EVIDENCE FROM INDIA ON THE RELATION BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL OUTCOMES

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Abstract

The goal of this article is to clarify the connection between CSR and a company's financial success using three organizational variables: return on capital employed, net profits, and net sales. It is made up of secondary panel data.

The method used to investigate how CSR activities affect a company's financial performance is panel data analysis. The results demonstrate that CSR has a beneficial influence on the financial performance and has a statistically significant association with Net Profits and Net Sales.

The research also claims that there is a connection between CSR and Return on Capital Employed; however this connection is not statistically significant, therefore the effect would not be considerable. The analysis unequivocally demonstrates the value of CSR, and any prospective investor may use this information to evaluate the top 25 businesses and make investment choices. In order to provide a viewpoint on how CSR affects the various organizational characteristics, this study would be helpful.

Keywords: *CSR, Net Profit, Net Sales, Panel data analysis, Financial Performance*

Introduction

As a result of its reflection of a close relationship between the corporation and its stakeholders, CSR is quickly becoming a mainstream concern. CSR is an ethical duty that is ingrained deeply into the operations of the firm; it is neither a phase to draw consumers nor an optional activity (Lee & Fairhurst, 2009).

Two issues are raised by the ongoing discussion on CSR. 1) Should companies show social responsibility to the community? and Can companies prosper if they shirk their social obligations? Davis (1960) and Schwartz and Carroll (2003). The solutions to the two questions above have been attempted by many throughout the years, and they may be generally divided into two schools of thought. The first is that a business must maximize its profits while staying within ethical bounds, and the second is that a business must do all in its power to advance society (Schwartz & Carroll, 2003).

According to one of the most pertinent definitions of CSR, "The continuing duty of business is to behave morally and to contribute to economic advancement while improving the personal satisfaction of the workforce and their families, as well as that of the local community and society as a whole" (Moir, 2001).

Every business uses CSR in a different way. There are other variables at play, including the company's size, its industry, the competition it encounters, and its profitability. the organization's corporate culture, its values and principles, etc. The majority of organizations include multiple concepts into their strategies, while a select few concentrate on a single particular zone that they deem to be important (Tsoutsoura, 2004).There is a lot of proof that CSR increases stakeholder support, consumer loyalty, and goodwill. When CSR is done properly, businesses benefit greatly on all fronts, from the consumers to the government.

Therefore, CSR is a "win-win" situation from which corporations and society may both benefit in the long term (Famiyeh, 2017).

Today, however, CSR has established a new component for itself and is linked to an organization's financial success. According to earlier studies, there may be a connection between corporate success and philanthropic giving, environmental preservation initiatives, and employee treatment (Orlitzky & Benjamin, 2001).

In the event that there is a negative link between CSR and the company's financial success, managers must be urged to avoid it; in the event that there is a positive correlation, vigorous efforts must be made to pursue such activities (Cochran & Wood, 1984).

Many studies have examined the connection between CSR and financial success. By investigating the link between CSR and financial success with the use of three organizational variables return on Capital Employed (ROCE), Net Profits, and Net Sales this study builds on previous research. Due to the many financial scams that have occurred over the last several years and the many obstacles that the Indian business climate confronts, it is quite intriguing.

LITERATURE REVIEW

CSR in India

In India, CSR is definitely not a novel concept. For certain businesses that meet the requirements to adhere to CSR practices, the Ministry of Corporate Affairs has issued a notification under section 135 of the Companies Act, 2013, coupled with the Companies Rules, 2014.

It is applicable to businesses with a turnover of $1 billion or more, a net worth of $500 billion or more, or a net profit of $5 billion or more (INR).

Since the CSR rule became applicable, corporate India has greatly boosted its CSR investment. Companies invested INR 7536 crores in CSR projects in 2018 (associates, 2019).

CSR initiatives in India can focus on the following areas: health, education, rural development, environment, animal welfare, Swachh Bharat Kosh, gender equality, women's empowerment, heritage-art-culture, clean Ganga fund, slum development, technology incubator, support for the armed forces, and any other funds.

Previous Research

Researchers have shown that there is a disconnect between corporate social responsibility (CSR) and business performance. CSR just adds to a company's costs, and improving societal circumstances is the responsibility of the government. Studies have also shown that the relationship between CSR and profitability is ambiguous since many models employed do not even take into account a crucial factor, namely, research and development expenses, and when R and D are taken into account in the model, it is unusually related (McWilliams & Siegel, 2000). Additionally, there is no discernible influence of CSR when financial performance as assessed by financial accounting performance is taken into consideration (Crisóstomo, Freire, & Vasconcellos, 2011). Net Profit, EPS, and Net Sales may be used to gauge financial success. CSR has an effect on net profits but has no link with net sales or EPS. This could be the case since CSR contributes to a company's brand improvement, which directly affects the company's revenues (Menezes, 2019). In light of the information provided, a research from Pakistan claims that CSR has a negative association with total assets, but a positive link with net profits and net profit margin. According to the regression study used (Kiran, Kakakhel, & Shaheen, 2015), CSR has a negligible influence on assets, net earnings, and the net profit margin.

