

Relationship between Sustainability Reporting and Financial Performance in the Indian FMCG sector

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ABSTRACT:

Purpose:

Due to expanding worldwide environmental and social concerns, commercial enterprises have undergone a paradigm change in the last ten years, moving from traditional financial goals to corporate sustainability. Because corporate sustainability is becoming increasingly important, researchers are interested in empirically investigating the relationship between sustainability reporting and business performance.

Keywords:

Corporate Sustainability, Firm Performance, Financial Performance, Content Analysis, GRI standard Index, ESG Reporting.

Design:

This study examines the correlation between sustainability reporting and financial performance in Indian fast-moving consumer goods (FMCG) companies. It provides data on the Global Reporting Initiative (GRI) across all 89 parameters while controlling for leverage, firm size, and promoter concentration.

Findings

The sustainability disclosure practices of the selected Indian enterprises are analyzed through the computation of year-wise disclosure scores about overall sustainability reporting and its constituent elements, namely economic, environmental, and social. ROE and ROA were used to measure financial performance (Return on Equity and Assets). The study's findings verify that businesses' sustainability reporting procedures have improved during the five-year investigation. 63.60 percent of the disclosure, as required by the GRI sustainability reporting guideline, is insufficient. Many items are not disclosed in the sustainability reports of Indian companies. Implies that Indian businesses need to take their obligation to inform stakeholders of their responsibilities to the environment, society, and economy more seriously.

Originality

The study shows a strong and positive correlation between company success and sustainability. The findings show that a company's reporting methods for sustainability have a beneficial long-term effect on its performance. The financial performance of GRI-compliant companies is noticeably improved. Leverage, firm size, and firm age influence financial performance. More significantly, older companies who report on the GRI index have strong financial results.

Introduction:

The current decade has seen a paradigm shift in business firms from traditional financial goals to corporate sustainability (CS) due to growing global environmental and social concerns. Businesses have been encouraged to implement a strategic change in the management process by focusing on the triple bottom line since the World Commission for Environment and Development (WCED) published the "Brundtland Report" in 1987 and the demand for the "voice of society" has grown (Warhurst, 2000).

A firm can use the broad concept of corporate social responsibility (CS), which encompasses short- and long-term economic, social, and environmental performances, as a strategic weapon to maintain positive relationships with stakeholders (Cortez and Cudia, 2011) and eventually fulfill the broad dimensions of sustainable development.

Due to corporate sustainability's expanding significance, researchers are now interested in conducting an empirical investigation into the relationship between sustainability reporting and firm performance.

The concept of CS is still evolving in India. To the best of our knowledge, there have been very few empirical studies on the relationship between corporate sustainability performance (CSP) and financial performance in developed Asian countries (Choi et al., 2010), and the findings have been mixed.

Since its launch, the Global Reporting Initiative (GRI) (2011) guidelines—while optional—have been the most widely used set of non-regulatory reporting requirements for companies (Brown et al., 2009). They have many advantages, including universal acceptability, application, design, and stakeholder involvement. They also offer a standard reporting language (Blasco and King, 2017). Multiple stakeholders, including the environment, workers, community, and customers, as well as concerns like transparency and human rights, are included in the GRI performance indicators. Corporations' CS performance has been measured in various scenarios using the GRI performance indicators (Laskar and Gopal Maji, 2018; Yang et al., 2021).

This study seeks to gather sustainability disclosure from Indian enterprises to determine the CS-CSP link. Our content analysis of the firm documents used the GRI-G 3.1 version and other context-specific indications. Businesses' actions are heavily influenced by their ethical standards, which are also considered for the corporate sustainability index. This study's uniqueness in its field comes from extracting the market capitalization from the balance sheets of the NIFTY FMCG businesses in India and analyzing their comprehensive CS performance.

The function of total value created for an organization's customer, employee, supplier, community, and financier is known as stakeholder theory, and it is represented by the symbol TVC (Freeman et al., 2018). According to Lozano et al. (2015), four elements of sustainability exist: temporal, social, environmental, and economic.

The CS research is limited in Asian economies (Ketprapakorn, 2019). The sustainability studies in developing economies account for only 21% of all the published articles (Amui et al., 2017). The CS research in developing economies should focus on the socio-economic realities of the contexts (H. Wang et al., 2016).

Furthermore, research has shown that the size of a corporation positively influences the capital structure, meaning that larger, more well-known companies may use more leverage when obtaining outside funding (Kurshev & Strebulaev, 2015). Studies comparing the degree of competitiveness or corporate social performance between small and large organizations have attempted to shed light on the relationship between firm size and performance.

