Theories like Freeman's stakeholder theory and Resource based view propounds that CSR affects the firm's profitability positively. Freeman in his

stakeholder theory explained that companies need to satisfy different stakeholders apart from the primary stakeholders (Freeman & Reed, 1983). Freeman stressed that the fundamental notion is that companies, and the executives who run them, should and do produce value for communities, suppliers, workers, customers, and investors (or shareholders) because creating value for them will create value for the companies. The resource-based view postulates that responsible companies can make up resources that affix to a firm's competitive advantage (Hart, 1995). Engaging in CSR activities creates internal and external competitive advantages for firms that enhance their financial performance. These benefits are enhanced when they are related to a firm's strategy, which can develop new resources and capabilities, as (Branco & Rodrigues, 2006).

On the other hand, the neoclassical theorists believe that CSR is an unnecessary expense that creates negative impacts on a firm's profitability (Aupperle et al., 1985). One of the proponents of the neoclassical viewpoint concerning CSR is Friedman, who postulated that when companies invest in social responsibility practices, they are diverting money from firms from their primary objective of earning profits (Friedman, 1970). This may be detrimental to the interests of the firm whose main objective is profit maximisation.

Empirical background

With the turn of the millennium, research, and attention to CSR and its connected topics, the domain that sustained the extreme attentiveness of scholars was the relationship between CSR and CFP (Carroll, 2021a). As these conversations permeated the literature to a significant degree, the 'business case of CSR' emerged and became a prominent theme in the 2000s (Carroll & Shabana, 2010). The denotation of the term explicates the financial advantages that firms acquire by pursuing CSR strategies and policies.

Numerous studies probing 'business case of CSR' have found a mixed relationship between CSR and CFP. Studies that have depicted a positive effect (Barnea & Rubin, 2010; Brammer & Pavelin, 2008; Mishra & Suar, 2010; Waddock & Graves, 1997) have opined that CSR helps alleviate the polarity between managers and stakeholders (Jamali & Karam, 2018). It has been stated that businesses engage in CSR because they aid in crisis management and benefit societies during such times (Bansal et al., 2015).

Advocates of the view that CSR negatively affects CFP (Akben-Selcuk, 2019; Awaysheh et al., 2020; Barnett, 2007; Gillan et al., 2021) are the neoclassical economists who contend that CSR is a cost-instigating pursuit that puts a firm in a disadvantageous position concerning competitors (Aupperle et al., 1985). There are downsides to investing in CSR, which may negatively influence CFP because of cash outflows (Berens et al., 2007). CSR incurs additional expenses that reduce the shareholder value (Barnett, 2007). Reliable business methods divert from profit-maximizing objectives without producing advantages for firms (Groza et al., 2011). In addition, a negative relationship has been theorized as per the trade-off hypothesis (Preston & O'Bannon, 1997). It is suggested that social issues should be separated from business operations because this diversifies managerial roles and makes them less effective (Jensen, 2001). Some scholars have identified neutral relationships between CSR and CFP (Moore, 2001).

The existing environment in Asian (Mutuc & Cabrilo, 2022) and South Asian nations (Chapple & Moon, 2007) indicates that there is inconclusive proof of CSR's influence on CFP. Specifically, in the Indian context, we find positive (Bag & Omrane, 2020; Garg, 2016; Oware & Mallikarjunappa, 2020), negative, (Beloskar & Rao, 2022; Sharma & Aggarwal, 2022) and mixed relationships (Hasan et al., 2021; Jaisinghani & Sekhon, 2020; Oware et al., 2021) between CSR and CFP.

A brief review of the studies done in the recent context on the effect of CSR on CFP have been depicted in Table 1.

Given this evidence, we conclude that CSR affects CFP. Owing to the mixed empirical results, we propose the following conflicting hypotheses to analyze the effect of CSR on CFP.

H1a: Corporate Social Responsibility has positive impact on the financial performance of firms.

H1b: Corporate Social Responsibility has negative impact on the financial performance of firms.

Table 1. Shows the findings of selected studies done on CSR and financial performance.

Variables	Author	Relationship	Measure of CSR
CSR and financial performance	(Waris & Din, 2024)	Negative CSR and ROA	Datastream
CSR and financial performance	(Singhania et al., 2024)	Mixed (Positive- CSR and ROA, negative CSR, and Tobin's Q)	CSR expenditure
CSR and financial performance	(Ahamed, & Tripathi, 2023)	Mixed (Positive- CSR and ROA, negative CSR, and Tobin's Q)	CSR expenditure
CSR and financial performance	(Bhatnagar et al., 2023)	Negative- CSR and ROA	Content analysis of firms reports
Corporate social responsibility, financial performance, governance	(Agyapong et al., 2024)	Negative	CSR expenditure
Corporate social responsibility, earnings management, and firm performance	(Anderson et al., 2024)	Positive-CSR and Tobin's Q.	CSR expenditure
Corporate social responsibility expenditure and financial performance	(Kaimal & Uzma, 2023)	Positive-CSR with ROA and Tobin's Q	CSR expenditure
ESG, financial performance	(García-Amate et al., 2023)	Positive- CSR environmental and social dimension with firm performance	ESG score- Thomson Reuters
CSR and financial performance	(Zaiane & Ellouze, 2023)	Mixed for different industries	ESG score
ESG and financial performance"	(Chen et al., 2023)	Positive-ESG and CFP metrics	ESG score

Source: Author's compilation based on previous literature.

Strategic CSR

Indian businesses have long engaged in social responsibility, but with strong charitable foundations derived from customs, religion, and morality. CSR was traditionally seen by Indian businesses as a non-strategic, religious charitable endeavour that should be carried out in places or through endeavours chosen by each owner (Jayakumar, 2016). There have been attempts to distinguish the strategic CSR activities from non-strategic ones in terms of the intent, focus, commitment, and activity of certain responsibility practices of a firm (Du et al., 2010). However, over the passage of time strategic CSR has gained traction in contemporary times (Lee et al., 2020).

