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Drivers of superior social performance: An empirical investigation of Indian Companies with special reference to responsible business rankings

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Abstract
Purpose: CSR expenditure is mandatory, still many companies outperform in social upfront by going beyond legislation. Therefore, the study aims at investigating certain determinants influencing superior sustainability performance as proxied by their presence in Futurescape's top companies for sustainability and CSR.
Design/Methodology/Approach: Different specifications of panel probit model are applied to determine the characteristics of firms which makes a company more likely to be ranked amongst top 100 ESG performer. The dataset of companies in Nifty 200 index are divided into two cohorts of high and low CSP firms using dummy variables. Futurescape Responsible Business Rankings are used for this purpose over a period of 2015-2024.
Findings: Companies which are larger in size, have lower financial risk and belonging to manufacturing sector are more likely to be in top sustainability ranking in all different specifications. Age, advertisement intensity and public sector companies also have positive significant influence in at least one specification.
Originality Value: It is a unique study which highlights the key determinants of superior social performance in an emerging economy like India by incorporating Futurescape Rankings. The findings indicates that younger and small scale companies needs more push for assuming ESG parameters.

Keyword: ESG (environment, social and governance), performance, corporate social performance (CSP), determinants, corporate social responsibility (CSR), future scape rankings, responsible business rankings.

Introduction

India has shown tremendous growth which showed its growth rate at 6.1 percent in 2019, rising to 7 percent in 2020 (IMF, World Economic Outlook). This growth is however accompanied with certain threats related to sustainability which may stagnate the success of Indian economy. Recently, there has been increasing acknowledgment of the significance of social performance in addition to financial success among businesses globally. This shift is particularly notable in developing economies such as India, where companies are now assessed not only based on their profitability but also on their impact on social welfare and sustainable development. Sustainability has become an important elements of companies' frameworks worldwide. It demonstrates their dedication towards ethical practices. Increased awareness amongst investors, emergence of green customers, more environmental concern reflects that the corporates need to be more socially conscious. Public policy arena keep a close track on actions of firms (Patten, 1991) [29]. India is a member to United Nation SDGs which are to be achieved by 2030. Companies are required to map as per Sustainable Development Goals (SDGs). In the era of new economic global environment, Indian companies engaged themselves in business across the globe by listing in foreign stock exchanges. This has further led to major developments which make Indian a sustainable performer. CSR is one of the basic necessities for companies (Chen *et al*, 2020) [8]. Thus, companies are required to integrate CSR into their corporate strategy. Though, CSR has its voluntary roots but now it has become mandatory given the watchdogs in the society who critically evaluates the actions of corporate houses. A new class of Socially Responsible Investors (SRI) is one more example which makes CSR inevitable. This movement towards responsible business practices is fuelled not only by regulatory mandates but also by the understanding that superior social performance can boost a company's reputation, build customer loyalty, and ultimately lead to long-term financial success. Studies on CSR showed mixed effects. Empirical studies by Godfrey, 2005; [14] Kumar *et al*, 2018, [19] Margolis & Walsh, 2001 [24] revealed that companies and their stakeholders are benefitted by CSR. On the other hand, studies by Oberseder *et al*., 2011 [27]. Skarmeas & Leonidou, 2013 [33] reported that CSR might be expensive and it might benefit some of the companies. Therefore, there is a need to synchronise these mixed findings by incorporating certain control variables such as size, age, advertisement intensity, liquidity etc. This will raise the concern of exploring certain drivers of corporate social performance to analyze the impact on financial performance.

Despite the increasing focus on sustainability there is still limited knowledge about the specific factors that lead to superior social performance among Indian companies. Corporate social performance (CSP) involves a company's initiatives to manage its societal impact, covering environmental, social, and governance (ESG) practices. High CSP not only boosts a company's reputation but also supports long-term sustainability and builds stakeholder trust (Carroll, 1991; Orlitzky, Schmidt, & Rynes, 2003) [7, 28]. In India, where socio-economic challenges and regulatory pressures are substantial, identifying the key factors that drive superior CSP is especially important. This study seeks to address this gap by empirically examining the influence of five key drivers-size, age, advertisement intensity, liquidity, and risk-on the social performance of companies listed in the Responsible Business Rankings in India. As companies sail through the complex landscape of social responsibility, understanding the drivers of superior CSP becomes crucial.