For example, in the case of tiny U.S. enterprises internationalizing, Wolff and Pett (2004) observed that, in contrast to the smaller firms, the larger ones exhibited competitive behaviors commensurate with their size-related resource base. In the meantime, researchers have verified that large-scale companies' financial and social success are positively correlated (Schreck and Raithe, 2015).

There is a positive relationship between firm size and environmental, economic, and social performance, but not with operational performance. (Younis and Sundarakani, 2019)

Khamis et al. (2015) assess the relationship between ownership structure dimensions and corporate performance. They find that ownership concentration has a negative relationship with a company's performance, while managerial and institutional ownership have a positive relationship.

The relationship between financial leverage and a firm's performance will be impacted by whether it chooses to pursue a low-cost or product differentiation approach. Because lenders more closely watch low-cost strategy enterprises, they stand to gain more from using leverage to increase efficiency. Conversely, companies that focus on product differentiation allocate a more significant portion of their resources to research and development endeavors to leverage their rivals' breakthroughs. According to O'Brien (2003), business strategy and financial leverage impact performance. According to Jermias (2008), product differentiators would suffer more from the relationship between leverage and performance than cost leaders.

Methodology:

Sample and Data

The sample size was 15 companies from the FMCG Sector listed in NSE for 2018 to 2022. These were the firms for which data on the GRI was disclosed. Data on the corporations' ESG actions has been gathered from the companies' sustainability reports or GRI Index reports. GRI guidelines for topic-specific indicators comprise 89 elements/parameters taken as base. The selected companies' sustainability reports or GRI Index reports have been thoroughly analyzed to gather information on several parameters they reported against all 89 parameters. Therefore, the study analyses a balanced panel of fifteen firm-year observations. The time frame for the study was selected to get the most recent data. These indicators consist of economic indicators, environmental, and social (society-related, employment-related, and product-

related) indicators. The sustainability reporting indices were created using content analysis (L. Zhang et al., 2020). The symbol used for the sustainability reporting score is SUST.

Objectives

1. To examine the level of sustainability reporting
2. To determine the relationship between sustainability reporting and financial performance.

Methodology

Content analysis is a widely used tool in social science research for extracting information numerically from published reports. Many studies indicate that content analysis is a standard methodology most researchers adopt for measuring CSP, considering the sustainability report as the basis. The present study has used this content analysis technique to achieve the study's first objective, i.e., examine the level of sustainability disclosure. As almost all the Indian companies adopted GRI guidelines for publishing their sustainability report, the GRI reporting framework is more appropriate for calculating the disclosure score. A binary coding system measures the level of corporate sustainability disclosure '1' if the item is disclosed or '0' if not disclosed, published, or omitted.

Based on the discussion, we hypothesize that:

- H1: There is a positive relationship between sustainability reporting and financial performance (ROA), together mediated by Firm age, Financial leverage, Promoter's concentration, and firm size.

To examine the association and impact of sustainability reporting on the firm performance of 15 select Indian companies, the study has run the static panel data analysis, and the equations are given

$$aROA_{i,t} = B_0 + B_1Sustainability\ Reporting_{i,t} + B_2Age_{i,t} + B_3FirmSize_{i,t} + B_4Leverage_{i,t} + B_5OwnerConcentration_{i,t} + e_{i,t}$$

$$ROE_{i,t} = B_0 + B_1Sustainability\ Reporting_{i,t} + B_2Age_{i,t} + B_3FirmSize_{i,t} + B_4Leverage_{i,t} + B_5OwnerConcentration_{i,t} + e_{i,t}$$

Results and Discussion

Disclosure Trend

Year-wise disclosure scores relating to overall sustainability reporting and its components (Economic, environmental, and social) are computed to analyze the sustainability disclosure practices of the firms selected from India. These scores are shown in tabular form, and graphics are given below.

