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IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON CORPORATE FINANCIAL PERFORMANCE: A STUDY OF SELECTED INDIAN COMPANIES

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ABSTRACT
Corporate social responsibility and corporate financial performance have become important research areas in recent years. While pursuing profits, corporations should also fulfill social responsibilities to advance social well-being, which can in turn contribute to the success of business. This research paper provided overview *of corporate social responsibility, its provisions and theories. It also studied the difference in the amount of CSR spent in PSUs and non-PSUs as well as listed and unlisted companies. It further analysed the impact of corporate social responsibility on corporate financial performance in selected Indian companies.*
KEYWORDS: *CSR, Corporate Financial Performance, ROA, ROE, ROCE, EPS etc.*

INTRODUCTION

Over the last decades, corporate social responsibility (CSR) as a concept has attracted the attention of many researchers in the commerce and management sphere. The CSR ambit is getting bigger and for upcoming years it would turn as a unique knowledge base for analyzing and achieving sustainability goals as among various large economies. India having the most elaborated CSR mechanism and implementation strategy has started its journey to set a benchmark in attaining sustainability goals and stakeholder activism in nation building.[1] It is a concept which has become dominant in business reporting. Every corporation has a policy concerning CSR and produces a report annually detailing its activity.[2] Better public image, customer loyalty, proper use of resources and converting social problems into opportunities are the benefits of CSR to the companies. On the other hand, higher standard of living, natural environment protection and sense of security are the benefits of CSR to the society.

Corporate social responsibility and corporate financial performance have become important research areas in recent years. Most of the previous researches have been conducted in developed countries. Very few researches on these topics have been conducted in India, but the results have been inconclusive. Therefore, this paper studied the impact of corporate social responsibility on corporate financial performance in selected Indian companies.

OBJECTIVES OF THE STUDY

1) To understand the concept of corporate social responsibility and its provisions in India.
2) To study the theories related to corporate social responsibility.
3) To discuss the amount of CSR spent from 2018-19 to 2022-23 and top 10 states and top companies in terms of amount of CSR spent in the financial year 2022-23.
4) To analyze the impact of corporate social responsibility on corporate financial performance in selected Indian companies.

CSR AND ITS PROVISIONS IN INDIA

Corporate social responsibility is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies use CSR to integrate economic, environmental and social objectives with the company's operations and growth. CSR is a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public.[3]

As per section 135 (1) of the Companies Act (2013), companies that meet any of the following criteria in the preceding financial year is required to comply with CSR provisions:[4]

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- A net worth of at least Rs 500 crore
- A turnover of at least Rs 1,000 crore
- A net profit of at least Rs 5 crore

CSR spending is computed as 2% of the average net profits made by the company during every block of three preceding financial years. Here net profit shall mean, net profit before tax as per books of accounts and shall not include profits arising from branches outside India. If the company has not completed three financial years since its incorporation, but it satisfies any of the criteria mentioned in section 135(1), the CSR provisions including spending of at least 2% of the average net profits made during immediately preceding financial year(s) are applicable.[5]

THEORIES RELATED TO CSR

Following are the theories related to CSR:[6]

1) **Carroll CSR Pyramid Theory:** Carroll's CSR pyramid theory is composed of four obligations that create a foundation for the business's responsibilities toward society. These four main obligations are economic responsibilities, legal responsibilities, ethical responsibilities and philanthropic responsibilities, which are arranged in the order of hierarchy. Economic responsibility is at the bottom, then legal responsibility and ethical responsibility. Philanthropic responsibility is at the top. It improves the reputation of corporations. Before implementing the Carroll's CSR theory, external social and environmental situations must be studied.
2) **The Triple Bottom Line Theory:** The Triple Bottom Line theory (TBL) was found by John Elkington which incorporates three dimensions of performance: economic, social and environmental. Sustainability is the main aim of the TBL concept. Many corporations and non-profit organizations have adopted the TBL sustainability framework to perform CSR projects. However, this theory possesses some challenges like measuring each of the three categories, finding applicable data and calculating policy's contribution to sustainability.
3) **The Stakeholder Theory:** Stakeholder theory proposes that objectives of a corporation can only be achieved by protecting and balancing the interests of different groups of stakeholders. The theory is used to identify the connection between stakeholder management and the CSR approach. Every stakeholder of a corporation should be represented at least by one person in the board of directors of the corporation in order to share the interest of his group.

