



TOPIC- CSR & FIRM PERFORMANCE: A STUDY OF SELECTED INDIAN COMPANIES

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Abstract

The study investigated the relationship between corporate social responsibility (CSR) activities and the performance of the top 100 Indian companies based on their market capitalization from 2018 to 2022. The data was collected from the companies' annual reports and websites, and Tobin's Q was used to determine the firm's value. The panel regression analysis of the cross-sectional time-series data found a positive relationship between CSR and firm performance, with a 1% change in CSR resulting in a 70.43% change in firm performance. The results showed that Indian companies are increasing their CSR expenditure every year and the banking and insurance industry had the highest average CSR expenditure. The study has limitations as it only applies to the Indian environment and only used annual reports for data collection. Future research could include more samples, both public and private companies, additional control variables, and a longer study period to increase the external validity of the findings.

Introduction

Corporate social responsibility (CSR) has become increasingly important in today's global economy due to globalization and the demands of society for increased transparency and responsibility. Businesses are differentiating themselves by participating in CSR and recognizing the need to satisfy the needs of a wider range of stakeholders. The concept of CSR involves management practices that aim to exceed legal, ethical, commercial, and public expectations of business. The discourse around CSR is about companies actively participating and generating positive impact, rather than simply complying with regulations and reducing harm. It is widely accepted that the private sector has a responsibility to contribute to sustainable economic growth, and CSR stems from this understanding.

Despite the growing importance of Corporate Social Responsibility (CSR) in promoting ethical and responsible business practices, there is limited knowledge about its implementation in developing countries. Most academic research on CSR has a Western-centric perspective, so there is a need for further research on how CSR is understood and practiced in different cultural, social, and economic contexts. This study proposes combining two established CSR frameworks and examines the CSR practices of businesses in Lebanon to shed light on practical aspects that have not been adequately addressed in the CSR literature, such as integrating CSR into corporate structures and the challenges of implementing CSR in a developing country setting.

Review of Literature

The study of (M. Shekar & R. Kumaran, 2019) discusses how Corporate Social Responsibility (CSR) has become a significant factor for businesses engage due to regulatory requirements and a genuine concern for society. The study analyses the financial performance of the top three Indian IT companies in relation to their CSR spending from 2013 to 2018, and the results show that CSR spending positively affects return on equity and net income, but not return on assets, earnings per share, or CSR spending itself. The authors conclude that investing in CSR is crucial for the growth and improvement of the financial performance of Indian IT companies. (Muhammad et.al, 2017) in their research paper discusses the importance of Corporate Social Responsibility (CSR) as a critical component of the business strategy for companies in Pakistan, as the country seeks to adopt foreign business practices and improve its economic performance. The China-Pakistan Economic Corridor is driving the need for companies to step up their strategic and developmental processes to remain competitive, but the corporate sector in Pakistan is slowly adapting to these changes. The study concludes that there is a strong positive relationship between CSR, innovation, and business performance in Pakistan's manufacturing sector. Both CSR and innovation can positively impact firm performance, and investment in both is crucial for driving business success. The research has significant implications for companies operating in the manufacturing sector in Pakistan. (Sushil et.al, 2019) conducted on several Indian businesses to determine whether corporate governance influenced a company's financial performance and the extent of financial reporting. (Sayedehe et.al, 2015) in their study they aimed to explore the relationship between corporate social responsibility (CSR) and firm performance in Iran, taking into account the potential indirect influences. The study considered three mediators: sustainable competitive advantage, reputation, and customer satisfaction. The results, based on data from 205 Iranian manufacturing and consumer goods companies, showed that the relationship between CSR and firm performance was fully mediated by these three factors. This suggests that CSR has a positive impact on a company's performance through its effects on competitive advantage, reputation, and customer happiness. The study concludes that CSR indirectly impacts a company's performance by improving reputation and giving the company a competitive edge, while also increasing customer satisfaction. (Dipasha et.al, 2019) in this article examines the impact of Environmental, Social, and Governance (ESG) disclosure on the financial performance of businesses in India using a resource-based approach. The results indicate a negative relationship between ESG disclosure scores and financial performance, with the return on assets (ROA) being the most affected. Environmental disclosure scores were found to have a significantly negative impact on both accounting and marketing performance, while social disclosure scores positively impacted financial performance, with the effect moderated by the size of the firm. Larger firms were found to have a greater ability to turn their social performance

