There have been structural changes in the way businesses are run, with numerous debates and discussions over the last few decades regarding the role of business in the society (Davis, 1976). A firm is supposed not only to make profits but also to give back a part of the profits towards the betterment of the society (Davis, 1976). Such socially responsible firms try to be ethical and responsible in their dealings with the society, while making profits within the boundaries of the society. Frederick (1960, p. 60) stated that “…social responsibility......implies a public posture toward society’s economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms”. Scholars (Holmes, 1976; Drucker, 1984) reiterate that a firm is expected to make profits, but in a prudent and thoughtful manner such that it does not harm the other stakeholders of the firm. CSR therefore can be summed up as an organization’s efforts to enhance the socio-economic welfare over and above its profit making motives. Incidentally, a socially responsible firm catering to the best interests of all its stakeholders prospers in the long run (Friedman, 1970).

CSR provides the company with several intangible benefits like corporate reputation (Schwaiger, 2004), innovation, business process efficiency, improved employee motivation, brand image, and customer and employee satisfaction. CSR could act as a differentiating factor for firms competing in the market assuming that consumers tend to associate quality products with corporate citizenship behavior of firms (Maignan and Ferrell, 2001). Studies even suggest that potential job-seekers value CSR as an indicator of organizational attractiveness (Greening and
The self-image of an employee is affected to a great extent by the image of the employer. Consumers (Aaker, 1994) and institutional investors (Graves and Waddock, 1994) identify themselves with firms involved in proactive citizenship behavior which consequently creates value (viz. customer loyalty, advocacy, positive word-of-mouth) (Sen et al., 2006; Hoeffler and Keller, 2002). Similarly, negligent actions of a firm affect stakeholders adversely by boycotting (Herbert, 1996), thus reducing usage of the company’s goods (Sen and Bhattacharya, 2001), and spreading negative word-of-mouth about negligent business practices (Clair et al., 1995).

KPMG (2005) found that Asian firms lag behind Western countries on CSR practices, owing to lack of strict legislations. Liberalization and globalization, presence of MNCs in Asian markets, rising consumer expectations from businesses, and emergence of pressure groups have augmented the cause of CSR in the Asian sub-continent. In the Indian milieu, the scope and intensity of CSR is determined by the combined effect of social pressure from government, NGOs and social activists (Baron et al., 2011). Responding to social pressure is important for a firm as it can directly affect its market value by pushing away investors from the firm or indirectly by harming the reputation or brand equity of the firm. Firms may be encouraged to perform socially responsible activities to ward off negative attention from NGOs (Baron, 2009). Moreover, Indian consumers are aware of the wider role of business in the society, apart from providing good quality products at reasonable prices (Mishra et al., 2010). Consequently, Indian companies have started focusing on CSR activities by striving beyond passive philanthropy. Companies like Bajaj Auto, Mahindra & Mahindra, Infosys, ITC, Dabur India and Tata Steel are extensively involved in various CSR activities in India.
Additionally, the role of CSR as a medium of enhancing image and reputation of a firm cannot be overlooked. Firms need to manage their reputation as a differentiation strategy, and build trust amongst their significant stakeholders (Carroll and Shabana, 2010). This in its turn has the scope to improve profitability. The extant literature provides a theoretical link among the concepts of CSR, Corporate Reputation (CR), and Financial Performance (FP) (Neville et al., 2005; Sanchez and Sotorrio, 2007). This study proposes to empirically validate the link between CSR, CR and FP in the context of Indian economy.

1.1 Motivation for the Study

It is only lately that the concept of CSR gained momentum in the emerging economies, both in academia and at corporate level (Carroll and Shabana, 2010). Some companies practice CSR for statutory reasons, while others practice it as an effort to meet their stakeholders’ expectations. For still others, CSR could be instrumental in gaining public appreciation or to make up for perceived wrong doings of an industry; and manage their reputation. Irrespective of the underlying motive, CSR activities lead to increased profits (Aupperle et al., 1985; Berman et al., 1999). Hence, these activities qualify as investment made by firms. However, linkages of CSR and profitability have been predominantly tested in the context of developed economies (Alexander and Bucholz, 1978; Clarkson, 1995; Waddock and Graves, 1997; McGuire, Brammer and Pavelin, 2006; Schreck, 2011). Given the low level of awareness of CSR in emerging economies, specifically Asia (Ip, 2008), there are very few studies that relate CSR and firm performance in the context of emerging economies (Mishra et al., 2010). Similarly, studies testing theoretical linkages using factors such as reputation, communication of social information, environmental behavior have been tested mainly in developed countries. This
creates a need for validating the theoretical models in emerging economies as factors such as social activities; communication and reputation in emerging economies tend to vary from that of developed nations (Mitra, 2012).