LITERATURE REVIEW

Elouidani and Zoubir (2015)[7] studied relationship between corporate social responsibility and financial performance. They found a negative and significant impact of the corporate social responsibility on financial performance. **Naik Bhakti (2020)**[8] studied impact of corporate social responsibility on financial performance. She found a strong link between corporate social responsibility and a company's financial success and the wealth of its shareholders. **Patil Pravin and Ramgouda Pavankumar (2021)**[9] analyzed the corporate social responsibility practices followed by corporates operating in India. They identified the failures of companies in meeting the expectations of the society and also provided some suggestions to improve the corporate social responsibility practices to better serve the society and the country. **Dixit Sanjay (2023)**[10] critically appraised corporate social responsibility. He concluded that transparency is the key to corporate social responsibility success. He suggested that more contribution should be made in the upliftment of the poor in both urban and rural areas and efforts to create more awareness regarding corporate social responsibility.

HYPOTHESES OF THE STUDY

1) There is no significant difference in the amount of CSR spent by PSUs and non-PSUs.
2) There is no significant difference in the amount of CSR spent by listed and unlisted companies.
3) Corporate social responsibility does not have a significant impact on corporate financial performance.
   3a) Corporate social responsibility does not have a significant impact on ROA.
   3b) Corporate social responsibility does not have a significant impact on ROE.
   3c) Corporate social responsibility does not have a significant impact on ROCE.
   3d) Corporate social responsibility does not have a significant impact on EPS.

RESEARCH METHODOLOGY OF THE STUDY

1) **Collection of Data:** This study is based on secondary data collected through various journals, websites, audited financial statements, annual reports and databases. The data collected over a period from 2018-19 to 2022-23.

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2) **Selection of Sample:** The Nifty 50 companies are considered for the purpose of selection of sample. Out of these top 10 companies are included in the sample on the basis of CSR spent in the financial year 2022-23. The selected companies are HDFC Bank Ltd., TCS Ltd., Reliance Industries Ltd., ICICI Bank Ltd., Tata Steel Ltd., Oil & Natural Gas Corporation Ltd., Infosys Ltd., ITC Ltd., NTPC Ltd. and Power Grid Corporation of India Ltd.
3) **Variables Used:** Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE) and Earnings Per Share (EPS) are used to measure corporate financial performance. ROA, ROE, ROCE and EPS are treated as dependent variables, CSR as an independent variable and size as a control variable. Natural log of total assets is used as size of a company.
4) **Statistical Tools Used:** The collected data is analysed with the help of statistical tools like mean, standard deviation, regression, T-test and F-test. SPSS 27 is used for calculating them.
5) **Research Model:** To examine the impact of CSR on the corporate financial performance following four regression equations are tested:

$$ROA = \alpha + \beta1.CSR + \beta2.Size \text{ ---------- (1)}$$
$$ROE = \alpha + \beta1.CSR + \beta2.Size \text{ ---------- (2)}$$
$$ROCE = \alpha + \beta1.CSR + \beta2.Size \text{ ---------- (3)}$$
$$EPS = \alpha + \beta1.CSR + \beta2.Size \text{ ---------- (4)}$$

DATA ANALYSIS AND RESULTS

Table 1 shows the amount of CSR spent from 2018-19 to 2022-23. There is an increasing trend in the amount of CSR spent which increased from Rs. 20217.66 crores in 2018-19 to Rs. 29986.93 crores in 2022-23 showing an increase of 48.32% over a period of 5 years.

Table 1: CSR Expenditure (In Rs. Crore)

Particulars	2018-19	2019-20	2020-2021	2021-22	2022-23
CSR Spent	20217.66	24965.82	26210.95	26579.78	29986.93

Source: https://www.mca.gov.in/content/csr/global/master/home/home.html

Table 2 shows the top 10 states and top 10 companies in terms of CSR spent in the financial year 2022-23. In the list of top 10 states, Maharashtra ranked first with the amount of CSR spent of Rs. 5497.3 crores followed by Gujrat, Karnataka, Tamil Nadu and Delhi. In the list of top 10 companies, HDFC Bank Ltd. ranked first with the amount of CSR spent of Rs. 803.15 crores followed by TCS, Reliance Industries, ICICI Bank and Tata Steel.