into a competitive advantage. Companies in the healthcare and energy sectors were found to have a substantial competitive advantage with higher environmental performance. **(S. Bag & A. Omrane, 2020)** in their research paper examined the causal relationship between Corporate Social Responsibility (CSR) activities and financial success, focusing on the top 100 companies listed on the National Stock Exchange (NSE) of India. The study used data from annual reports and applied factor analysis and regression analysis to analyze the relationship between CSR and corporate financial performance (CFP). The results indicated a significant but slight association between CSR and CFP, suggesting that companies in India should engage in CSR activities to enhance their financial performance. The study was motivated by Section 135 of the Companies Act (2013) in India, which mandates that Indian companies must spend two percent of their average net income from the last three fiscal years on CSR initiatives specified in their CSR policy. **(S.S. Pasumarti, 2020)** conducted a qualitative study by conducting in-depth interviews with managers and executives of public sector companies in Odisha. The study aimed to explore the commitment of these companies to corporate social responsibility (CSR) and the range of CSR activities they engage in. The results revealed that these companies have a strong commitment to CSR and integrate it into their business operations and strategies. They engage in various CSR activities, including philanthropy, community development, and environmental sustainability initiatives. The study emphasizes the importance of CSR for businesses in Odisha, especially in the public sector, and suggests that these companies should continue to prioritize and integrate CSR into their operations for the benefit of society and their financial performance. The primary methodology of the study was in-depth interviews, and the secondary methodology involved reviewing relevant reports and articles. The study provides insight into the CSR activities of the PSUs in Odisha and their impact on stakeholders and the environment. The study also highlights the need for continuous improvement and greater transparency in the implementation of CSR programs. **(Ruhaya et.al, 2016)** they researched and found that there was a significant difference in the level of ESG disclosure between Malaysia and Denmark, with each country prioritizing different ESG elements. Denmark was found to have better governance practices and higher ESG disclosure compared to Malaysia. The study also found a positive relationship between ESG disclosure and financial performance in Denmark, while no significant relationship was found in Malaysia. The findings emphasize the importance of good governance practices and the need for more robust regulatory frameworks to promote ESG disclosure in emerging markets like Malaysia. The results provide insights into the importance of ESG disclosure and its impact on a firm's performance and could help policymakers promote sustainability practices in the corporate sector. This study also has important implications for Bursa Malaysia's recent inclusion in the FTSE4Good ESG Index, which could attract socially responsible investors to the Malaysian market. **(G. H. Bindu & V. Srikanth 2019)** their study aimed to investigate the relationship between workplace climate characteristics and employee turnover intentions. Data was collected through a survey questionnaire, and the findings showed that workplace climate characteristics such as trust, training and development, employee welfare, performance management, and rewards have a strong and negative relationship with employee turnover intentions and these characteristics can be used as indicators of employee intentions to quit and can help organizations reduce employee turnover. **(T. Nag & A. K. Bhattacharyya 2016)** the authors found that there is no strong correlation between reporting on CSR activities and accounting or market measures of return. The authors suggest that this may be due to the fact that environmental sustainability efforts, which are often included in CSR activities, are considered to be a public good and cannot be exclusively claimed by the company. Therefore,