The idea of 'strategic CSR' was initially conceptualized by Baron (2001) and further elaborated by McWilliams and Siegel (2001) and (Porter & Kramer, 2002). (Vishwanathan et al., 2020) defined strategic CSR as 'those firm activities firm activities that appear to further some social good, while at the same time benefitting the firm financially by either enhancing its reputation, increasing stakeholder reciprocation, mitigating firm-specific risk and improving innovation. (Durand et al., 2019) elucidated strategy in the context of sustainability and CSR as 'building a sustainable competitive advantage in the long run through synergistic generation of financial as well as broader environmental and social value.' Strategic CSR in the context of instrumental stakeholder theory refers to the management's customs that portray consciousness and reciprocation to the legitimate needs of various stakeholders of the business (He & Chittoor, 2022).

The activities that are encapsulated within the 'strategic CSR' idea are intimately related to the vision, mission, and commitment toward essential stakeholders of an organization (Latapí Agudelo et al., 2019). The presumptions of various stakeholders can also be satisfied by organizations that consider economic and technical matters and exhibit care about social and environmental concerns by converting CSR into 'strategic CSR' (Vallaster, 2017). Strategic CSR integrates basic business procedures and ethical conduct with the management of employees and stakeholders (Vallaster, 2017), and aids in sheltering the reputation of firms, which advances competitive advantage (Vishwanathan et al., 2020).

Discussions about the motives and pressures of CSR and the intertwining CSR strategy with a firm's strategy percolated within the studies (Porter & Kramer, 2002). Companies are stimulated to unite business and society needs by cruising towards the juncture where investing in responsible practices creates a 'shared value' due to indulging in strategic CSR (Ashraf, 2021). The notion of 'shared value' for corporations was developed in response to the complex aspects of corporate performance including economic, social, environmental, and cultural factors (Kramer & Porter, 2011). In the context of mandatory CSR, 'shared vision' is a part of a strategic building block (Kumar, 2020). It helps make legitimate obligation within the organisation to think about CSR in a rational and integrated manner and limits CSR simply to be a regulatory exercise. Instead, shared vision, once developed through collaborative mechanism, will

act as a guiding force to propel the organization to achieve long-lasting results on the social, environmental, development and economic front (Kumar, 2020).

Strategic integration of CSR and financial performance

Strategic integration of CSR describes how well companies incorporate strategies related to CSR in their business strategies. The concept is based on the integration of CSR with business objectives so that investing in CSR benefits society and leads to improved financial performance of firms based on the 'strategic CSR' view (Kramer & Porter, 2011; McWilliams & Siegel, 2001). Prior research has indicated that a strategic viewpoint is required when analyzing CSR (Wang et al., 2016). Businesses typically need to think strategically about how they compare to their rivals and how to best leverage their assets and competencies to meet their objectives (Porter & Kramer, 2002). To put it another way, to get the intended CSR objectives, businesses need to analyze their internal resources and capabilities, as well as the rivals and stakeholders involved, and create effective strategies (Husted & de Jesus Salazar, 2006).

Implementing proactive CSR strategies can help firms achieve their long-term goals. Based on a database of UK companies, (Shaukat et al., 2016) found that firms that have effectively implemented CSR strategies can attain better social and corporate performance. Other studies have found that proactive CSR strategies can improve firms' social and sustainability performance (Aragón-Correa et al., 2008; Judge & Douglas, 1998; Klassen & McLaughlin, 1996). When implemented effectively, CSR strategies can improve an organization's results (Helfaya & Moussa, 2017). Sustainability-based CSR strategies help achieve better environmental performance (Helfaya & Moussa, 2017; Post et al., 2015). (Khan & Riaz, 2024) found positive and direct effect of CSR strategy on the organisational performance. Effectual CSR strategies improve an organization's economic outcomes (Helfaya & Moussa, 2017).

Numerous studies have focused on identifying how incorporating CSR strategies can help firms achieve financial and nonfinancial performance (Kong et al., 2020; Orazalin & Baydauletov, 2020). Firms are becoming increasingly aware of incorporating CSR strategies in their business strategies and corporate governance mechanisms to improve their sustainability and social, environmental, and financial performance (Aguinis & Glavas, 2012; Orazalin & Baydauletov, 2020). Even though strategic assimilation between shareholders and stakeholders can reap win-win results for firms, there is a need to empirically test whether such integration leads to improved benefits for firms (Aluchna & Roszkowska-Menkes, 2019). Engaging in strategic CSR helps companies develop human resource capabilities, attract productive employees (Brekke & Nyborg, 2004) to engage in ethical investors (Baron & Diermeier, 2007), and forestall regulatory interpositions from the government (Baron, 2001). Different types of crises could be mitigated by engaging in strategic CSR (Ashraf, 2021). Being strategic in CSR initiatives also benefits society (McWilliams & Siegel, 2011). If CSR is effective, managers should use it strategically to have the most significant impact, i.e., to boost financial and economic performance (Orlitzky et al., 2003).

Formulating and absorbing CSR strategies into firms' mainstream strategies improves the performance of firms based on how well they engage in it (Tang et al., 2012). It has also been discussed that for a CSR strategy to be instrumental in affecting firm performance, the focus must be on integrating the CSR strategy with the firm's corporate strategy, which requires further justification (Aluchna & Roszkowska-Menkes, 2019). Only by integrating CSR activities with firm strategy, the companies can create 'shared vision'. In this study we have coined the term 'CSR strategic integration' to mean the strategic integration of CSR activities to the business strategy and test its moderating effect on the relationship between CSR and CFP.

