



Impact of corporate social responsibility on the financial performance in India

Dr. Umesh Sharma

Assistant Professor, Department of Commerce, M.K. Saboo P.G. College of Commerce, Pilani, Rajasthan, India

Abstract

Corporate social responsibility helps to maintain the sustainability of a business firm by meeting the requirements of a society. The main objective of the present study is to examine the impact of corporate social responsibility (CSR) on financial performance (FP) in India. It is an empirical study using secondary data of NIFTY 50 Index companies for a period of seven years starting from April 2014 to March 2021 collected from and national portal of CSR, annual reports and official websites of the companies. The regression analysis has been conducted to examine the impact of CSR on FP. The study results reveal a significant positive relationship between CSR and financial performance of listed firms in India for the period of study in terms of ROA, ROCE and ROE. It makes clear from the findings that CSR, as valuable and rare resource, can be exploited to create a competitive advantage for the firm. Therefore, the underlying premise of financial performance will be quite useful in the long run, to move business organization beyond legislative compliance. In other words, the financial outcome of social activities gives it legitimacy from stakeholders.

Keywords: corporate social responsibility, financial-performance, return on assets, return on capital employed, return on equity

Introduction

The role of a company towards the social context within which it operates has been altered over the past few years due to globalization and pressing ecological issues (Lin *et al.*, 2009) ^[13]. A business firm is not only an economic entity; it is a social and political entity as well, no business firm can run without the well-being of its stake holders such as society, community, government, employees, suppliers, and customers as well. CSR is beyond the obligations and legal duties as it a voluntary initiative by companies which is apparently encouraged by both the national as well as international governments, but they are resistant to regulate it (Resmi *et al.*, 2018) ^[11]. It is a continuation of the inspiration that led newly established businesses into the field of philanthropy, which gradually developed into a broader concept of the responsibility of stewardship. Nowadays, the CSR activities importance can be seen through the mentioned of these activities in the sustainability reports, official websites of the companies and annual reports (Kamatra & Kartikaningdyah, 2015) ^[4].

The relation between financial performance and CSR has induced significant interest amongst researchers. Adopting CSR positively has several impacts on sustainable development, financial performance, increased value, recognized reputation and many more (Kaur & Singh, 2021). A high level of engagement in CSR practices does not only enhance the financial performance of companies, it also attracts institutional investors. In fact, CSR and corporate financial performance (CFP) have a mutually strengthening effect in recession time as well (Kumar, 2022) ^[6]. A wide array of definitions of firm performance (FP) has also been proposed in the methodological sections. Both accounting based as well as market-based measures have been used to study the relationship between firm's financial performance and corporate social responsibility.

CSR in India

Emerging economies often follow the developed economies in terms of implementing business practices. However due to Indian economic reforms in 1991, entry of MNC in Asian market, rising consumer expectation, and emergence of pressure groups have made the global policy consideration stronger in Asian countries including India. This has given birth to follow CSR practices in ordinary business activities, though CSR was found inform of philanthropic contribution by few merchants' community like building schools, distributing aid substances during disasters and helping poor (Kumar & Singh, 2019) ^[7]. India stands last in the level of CSR demanded from companies in any country. According to companies act 2013, listed companies with annual revenues of more than 10 billion rupees must spent 2% of their income on CSR activities. Several studies which have been conducted in India, goodness in business was well recognized practice primarily driven by cultural and religious belief. In Indian history, business practices reflected wide stake holder orientation, with prevalence of family and state-owned firm, as the strong community ethos (Giri *et al.*, 2017) ^[3]. Researchers in India have used various proxy measures to the CSR like content analysis, questionnaire-based surveys, reputation index, CSR expenditure etc. The lack of in-depth research in the field of CSR activities and mandatory policy provided by government, we contextualize our research in India, which presents an opportune investigational by considering 2% spending on CSR as per government rule and financial benefits out of that. The major contribution of present study to the literature includes the investigation of impact of CSR on financial performance of listed firms in India by using the regression method.