India had witnessed numerous unethical practices undertaken by corporate houses in the recent past in their race to capture greener pastures. For example, it is reported that the Vedanta Group had violated the Forest Rights Act, Forest Conservation Act and Environment Protection Act in Orissa while setting up its bauxite mines and refineries (Hindustan Times, 2010). With the advent of The Companies Bill, 2011\(^1\) in India, which is aimed at bringing the management of the corporate sector in line with global norms, directed companies to invest in social and ethical causes. Section 135 of the Bill states that “every company having net worth of INR 500 crore or more, or turnover of INR 1000 crore or more or a net profit of INR five crore or more during any financial year, shall constitute a Corporate Social Responsibility (CSR) Committee of the Board”. The Committee so constituted is expected to formulate and recommend to the Board “a CSR Policy, the amount of expenditure to be incurred and monitoring of the Policy from time to time”. The Board has to ensure that “the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR activities. In case of their inability to do so, companies need to disclose reasons in their annual reports”. Given this statutory requirement, companies need to invest in CSR activities that have an impact on firm performance. They need to ensure that the CSR expenditure undertaken on their part is beneficial to them in the long run. This study accordingly addresses the CSR- FP link in the Indian context.

\(^1\) www.mca.gov.in/Ministry/pdf/The_Companies_Bill_2011.pdf
Empirical studies linking CSR activities to improving Financial Performance (FP) (Aupperle et al. 1985; Berman et al., 1999; Mishra et al., 2010) have failed to address some potential consequences of CSR such as corporate image (Hoeffler and Keller 2002), corporate reputation (Carroll and Shabana, 2010; Hsu, 2012), customer satisfaction (Hsu, 2012) and brand equity (Hsu, 2012) that play a major role in enhancing the firm’s performance. Neville et al. (2005, p. 1190) proposed a theoretical model integrating stakeholders, internal factors (Reputation Management Capability; Social Initiative and Corporate Strategy Fit) and external factors (Stakeholder Power; Competitive Intensity) that affect the link between CSR and FP. The model also envisaged the moderating role of stakeholders in the CSR-FP relationship. The model has not been empirically validated. This study intends to test the validity of the model in the Indian context. The postulates provided by Neville et al. (2005) consider stakeholders in its entirety which is an erroneous approach. Given the presence of several different groups of stakeholders (Freeman, 1984, p. 25) with their varying significance to a firm, they need to be analyzed separately. Previous research (Rose and Thomsen, 2004; Roberts and Dowling, 2002) identified employees, customers and suppliers as major stakeholders who are likely to significantly influence the performance of a firm, due to their ability to control critical resources of the firm. Therefore, this study endeavors to analyze Neville’s model in the Indian context focusing on customers, suppliers and employees, who significantly affect the performance a firm.

1.2 Structure of the Thesis

The remainder of the thesis has been divided into five chapters: details of literature review and research gaps in Chapter 2; research objectives, proposed model and hypotheses development are given in Chapter 3; research method used for the study is given in Chapter 4; results and
discussion is presented in Chapter 5; and finally conclusion and implications are presented in Chapter 6. These are followed by references and appendices which include case studies conducted to substantiate the findings of this study and a detailed literature review of significant papers used in the study.

The chapter on literature review (Chapter 2) includes a detailed review of literature on Corporate Social Responsibility, Corporate Reputation, Financial Performance, Competitive Intensity, Social Initiative, Corporate Strategy Fit, Reputation Management Capability, and Stakeholder Power, and the potential research gaps derived from the review. The next chapter (Chapter 3) discusses the research objectives, proposed model and hypotheses. In Chapter 4, research method used for the study is discussed along with the entire process of data collection and data analysis. The results of the study are presented in Chapter 5. Conclusions, implications and limitations of the study are presented in Chapter 6. The annexure given at the end of the thesis provides detailed case studies of three firms that have extensive CSR activities namely; Dr. Reddy’s Labs, Reliance Industries, and Thermax India Ltd.