Considering the prior results and observations discussed above, we continue this line of inquiry by analyzing whether the effect of CSR on CFP is strengthened in the presence of CSR strategic integration by analysing the moderating effect of CSR strategic integration on the business case of CSR and propose the following hypothesis:

H2: CSR strategic integration positively affects the impact of Corporate Social Responsibility on the financial performance of Indian companies.

This study tests whether the integration of CSR strategies into business strategies improves the relationship between firms' social and financial performance. The conceptual framework that directs this investigation, as shown by the hypothesized relationships, is shown in [Figure 1](#).

Research methodology

Data and sample

Data

The data with respect to the independent variable of the study i.e. Corporate Social responsibility and moderator CSR strategic integration has been taken from the ESG scores and CSR strategy scores respectively retrieved from the Thomson Reuters database. The data on dependent and control variables have been taken from Centre for Monitoring Indian Economy's PROWESS database. The data was accessed from 2012 to 2021. The data is taken from 134 companies listed in the National Stock Exchange of India for a 10-year period. The organisation with which the corresponding author is associated with (Manipal Academy of Higher Education) has access to both the databases from which the variables have been taken. Since the data is purely secondary in nature and no data was collected from any primary sources neither there was use of any human or animal specimen, there was no requirement to take an ethics statement in that regard. All appropriate permissions were taken from the concerned organisation before extracting the data.

For this study the authors have focussed only on the manufacturing firms in India and for which the ESG scores were available. The manufacturing industry in India, which is the third most popular manufacturing destination worldwide, grew by 6.03% between FY 2022 and FY 2023. It is a keystone of economic expansion, accounting for 16–17% of India's GDP and expected to rise at one of the quickest rates in the future (IBEF, 2023). The significance of selecting manufacturing companies also lies in the fact that they spend around 3.23% in CSR activities which is more than the mandatory requirement of 2% of profits for Indian companies (CRISIL, 2022). The manufacturing sector is also a dominant resource utilising and waste producing sector. Due to this, this sector also faces intense pressure from the different stakeholders about their social responsibility (Sarfraz, Ozturk, Yoo, Raza, & Han2023). Upon selecting the manufacturing companies for which data was available, the final sample comes to 134 firms over 10 years. The sample includes eight manufacturing industries, with the number of companies in each sector shown in Table 2. The data for CSR were measured using the ESG score given by the Thomson Reuters database, and other financial variable data were taken from CMIE's Prowess IQ database.

Measurement of corporate social responsibility

Various CSR measures have been used in the literature. Studies have used content analysis of annual and sustainability reports (Kapoor & Sandhu, 2010), CSR expenditure, (Nair & Bhattacharyya, 2019) and perception-based measures of CSR derived from primary data (Mishra & Suar, 2010). Third-party ESG scores from various agencies, such as MSCI's KLD database (Dupire & M'Zali, 2018), Thomson Reuters (Maqbool & Bakr, 2019), and Bloomberg, (Sachin & Rajesh, 2022) have also been used to measure CSR. For this study, ESG scores were obtained from the Thomson Reuters Eikon database. Thomson Reuters

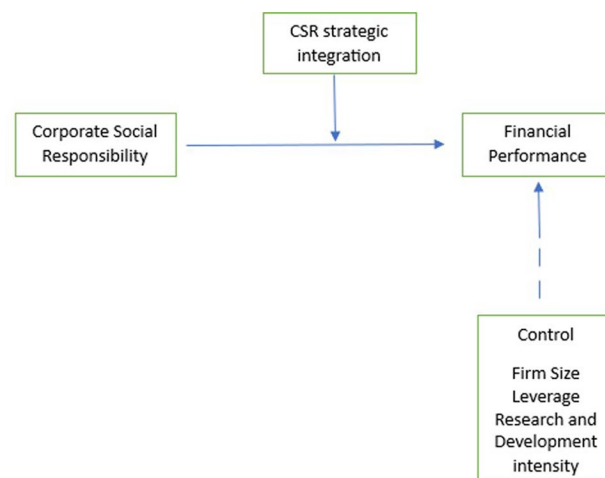


Figure 1. Conceptual framework of the study.

Table 2. Sector distribution of the sample.

Sl. no	Sector	Frequency	Percentage
1	Basic Materials	23	17%
2	Consumer Cyclical	37	28%
3	Energy	9	7%
4	Healthcare	14	10%
5	Industrials	16	12%
6	Real Estate	7	5%
7	Technology	16	12%
8	Utilities	12	9%
Total		134	100%

Source- compiled by the author.

retrieves CSR data from annual reports and various other published sources containing information on a company's environmental, social, and governance aspects. They used more than 450 data points and 70 analytics to create and standardize the scores. Third party scores have been considered a better measure of CSR in previous studies owing to their extensive data points and analytics, but they have limited data for Indian companies.

Measurement of CSR strategic integration

In this study, CSR strategic integration is the moderator variable and is measured using CSR strategy scores from the Thomson Reuters database. The score indicates a company's practices to convey that it integrates the economic, financial, social, and environmental dimensions into its daily decision-making processes. CSR strategy scores have been used in a previous study (Uyar et al., 2022) to measure a company's CSR strategy. To define the strategic integration of CSR activities OR 'CSR strategic integration' we take reference from (Aluchna & Roszkowska-Menkes, 2019) who proposed different modes of integration of strategic integration between CSR activity and the core business ESG compliance. These modes of integration are based on the different corporate governance attributes that may signal that a company has integrated CSR strategy with its overall strategy. These Corporate governance attributes does not measure the integration directly but instead are used as proxies to measure the strategic integration activities of a company or what we have coined the variable to be 'CSR strategic integration'.