The contribution of the study lies in describing the numerous drivers which tends companies to spend more on ESG parameters. The rest of the paper is organized as follows. The next section talks about literature review. The following section mentions the data and methodology and then talks about the results thereafter and finally concludes the paper.

Literature Review

Existing literature depicts extensive study on impact of corporate social performance on financial performance (Kim & Oh, 2019; Wang *et al*., 2016; Bedi and Tyagi, 2021) [17, 38, 1]. However, the results till date are mixed and non-conclusive. The CSP-FP nexus have been positive (Cochran & Wood, 1984; Sila & Cek, 2017) [10], negative (Cordeiro and Sarkis, 1997; M. L. Barnett, 2007) [3], inconclusive (Kraft and Hage, 1990; Tyagi & Sharma, 2013), mixed (Hillman & Kiem, 2001; Manokaran *et al*., 2018) [15, 25] and even non-linear (M. Barnett & Salomon, 2012).

The term CSR and corporate sustainability are used as synonyms (Marrewijk, 2003) [23]. Despite financial performance CSP has also been linked to other variables like management earnings forecast precision (Chen *et al*., 2020) [8]; investment efficiency (Benlemlih & Bitar, 2018) [6]; consumer loyalty (Servera-Francés, D., & Piqueras-Tomás, L. 2019) [34] etc. Even after several decades of studying CSR it is still a debatable topic and viewed as unwanted burden on financial resources. Due to high expectations of society to assume ethical responsibility, it is now mandatory to report ethical and environmental commitment. India became the first country to formally mandate corporate social responsibility (CSR) spending through the enactment of the Companies Act, 2013. This legal development transformed CSR from a voluntary initiative to a statutory obligation for qualifying companies, thereby institutionalizing corporate accountability in social and environmental domains. It is expected that CSP will positively affect the financial performance. A shift from shareholder (Friedman, 1970) [13] to stakeholder approach (Freeman, 1984) [12] is a landmark in the field of CSR. Incorporation of stakeholder approach is a must to ensure long term survival (Vasal, 2009) [37]. We are interested in looking out the nature of companies which participates more in voluntary commitment to social and ethical dimensions than others. Various firm specific features like size of the firm, expenditure on advertisement, liquidity, risk, age etc. are considered which drives the company to be committed to superior performer on ESG dimensions. A large firm is confronted with more societal pressures as compared to a small company as it is more visible and face higher scrutiny from stakeholders. Larger companies typically possess more resources and enjoy greater visibility, which can improve their capacity to participate in socially responsible activities (Udayasankar, 2008) [36]. This motivates such companies to adopt more robust social responsibility practices. Though the relationship between financial performance, size and social performance can be both positive and negative. The age of a company can impact its stance on social responsibility due to its accumulated experience and established relationships with stakeholders. Newly established firms often prioritize financial stability and expansion over CSR initiatives, citing resource limitations and intense competition (Bansal & Roth, 2000) [2]. Conversely, more established companies with a longstanding reputation may consider CSR as essential for maintaining long-term sustainability and fostering strong relationships with stakeholders (Chin *et al*., 2013) [9]. Older companies might gain advantages from a well-established reputation and a thorough understanding of stakeholder expectations, whereas younger firms may be more flexible and innovative in their CSR strategies (Kumar *et al*., 2012) [20]. Nonetheless, the effect of age on CSP is still unclear, as some research indicates that older companies might be more resistant to change (Sharma & Henriques, 2005) [32]. The extent of advertisement spending indicates a company's commitment to managing its public image and reputation. Companies that allocate significant resources to advertising often integrate CSR initiatives into their branding strategies to bolster consumer trust and loyalty (Sen & Bhattacharya, 2001) [31]. Higher advertising spending often aligns with CSR efforts, as firms use responsible branding strategies to enhance their distinctiveness and credibility in the market (McWilliams & Siegel, 2001) [26]. Liquidity, defined as a company's ability to meet its short-term obligations, influences its capacity to invest in CSR activities. Companies with greater liquidity are better equipped to allocate resources to social initiatives without jeopardizing their financial stability (Preston & O'Bannon, 1997). This financial flexibility allows firms to adopt sustainable practices and effectively address stakeholder demands. Risk management plays a crucial role in corporate strategy, affecting how a company balances financial and social goals. Companies experiencing higher risk levels might prioritize financial stability over social initiatives to secure their survival (López-Gamero *et al*., 2009) [22]. On the other hand, firms with lower risk levels may have more capacity to invest in CSR activities, leading to superior CSP. The theoretical foundation of this review incorporates multiple perspectives: agency theory, stakeholder theory, and the resource-based view. Multiple theoretical frameworks offer insight into why companies engage in CSR. Agency theory posits that firm-specific attributes such as size and age can shape a company's responsiveness to stakeholder scrutiny and accountability pressures (Jensen & Meckling, 1976) [16]. Stakeholder theory emphasizes that firms are obligated to address the interests of a broad group of stakeholders-including customers, employees, investors, and communities-when undertaking CSR initiatives (Freeman, 1984) [12]. Meanwhile, the resource-based view (Barney, 1991) suggests that intangible assets like brand reputation, financial flexibility, and advertising capability can be leveraged as strategic resources to enhance social and competitive performance.