Figure 1: Overall Sustainability Reporting (Author Created)

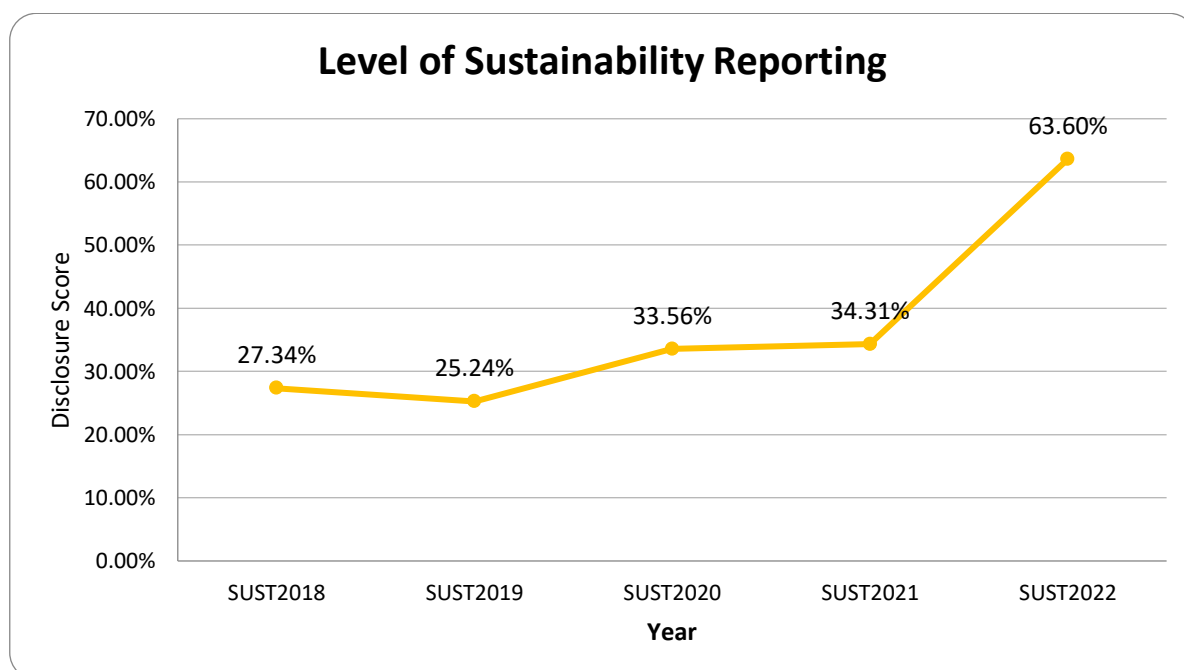


Figure 1 reveals the year-wise average disclosure of the overall sustainability performance by the selected firms. The disclosure scores indicate that there has been a continuous increase in the level of disclosure. For instance, the firm disclosed nearly 27.34 percent of items shown in the GRI reporting framework in 2018, which will increase to 63.60

percent in 2022. A closer look at Figure 1 reveals that the rate of change in disclosing information is higher between 2021 and 2022. These disclosure scores indicate that Indian firms are not disclosing all the items specified in the GRI framework, and there is a vast scope for improvement for the firms as only 63.60 percent of the information is disclosed.

Figure 2: Component-wise Disclosure (Author Created)