Literature review

(Chen *et al.*, 2011) ^[2] examined the impact of corporate social responsibility (CSR) on the financial performance (FP) in China. The study collected secondary data during 2007 and 2008 from

Chinese firms to examine the relationship between corporate financial performance (CFP) and CSR empirically. The study found that the financial performances of the companies are improved through social responsibility activities and have significant impact on their financial performances (FP) of the next year, and vice versa. The variation of financial performance of the companies and CSR expenditure can also significantly influence each other simultaneously. (Kamatra & Kartikaningdyah, 2015) ^[4] examined the impact of CSR activities by Indonesian companies on financial performance (FP) as measured by profitability ratios consisting of return on equity (ROE), return on assets (ROA), earning per share (EPS) and net profit margin (NPM). The study used secondary data of 24 mining and chemicals industry companies listed in Indonesia stock exchange during the period 2009-2012. This study used a quantitative approach and the method of multiple linear regression analysis of the data, with the first through the classical assumption. The study indicated that simultaneous CSR and control variables consisting of leverage (DER) and size effect on ROA, ROE, NPM and EPS. CSR only partially significant effect on ROA and NPM and no significant effect on ROE and EPS (Giri *et al.*, 2017) ^[3] examined the impact of corporate social responsibility (CSR) on the financial performance (FP) in India. The study collected secondary data by using a sample of NIFTY 500 Index companies for a period of 3 years starting from April 2014 to March 2017 and using the panel data regression method for the empirical analysis of selected model. The study found that there is a significant positive relationship between CSR and

FP of listed firms in India. Further, this study observed a significant positive relationship with LEV, ROA and SIZE of sampled firms. (Reddy *et al.*, 2018) ^[10] investigated the influence of CSR on financial performance of the company. Corporate social responsibility is measured as the summation of donation and the environmental cost which is taken from annual reports of the companies over last few years. The study found that CSR influence great impact on financial performance (FP) of the companies. Also, this paper documented that ITC Ltd showed a significance relation whereas Nestle Indian Ltd. did not show significance relationship. Hence, through this paper it can be concluded that a significant relation may not be determined between CSR expenditure and profit after tax of companies. (Sekhon & Kathuria, 2020) ^[12] analyzed the impact of CSR on financial performance in the Indian context. Using a panel data of top 137 companies from CNX-500 for 10 years from 2008 to 2017, the impact of CSR on three indicators of financial performance, namely, Return on Equity (ROE), Net Profit Margin (NPM) and Return on Assets (ROA) is evaluated using the panel data regression analysis. The technique of content analysis is used to collect data on CSR from the annual reports of selected companies. The study finds that the impact of CSR on financial performance may be neutral (with NPM and ROA) or negative (with ROE). The negative influence of CSR on ROE of firms supports the theory by Friedman (1970) that

the only responsibility of business is to maximize profits and returns for its shareholders. (Kaur & Singh, 2021) This paper aims to examine the impact of corporate social responsibility activities on financial performance of Indian steel industry. The study used profitability (PM), market (MM), growth measures (GM) and value-added (VAM) variables for firm performance. The study collected secondary data of 40 companies for 14 years from Prowess database and CSR/annual reports/official websites of the companies. The univariate ANOVA and MANOVA and panel data regression analysis have been conducted to examine the impact of corporate social responsibility on financial performance. The study found that there is a positive impact of corporate social responsibility activities on financial performance in terms of GM, VAM and PM. The study also found that more investments in CSR activities will generate wealth for shareholders, enhance sales and profitability. (Abilasha & Tyagi, 2021) ^[11] examined the impact of CSR activities on financial performance (FP) and examined the effectiveness of New Companies Act, 2013 in India. The study used financial ratios such as Return on capital employed (ROCE), Profit before tax (PBT), Return on Asset (ROA) and Return on Equity (ROE) for financial performance. The study collected secondary data from annual report and Sustainability Report for four years 2014-17. The study found that in an average all companies are contributing 2 percent in CSR activities in India which was an prescribe percentage in the New Companies Act, 2013. Further, the study found that there is a significantly positive impact of CSR activities on overall company's financial performance (FP) in respect to financial ratios like ROC, PBT, ROA and ROE but individually insignificant.

Research Methodology

The research instrument was a test and documentation. Tests performed by measuring and calculating the influence of CSR expenditure to the financial performance (FP) was measured using profitability ratios consisting of ROA, ROE and ROCE. It is an empirical study using secondary data of NIFTY 50 Index companies for a period of seven years starting from April 2014 to March 2021 collected from national portal of CSR and annual reports or official websites of the companies. The regression analysis has been conducted to examine the impact of CSR on FP.

Hypothesis

Hypothesis Based on the above as well as the previous study, the hypothesis to be tested as follows:

H₁: CSR has an influence on the ROA.

H₂: CSR has an influence on the ROE.

H₃: CSR has an influence on the ROCE.