CSR strategy scores that we have used in our study is an indicator of performance in governance of firms which focuses on how the companies have aligned the CSR strategy with business strategy. The CSR strategy scores also measure a firm's social engagement keeping in mind their business goals (Jizi et al., 2022). The Thomson Reuters also define CSR strategy score as 'The CSR Strategy Score reflects a company's practices to communicate that it integrates the economic (financial), social and environmental dimensions into its day-to-day decision-making processes.' Based on the definition proposed and how they are interpreted by the scholars, we have used the score to measure CSR strategic integration.

Measurement of financial performance

Like previous studies (Dupire & M'Zali, 2018; Waddock & Graves, 1997), this study uses Return on Assets (ROA), Return on Capital Employed (ROCE), and Return on Equity (ROE) as measures of financial performance.

Control variables

This study uses control variables to prevent spurious relationships between the dependent and independent variables. Firm size has been included because larger firms tend to be more responsible and have the resources to benefit from it (Bird et al., 2017; Nair & Bhattacharyya, 2019). Leverage is added as prior studies have deemed resource availability an essential factor affecting the benefit a company accrues from being responsible (Li et al., 2016). R&D intensity is included as a control variable because it leads to an overestimation of the impact of CSR on a firm's performance (McWilliams & Siegel, 2000). The measurement of all the variables used are explained in Table 3.

Table 3. Description of the variables.

Dependent variables	Measurement	Source
Return on Assets (ROA)	ROA = Net Income / Average Assets	CMIE PROWESS IQ
Return on Equity (ROE)	Net Income/Average shareholders' equity	CMIE PROWESS IQ
Return on capital employed (ROCE)	Return on Capital Employed = EBIT / (Shareholder's Equity + Long Term Liabilities)	CMIE PROWESS IQ
Moderating variable		
CSR strategic integration	CSR strategy scores	Thomson Reuters Eikon
Independent and control variables		
Environmental, Social and Governance Score (ESG)	Overall ESG score	Thomson Reuters ESG score
Firm's size	Log of firm's sales	CMIE PROWESS IQ
Research and Development Intensity	Research and Development expenditure/ sales	CMIE PROWESS IQ
Leverage	Debt equity ratio	CMIE PROWESS IQ

Source: Compiled by the author.

Econometric technique

A three-stage analysis based on methodology by Helm and Mark (2012), has been performed to investigate the relationship between CSR and CFP and the moderating role of CSR strategic integration on the relationship between CSR and CFP. The following models were proposed:

$$FP = \beta CSR + \beta R \& D + \beta Size\ of\ firm + \beta Leverage + \delta \quad (1)$$

$$FP = \beta CSR + \beta R \& D + \beta Size\ of\ firm + \beta Leverage + CSRstrategyfit + \delta \quad (2)$$

$$FP = \beta CSR + \beta R \& D + \beta Size\ of\ firm + \beta Leverage + CSRstrategyfit + (CSRstrategyfit * CSR) + \delta \quad (3)$$

Equation (1) evaluates the effect of CSR on financial performance in addition to evaluating the effect of control variables, Equation (2) adds the CSR strategic integration variable to the equation to analyze its effect on the dependent variable, and Equation (3) adds a two-way interaction term between CSR and CSR integration to test the moderating effect.

Descriptive statistics, including Pearson's correlation coefficients, were assessed. To test this hypothesis, panel data regression with fixed- and random effects models was used. Panel data help account for heterogeneity in cross-sectional and time-series studies (Baltagi et al., 2005). The multicollinearity issue has also been addressed in panel studies. In this study, Variance Inflation Factors (VIF) were estimated. The Hausman Specification test ascertained the choice between Fixed and Random effects models. The choice between fixed and random effects is stated along with the regression results. To account for the presence of heteroskedasticity and any possible bias, Robust Standard Errors were used to arrive at the regression estimates for the random-effects model.

Empirical results

Descriptive analysis

Table 4 provides descriptive statistics for the mean, median, minimum, maximum, and standard deviation of the variables used in the study. The average CSR score is 46.54. The CSR score is made up by assigning weights to different categories of Environmental, Social and Governance scores and combining the scores to find an aggregate score for each company. The scores ranged from 0 to 100. The average ROA, ROE, and ROCE were 8.63%, 17.34%, and 13.01%, respectively. The average leverage was 0.96, signifying a lower debt-equity ratio for Indian companies. The size of the firm ranges from 4.78 to 6.78, signifying that the firms in our sample do not vary in size, as we have taken mostly large firms. The R&D intensity is 0.011, which signifies a low innovation rate in Indian companies.

Table 5 depicts the correlation analysis, which ascertains the bivariate relationship between the variables under study that assists in exhibiting the relationship between the variables. It also confirms that appropriate independent variables have been considered so that the problem of multicollinearity is

Table 4. Descriptive statistics.

	CSR	ROA	ROE	ROCE	Leverage	R&D intensity	SIZE_OF_FIRM
Mean	46.54	8.63	17.34	13.01	0.96	0.011179	4.84
Median	48.11	7.07	13.90	10.07	0.26	0.0008	4.81
Maximum	92.74	73.79	1250.73	182.09	459.26	0.197	6.78
Minimum	1.93	-41.74	-417.70	-316.15	0.00	0.00	0.17
Std. Dev.	21.87	9.06	47.13	19.32	13.10	0.027	0.69
Observations	914	1325	1319	1325	1320	1322	1322

Source: Compiled by the author.

Table 5. Correlation matrix—Pearson coefficients.