Other writers, however, have suggested that CSR would enhance a company's image, promote staff retention, and boost client loyalty. Results from earlier studies on the connection between CSR and financial success have been inconsistent. According to certain research, CSR does affect financial performance and a lack of CSR procedures may result in higher expenditures due to litigation and penalties. In comparison to companies with high CSR, those with fewer CSR duties also have lower ROA and stock market returns (McGuire, Sundgren, & Schneeweis, 1988).

In a specific investigation. The analysis of Indian commercial banks over a ten-year period revealed that CSR has a beneficial effect on these institutions (Maqbooln, 2017). The results of a study conducted in Malaysia using Tobin's Q and ROA as the dependent variables show a positive relationship between CSR and financial performance and that stakeholders do not react negatively when businesses invest enough in community development. In model 1, all of the dimensions taken into consideration have a positive association with CSR, with the exception of the market place, but in model 2, every dimension has a positive link with CSR (Wahab, Ahmad, & Yusoff, 2016). Indian researchers looked on the relationship between CSR and the financial and non-financial elements of Indian businesses. To assess CSR, a questionnaire was devised.

Data about businesses' financial performances were gathered from secondary sources. The results of this research showed that stock-listed companies have a greater CSR effect than non-listed companies because they engage in responsible activities and do better financially (Mishra & Suar, 2010).

According to researchers, any modifications to CSR standards have an impact on the performance of the company. The report linked the Bank's return on assets with its current and prior consistency with CSR to support its claim. According to the findings, CSR significantly affects business success (Stewart R. Miller, Lorraine Eden, & Dan Li, 2018).

Companies that practice CSR will have rigorous standards, which will result in high-quality goods that are less dangerous since there won't be any product recalls, which will indirectly effect the company's profits (E. Porter & R. Kramer, 2006).

It is evident that research using accounting-based measurements has shown a positive association between CSR and business success, but studies utilizing stock-based returns have produced mixed results regarding this relationship (McGuire, Sundgren, & Schneeweis, 1988).

RESEARCH DESIGN

Objectives

Examines the connection between financial performance and corporate social responsibility (CSR) by employing three organizational components: return on capital employed (ROCE), net profits, and net sales.

Scope of the study

This research, which aims to demonstrate that CSR expenditure has an effect on numerous organizational factors, may be helpful to prospective investors looking to make investment choices. As a result, an investor may analyze the factors and CSR expenditure with the help of the CSR disclosures and come to better conclusions.

Limitations

Costs associated with research and development is crucial for innovation and have an effect on the business's finances. The expenses of R&D have not been taken into account in this analysis.

Non-financial factors that do have a substantial effect in financial success, such as employee contentment, workplace behavior, customer satisfaction, and customer loyalty, have not been taken into account.

Data collection methods

The information gathered was secondary information from the top 25 NSE-listed firms by market capitalization. Net Sales, Net Profits, and Return on Capital Employed (ROCE) may all be calculated using the formula EBIT/CE, where EBIT stands for Earnings before Interest and Tax and CE stands for Capital Employed, which can be calculated by subtracting current liabilities from total assets. The annual reports of the relevant corporations are where the CSR charges are found. Ace Analyser was used to acquire the data.

Given the data's accessibility and the fact that CSR became a requirement for all publicly traded firms starting in 2013, these five years are taken into account.

Sample of the study

Convenience sampling is the study's sampling technique. As the name implies, the businesses were chosen because they were simple to reach and the data was simple to get. Ace Analyzer was used to gather information on the top 25 NSE firms according to market capitalization.

Variables used

CSR expenses are the independent variable.

Net sales, Net profits, and Return on Capital Employed (ROCE) are the dependent variables.

Hypothesis

H1 – Return on capital employed (ROCE) and corporate social responsibility (CSR) have a substantial link.

H2 – The two have a big connection: CSR and Net Profits.

H3 – CSR and Net sales have a substantial link.

Research Method

The research methods used to prove the above-mentioned hypothesis are:

- Independently Pooled Regression Method
- Fixed Effect Model
- Random Effect Model

Analysis and Interpretation

Table 1: Result of panel regression with Return on capital employed(ROCE) as the dependent variable

Variable	Model 1 Pooled OLS Regression	Model 2 Fixed Effect	Model 3 Random Effect	Specification Test (Hausman Test)
C	0.0000	0.0000	0.0000	0.2322
CSR	0.1777	0.8662	0.6969	0.6298

Pooled OLS Regression

The statistical significance, or P-value, is 0.1777, which is more than 0.05, indicating that this model is most likely not a good fit for the data.