Analysis of financial performance

Analysis of the performance of the selected companies are done by studying the financial statements. One of the analytical techniques that can be used to assess the financial performance of the company is through financial ratio analysis. In the study the ratio that will be used to measure the financial performance is the ratio of profitability. Here is the kind of profitability that will be used in the study:

ROA= Net income/ Total assets ×100%
 ROCE= Earnings Before Interest and Taxes/ Capital Employed
 ROE= Net income /Equity ×100%

Control variable

The study incorporates firm size control variables to disentangle the effect of CSR on FP. Firm size is a relevant variable that could confound the relationship between CSR expenditure and Financial Performance. Larger firms are relatively better positioned than smaller firms to invest more funds for CSR activities.

Research models

According to the nature of study and research objective, following econometrics model is applied to test the hypothesis:

$$ROA=a_0+a_1CSR+a_2SIZE+e \tag{1}$$

Here, ROA: a proxy variable for firm financial performance (return on assets)

CSR: the natural log value of the CSR expenditure

SIZE: the natural log value of the total assets (term-end total assets, a measurement of firm size) e: residual

$$ROCE=a_0+a_1LNCSR+a_2LN SIZE+e \tag{2}$$

Here, ROCE: a proxy variable for firm financial performance (Return on Capital Employed)

CSR: the natural log value of the CSR expenditure

SIZE: the natural log value of the total assets (term-end total assets, a measurement of firm size) e: residual

$$ROE=a_0+a_1CSR+a_2SIZE+e \tag{3}$$

Here, ROE: a proxy variable for firm financial performance (Return on Equity)

CSR: the natural log value of the CSR expenditure

SIZE: the natural log value of the total assets (term-end total assets, a measurement of firm size) e: residual

Analysis and interpretation

After testing the classical assumption, then the next step is to test causality research variables. Testing causality study variables was carried out by multiple regression analysis to determine whether there was an effect of CSR and firm size on the financial performance consisting of ROA, ROCE and ROE.

Table 1: Model Summary for ROA & CSR.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.467 ^a	.218	.200	.64436
2	.770 ^b	.593	.573	.47058

a. Predictors: (Constant), Size

b. Predictors: (Constant), Size, CSR

The R square value indicates how much of the total variation in the dependent variable, ROA, can be explained by the independent variable i.e., CSR (Zou *et al.*, 2003). In this case, R square designates that change in ROA can be explained by change in CSR data. The adjusted R square value of 0.573 implied that the model is 57.3% goodness fit when firm size is control variable. A unit change in the CSR activities leads to about 0.593-unit change or 59.3% changes in ROA when firm size is control variable.

Table 2: Anova ROA & CSR

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression Residual Total	4.990	1	4.990	12.018	.001 ^a
	17.854	43	.415		
	22.843	44			
2 Regression Residual Total	13.542	2	6.771	30.577	.000 ^b
	9.301	42			
	22.843	44			

(a). Predictors: (Constant), Size

(b). Predictors: (Constant), Size, CSR

(c). Dependent Variable: ROA

From Table 2, it can be seen that the relation between CSR and ROA is significant (.000) that the value is less than 0.05 suggesting that the regression model significantly predict

the outcome of the variable, CSR as far as its impact on ROA is exist, So, the alternative hypothesis 1 may be accepted.

Table 3: Coefficients for ROA & CSR.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.			
	B	Std. Error	Beta					
1 (Constant) Size	4.960	.726		6.835	.000			
		-.226	.065			-.467	-3.467	.001
2 (Constant) Size CSR	5.514	.537		10.260	.000			
		-.409	.056			-.844	-7.300	.000
		.359	.058				6.215	.000

a. Dependent Variable: ROA

The linear regression coefficients describe the mathematical relationship between each independent variable and the dependent variable. The p values for the coefficients indicate whether these relationships are statistically significant. It can be seen that the relation between CSR and

ROA is significant (.000) that the value is less than 0.05 suggesting that the regression model significantly predict the outcome of the variable, CSR as far as its impact on ROA is exist.

Table 4: Model Summary for ROE & CSR.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.467 ^a	.218	.200	.64436
2	.770 ^b	.593	.573	.47058

- a. Predictors: (Constant), Size
- b. Predictors: (Constant), Size, CSR

The adjusted R square value of 0.247 implied that the model is 24.7% goodness fit when firm size is control variable. A unit change in the CSR activities leads to about 0.281-unit

change or 28.1% changes in ROE when firm size is control variable.