companies may not be receiving a direct financial return on their investment in CSR activities, which could explain the lack of correlation with financial measures of return. **(Sethi 2021)** study which revealed that the CSR has positive and significant impact over profitability as well as shareholders value. **(J. Mangalagiri & M. P. Bhasa 2022)** In their research they found that while CSR has a positive effect on accounting measures of return, it has limited impact on market-based returns. The study concluded that mandatory CSR spending is not seen as deserving of a market reward, but if a company voluntarily spends more on CSR, the market is likely to reward it for its commitment to social responsibility. **(Singh et.al, 2018)** in their study they found that chemical companies in India do not frequently embrace CSRD procedures. Additionally, "environment" and "community," which are among the different practises, have a favourable effect on the company's financial success, as indicated by the ROA and the ROE. **(M. Acharyya and T. Agarwala 2019)** their paper suggests that companies can use this insight to reinforce their social values and norms by integrating CSR objectives and corporate social purpose (CSP) metrics into their human resource management practices, such as employee performance evaluations and reward systems. This integration can help companies achieve their CSR objectives while also promoting a culture of social responsibility among their employees. **(Sanghv 2013)** research paper emphasized that financial institutions in India need to prioritize CSR to ensure the sustainable development of local communities and the environment alongside their own growth. The author recommends three steps to improve CSR in these banks: 1) increasing and accelerating government involvement in CSR initiatives, 2) developing a sizable consultancy industry in the CSR field, and 3) encouraging media to take a greater interest and active role in promoting CSR. **(Ting et.al, 2019)** their study found that developing market companies had stronger ESG initiatives in terms of resource utilization, labor, human rights, and CSR strategies. Companies that take more environmental action can increase shareholder wealth. Moreover, companies that minimized their use of resources or found environmentally friendly solutions generated a lot of value in the ESG category rankings. It also found a favorable relationship between workforce score and valuation metrics. Lastly, the valuation implications of ESG scores for established market enterprises were favorable and significant when comparing developing and developed markets, with developed market firms having a strong and positive association between valuation metrics and ESG scores. **(H. Manchiraju & S. Rajgopal 2013)** their study found that, on average, companies required to invest in CSR experienced a 4.1% decline in their stock price. However, the businesses that invested more in advertising were not negatively affected by the mandated CSR requirement. This suggests that companies may intentionally choose to invest in CSR in order to increase shareholder value. Therefore, forcing companies to spend money on CSR could have a negative impact on shareholder value, and may be counterproductive for the company. **(P. Fahad & P.M. Rahman 2020)** The research paper examined how corporate governance affects CSR disclosure policies of Indian corporations, using panel data regression analysis and a sample of 386 companies from the BSE 500 index over a 10-year period from 2007 to 2016. They found that board independence, CEO having a single role, and the existence of a sustainability committee improve CSR disclosure, while staff training on CSR, gender diversity on the board, and board age have negative impacts. It is important because it evaluates CSR disclosure using both Bloomberg ESG scores and separate scores for environmental, social, and governance factors and helps to fill the gap in understanding the relationship between corporate governance and CSR disclosure in India. It also has implications for the recent release of voluntary and mandatory laws and guidelines on corporate governance and CSR disclosure by Indian authorities. **(Dharmapala et.al, 2013)** their study

examined the impact of Section 135 of the Indian Companies Act 2013 on CSR activity, finding that it had a more significant effect on companies with fewer customer-facing operations. The study used a difference-in-differences approach to show a significant increase in CSR activity among companies subject to the law, particularly in the proportion of companies spending money on CSR. It also found that the proportion of companies spending money on advertising decreased, consistent with CSR replacing advertising. It also found no clear evidence of any significant impact on sales or accounting performance, but there was a slight drop in return on assets. The study found that small companies initially spending less than 2% increased their CSR activities after Section 135 went into effect, while big companies initially spending more than 2% decreased their CSR expenditures and explored possible explanations for this unexpected result. (M.B. Muttakin & N. Subramaniam 2015) their study aimed to examine the relationship between CSR acknowledgement by Indian public listed companies and firm ownership and board characteristics. It analyzed data from the top 100 companies listed on the Bombay Stock Exchange from 2007 to 2011, using a 17-item CSR disclosure measure. The results showed that the extent of CSR disclosure is positively associated with foreign ownership, government ownership, and board independence, and negatively associated with CEO artifice. Promoter ownership had no significant effect on the extent of CSR disclosure. The type of CSR disclosure varied depending on ownership and board characteristics. Information on employees/human resources had a positive association with foreign ownership but decreased with CEO artifice. The amount of product and services information increased with promoter ownership, foreign ownership, board independence, and CEO artifice.

Research Methodology

Need for the study

The study was required to determine how much money Indian businesses across a range of industries spend on CSR. Recent data on CSR spending reveals that Indian businesses spend more money on CSR each year than they do on average net profit, which means that under section 135(5), two percent of the average net profit of the business must be allocated to CSR initiatives. Therefore, a positive relationship between average net profit and corporate social responsibility will be evident if the company's average net profit is increasing each year.

Research Gap

The current study is concentrating on the effects of CSR spending on the financial performance of some of the top Indian information technology companies, CSR effects on certain specific companies, or CSR effects on a particular region or country. The existing research paper was separately focusing how the top Indian companies according to their Market Capital or simply net worth performing with the CSR.

Objective of the Study

The present study aims to analyse -

- Corporate Social Responsibility (CSR) practices adopted by 100 Indian companies. Analyse the companies from different industry and in which area there is more CSR expenditure.
- To research how CSR practises affect the performance of firm. The Tobin Q formula is used to assess the firm performance.

Sample size

The companies were selected based on their consistent appearance in the list of top 100 market capitalization (net worth of the company) in India on basis of 5 years from 2018-2022. The top companies selected as sample are Reliance, TCS Ltd, HDFC Bank, Infosys Ltd, HUL, SBI, Bharti Airtel. The companies are arranged according to their industry such as Paints & Décor, Metal, Gas, Power, Banking & Insurance, Automobile, FMCG, IT, Airline, Retail, Telecom, Pharma & Lab, Electrical appliances, Food & Beverages.

