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THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY REPORTING ON FINANCIAL PERFORMANCE

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ABSTRACT

Corporate Social Responsibility (CSR) reporting has become an essential part of modern business practices. It reflects the growing demand for accountability, transparency, and ethical behaviour. Today, organizations are evaluated not only on their financial results but also on how they contribute to social, environmental, and governance issues. CSR reporting provides a clear account of a company's activities, initiatives, and effects in these areas, influencing how stakeholders view them and creating long-term value. This study examines the link between CSR reporting and organizational performance, focusing on both financial and non-financial results. Evidence from previous research shows that companies with thorough CSR disclosure often have a better reputation, increased customer loyalty, higher employee satisfaction, and improved access to capital. Additionally, CSR reporting relates to lower risks, greater operational efficiency, and a competitive edge in changing markets. However, the strength of this connection varies across industries, locations, and regulatory conditions. The research identifies a dual effect. While clear CSR reporting builds stakeholder trust and long-term profits, poor or shallow disclosure can lead to doubt and harm reputations. The study also points out the existing research gap in creating standardized reporting frameworks and in measuring the real impacts of CSR initiatives on performance metrics. Overall, CSR reporting serves as both a driver and a reflection of corporate performance. Companies that weave CSR into their main strategy and report clearly and responsibly are more likely to achieve sustainable growth and earn stakeholder trust.

KEYWORDS: Corporate Social Responsibility Reporting, Financial Performance, Stakeholder Trust, Sustainability Disclosure, Corporate Reputation

INTRODUCTION

Corporate Social Responsibility (CSR) has become a major development in corporate governance and



business ethics in recent decades. In the early days of industrial capitalism, companies were judged only by their financial outcomes, which included profit margins, shareholder wealth, and market share. However, global business dynamics have shifted considerably due to climate change, increasing inequality, environmental harm, globalization, and growing awareness among consumers and investors.

Today, companies are expected not only to generate wealth for their shareholders but also to positively impact the communities and environments where they operate. CSR offers a way for businesses to incorporate social, environmental, and ethical responsibilities into their basic models. CSR reporting has become the main method for companies to share their sustainability efforts and non-financial performance with stakeholders.

The rising focus on CSR reporting is influenced by several factors:

Stakeholder pressure: Customers, employees, and communities seek more transparency.

Regulatory requirements: Governments worldwide, including in India, the European Union, and the United States, have introduced rules for non-financial disclosures.

Investor preferences: Institutional investors are increasingly choosing companies with strong Environmental, Social, and Governance (ESG) practices.

Reputational risk: Companies that do not report CSR activities or engage in unethical practices often face backlash.

Despite the growing importance of CSR reporting, the debate over its impact on financial performance remains unresolved. Some researchers suggest that CSR reporting can enhance financial performance by boosting corporate reputation, reducing risk, and improving efficiency. Others argue that the costs of CSR initiatives can reduce short-term profits and sometimes serve only as symbolic gestures or "greenwashing" without real impact.

This study examines the connection between CSR reporting and financial performance. It looks at theoretical perspectives, empirical evidence, and variations across industries. It also discusses the challenges in measuring the financial impact of CSR and suggests recommendations for businesses and policymakers.

Classification Based on CSR Approach

1. Proactive CSR

- Anticipating and preventing social/environmental issues before they arise.
- Example: Investing in renewable energy.

2. Reactive CSR

- Responding after a problem or criticism arises.



- Example: Cleaning up pollution after causing damage.
- 3. Strategic CSR**
 - Integrating CSR into business strategy for competitive advantage.
 - Example: Sustainable supply chains, green products.
- 4. Cause-Related CSR**
 - Associating with a social cause to promote both brand and welfare.
 - Example: Campaigns supporting education, women empowerment.

OBJECTIVES

The study aims to achieve the following objectives:

1. To grasp CSR reporting and its various dimensions, including environmental, social, and governance aspects.
2. To analyze how CSR reporting affects financial performance in both the short and long term.
3. To explore the differences in CSR-financial performance connections between developed and developing economies.
4. To examine how various industries, such as energy, manufacturing, and services, are differently influenced by CSR reporting.
5. To identify the main challenges in CSR reporting and measurement.
6. To provide advice for companies, investors, and policymakers on maximizing the financial and social impact of CSR efforts.

LITERATURE REVIEW

Researchers have extensively studied the CSR–financial performance link across fields like finance, management, economics, and business ethics. However, results are varied.