Data and Research Methodology

For this study, companies in NIFTY 200 index were considered but all the banking and financial companies were excluded from study as they are confronted with different set of regulations. This is in line with Laskar & Maji, 2016 and Qiu *et al*., 2016 [21, 30] who also excluded such companies from study. The companies were further divided into high and low CSP firms on the basis of Futurescape Responsible Business Ranking. Responsible business rankings are crucial instruments for evaluating and comparing companies' social performance. Entities such as the Confederation of Indian Industry (CII) and the Centre for Responsible Business (CRB) in India release yearly assessments that rank companies according to their CSR efforts and sustainability practices (CRISIL, 2020). These rankings significantly impact corporate reputation, investor attitudes, and consumer choices, prompting companies to improve their social responsibility endeavours. Futurescape Responsible Business Ranking gives rankings to companies annually on the basis of disclosed and published information of companies on Environment, Social and Governance dimensions. Top 100 companies are listed in the rankings by the agency. Dummy variables are used to define high (dummy variable-1) and low (dummy variable-0) CSP firms. Firms which are consistently ranked in all years from 2015-2024 are assigned 1 and those which never appeared are given 0. The companies which made occasional appearances are excluded from the study. Probit model is applied to find out the determinants of firm's superior performance in terms of high business responsibility ranking. Different specifications are used under the panel probit model. Under one specification only control variables are used. In other model only dummy variables depicting firm's sector and ownership are applied whereas in third specification all control and industry dummies are clubbed.

Size is measured as natural log of total assets and it is expected that since larger firms are more visible thus, they are more prominent in India's top companies for sustainability. Companies which are old and well established can more efficiently incorporate social and ethical responsibility into business credo. Thus, older companies are expected to be in responsible business rankings. Similarly, high advertisement intensity creates favourable image and thus companies in order to sustain that reputation are more likely to be associated with superior sustainable performance. Liquidity of companies can be measured in several ways. Current ratio, quick ratio etc. have been used in past. But these are static measures. Thus, cash flow from operating activities/total assets have used to measure liquidity. Higher risk in terms of greater leverage indicates already greater fixed financial burden on financial resources. Thus, companies with higher financial risk are less likely to be superior sustainable performer.