Source of Data

For this capstone research project, data is collected via means of secondary data collection. Secondary data are type of already available/published data over internet that were done by scholars/researchers. We have gathered the research projects for data and company websites were also taken into account for considering the secondary data collection. As, data was already available in the company website & company annual report regarding the CSR activities, thus collection of data was accurate as per the required objective of the study. Whereas in some of company CSR data includes the administrative head & some do not.

Description of variables: -

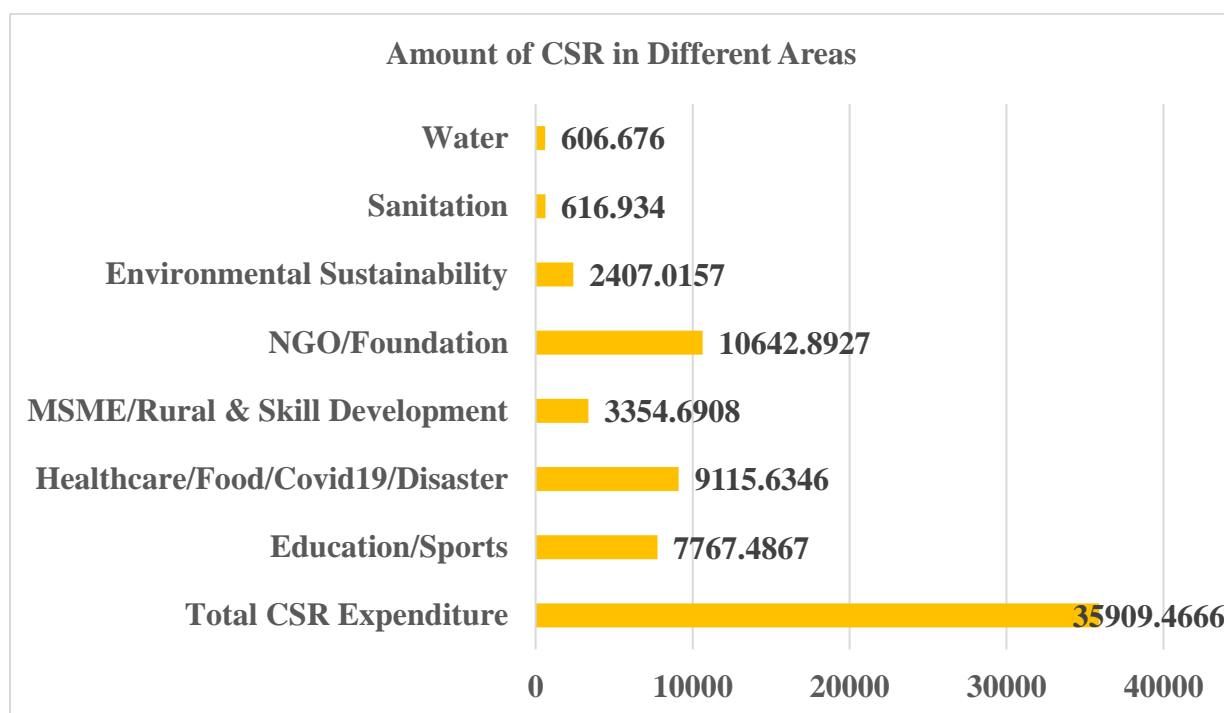
Independent Variable: Corporate social responsibility (CSR) is a self-regulatory business model that enables a corporation to be socially accountable to itself, its stakeholders, and the general public. Companies can be aware of the type of impact they are having on all facets of society, including economic, social, and environmental issues, by engaging in corporate social responsibility, also known as corporate citizenship. CSR involves a corporation working in ways that benefit society and the environment rather than harming them during regular business operations. Corporate Social Responsibility of top 100 Indian companies according to their market cap.

Dependent Variable: Firm Performance which is determined by Tobin Q. The ability of businesses to use both people and material resources to meet their goals is measured by the economic category known as "firm performance." The effectiveness of utilising corporate resources during the process of production and consuming is another factor in determining firm performance.