	LGSALES	ESG	ESGSTRT	DEBT_EQ	R_D_SALES	ROA	ROCE	ROC
LGSALES	1.0000							
ESG	0.2783***	1.0000						
ESGSTRT	0.4663***	0.5428***	1.0000					
DEBT_EQ	0.0016	0.0104	-0.0625*	1.0000				
R_D_SALES	-0.0759**	0.0190	-0.1275***	-0.0173	1.0000			
ROA	0.0852**	0.0633*	0.1273***	0.1329***	-0.0174	1.0000		
ROCE	0.1029***	0.0756**	0.0960***	0.1196***	-0.0483	0.9202***	1.0000	
ROC	0.1125***	0.0387	0.0844**	0.4263***	-0.0377	0.7490***	0.7821***	1.0000

Source: Compiled by the author.

*denotes significance at the 10% level.

**denotes significance at the 5% level.

***denotes significance at the 1% level.

Table 6. Variance Inflation factors.

Variable	VIF
C	—
ESG	1.02
DEBT_EQ	1.00
R_D_DUMMY	1.00
LGSALES	1.00
CSR STRATEGIC INTEGRATION	1.02

Source: compiled by the author.

avoided. The correlation coefficients show that there is a lower degree of correlation between the independent variables. High correlations were found in the dependent variables ROA, ROCE, and ROE, but we analysed the effect of independent variables on them separately by running different regressions. We found a positive correlation between ESG and firm size. As the size of the firm increases, its investment in ESG also increases. The positive relationship between R&D and ESG suggests that companies that invest in R&D have better ESG performance. However, in the presence of some degree of correlation, earlier studies call for additional tests to examine the correlation between independent variables, which have been done using variance inflation factor (VIF) analysis (Singla & Samanta, 2019).

The values of the VIF test presented in Table 6 show no proof of multicollinearity, as the values are around 1, which is lower than the threshold limit of 10, confirming the non-existence of correlation among the independent variables.

Regression analysis

This study considers CSR as an Independent variable based on ESG scores taken from Thomson Reuters, and financial performance measured using ROA, ROE, and ROCE as the dependent variable. Table 7 shows the results of the regression analysis of CSR's impact on ROA, ROCE, and ROC. The Hausman Specification was used to decide between the use of fixed effects or random effects panel regression. Depending on the values of the test, we used a random effects panel regression model to test the proposed hypothesis of the study. The results of the tests are listed in Table 7. The regression results reveal that we don't find evidence to support hypothesis H1a, but we find evidence that support that H1b is supported, and that signifies that CSR has a negative impact on a firm's financial performance. All three models (1, 4, and 6) depict a significant negative impact of CSR on financial performance, measured

using ROA ($\beta=-0.019$, $p<0.05$), ROCE ($\beta=-0.02$, $p<0.10$), and ROC ($\beta=-0.04$, $p<0.10$). The control variables show a proper relationship, as per the literature. There is a positive relationship between R&D intensity and the dependent variables; leverage negatively affects ROA, ROC, and ROCE, implying that borrowing negatively affects companies' financial performance. We find a positive but insignificant effect of firm size on financial performance. This can be attributed to the fact that all 134 companies used in the analysis are large firms.

Additional analysis

Many studies presuppose that CSR positively impacts firms' financial performance (Orlitzky et al., 2003; Vishwanathan et al., 2020). Using Thomson Reuters scores as a measure of CSR, we find a negative association, so we substantiate the analysis by taking CSR scores from Bloomberg to support our findings. Bloomberg's ESG score has been used as a CSR measure in various studies (Giannarakis, 2014; Orij et al., 2021). The Bloomberg ESG score is based on more than 2000 indicators taken from companies' public disclosure and news items. We also take companies' CSR expenditure as a measure of CSR to analyze our results (Ali, 2023). Numerous studies consider CSR expenditure as a measure of CSR (Kaimal & Uzma, 2023).

The results are listed in Table 8. First, we analyzed CSR's effect on companies' financial performance using Bloomberg's ESG scores. The results show that CSR has a negative and significant relationship with ROA ($\beta=-0.8$, $p<0.01$). The same negative and significant results were obtained for ROCE ($\beta=-0.16$, $p<0.01$) and ROC ($\beta=-0.59$, $p<0.05$). To further substantiate the results, an analysis was conducted using CSR expenditure as a measure of CSR. The results show that CSR has a significant negative effect on ROA ($\beta=-0.00$, $p<0.01$), ROCE ($\beta=-0.002$, $p<0.01$), and ROC ($\beta=-0.002$, $p<0.10$). Hence, even when we use the Bloomberg ESG score and CSR expenditure to measure CSR, we find a negative relationship between the proposed variables.

We tested the second hypothesis regarding the impact of CSR strategic integration on the relationship between CSR and CFP using Thomson Reuters' ESG scores. The results are shown in Table 7 for different models. The moderation effect was tested in three steps, as suggested by Helm and Mark (2012) and, as proposed in the research method section. First, we analyze the impact of CSR on ROA by taking ROA as the dependent variable, followed by ROCE and ROC. In the first stage (Model 1 in Table 7), when we use ROA as a measure of CFP, the results reveal a significant negative impact of CSR on CFP ($\beta=-0.019$, $p<0.05$). In the second stage, the CSR strategic integration variable was added (Model 2 in Table 7). CSR strategic integration has an insignificant negative impact on ROA ($\beta=-0.03$, $p>0.01$). In the third stage, an interaction term (CSR strategic integration X CSR scores) is added to analyze the moderating effect of CSR strategic integration on the CSR-ROA relationship. The interaction term (Model 3 in Table 7) has a significant positive effect ($\beta=0.04$, $p<0.01$) on ROA, which indicates that CSR strategic integration moderates the relationship between CSR and ROA. Hence, hypothesis 2 is supported when ROA is used as a measure of financial performance. When companies integrate economic, financial, social, and environmental practices into their decision-making processes, the relationship between CSR and ROA is strengthened.