The null hypothesis is thus not disproved. This indicates that while Return on Capital Employed (ROCE) and CSR are related, their association is not statistically significant. The fact that the coefficient value is negative further supports the aforementioned assertion. Although there is a negative link, it is not statistically significant since the p-value is more than 0.05.

Fixed and Random Effect

A Correlated Random Housman Test has been carried out to determine which of the two models the best is.

H0 – The random effect model is suitable

H1 – Fixed effect model is appropriate

The probability value is 0.6298, which is larger than 0.05 according to the specification test, and thus shows that the null hypothesis has not been rejected. The Random effect model has been chosen as a result.

The Random Effect Model's significance value is 0.6969, which is larger than 0.05. As a result, the null hypothesis has not been disproved once again. CSR and Return on Capital Employed (ROCE) are related, however this link is not statistically significant. The negative coefficient value indicates a negative link between the two variables, but since the p-value is over 0.05, it is not statistically significant, therefore the effect is negligible.

Table 2: Result of panel regression with Net Profit as a dependent variable

Variable	Model 1 Pooled OLS Regression	Model 2 Fixed Effect	Model 3 Random Effect	Specification Test (Hausman Test)
C	0.0001	0.0001	0.0033	1.9759
CSR	0.0000	0.0000	0.0000	0.1598

Pooled OLS Regression Method

Less than 0.05, the statistical significance value is 0.000. This implies that the model and the data are definitely compatible.

As a result, the null hypothesis is disproved. CSR and net earnings are significantly correlated. The positive coefficient value indicates a positive correlation between net profits and CSR.

Fixed and Random Effect

The p-value, which was calculated using the specification test, is 0.1598 and is higher than 0.05. The null hypothesis has not been disproved as a result. The Random Effect Model has been chosen in this instance.

The Random Effect model's significance value is 0.0000, which is less than 0.05. The naive theory has been disproved. This demonstrates the strong connection between CSR and net earnings. The positive coefficient value indicates a positive correlation between net profits and CSR.

Table 3: Result of panel regression with Net Sales as a dependent variable

Variable	Model 1 Pooled OLS Regression	Model 2 Fixed Effect	Model 3 Random Effect	Specification Test (Hausman Test)
C	0.1093	0.0000	0.0523	1.4882
CSR	0.0000	0.0000	0.0000	0.2225

Pooled OLS Regression Model

Less than 0.05, the statistical significance is less than 0.000. This shows that the regression model fits the data well.

As a result, the null hypothesis has been disproved. CSR and Net Sales have a substantial link. The positive coefficient value shows a favorable correlation between CSR and Net Sales.

Fixed and Random Effect Model

The Hausman test results show a p-value of 0.2225, which is higher than 0.05. As a result, the null hypothesis has not been disproved, and the Random effect Model has been selected in this instance.

The Random Effect Model rejects the null hypothesis with a significance value of 0.000, which is less than 0.05. This suggests that CSR and Net sales have a substantial link. The positive coefficient value indicates a favorable correlation between CSR and Net Sales.

Findings

Pooled OLS Model, Fixed Effect Model, and Random Effect Model were used to analyze if there is a significant link between the independent and dependent variables in order to meet the study's goals. The Pooled OLS approach has limitations of its own since it does not distinguish between time series and cross section data and does not take into account the individual impacts of the data. The Fixed and Random Effects models may help with this. Although the Fixed Effect model is a reliable estimator, it does not take into account specific factors. The uniqueness of the data is taken into account by the Random Effect model. The specification test, also known as the Hausman test, is used to determine which of the two is better. In all three instances, the Random Effect model has been chosen.

1. Corporate social responsibility (CSR) and return on capital employed (ROCE) are contrasted in the first measurement. Both models demonstrate that the variables do not have a connection that can be considered statistically significant.
2. Corporate Social Responsibility (CSR) and Net Profits are Contrasted in the Second Measure. Both models provide evidence that there is a correlation between CSR and financial performance that may be considered statistically significant.
3. The Customer Service Ratio (CSR) and Net Sales are compared in the third measurement. Both models provide evidence that there is a correlation that may be considered statistically significant between CSR and net sales.

The results therefore demonstrate that CSR expenditure has a favorable effect on an organization's sales and profits, and that this impact has a significant negative impact on financial performance. Although there is a negative correlation between CSR and Return on Capital Employed (ROCE), this correlation is not statistically significant, and the influence on financial performance is minimal.

Conclusion

The link between CSR and three organizational variables net profits, return on capital employed, and net sales of the organization was examined in this paper. Based on their market capitalization, the top 25 NSE-listed firms' secondary data was taken into account. The method used was panel data analysis.

In each of the three instances, the Random Effect model was picked. Spending on CSR has a statistically significant positive association between Net Profits and Net Sales. The company's financial performance will be significantly impacted. Return on capital employed and CSR have a negative association, however this link is not statistically significant. As a result, the influence on the company's financial performance is minimal or unstable.

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