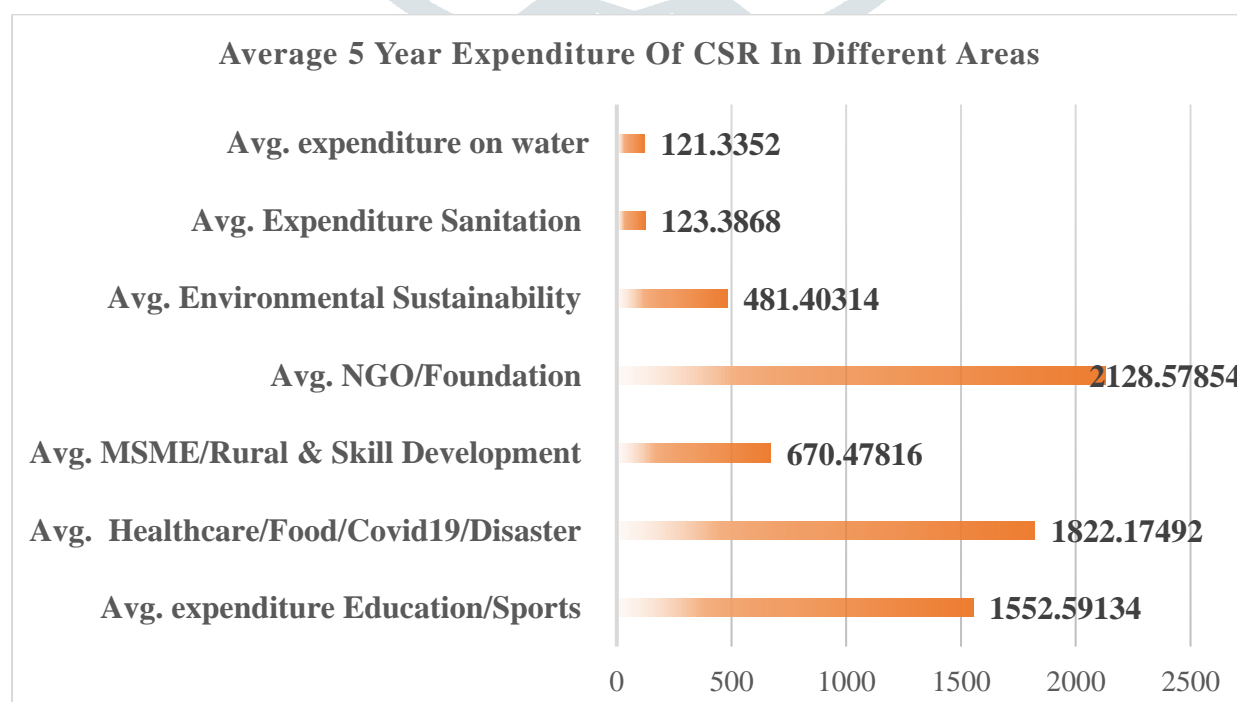
Tobin Q= (Market Cap + Total Liability)/ (Total Assets)

Data Analysis & Interpretation

In this chapter it is been analysed in which area CSR expenditure is the highest and lowest. The industry which has the highest CSR contribution and the average CSR expenditure of all the companies and industries with the help of data visualization and interpretation. Panel unit root test has been also checked in two ways which are individual unit root test and common unit root test for both the variable firm performance & CSR expenditure.

Figure 4.1 Bar graph showing amount of CSR spend in different areas.**Interpretation**