1. Positive Relationship

Many studies show that CSR reporting positively affects financial performance:

Orlitzky, Schmidt, and Rynes (2003) conducted a meta-analysis of 52 studies and found a significant positive link between CSR and financial performance.

Margolis and Walsh (2003) reviewed 127 studies, most of which indicated that CSR boosts profitability and shareholder value.

CSR activities such as improving energy efficiency, engaging with communities, and focusing on employee welfare often led to cost savings, better morale, and stronger customer loyalty.

Companies with strong CSR reporting tend to attract investors who prioritize ESG and enjoy lower capital costs.

2. Neutral or Mixed Relationship



Some researchers argue that CSR reporting does not have a clear effect on financial performance:

McWilliams and Siegel (2001) found that CSR impacts vary based on industry type and stakeholder expectations.

CSR may not always provide direct financial benefits but can build intangible assets like goodwill and brand value.

In industries with low environmental or social effects, CSR disclosures may serve mostly a symbolic purpose.

3. Negative Relationship

Some evidence suggests that CSR reporting can hurt financial performance:

Brammer and Millington (2008) noted that high CSR spending may lower short-term profitability.

Smaller firms often find the costs of CSR reporting outweigh the financial benefits.

Green washing—superficial or misleading CSR reporting—can harm a company's reputation if exposed.

4. Theoretical Frameworks

Stakeholder Theory (Freeman, 1984): Firms must address the needs of various stakeholders, not just shareholders. CSR reporting helps balance these interests.

Legitimacy Theory (Deegan, 2002): Companies disclose CSR efforts to maintain legitimacy and social acceptance.

Resource-Based View (Barney, 1991): CSR creates valuable intangible resources, like reputation and employee commitment, that boost competitive advantage.

Agency Theory: Sometimes, CSR spending is driven by managerial self-interest rather than benefiting shareholders.

5. Global Reporting Standards

Frameworks such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Integrated Reporting (IR), and United Nations Sustainable Development Goals (SDGs) have improved consistency in CSR reporting. However, the lack of uniform adoption still limits comparability between countries.

RESEARCH GAP

Despite extensive research, some gaps remain:

Causality Problem: Few studies clearly show whether CSR leads to improvements in financial performance or if financially strong firms engage more in CSR.

Developing Economies: Most research focuses on developed countries; fewer address contexts where



CSR is mandatory, such as India.

Quality vs Quantity: Research often emphasizes how much is reported but overlooks the quality or credibility of disclosures.

Short-term vs Long-term: Many studies do not distinguish between immediate costs and long-term benefits.

Industry-Specific Analysis: There are few studies on sector-specific differences in CSR's impact.

Greenwashing Impact: Limited research exists on the financial effects of misleading CSR reporting.

SCOPE OF STUDY

Geographic Scope: Includes both developed (US, EU) and developing (India, China, Brazil) economies.

Industry Scope: Looks at manufacturing, energy, IT, finance, and service sectors.

Thematic Scope: Covers environmental sustainability (carbon emissions, energy use), social responsibility (diversity, employee welfare), and governance (anti-corruption, ethics).

Stakeholders: Involves shareholders, employees, customers, regulators, and communities.

Time Frame: Focuses on long-term impact rather than short-term profits.

Limitation: Relies on secondary data from journals, reports, and case studies.

RESEARCH METHODOLOGY

Research Design: Descriptive and analytical.

Data Sources:

Secondary data from academic journals, corporate CSR reports, and global indices like the Dow Jones Sustainability Index and FTSE4Good.

Databases like Bloomberg ESG, Thomson Reuters, and MSCI ESG ratings.

Variables:

Independent → CSR reporting (measured by disclosure levels, ESG scores, report quality).

Dependent → Financial performance (ROA, ROE, Tobin's Q, stock returns, profitability ratios).

Tools and Methods:

Content analysis of sustainability reports.

Comparative analysis of case studies.

Statistical correlations from published studies.

Approach: A mix of qualitative review and quantitative secondary analysis.

Data Analysis and Interpretation

Global Evidence: Companies on sustainability indices consistently outperform their peers in long-term financial valuation.

ESG-focused investors prefer companies with transparent disclosures.

Developed vs Developing Economies: In developed economies, CSR is voluntary and strategic. This leads to reputational and financial benefits. In developing economies, CSR is often compliance-driven, resulting in weaker financial connections.

