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An empirical study on impact of corporate social responsibility on financial performance of select companies in it sector

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ABSTRACT

The present study aims to investigate the impact of corporate social responsibility on financial performance of the selected firms. The study is conducted by four objectives which seeks to know the effectiveness of CSR as per new companies act, 2013 by analysing CSR spending of select companies, To study the impact of CSR on financial performance of select companies through financial parameters like Net Profit Margin, Earnings per share, Return on Assets, and Return on Capital Employed. CSR has been considered as the proxy for CSR spending. Secondary data is sourced from the Annual reports and NSE websites. Sample size consists of 20 companies in IT industry. The data is collected for the five years from 2018 – 2022 and analysed using correlation and regression analysis. The study reveals that corporate social responsibility has significant impact on Net profit margin, return on capital employed whereas there is no significant relation of corporate social responsibility on financial performance of firms in terms of ROA and EPS. It is because the companies diversified their investments in later years which reveal that corporate social responsibility does not affect the some of the independent variables.

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INTRODUCTION

In the contemporary environment, CSR is a concept whereby business organizations consider the interest of society by taking responsibility for the impact of their activities on customers, suppliers, employees, India is the first country in the world to make corporate social responsibility (CSR) mandatory, following an amendment to

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the Companies Act, 2013 in April 2014. Businesses can invest their profits in areas such as education, poverty, gender equality, and hunger as part of any CSR compliance.

Corporate social responsibility (CSR) is a type of international private business self-regulation that aims to contribute to societal goals of a philanthropic, activist, or charitable nature by engaging in or supporting volunteering or ethically-oriented practices. Various studies show that CSR is significantly positive with a firm value. Academicians have recently shown a significant level of interest in the concept related to the impact of corporate social responsibility (CSR) on organizations' performance, even though the idea of CSR is not new. CSR has become an important research area for examining the social responsibilities of the corporate world to all stakeholders.

Policy makers and academicians are very interested in empirical studies that reveal an association between CSR and corporate performance. While some articles (Bagnoli & Watts, 2003; Baron, 2001; Orlitzky, Schmidt &Rynes, 2003; Uadiale&Fagbemi, 2012) suggest a positive relationship between the two variables, others find a negative association (Brammer et al., 2006; Ho& Taylor, 2007). However, some researches (Becchetti et al., 2005; McWilliams & Siegel, 2000) discovered an insignificant relationship between them. Some Previous researchers examined the relationship between the CSR index and a firm's financial performance (Kappou and Oikonomou, 2016; Obrendorfer et al.,2013; Becchetti et al.,2012; Clacher and Hagendorff, 2012; Lourenco et al., 2012), Uadiale and Fagbemi (2012) used both return on assets and return on equity as measures of financial performance. According to Qiu et al. (2020), CSR usually impacts long-term financial performance. The authors Feng et al. (2018) and Flammer (2015) contend that investments made to advance social well-being can also be considered part of CSR even if they do not directly benefit business well-being. A meta-analysis by Wang et al. (2016) confirmed the hypothesis that CSR and corporate financial performance are positively correlated, but they also pointed out that the influence of CSR may rely on specific institutional variables.

For any business, corporate social responsibility is essential. Organizations are finding it more and more challenging to incorporate social and environmental factors into their strategy formulation (Garai, 2017). According to Franco et al. (2020), CSR activities do not always result in sufficient financial profit for companies rather than focusing solely on firm profitability. This paper examines the relationship between corporate social responsibility and company performance among 20 firms in the IT industry using Correlation and multivariate analysis.

OBJECTIVES OF THE STUDY

1) To study the CSR spending of select companies.
2) To study the financial performance of select companies.
3) To study the impact of CSR on financial performance of select companies by taking financial parameters like ROA, ROCE, EPS and NPM

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Hypothesis of the study:

Ho: There is no relationship between CSR and Financial performance of companies.

RESEARCH METHODOLOGY

Secondary data is used in this study. The data was collected for five-year period beginning 2018 to 2022. Since the study intended to use a panel data, this period was preferred. Thus, the 5 years was appropriate enough to provide panel data that was used in the analysis. Financial reports of the companies are collected from the respective company websites and NSE. Top 20 listed companies are selected in IT industry using Market capitalisation is considered in the study. Correlation and regression are used in analysis model using SPSS 16 to assess the impact as CSR on Financial performance. In the present study CSR is an independent variable and it is measured as proxy for (corporate social responsibility expenditure) and the dependent variables are (ROA, ROCE, EPS and NPM).

Regression model

CSR it= β0+β1ROA itβ2EPS +β3ROCE+β4 NPM.