Table 2: Top 10 States and Top 10 Companies in CSR Spent (In Rs. Crore) (2022-23)

State	CSR Spent	Company	CSR Spent
Maharashtra	5497.3	HDFC Bank Ltd.	803.15
Gujarat	2008.41	Tata Consultancy Services Ltd.	774.44
Karnataka	1985.55	Reliance Industries Ltd.	743.40
Tamil Nadu	1562.48	ICICI Bank Ltd.	476.55
Delhi	1483.72	Tata Steel Ltd.	475.11
Uttar Pradesh	1152.57	Oil & Natural Gas Corporation Ltd.	453.68
Rajasthan	1102.37	Infosys Ltd.	390.17
Telangana	1007.39	ITC Ltd.	322.69
Odisha	987.59	NTPC Ltd.	319.98
Andhra Pradesh	954.65	Power Grid Corporation of India Ltd.	310.51

Source: https://www.mca.gov.in/content/csr/global/master/home/home.html

Table 3 shows the descriptive statistics of various variables used in this study i.e. CSR spent, ROA, ROE, ROCE, EPS and size (natural log of total assets). The mean score of CSR spent is Rs. 506.97 crores and that of ROA, ROE, ROCE, EPS and size are 9.72, 19.88, 1949, 49.32 and 12.98 respectively.

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Table 3: Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
CSR Spent	310.51	803.15	506.9680	194.68075
ROA	1.73	29.33	9.7240	9.99166
ROE	8.49	46.61	19.8790	12.10339
ROCE	2.86	57.63	19.4870	18.20337
EPS	7.17	115.19	49.3290	38.10932
Size	11.36	14.74	12.9840	1.20460

Source: Calculated by Researcher

Table 4 illustrates that 't' value (-10.133) for the mean scores of CSR spent by PSUs and non-PSUs is significant at 0.05 level (as $p < 0.05$), so the null hypothesis stating that there is no significant difference in the amount of CSR spent by PSUs and non-PSUs is rejected and it is concluded that there is significant difference in the amount of CSR spent in PSUs and non-PSUs. It is further found that the mean score of CSR spent by non-PSUs (21095.33 crores) is higher than that of CSR spent by PSUs (4496.90 crores).

Table 4: Results of Independent Samples T Test for PSU & Non- PSU (in Rs. Crores)

CSR Spent	Mean	Std. Deviation	t	Sig. (2-tailed)
PSU	4496.90	477.81	-10.133	0.00**
Non-PSU	21095.33	3631.36		

Source: Calculated by Researcher **p < 0.05

Table 5 illustrates that 't' value (1.927) for the mean scores of CSR spent by listed and unlisted companies is not significant at 0.05 level (as $p > 0.05$), so the null hypothesis stating that there is no significant difference in the amount of CSR spent by listed and unlisted companies is accepted and it is concluded that there is no significant difference in the amount of CSR spent by listed and unlisted companies. It is further found that the mean score of CSR spent by listed companies (14020.13 crores) is higher than that of CSR spent by unlisted companies (11572.10 crores). But mean differences could not reach the significance level.

Table 5: Results of Independent Samples T Test for Listed & Unlisted Companies (in Rs. Crores)

CSR Spent	Mean	Std. Deviation	T	Sig. (2-tailed)
Listed	14020.13	1233.78	1.927	0.09**
Unlisted	11572.10	2559.26		

Source: Calculated by Researcher **p < 0.05

Table 6 shows the model summary and coefficients of regression equation of ROA on CSR and size. Results of regression analysis indicate that the correlation coefficient between ROA and CSR is 0.908. The R-Squared value (also known as coefficient of determination) of 0.825 indicates that CSR and size collectively explain 82.50% of the variance in ROA. The F-statistic of 16.495 is statistically significant at the 0.05 level (as $p < 0.05$). The T-statistic of 3.003 is statistically significant at the 0.05 level (as $p < 0.05$). Therefore, CSR has a significant positive impact on ROA. The regression equation of ROA on CSR and size can be written as,

ROA = 107.578 + 0.028 (CSR) - 8.627 (Size)

Table 6: Model Summary & Coefficients of Regression Equation (1)

Model Summary				
R	R Square	Adjusted R Square	Change Statistics	
			F	Significance of F
0.908	0.825	0.775	16.495	0.002

Coefficients					
Variable	B	Std. Error	Beta	t	Sig.
(Constant)	107.578	17.763	-	6.056	0.001
CSR	0.028	0.009	0.544	3.003	0.020
Size	- 8.627	1.503	- 1.040	- 5.739	0.001

a. Dependent Variable: ROA
b. Predictors: (Constant), CSR, Size

Source: Calculated by Researcher

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Table 7 shows the model summary and coefficients of regression equation of ROE on CSR and size. Results of regression analysis indicate that the correlation coefficient between ROE and CSR is 0.810. The R-Squared value of 0.657 indicates that CSR and size collectively explain 65.70% of the variance in ROE. The F-statistic of 6.698 is statistically significant at the 0.05 level (as $p < 0.05$). The T-statistic of 2.368 is statistically significant at the 0.05 level (as $p = 0.05$). Therefore, CSR has a significant positive impact on ROE. The regression equation of ROE on CSR and size can be written as,