The moderating impact of CSR strategy on financial performance using ROCE was examined in the same manner. In the first stage (Model 4 in Table 7), the relationship between CSR and ROCE was analyzed, which yielded a negative effect ($\beta=-0.02$, $p<0.10$). In the second stage (Model 5 in Table 7), the CSR strategic integration variable was negative and significantly affected ROCE ($\beta=-4.04$, $p<0.01$). The interaction term (CSR strategic integration X CSR scores) in the third step (Model 6 in Table 7) reveals a significant positive effect of CSR strategy on the relationship between CSR and ROCE ($\beta=-0.05$, $p<0.05$).

The analysis was performed by taking the ROC as a dependent variable in the next step. The first stage (Model 7 in Table 7) reveals that CSR has a negative effect on CFP ($\beta=-0.04$, $p<0.10$). In the second stage (Model 8 in Table 7), the CSR strategic integration variable had a negative effect on ROC ($\beta=-0.015$, $p>0.01$). The interaction variable (Model 9 in Table 7) (CSR strategic integration X CSR scores) has a positive and significant effect on ROC ($\beta=0.088$, $p<0.01$). The significant positive effect of the CSR interaction term on ROCE and ROC shows that CSR strategic integration moderates the relationship between CSR and financial performance.

Table 7. Regression results based on CSR scores taken from Thomson Reuter's database.

Dependent variable	ROA (Model 1)	ROA (Model 2)	ROA (Model 3)	ROCE (Model 4)	ROCE model 5)	ROCE (Model 6)	ROE (Model 7)	ROE (Model 8)	ROE (Model 9)
Constant	-0.214(-0.03)	-0.15(-0.02)	2.57(.466)	1.15(.15)	1.34(0.17)	4.86(0.89)	-10.56(-.76)	-10(-0.75)	-5.27(-0.38)
CSR	-0.019**(-1.98)	-0.0193**(-1.97)	-0.06***(-5.48)	-0.02*(-1.92)	-0.029**(-1.91)	-0.085***(-4.48)	-0.04*(-1.74)	-0.04*(1.74)	-0.12***(-3.26)
R&D intensity	3.07*** (2.83)	3.08*** (2.83)	-3.08*** (2.81)	7.55*** (2.69)	7.59*** (2.69)	7.58*** (2.68)	5.57* (1.93)	5.59* (1.91)	5.60* (1.91)
Leverage	-0.054*** (-2.77)	-0.054*** (-2.77)	-0.053*** (-2.80)	-0.094*** (-3.4)	-0.094*** (-3.47)	-0.09*** (-3.512)	-0.67*** (-2.56)	-0.67*** (-2.55)	-0.67*** (-2.56)
Size of firm	1.56(1.37)	1.55* (1.36)	1.59(1.38)	1.68(1.09)	1.65(1.07)	1.70(1.09)	4.87* (1.67)	4.87* (1.64)	4.93* (1.65)
CSR strategic integration	-0.030(-1.02)		-3.11*** (-6.73)		-0.07* (-1.74)	-4.04*** (5.32)	-0.015(-0.32)		-5.95*** (3.610)
CSR*CSR strategic integration			0.04*** (6.82)			0.05*** (5.34)			0.088*** (3.59)
Observations	905	905	905	905	905	905	905	905	905
Hausman Test- FE vs RE	3.51	9.47	5.26	2.03	5.26	9.60	4.89	6.46	7.74

Note: Table 7 reports the regression results of model (1) to Model (9) testing the moderating effect of CSR strategic integration on the relationship between CSR and financial performance of Firms using ROA, ROCE and ROE based on ESG scores of Thomson Reuters Database.

*denotes significance at the 10% level.

**denotes significance at the 5% level.

***denotes significance at the 1% level.

Table 8. Regression results based on CSR scores taken from Bloomberg and CSR expenditure.

Dependent variable	ROA ¹	ROCE ¹	ROE ¹	ROA ²	ROCE ²	ROE ²
Constant	−1.28(−0.22)	0.20(0.02)	−57.0*(−1.13)	−25.01**(−4.53)	−26.65*** (−2.86)	−30.79(−1.51)
CSR	−0.08*** (−3.36)	−0.16*** (−3.81)	−0.59** (−2.36)	−0.00*** (−2.91)	−0.002*** (−3.36)	−0.002* (−1.82)
R&D intensity	2.48** (2.46)	6.30** (2.39)	5.36 (1.29)	0.67 (0.63)	4.66*** (2.58)	4.28 (1.09)
Leverage	−0.058*** (−3.27)	−0.10*** (−4.42)	−0.69*** (−3.34)	−0.04*** (−5.07)	−0.09*** (−6.04)	−0.62*** (−19.32)
Size of firm	2.43* (1.89)	3.31* (1.9)	19.30 (1.61)	6.91*** (6.14)	7.74*** (4.07)	9.24** (2.23)
Observations	1185	1185	1185	861	861	861
F	8.91	13.67	9.34	30.31	29.14	10.24
Adjusted R ²	0.82	0.82	0.31	0.82	0.81	0.59
Hausman Test- FE vs RE	5.18	3.98	8.02*	23.88***	10.83**	31.05***

Source: analysed by authors.

Note: Table 8 reports the regression results to test the impact of CSR on the financial performance of Firms using ROA, ROCE and ROE based on ESG scores of Bloomberg Database (1) and CSR expenditure (2).

*denotes significance at the 10% level.