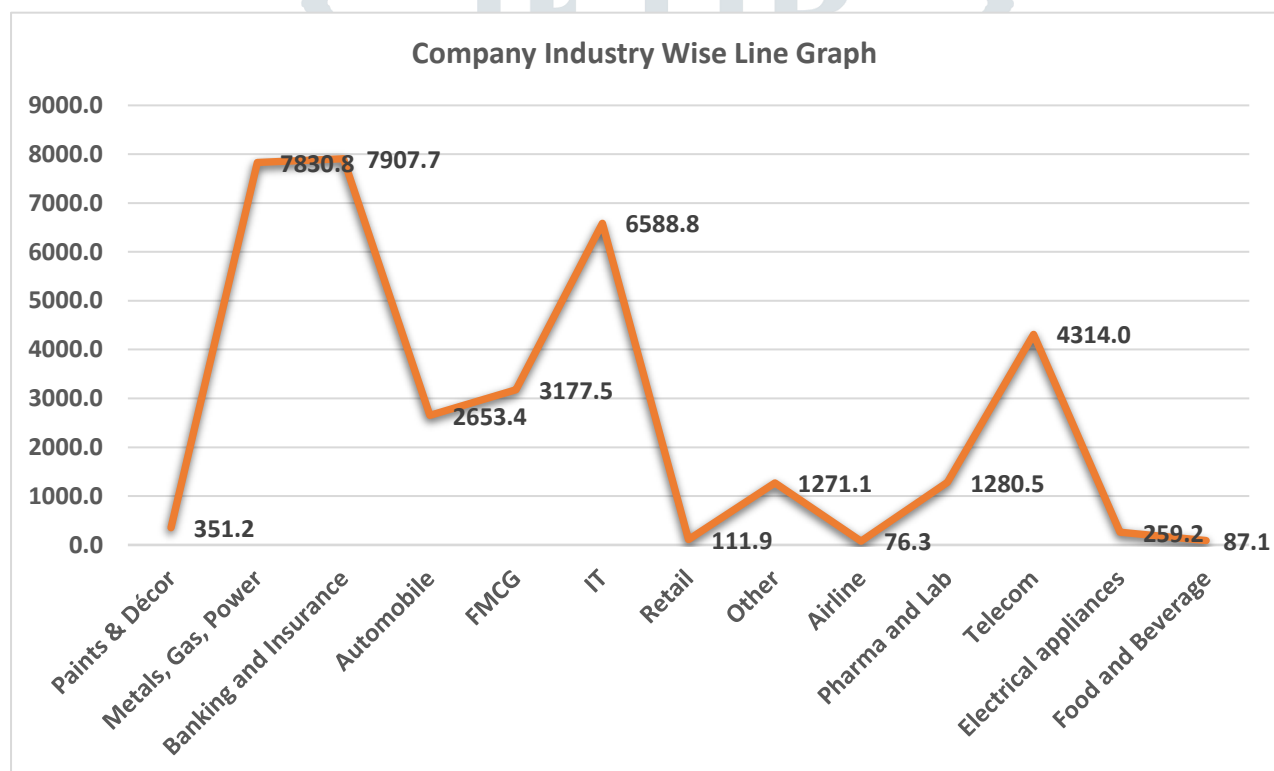
From the above figure 1, It is shown in bar graph that the total CSR expenditure and the CSR expenditure in different areas such as expenditure in Water projects, Sanitation, Environmental Sustainability, NGO foundation, MSME/Rural and skill development, Healthcare/Food/Covid19/Disaster, Education/Sports. The highest amount of CSR is spent in NGO which is 10642.9 crores (Rs.) (approx.) by all the 100 companies and the sum of lowest CSR expenditure is in Sanitation which is 616.9 crores (Rs.) (approx.)

Figure 4.2 Bar graph showing the average of 5 year CSR expenditure in different areas

Interpretation

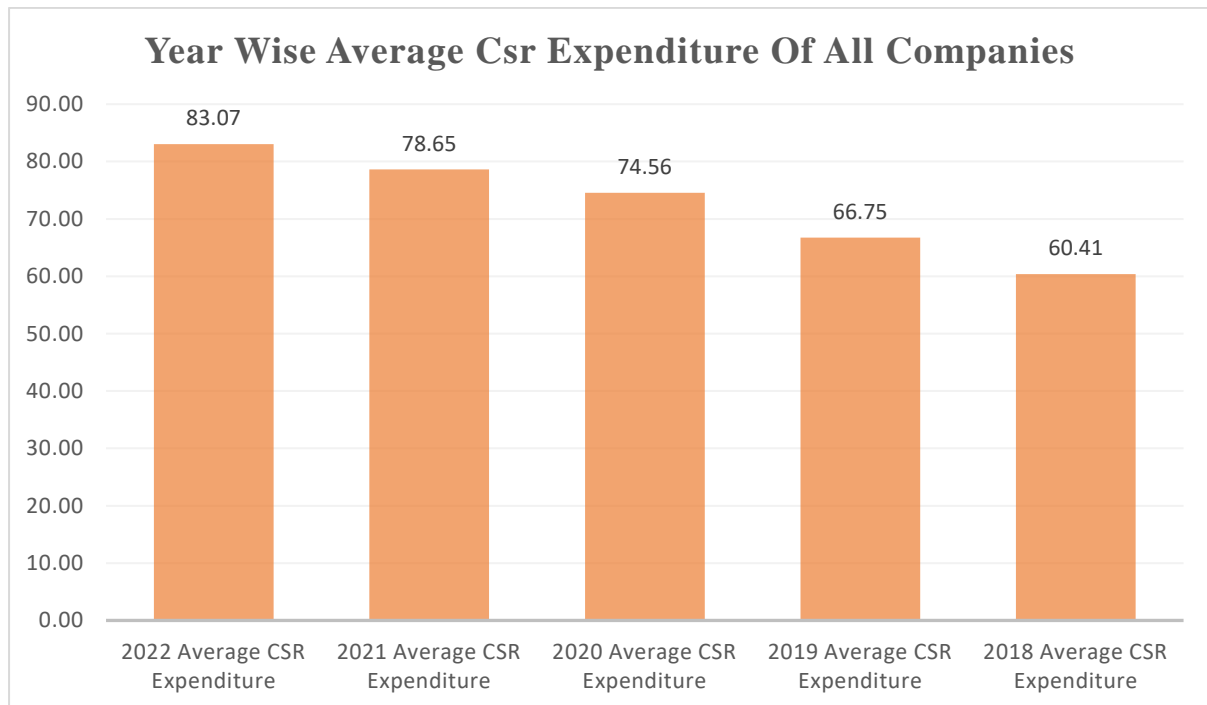
From the above Figure 2 we can analyse the average of CSR expenditure for last five years i.e; 2018 to 2020 in different areas. In the given figure all the areas of expenditure where the top 100 Indian companies according to their market capitalization spend. This bar chart clearly shows that the average CSR expenditure in NGO/Foundation is 2128.578 crores (Rs.) (approx) which is highest, it means the Indian companies are more focused on the NGO expenditure. As the country and the whole globe was suffering from the immense of covid 19 from the past years we can see the average expenditure on the Healthcare/Food/Covid19/Disaster stood second with the expense of 1822.174 crores (Rs.) (approx). The third highest average expenditure of CSR is in the field of Education/Sports which is 1552.6 Crores (Rs.) (approx) followed by Skill Development, Environmental Sustainability, Sanitation & Water programmes which are 670.47 crores (Rs.), 481.43 crores (Rs.), 123.38 crores (Rs.), 121.33 crores (Rs.) (approx).