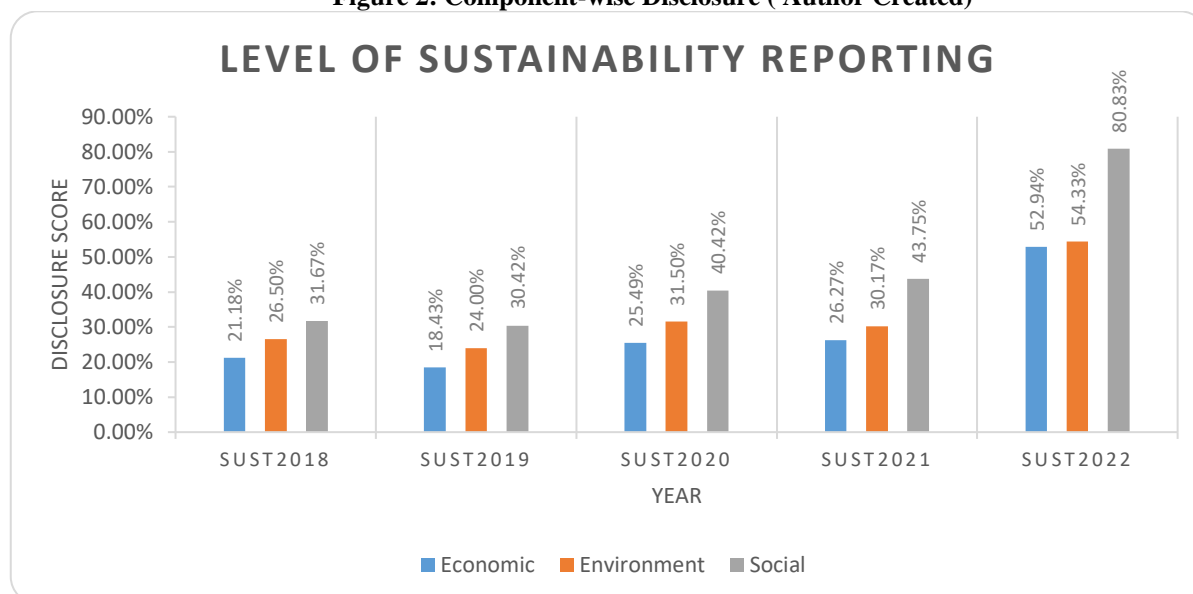


Figure 2 reveals the component-wise (Economic, environmental, Social parameters) sustainability disclosure by selected firms. The component-wise score shows that the social aspects are disclosed more, followed by environmental and economic factors from 2018 to 2021. However, for 2022, financial disclosure is more than environmental disclosure. These indicate that firms are more inclined towards non-financial disclosure. A general look into the table reveals that there has been a steady growth in component-wise disclosure of the GRI Index.

The sustainability reporting practices of selected companies in India have been analyzed individually and throughout the study.

Table 1: Sustainability Reporting Practices of Selected FMCG Companies in India (Author created)

Sr. No.	Company	No. of parameters reported				
	Year	SUST18	SUST19	SUST20	SUST21	SUST22
1	Adani Wilmar Ltd	0	0	0	0	56
2	Britannia Industries Ltd	0	0	0	39	51
3	Colgate-Palmolive (India) Ltd	45	45	45	45	50
4	DCM Shriram Industries Limited	41	41	41	44	65
5	Godrej Consumer Products Ltd	28	0	29	29	29
6	Gujarat Ambuja Exports Ltd	0	0	0	0	61
7	Hindustan Unilever Ltd	0	0	51	51	65
8	ITC Ltd	67	66	67	70	82
9	KOKUYO CAMLIN LTD	31	31	39	39	39
10	KRBL Ltd	66	66	66	66	66
11	Marico Ltd	20	21	20	20	59
12	Nestle India Ltd	67	67	78	55	66
13	Tata Consumer Products Ltd	0	0	12	0	42
14	United Spirits Ltd	0	0	0	0	86
15	Zydus Wellness Ltd	0	0	0	0	32
	Total Number of parameters	89	89	89	89	89
	Average Number of Parameters	0.2734	0.2524	0.3356	0.3431	0.6360

Note: SUST18, SUST19, SUST20, SUST21, and SUST22 refer to the sustainability reporting scores for the years 2018, 2019, 2020, 2021, and 2022, respectively.

Table 1 shows that ITC Ltd. has reported almost the maximum number of parameters in all five years, followed by Nestle India Ltd. and KRBL Ltd. Godrej Consumer Products Ltd., which reported the fewest parameters from 2008 to 2012. Adani Wilmar Ltd, Gujarat Ambuja Exports Ltd, United Spirits Ltd., And Zydus Wellness Ltd. started reporting from 2021 to 2022.

Table 2: Component-Wise Sustainability Reporting Practices of Selected FMCG Firms in India (Author created)

Sr · N o.	Company	No. of Economic parameters reported					No. Of Environmental parameters reported					No. Of Social parameters reported				
		18	19	20	21	22	18	19	20	21	22	18	19	20	21	22
1	AWL	0	0	0	0	4	0	0	0	0	24	0	0	0	0	28
2	BRITANNIA	0	0	0	4	6	0	0	0	12	17	0	0	0	23	28
3	COLPAL	6	6	6	6	5	20	20	20	20	24	19	19	19	19	21
4	DCMSRIND	5	5	5	6	6	14	14	14	15	24	22	22	22	23	35
5	GODREJCP	7	0	7	7	7	13	0	13	13	13	8	0	9	9	9
6	GAEL	0	0	0	0	14	0	0	0	0	22	0	0	0	0	25
7	HINDUNILVR	0	0	6	6	11	0	0	22	22	23	0	0	23	23	31
8	ITC	11	11	11	13	17	28	28	28	25	28	28	27	28	32	37
9	KOKUYOCMLN	2	2	2	2	2	18	18	20	20	20	11	11	17	17	17
10	KRBL	9	9	9	9	9	26	26	26	26	26	31	31	31	31	31
11	MARICO	3	4	4	4	8	13	13	12	12	22	4	4	4	4	29
12	NESTLEIND	11	10	15	10	13	27	25	25	16	24	29	32	38	29	29
13	TATACONSUM	0	0	0	0	10	0	0	9	0	13	0	0	3	0	19
14	UNITDSPR	0	0	0	0	17	0	0	0	0	30	0	0	0	0	39
15	ZYDUSWELL	0	0	0	0	6	0	0	0	0	16	0	0	0	0	10
	Total Number of Parameters	17	17	17	17	17	40	40	40	40	40	32	32	32	32	32
	Average Number of Parameters	0.23	0.19	0.2	0.3	0.4	0.2	0.2	0.3	0.3	0.	0.	0.	0.4	0.	0.8
				7	1	7	9	6	5	8	55	37	34	6	55	1