**denotes significance at the 5% level.

***denotes significance at the 1% level.

The interaction effect of a moderator between two variables can be tested in one of the two ways (Dawson & Richter, 2006). The first one took into effect was a hypothesis test in which we obtained a positive moderation effect of CSR strategy on the CSR and CFP of firms. Other way is to show it graphically for which we drew an interaction plot, as shown in Figures 2a, 2b, & 2c. The values of the dependent variables (ROA, ROCE, and ROE) are plotted on the Y axis, and the independent variable (CSR) is plotted on the x-axis. The different lines reflect the CSR strategic integration values. In the interaction plot, the parallel lines indicate that there is no interaction effect, whereas the one with different slopes suggests that an interaction effect may be present. The intersecting lines on all graphs suggest that there is a moderation effect, which is also confirmed by the second hypothesis. The effect of CSR on CFP is strengthened in the presence of CSR strategic integration. The representation of the slopes in the graphs is consistent with the view that a CSR strategic integration strengthens the relationship between CSR and CFP. The relationship between CSR and financial performance strengthens for companies that incorporate CSR strategies into their business strategies.

Conclusion and implications

Conclusion

This study examines the intricate relationship between CSR and CFP and the moderating role of CSR strategic integration on the CSR-CFP relationship. The study has proposed a model examining the moderating role of CSR strategic integration on the CSR- CFP relationship based on literature related to 'business case of CSR', 'strategic CSR' and 'Creating Shared Value'.

Based on a panel data model of 134 companies for ten years, we found a negative impact of CSR on the financial performance of firms in India. This extends to studies, especially with respect to the Indian context, which has found a negative effect of CSR on a firm's financial performance (Jyoti & Khanna, 2021; Sekhon & Kathuria, 2019). The different theories and constructs that define CSR consider it a voluntary phenomenon in which companies choose to invest in CSR-related activities. In India, the mandatory requirement with respect to investing in CSR places a constraint on the amount and specific areas of investment in social responsibility practices. An absence of a positive impact of CSR on the CFP supports the notion that CSR cannot be considered as a resource that adds significant value to companies, so we don't find evidence for Resource Based view of firms and Freeman's stakeholder theory. Instead, the current study's negative effect of CSR on CFP provides evidence that spending on CSR, given statutory conditions, places a social burden on business operations and reduces profitability. Neoclassical theorists have generally viewed CSR an unnecessary expense and are mostly sceptical about companies investing in CSR. They have opined that CSR may be a costly affair for a firm. One of the pioneers of neoclassical theory who has critiqued CSR is Friedman who focused that a company's objective is profit maximisation. His viewpoint specifically has been supported from the findings of this study since the study reveals negative effect of CSR on CFP. Another reason is the diversion of funds that