Sectoral Trends:

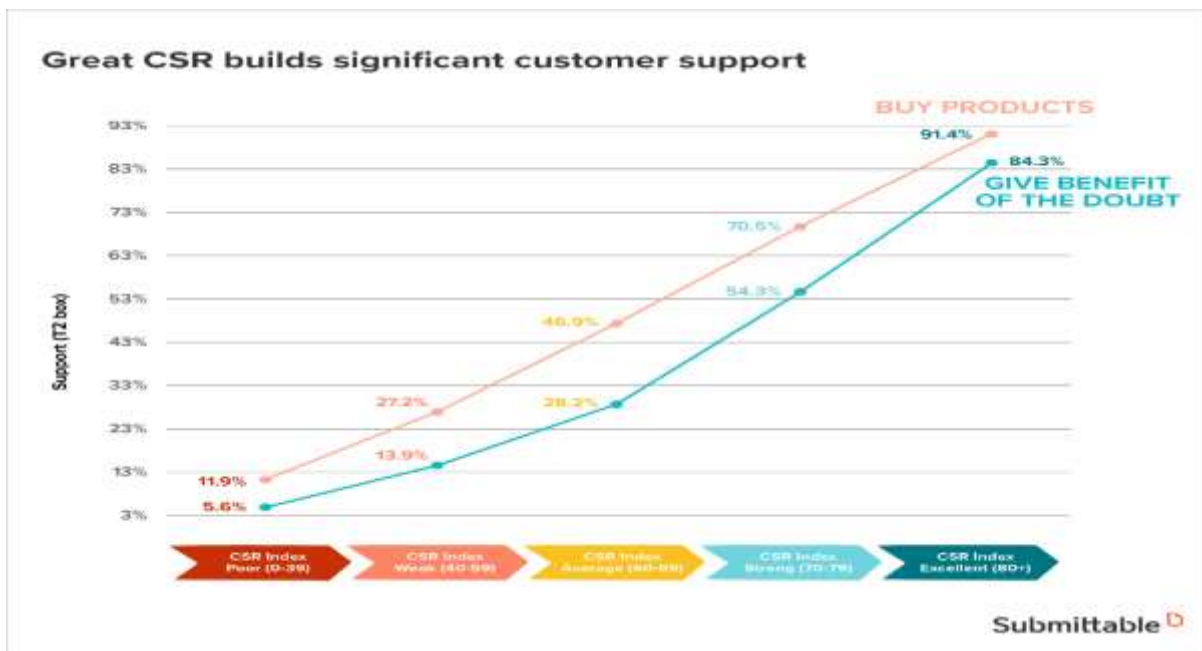
Energy and Mining: CSR reduces penalty risks, enhances efficiency, and attracts environmentally conscious investors.

Manufacturing: CSR efforts in supply chain management and waste reduction help lower expenses.

Service Sector (IT, Banking): CSR boosts employee satisfaction and brand reputation.

Investor Behavior: Firms with strong CSR reports tend to be seen as lower-risk, resulting in better access to capital.

Interpretation: CSR reporting builds intangible assets like goodwill, trust, and reputation that positively influence long-term performance.



FINDINGS

CSR reporting tends to improve long-term financial performance, though it has a limited effect on short-term profits. The quality and authenticity of disclosures matter more than quantity. Transparent CSR reporting tends to attract ESG-focused investors and lower capital costs. Sector-specific factors affect the CSR-financial relationship. Companies with robust governance structures gain more from CSR. Compliance-driven CSR often yields weaker results compared to strategic CSR. Greenwashing can harm reputation and financial stability. CSR reporting can enhance brand loyalty, customer retention, and employee morale. Environmental CSR often leads to direct cost savings. Social CSR



improves public perception and long-term sustainability.

CONCLUSION

CSR reporting has become essential in today's global business landscape. While its impact on short-term financial performance may be limited, there is evidence that transparent and genuine CSR disclosures significantly contribute to long-term financial success. Companies that weave CSR into their core strategies enhance their reputation, reduce risk, improve efficiency, and gain investor confidence.

The relationship between CSR and financial performance varies across industries and regions. Companies in environmentally intensive sectors tend to see the most concrete benefits, while service industries often experience reputational gains. In developed countries, voluntary CSR reporting is linked to competitive advantage. In developing countries, CSR remains compliance-focused, leading to less impact.

For CSR reporting to be most effective, it should be strategic, genuine, and aligned with global frameworks. Regulators should promote standardized reporting, investors should focus on quality over quantity, and companies should integrate CSR into their long-term strategies to ensure sustainable growth.

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