Results and Discussion

Table 1 figure outs the results of panel probit model when size, age, advertisement intensity, liquidity and risk are used as independent variables. The results reports that size, age, advertisement intensity and risk factor are significant drivers of firm's superior performance. Larger the company, older in age, spending high on advertisement expenditure and lower the leverage of the company higher is the probability of the company of being in superior ranking as proxied as business responsibility ranking by Futurescape

Table 1: Results of the probit model (control variables)

Dependent Variable	Independent variables	Regression coefficients	SE	Z Stats	McFadden R Squared	LR Statistics
CSP Ranks (1→ High, 0→ Low)	C	-18.605	1.447	-12.857**	67.44%	652.46**
	Size	1.946	0.147	13.188**		
	Age	0.256	0.151	1.968**		
	Adv intensity	0.048	0.024	1.965**		
	Liquidity_cfo_ta	0.147	0.239	0.617		
	Risk_debt_asset	-0.069	0.008	-8.142**		

**, Significant at 5 percent level.

Table 2: Results of the Probit model (Sector and Ownership)

Dependent Variable	Independent variables	Regression coefficients	SE	Z Stats	McFadden R Squared	LR Statistics
CSP Ranks (1→ High, 0→ Low)	C	0.264	0.176	1.500	5.989%	57.947**
	Dummy_ manufacturing	0.349	0.128	2.716**		
	Dummy_ private	-0.913	0.140	-6.503**		

**, Significant at 5 percent level.

Table 2 list outs the outcome of panel probit model when industry and ownership are used. The findings reports that companies in manufacturing sector have higher probability of being involved in greater sustainable performance as compared to service sector. In case of ownership, there is high likelihood of public sector companies to outperform in social parameters as compared to privately owned companies.

Table 3: Results of the probit model (Combined)

Dependent Variable	Independent variables	Regression coefficients	SE	Z Stats	McFadden R Squared	LR Statistics
CSP Ranks (1→ High, 0→ Low)	C	-20.381	1.723	-11.826**	69.83%	675.62**
	Size	2.124	0.170	12.512**		
	Age	-0.030	0.176	-0.170		
	Adv. intensity	0.048	0.028	1.733		
	Liquidity cfo ta	0.485	0.272	1.782		
	Risk debt asset	-0.083	0.010	-8.408**		
	Dummy manufacturing	1.291	0.290	4.444**		
	Dummy private	0.195	0.364	0.537		

**, Significant at 5 percent level.

Third alternative specification inculcates all factors simultaneously that drives company's likelihood to be in superior ranking. Table 3 reported that the large firms with lower leverage and manufacturing sector companies are expected to be superior sustainable performer.

Conclusion

The study aids in exploring those characteristics of firms which determines the company's superior social performance. High social performance of companies is proxied by their presence in top 100 companies as per Futurescape Business Responsibility Rankings over a period of 2015-2024. Such rankings are given on the basis of weighted average of Environment, Social and Governance (ESG) parameters. The study is undertaken in context of India by using probit specifications. The results of alternative specifications lists out that companies which are large in size are more visible, thus have high probability to be in high social rankings. Similarly, companies with higher leverage are less likely to be in sustainability rankings. Manufacturing companies perform well in ESG dimensions as compared to service industry. This is attributed to the fact that manufacturing companies are more responsible for environmental degradation. Thus, they spend more on CSR to avoid public litigation and enhance overall goodwill of the company. In absence of complete specification, Age, Advertisement intensity and publicly owned companies are also expected to in superior business responsibility rankings. However, liquidity of the company have no significant influence in determining corporate social actions. This gives clear insight of what determines the sustainability and how companies can incorporate such dimensions strategically. It also gives a clear picture that smaller scale companies needs to be encouraged for better participation in ESG dimensions. Those companies which are relatively new should be given incentives to go beyond mandatory norms on CSR spending and report sustainability actions. The results of the study indicates multifaceted drivers influencing superior social performance among Indian companies, with a focus on organizational characteristics such as size, age, advertising intensity, liquidity, and risk. By examining these factors, one can gain understanding of how companies manage both challenges and opportunities related to CSP in the changing business environment. Grasping these factors is crucial for promoting sustainable development and improving corporate social responsibility practices not only in India but also globally. The findings will provide valuable insights for corporate managers, policymakers, and stakeholders aiming to improve CSP in the Indian corporate sector.

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