Note: 18, 19, 20, 21, and 22 refer to sustainability reporting scores for 2018, 2019, 2020, 2021, and 2022 respectively.

Table 2 reveals that all firms have increased disclosure numbers in 2021 compared to previous years. During 2018-2021, economic disclosures were between 21% and 27%; only in 2022 did they go up to 53%. Environment parameters only ranged between 24% and 55% in these five years. There has been a sharp increase in social parameters from 30.42% to 80.33%.

The static panel control disregards heterogeneity. The dependent variables are Return on Assets and Return on Equity. They are the measures of financial performance. In this study, the authors have used ROA and ROE as accounting-based profitability measures, as recommended by past studies by Lo et al. (2021) and Barauskaite et al. (2021). The study has applied all the parameters of GRI performance, capturing economic, environmental, and societal categories. A composite GRI score was obtained to assess sustainability in the FMCG sector by examining the quality and level of disclosure.

For control variables, the study uses Firm Size as measured by the log of total assets and the debt-equity ratio to measure financial leverage. The promoter's concentration in shareholding is also taken as a control variable as it impacts financial performance. Firms' age is the following control variable: mature firms are well established and have created a brand image for themselves, leading to higher profits.

Descriptive Statistics & Correlation

Table 3 gives the descriptive statistics. The average GRI score was only 40.45%, and only 31% of the FMCG firms disclosed the data. The average Return on Assets is less than the Return on Equity at 13.85% and 27%, respectively. The firms displayed a shallow level of financial leverage. The promoter's shareholding was also moderately concentrated at 8%. The kurtosis and skewness also indicated the normality of the data. Table 4 gives the correlation table.

The variance Inflation factor was less than 4 for the variables considered in the study, indicating the absence of multicollinearity (Gujarati et al., 2008; Woolridge, 2010). The results showed that GR Disclosure was positively and significantly correlated to the firm's age, return on equity, promoters' shareholding, and firm size. The return on assets and return on equity is negatively correlated with financial leverage.

Regression Results

The output is presented in Tables 5 & 6. The ordinary pooled OLS regression analysis was run initially. The Durbin-Hausman Test aids in revealing endogeneity (Rahman, 2019). The value of the F statistic was insignificant. The tests of multicollinearity and endogeneity revealed its absence. As per the results for the pooled OLS, for ROA, the variable Age (0.0972) and Firm Size (1.6699) were positively significant at p=0.00. The financial leverage was also substantial, though

negative (-6.2898). These results indicate that older firms with huge assets positively impact economic performance while leveraging negatively. The regression coefficient was 37.46%. As per the results for the pooled OLS, for ROE, the variable Age (0.1959) was positively significant at $p=0.00$, indicating that older firms positively impact financial performance. The regression coefficient was much lower at 12.24%. The fixed effects model provided superior results than the pooled OLS model. The age of the firm (0.0931) and firm size (1.6432) were positively significant, and leverage (-6.41383) was negatively significant with ROA. Similar results were also obtained from ROE as the dependent variable, with the age of the firm (0.1559) and firm size (3.7459) being positively significant and impacting the financial performance at $P<0.00$. Thus, the findings imply that for the GRI-compliant firms in the FMCG Sector in India, older firms with vast asset size and less financial leverage perform better financially

Table 3- Descriptive Statistics (Author Created)

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
c	75	1	15	8.00	4.350	.000	.277
y	75	10	14	12.00	1.424	.000	.277
a	75	18	104	51.71	30.155	.485	.277
roa	75	.3300	36.0000	13.859067	8.9944014	.390	.277
roe	75	1.00	106.00	27.5841	23.82496	1.613	.277
de	75	.0000	1.2900	.253600	.3559936	1.187	.277
p	75	.0000	100.0000	7.683067	24.8861668	3.346	.277
Inta	75	5.1700	11.3200	8.311600	1.7058493	.017	.277
GRT	75	12	86	40.45	19.286	.548	.277
Valid N (listwise)	75						