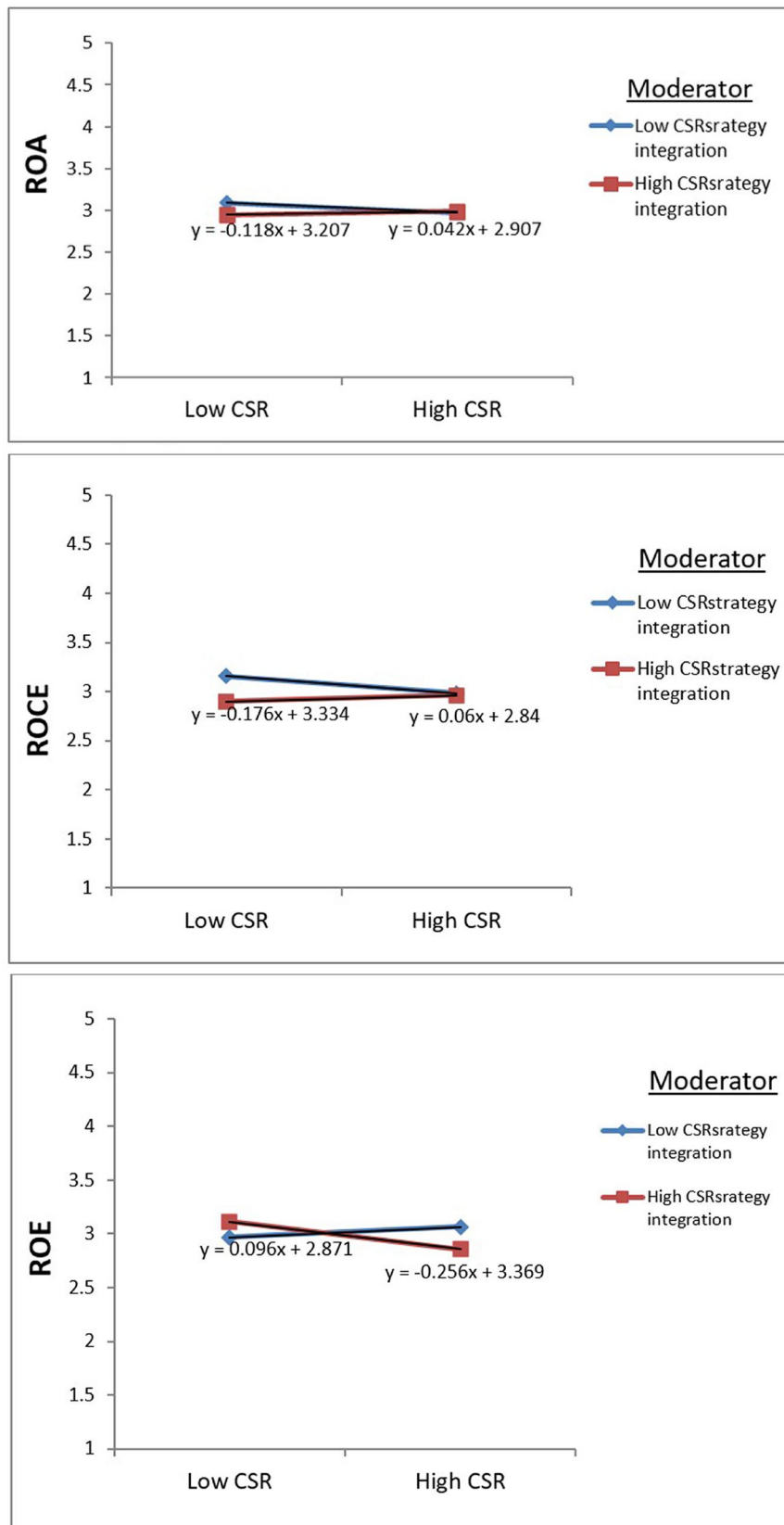


Figure 2. (a) Graphical presentation of the moderating effect of CSR strategy integration on the relation between CSR and ROA. Source: analysed by authors. (b) Graphical presentation of the moderating effect of CSR strategy integration on the relation between CSR and ROCE. Source: analysed by authors. (c) Graphical presentation of the moderating effect of CSR strategy integration on the relation between CSR and ROE. Source: analysed by authors.

financed more profitable projects or the devotion of valuable managerial time away from core business activities.

We also analyze whether CSR strategic integration moderates the impact of CSR on CFP. We found a positive moderating effect of CSR strategic integration on the relationship between CSR and CFP of Indian firms with all measures of financial performance taken in the study, furthering our understanding of the conditions under which CSR can be beneficial for firms. Hence the notion of 'shared vision' is supported. Companies that merge their strategies with their business goals perform better in terms of CSR. Integrating philanthropy and responsibility to develop the competitiveness of companies facing strategic implications leads to better CSR-CFP relationships. By elaborating on the moderation effect, this study found that aligning CSR strategy with the business strategy can strengthen a firm's performance and that a CSR strategic integration matters when companies engage in CSR practices. Companies can undertake considerable challenges to excogitate and accomplish more by raising their accountability to stakeholders through a goal-driven corporate responsibility strategy. However, the same strategy will have a lower likelihood of success, and companies should focus on formulating objectives based on culture, brand, and business strategy.

This study provides insights that add to the strategic CSR literature and CSV concept. By analyzing the impact of strategic CSR integration, this study provides managers with information about CSR implementation. Even though the influence of CSR on CFP, CSR strategy, and CSV has been analyzed separately by different studies, to the best of our knowledge and inquiry, this is one of the first studies to analyze the moderating effect of CSR strategic integration on the relationship between CSR and CFP, particularly in the Indian context.

Managerial implications

Through the lens of strategic CSR, this article suggests that the frequently cited general justification for committing more significantly to CSR must be evaluated considering a particular organization's unique vulnerabilities and potential. This analysis should assist companies in throwing light on the evaluation of society's obligations and specific decisions on CSR activities. Companies can strategically invest in sector-specific CSR activities by selecting them from the qualifying list of activities under the Indian Companies Act of 2013. Companies must identify which activities to specifically focus on to garner positive outcomes for them while simultaneously benefitting society. It is also essential for companies to build coherence in the different CSR activities and try to eliminate issues that do not align with the business CSR goals or solve any critical societal or environmental problems. The strategy is primarily focused on making choices, and with respect to CSR, it is similar. So, the prime focus of companies should be to re-evaluate their CSR strategies so that they are linked to the company's strategic aims and objectives. Managers should incorporate CSR into the broader business strategy rather than seeing it as a distinct entity. To achieve maximum social and commercial value creation, this entails discovering synergies between CSR and core company activities. The findings of this study may guide directors and managers to focus on identifying crucial investment areas in CSR, which may garner a 'shared vision'.

Policy implications

The institutional environment which relates to a jurisdiction's mix of official and informal institutions, affects whether businesses adopt CSR through their commitment to good governance practices. The institutional CSR environment in India compels firms to indulge in scheduled CSR activities. A probable reason for the negative association between CSR and CFP is that the present structure of the regulation cannot make a firm achieve the dual objective of undertaking CSR activities to garner benefits for firms and society. Merging CSR strategy with the business strategy has a positive effect on the 'business case of CSR', so matters that focus on improving firm performance based on social and environmental activities should be undertaken by companies while framing their CSR policies. Section 135 of the Indian Companies Act 2013 may be modified to incorporate provisions that permit businesses to engage in CSR activities in their respective areas of expertise.

Limitations and future research directions

There are restrictions to this study that provide avenues for further research. First, the data are available for 134 companies, which can be widened further. Financial institutions can be considered, which calls for further research by taking them. Second, we have only taken accounting measures to account for a company's financial performance; further studies can focus on market-based indicators, such as Tobin's Q. Third, we have taken composite ESG scores to measure companies' CSR, and studies can take Environmental, Social and Governance Scores separately to account for their impact on the financial performance of firms. Fourth, we measured CSR strategic integration by taking scores from Thomson Reuters; a different way to measure CSR strategic integration, specifically for Indian companies, can be formulated and analyzed. Fifth, our study focuses on India, where the institutional arrangements for CSR differ. CSR engagement may differ across countries and industries, depending on culture, business operations, ethical practices, and government policies. Future research may examine CSR, CSR strategies, and financial success across various businesses, and conduct cross-national or national comparisons of industries. Hundreds of social concerns are brought to the attention of businesses, but only a select number of offer chances to significantly impact society or gain a competitive edge. Making proper decisions and developing focused, proactive, and integrated social activities with their primary strategies will help organizations stand out.

Authors' contribution

Ms Deepa Sharma-Ideation, literature review, data, analysis, and interpretation
Dr Suman Chakraborty- Analysis, Interpretation, and editing

Disclosure statement

The authors report there are no competing interests to declare.

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Data availability statement

The data supporting the findings of this study are available from the authors upon reasonable request.

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