ROE = 119.861 + 0.037 (CSR) - 9.159 (Size)

Table 7: Model Summary & Coefficients of Regression Equation (2)

Model Summary				
R	R Square	Adjusted R Square	Change Statistics	
			F	Significance of F
0.810	0.657	0.559	6.698	0.024

Coefficients					
Variable	B	Std. Error	Beta	t	Sig.
(Constant)	119.861	30.129	-	3.978	0.005
CSR	0.037	0.016	0.601	2.368	0.050
Size	- 9.159	2.550	- 0.912	- 3.592	0.009

a. Dependent Variable: ROE
b. Predictors: (Constant), CSR, Size

Source: Calculated by Researcher

Table 8 shows the model summary and coefficients of regression equation of ROCE on CSR and size. Results of regression analysis indicate that the correlation coefficient between ROCE and CSR is 0.941. The R-Squared value of 0.886 indicates that CSR and size collectively explain 88.60% of the variance in ROCE. The F-statistic of 27.258 is statistically significant at the 0.05 level (as $p < 0.05$). The T-statistic of 4.018 is statistically significant at the 0.05 level (as $p < 0.05$). Therefore, CSR has a significant positive impact on ROCE. The regression equation of ROCE on CSR and size can be written as,

ROCE = 202.893 + 0.055 (CSR) - 16.269 (Size)

Table 8: Model Summary & Coefficients of Regression Equation (3)

Model Summary				
R	R Square	Adjusted R Square	Change Statistics	
			F	Significance of F
0.941	0.886	0.854	27.258	0.000

Coefficients					
Variable	B	Std. Error	Beta	t	Sig.
(Constant)	202.893	26.092	-	7.776	0.000
CSR	0.055	0.014	0.587	4.018	0.005
Size	- 16.269	2.208	- 1.077	- 7.368	0.000

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

Source: Calculated by Researcher

Table 9 shows the model summary and coefficients of regression equation of EPS on CSR and size. Results of regression analysis indicate that the correlation coefficient between EPS and CSR is 0.886. The R-Squared value (also known as coefficient of determination) of 0.785 indicates that CSR and size collectively explain 78.50% of the variance in EPS. The F-statistic of 12.771 is statistically significant at the 0.05 level (as $p < 0.05$). The T-statistic of 4.782 is statistically significant at the 0.05 level (as $p < 0.05$). Therefore, CSR has a significant positive impact on EPS. The regression equation of EPS on CSR and size can be written as,

EPS = 29.046 + 0.188 (CSR) - 5.781 (Size)

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Table 9: Model Summary & Coefficients of Regression Equation (4)

Model Summary				
R	R Square	Adjusted R Square	Change Statistics	
			F	Significance of F
0.886	0.785	0.723	12.771	0.005

Coefficients					
Variable	B	Std. Error	Beta	t	Sig.
(Constant)	29.046	75.102	-	0.387	0.710
CSR	0.188	0.039	0.961	4.782	0.002
Size	- 5.781	6.356	- 0.183	- 0.910	0.393

a. Dependent Variable: EPS
b. Predictors: (Constant), CSR, Size

Source: Calculated by Researcher

On the basis of the model summary and results of regression equations 1, 2, 3 and 4, hypothesis 3 is rejected and it can be concluded that corporate social responsibility has a significant impact on corporate financial performance.

CONCLUSIONS OF THE STUDY

Following are the conclusions of the present study:

1) There is an increasing trend in the amount of CSR spent showing an increase of 48.32% over the study period.
2) Maharashtra state ranked first in terms of CSR spent in the financial year 2022-23.
3) HDFC Bank Ltd. ranked first in terms of CSR spent in the financial year 2022-23.
4) There is significant difference in the amount of CSR spent in PSUs and non-PSUs. The mean score of CSR spent by non-PSUs is higher than the mean score of CSR spent by PSUs.
5) The mean score of CSR spent by listed companies is higher than the mean score of CSR spent by unlisted companies. But mean differences could not reach the significance level.
6) CSR has a significant positive impact on ROA. CSR and size collectively explain 82.50% of the variance in ROA.
7) CSR has a significant positive impact on ROE. CSR and size collectively explain 65.70% of the variance in ROE.
8) CSR has a significant positive impact on ROCE. CSR and size collectively explain 88.60% of the variance in ROCE.
9) CSR has a significant positive impact on EPS. CSR and size collectively explain 78.50% of the variance in EPS.
10) Corporate social responsibility has a significant impact on corporate financial performance.

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