Figure 4.3 Line graph showing company industry wise CSR expenditure



Interpretation

The above figure 3 is a line graph which clearly shows the 100 companies industry wise line graph. In the list of top 100 companies according to market cap some of the companies belongs to different Industrys such as Paints & Décor, Metal, Gas, Power, Banking & Insurance, Automobile, FMCG, IT, Airline, Retail, Telecom, Pharma & Lab, Electrical appliances, Food & Beverages. From this above line graph we can easily detect the industry in which the CSR expenditure is the highest and in which industry the CSR expense is lowest. Banking & Insurance industry is the major contributor of CSR with an expenditure of 7907.7 Crores (Rs.) (approx) and the Airline industry serves the lowest in the CSR contribution.

Figure 4.4 Bar graph showing year wise average CSR expenditure of companies

Interpretation

The above figure 4 which is a bar graph clearly shows the year wise average CSR expenditure of all the sample size which is top 100 companies in India according to market Cap. From the given figure it can be easily analysed that in the year 2022 the average CSR Expenditure of all the companies is the highest with respect to the rest years. From the bar graph it can also be analysed that the average CSR expenditure tends to increase with the years which is 83.07 crores (Rs.) in 2022, 78.65 crores (Rs.) in 2021, 74.56 crores (Rs.) in 2020, 66.75 crores (Rs.) in 2019 & 60.41 crores (Rs.) in 2018. This increasing trend in the average year wise expenditure shows that Indian companies are increasing their CSR expenditure in every year.

Studying the impact of CSR spending on firm performance. For this objective our independent variable is CSR, and the dependent variable is TOBIN Q, which is tested for the following model.

$$TOBINQ_{it} = \alpha + \beta_1 + \beta_2 CSR\ Expenditure_{it} + \mu_{it}$$

When the same unit cross section is measured at various times, data panel regression combines cross section data and time series. In other words, panel data is information gathered from a group of people who have been observed repeatedly over time. The first step is to check the result of Panel unit root test. In present study panel unit root test has been checked in two ways which are individual unit root test and common unit root test for both the variable firm performance & CSR expenditure.

Table 4.1: Panel unit root test results

	Individual Unit Root Test				Common Unit Root Test	
Variables	ADF		PP Fisher's Chi Square		Levin Lin & Chu	
	Chi Square		Square			
	Statistics	p-value	Statistics	p-value	Statistics	p-value
Tobin-Q	-21.477	0.000*	-58.443	0.000*	-7.951	0.000*
CSR Exp	-19.234	0.000*	-18.229	0.000*	-27.81	0.000*

Interpretation

The above table 4.1 is used for panel Regression as because the data is cross-sectional and is followed across time series. A unit root for each individual series in a panel is the null hypothesis that most panel unit root tests are intended to examine. The alternate hypothesis, on the other hand, is a contentious problem that crucially depends on the assumptions one makes about the homogeneity/heterogeneity's nature. The following hypothesis has been framed to check the stationarity of the data. The p-value in the above table is $0.00 > 0.05$, indicating that the null hypothesis is accepted and that the data is stationary.