Table 4- Correlation (Author Created)

	Age	ROA	ROE	DE	OwnConc	LNTA	GRT
Age	1						
Pearson Correlation		.466**	.353**	-.361**	-.229*	.170	.314**
Sig. (2-tailed)		.000	.002	.001	.048	.144	.006
N	75	75	75	75	75	75	75
ROA		1					
Pearson Correlation	.466**		.746**	-.490**	-.260*	.427**	.198
Sig. (2-tailed)	.000		.000	.000	.024	.000	.089
N	75	75	75	75	75	75	75
ROE			1				
Pearson Correlation	.353**	.746**		-.273*	-.119	.220	.273*
Sig. (2-tailed)	.002	.000		.018	.308	.058	.018
N	75	75	75	75	75	75	75
DE				1			
Pearson Correlation	-.361**	-.490**	-.273*		.453**	-.312**	-.195
Sig. (2-tailed)	.001	.000	.018		.000	.006	.094
N	75	75	75	75	75	75	75
OwnC					1		
onc	-.229*	-.260*	-.119	.453**		-.010	-.230*
Pearson Correlation	.048	.024	.308	.000		.930	.047
Sig. (2-tailed)							
N	75	75	75	75	75	75	75
Inta						1	
Pearson Correlation	.170	.427**	.220	-.312**	-.010		.322**
Sig. (2-tailed)	.144	.000	.058	.006	.930		.005
N	75	75	75	75	75	75	75
GRT							1
Pearson Correlation	.314**	.198	.273*	-.195	-.230*	.322**	
Sig. (2-tailed)	.006	.089	.018	.094	.047	.005	
N	75	75	75	75	75	75	75

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 5- Regression Results of ROA As The Dependent Value (Author Created)

<u>Variables</u>	<u>Pooled OLS</u>	<u>Fixed Effects</u>
GRI	-0.0348(0.4707)	-0.0002(0.9618)
Age	0.0972(0.0021**)	0.0931(0.0039**)

Lnta	1.6699(0.0038**)	1.6432(0.0044**)
Ownership Conc	-0.03128	-0.0278(0.4842)
Lev	-6.2898(0.0323*)	-6.41383(0.0341*)
Constant	1.8027(0.7092)	0.24836(0.5512)
Total Obs	75	75
DWTest	2.4153(0.9632)	
Adjusted R squared	0.3746(p<0.00)	0.4319(p<0.00)

Table 6-Regression Results of ROE As The Dependent Value (Author Created)

Variables	Pooled OLS	Fixed Effects
GRI	0.1823(0.2312)	0.5955(0.1446)
Age	0.1959(0.0446**)	0.1559(0.0033*)
Lnta	1.194(0.4863)	3.7459(0.005**)
Ownership Conc	0.0367(0.7631)	-0.1827(0.139)
Lev	-9.745(0.2845)	4.4066(0.5231)
Constant	2.3379(0.8775)	0.3454(0.4632)
Total Obs	75	75
DWTest	2.134(0.8709)	
Adjusted R squared	0.1224(p=0.014)	0.3375(p=0.023)

Conclusion

This study aims to determine the pattern of sustainability reporting practices of selected companies in India and test the impact sustainability reporting practices have on a firm's performance.

The study's results confirm that the sustainability reporting practices of companies have improved over the five-year study period. However, the level of disclosure as per the GRI sustainability reporting guideline is 63.60 percent, which is not entirely satisfactory. Indian firms are not disclosing many items in their sustainability report. Implies that Indian firms must become more serious about communicating their responsibility toward the economy, society, and environment to the stakeholders.

The study finds a positive and significant association between sustainability and firm performance. The results reveal that a firm's sustainability reporting practices positively impact its performance in the long run. GRI-compliant firms have a significantly positive impact on financial performance. The significant variables contributing to their significance are age, firm size, and leverage. Older firms with huge assets reporting GRI-index have good financial performance.

Limitation and Direction for Future Research:

Despite its valuable findings and implications, this study contains some limitations. The study is limited to only companies that are a part of the FMCG companies. Further, the period was only five years. Industry-wise comparison for reporting practices could also be performed. More variables could be considered.

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