ROA = Net Income / Average Total Assets

ROCE = EBIT/Capital Employed.

EPS = Net Income - Preferred Dividend/ Weighted Average Common shares Outstanding.

NPM = Net profit/Total Revenue *100

RESULTS AND ANALYSIS

Table 4.1: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
ROA	100	-9.48	27.38	8.29	7.23
EPS	100	-84.89	561.00	91.07	122.88
ROCE	100	0.70	44.97	16.34	8.73
NPM	100	-9.58	24.90	12.42	7.07
CSR	100	7.33	490.60	1.25	113.58

Table 4.1 describe that Firms have an average mean of Earning per share 91.07percent (0.762) and maximum EPS 561% from and minimum is 24 percent in any of the year in the study period. The average mean of ROA is 8.29 and maximum is27.38 while minimum is-9.48. ROCE mean is 1.34 percent and maximum is 44.97 percent and Minimum is 0.70 percent. Average mean of NPM is 12.42 and maximum NPM is 24.90 whereas minimum is -9.58. Average CSR mean is 1.25 and maximum CSR is 490.60 from while minimum is 7.33.

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Table 4.2 Correlation

		ROA	EPS	ROCE	NPM	CSR
ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
EPS	Pearson Correlation	.350**	1			
	Sig. (2-tailed)	.000				
ROCE	Pearson Correlation	.838**	.215*	1		
	Sig. (2-tailed)	.000	.032			
NPM	Pearson Correlation	.387**	.163	.436**	1	
	Sig. (2-tailed)	.000	.105	.000		
CSR	Pearson Correlation	.369**	-.177	.569**	.320**	1
	Sig. (2-tailed)	.000	.078	.000	.001	

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

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

From the above table: 4.2 it is evident that CSR has positive correlation with ROA and ROCE and NPM and negative correlation with EPS. Pearson correlation value between CSR and ROA is 0.369. Whereas CSR and ROCE value is .569 and CSR and NPM has a value of .320. This shows that there is a positive relationship between CSR and ROA and ROCE and NPM. This correlation value is also significant as the sig value is 0.000, which is less than the p value of 0.05. So Null hypothesis is rejected as the P-values are lesser than level of significance. Thus, there is a significant relationship between CSR & ROA at 1% level of significance. CSR has a negative correlation with EPS and value is -.1 77 and correlation sig value is 0.078 which is greater than the p value of 0.05 Null hypothesis is accepted because P-values are greater than level of significance.

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Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.663[a]	.440	.416	86.79605	.440	18.637	4	95	.000

a. Predictors: (Constant), NPM, EPS, ROCE, ROA,

b. Dependent Variable: CSR

Table 4. 3 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-7.338	22.359		-.328	.744
	ROA	-3.230	2.331	-.206	-1.386	.169
	EPS	-.264	.077	-.286	-3.437	.001
	ROCE	9.757	1.902	.750	5.129	.000
	NPM	1.928	1.374	.120	1.404	.164

a. Dependent Variable: CSR

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	561606.616	4	140401.654	18.637	.000[a]
	Residual	715687.695	95	7533.555		
	Total	1277294.311	99			

a. Predictors: (Constant), NPM, EPS, ROCE, ROA

b. Dependent Variable: CSR

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The present study is about the relationship between CSR and Financial performance of the select firms in NSE. Findings of the study are that the measure of CSR was regressed against measure of financial performance in terms of ROA, ROCE, EPS, and NPM. Regression results are presented in Table 4.3 the model explains around 41.6 % of the variation in the endogenous variable. This means that, the remaining 58.4 % of variance with CSR is contributed by other factors. F statistic for CSR is .000. ROCE and NPM found to have a strong favourable impact on CSR measured by Financial Performance. ROA and EPS have a negative but insignificant impact on CSR. P value is 0.000, which is lesser than (0.05) we reject the null hypothesis and accept alternate hypothesis. It indicates that there is a significant impact of CSR on Financial performance of select companies during the period.

CONCLUSION

This study examines the relationship between CSR and Financial performance of select firms in the NSE during the periods 2018 to 2022. CSR impacts positively on financial performance indicators like ROA, ROCE, EPS and NPM. But individually differs. This is because, when contribution to CSR increases the financial performance also increases.. Therefore, this study has shown that CSR is an important resource for firms. Customers, shareholders, employees, and other stakeholders are informed of a company's CSR practices.

Companies who make a conscious effort to report these activities will have a competitive advantage over other companies. CSR initiatives would support a company in minimizing costs, which would increase firm's profits.

performance of the company's also increases and vice-versa.

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