Table 5: Anova ROA & CSR

Model	Sum of Squares	D f	Mean Square	F	Sig.
1 Regression Residual Total	1.009	1	1.009	2.261	.140 ^a
	19.197	43	.446		
	20.206	44			
2 Regression Residual Total	5.677	2	2.838	8.205	.001 ^b
	14.529	42	.346		
	20.206	44			

- a. Dependent Variable: ROE

From Table 5, it can be seen that the relation between CSR and ROE is significant (.001). that the value is less than 0.05 suggesting that the regression model significantly predict

The outcome of the variable, CSR as far as its impact on ROE is exist, So, the alternative hypothesis 2 may be accepted.

Table 6: Coefficients for ROE & CSR.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant) Size	4.464 -.102	.752		5.932	.000
		.068	-.223	-1.504	.140
2 (Constant) Size CSR	4.873 -.237 0.265	.672		7.255	.000
		.070	-.519	3.673	.002
		.072			.001

- a. Dependent Variable: ROE

The p values shows that the relation between CSR and ROE is significant (.000) that the value is less than 0.05 suggesting that the regression model significantly predict

the outcome of the variable, CSR as far as its impact on ROE is exist.

Table 7: Model Summary for ROCE & CSR.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.486 ^a	.236	.218	.82809
2	.796 ^b	.633	.616	.58045

- a. Predictors: (Constant), Size
- b. Predictors: (Constant), Size, CSR

In this case, R square designates that change in ROCE can be explained by change in CSR data. The adjusted R square value of 0.616 implied that the model is 61.6% goodness fit

when firm size is control variable. A unit change in the CSR activities leads to about 0.633-unit change or 63.3% changes in ROCE when firm size is control variable.

Table 8: Anova ROCE & CSR

Model	Sum of Squares	D f	Mean Square	F	Sig.
1 Regression Residual Total	1.009	1	1.009	2.261	.140 ^a
	19.197	43	.446		
	20.206	44			
2 Regression Residual Total	5.677	2	2.838	8.205	.001 ^b
	14.529	42	.346		
	20.206	44			

- a. Predictors: (Constant), Size
- b. Predictors: (Constant), Size, CSR
- c. Dependent Variable: ROCE

From Table 8, it can be seen that the relation between CSR and ROCE is significant (.000) that the value is less

Than 0.05 suggesting that the regression model significantly predict the outcome of the variable, CSR as far as its impact on ROCE is exist, So, the alternative hypothesis 3 may be accepted.

Table 9: Coefficients for ROCE & CSR.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	5.943	.933		6.373	.000
Size	-.306	.084	-.486	-3.642	.001
2 (Constant)	6.685	.663		10.084	.000
Size	-.550	.069	-.874	-7.962	.000
CSR	.481	.071	.740	6.747	.000

a. Dependent Variable: ROCE

The p values shows that the relation between CSR and ROCE is significant (.000) that the value is less than 0.05 suggesting that the regression model significantly predict the outcome of the variable, CSR as far as its impact on ROCE is exist.

Conclusions

The impact of CSR on the FP has been studied extensively, but theories, as well as empirical findings, present competing and contradictory conclusions. This study empirically tests the relationship between CSR and FP in the Indian context to further enrich the literature in developing countries. To verify the relationship between CSR and FP, we utilized the NIFTY 50 Index companies for a period of seven years starting from April 2014 to March 2021. Likewise, firm size was incorporated as control variable. The results of this research broadly classified into three broad spectrums that are Return on Assets (ROA), Return on Equity (ROE) and Return on Capital Employed (ROCE) with corporate social responsibility expenditure spend by Indian companies. ROA, as a dependent variable, result shows that there is a positive relationship between Return on Assets (ROA) and corporate social responsibility. Return on Equity (ROE), as a dependent variable, result shows that there is a positive relationship between Return on Equity (ROE) and corporate social responsibility. Return on Capital Employed (ROCE), as a dependent variable, result shows there is a positive relationship between Return on Capital Employed (ROCE) and corporate social responsibility. Overall, the study confirms that CSR exerts positive impact on the financial performance of the selected companies. The study exemplifies that benefits of CSR exceed the costs associated with it. It makes clear from the findings that CSR, as valuable and rare resource, can be exploited to create a competitive advantage for the firm. Therefore, the underlying premise of financial performance will be quite useful in the long run, to move business organization beyond legislative compliance. In other words, the financial outcome of social activities gives it legitimacy from stakeholders.

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