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Revisiting the Indian Financial Sector

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Measuring the Relationship Among Corporate Environmental Expenditure, Performance and Disclosure

Abhijit Roy

1 Introduction

The concept of sustainability emphasizes a fair distribution of resources between present and future generations (Gray & Milne, 2002). Majority of the studies on corporate environmental responsibility have tried to figure out the relationship between corporate environmental responsibility and economic performance of firms (Margolis & Walsh, 2003), but failed to establish a conclusive relationship due to varied outcomes (Cormier & Magnan, 2007; Hassel et al., 2005; Moneva & Cuellar, 2009). In this regard, we must mention that there is a definite measurement bias of firms' economic performance towards published financial information; i.e. economic performance is conceived through either accounting-based measures of profitability or stock market-based measures of returns. These are financial measures of firm performance which are simply not equivalent to the economic performance of firms (Zadek & Tuppen, 2000). Any social investment by the company in the form of community development or towards better labour practice and decent work or even for improvement of environmental efficiency is immediately treated as a charge against profit. That is the main limiting factor for taking financial measures to establish the relationship between corporate sustainability practices and economic performance as such investments are seen as a misappropriation of resources by managers by way of diversion from their actual claimants (Margolis & Walsh, 2003). Moreover, disclosure studies are predominately biased towards larger firms leaving fewer clues about the poor performers in the industry. In this chapter, we have tried to establish an objective relationship among environmental expenditure, performance and disclosure. The study aggregates firms that fail to attain a benchmark level of sustainability performance in the industry and thus represents the scenario at the bottom of the pyramid.

A. Roy (✉)
Dr. Bhupendra Nath Dutta Smriti Mahavidyalaya, Burdwan, West Bengal, India

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