HO= The data is Stationary

H1= The data is Nonstationary

The Hausman test will then be used to identify the suitable model, such as fixed effect and random effect. In panel analysis, the Hausman test is used to distinguish between fixed effects models and random effects models.

Table 4.2: Hausman test results

Hausman Test			
Test cross-section random effects			
Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-sec random	346.178	2	0.000

Interpretation

As in our test results the Prob. Is 0.000 so it is a fixed effect and thus accepted and the random effect model is neglected. Due to their higher efficacy, random effects are chosen in the null hypothesis, whereas fixed effects are preferred in the alternative because they are at least as consistent.

Ho= Fixed effect is appropriate

H1= Random effect is appropriate

Finally, the data has been tested through Hausman test and now out needs to be checked through Fixed effect model.

Table 4.3: Outcomes of the Fixed Effect Model

	Dependent Variable: TOBIN-Q					
Variable	Correlation	Coefficient	VIF	Std. Error	t-Statistic	Prob.
C		7.2187		0.005571	58.345	0.000***
CSR Exp	0.3246	0.1148	1.258883	0.003417	2.348	0.008***
R-square	0.7149	F-statistic		2130.629		
Prob(F-stats)	0.0000	Durbin-Watson		1.97856		
Adjusted R-square	0.7043					
Note: Significant at * 10%, ** 5%, *** 1% level						

Interpretation

Table 4.3 depicts the output of fixed effect model where CSR is considered as independent variable and Tobin Q is dependent variable which has been used to measure the firm value. VIF has been calculated to test multicollinearity in the data the value of vif is 1.258 which is less than the benchmark that is 4. So this vif value concludes that there is no association between the variables. When Tobin Q is taken as depended variable the overall model is significant as the value of Adjusted R-square is 70.43%, which means 70% variation in Tobin Q that is firm performance is caused by independent variable CSR. Further the coefficient of CSR expenditure is 0.1148 and is statistically significant at 1% level (p-value= 0.008, < 0.01) confirming that with the increase in the spending on CSR the firm performance also increases. This positive impact confirms a direct relationship between firm performance and CSR expenditure.

Findings

Based on the report's findings, it appears that Indian companies are primarily focused on contributing to NGO/Foundation projects, with an average CSR expenditure of 2128.578 crores (Rs.) (approx). This is followed by the fields of Healthcare/Food/Covid19/Disaster with an average expenditure of 1822.174 crores (Rs.) (approx.) and Education/Sports with an average expenditure of 1552.6 Crores (Rs.) (approx.). On the other hand, the areas of Sanitation and Water projects have the lowest CSR expenditure with an average of 123.38 crores (Rs.) and 121.33 crores (Rs.) (approx.) respectively.

The Banking & Insurance industry emerges as the major contributor to CSR with an expenditure of 7907.7 Crores (Rs.) (approx.) since these companies have high net profits, and 2% of average net profit of the company is required to be spent on CSR activities. Other industries such as Paints & Décor, Metal, Gas, Power, Automobile, FMCG, IT, Airline, Retail, Telecom, Pharma & Lab, and Electrical appliances also contribute to CSR, but not to the extent of Banking & Insurance.

The report also highlights that the average CSR expenditure tends to increase with each passing year, indicating that companies are increasing their CSR spending. This trend is likely due to the increasing average net profits of companies, which are required to contribute 2% of their average net profit towards CSR initiatives as per Section 135(5) of the regulations.

Overall, the report suggests that Indian companies are actively contributing to CSR activities, with a particular focus on NGO/Foundation projects, Healthcare/Food/Covid19/Disaster initiatives, and Education/Sports. However, there is a need to increase CSR spending in areas such as Sanitation and Water projects, and more industries should actively participate in CSR activities.

Conclusion

Overall, the study found that there is a positive relationship between CSR activities and firm performance for the top 100 Indian companies by market capitalization. The study analysed the CSR activities and expenditure of these companies and found that they spent the most on NGOs/foundations, followed by healthcare, food, COVID-19, and disasters, and education and sports. The study also found that the average CSR expenditure tends to increase with the years, indicating that Indian companies are increasing their CSR expenditure every year. The study used Tobin's Q as a measure of firm performance and found that a 1% change in CSR results in a 70.43% change in firm performance.

However, the study has some limitations, such as its focus on only the top 100 Indian firms by market capitalization and the selected study period of 5 years. Therefore, it is recommended that future research be conducted with a larger sample size and a longer study period to ensure greater external validity. Additionally, future research could also consider incorporating other control variables such as research and development, institutional ownership, and leverage to examine the relationship between CSR and firm performance.

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