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# A Study on the Impact of CSR on Financial Performance of Companies in India

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## 1. Abstract

*This Study investigates the impact CSR has on the financial performance of companies using annual data ranging from 2014 to 2016 in India. Correlation analysis and Regression analysis have been used in this study to find the relationship and the impact on the variables. The results reveal that CSR has a positive significant influence on Net profits of the company. However, CSR shows only a slight correlation but no significant Influence with Earnings per Share and Return on Assets of a company.*

## 2. Introduction

UNIDO defines Corporate Social Responsibility as “a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.” CSR is becoming increasingly important in the current scenario. Companies are realising how important it is to meet the needs of the stakeholders. CSR not only enhances the long term relationship with its stakeholders but ensures smooth running of its operations. Even the new Companies’ Act of 2013 makes it mandatory for those companies that meet the criteria to perform CSR activities. Section 135, schedule act VII of the Companies’ Act, 2013 states that those companies that have a net worth of 500 crore or more; or turnover of 1000 crore or more; or net profit of 5 crore or more, have to spend 2% of their average profit of last three years. There are many studies that attempt to determine the relationship between CSR and the company’s financial performance. This study has also been undertaken to study the impact CSR has on Financial Performance of a company.

## 3. Literature Review

Corporate social responsibility is growing at a rapid pace and is gaining popularity. The demand for reports on the actions of the firm towards society, economy and environment is increasing. (Malik & Nadeem, 2014). The impact of corporate social responsibility on the firm’s financial performance is extremely relevant now. (MADUGBA & OKAFOR, 2016). Various studies have been conducted to find the relationship between CSR and Financial performance of the companies. The variables considered for Financial Performance include Total Assets, Net Profits, Return on Assets, Return on Equity, Earnings Per Share, etc (Kamatra & Kartikaningdyah, 2015). CSR has been considered as an independent variable and the financial variables such as Net profit (NP), Earnings per Share (EPS), Return on Assets (ROA) and Total Assets have been considered as independent variables (Bhunja & Das, 2015) (Kanwal, Khanam, Nasreen, & Hameed, 2013). The time period for the studies range from a few years to over 20 years. (MURTAZA, AKHTAR, IJAZ, & SADIQA, 2014). The studies are widespread in various sectors like Banking to mineral sectors. (Pan, Sha, Zhang, & Ke, 2014) (MADUGBA & OKAFOR, 2016) The data being used is secondary data that have been obtained from the respective published annual reports. The methodology adopted for the analysis of the data is correlation and simple regression in many of the cases. (Garai, 2017) . Some studies have shown a significant influence of CSR on Financial performance (Choongo, 2017) whereas a few studies resulted in CSR not significantly influencing the firm’s financial performance (Mehtar & Rahat, 2007).

This paper focuses on the impact Corporate Social Responsibility has on the financial performance of companies in India taking CSR as the independent variable and Net Profits, Earnings per Share and Return on Assets as the dependent variables. The data used for the study is secondary data and ranges from 2014-2016.

#### 4. Objectives

1. To know the relationship between corporate social responsibility and financial performance of companies.
2. To know the impact CSR has on the financial performance of companies.

#### 5. Methodology

##### 5.1 Data collection methods

The data used for the study is secondary data. The data has been collected from the sites of the companies taken for the study. Also data for CSR has been collected from the website of ministry of corporate affairs. Data for the years 2014-15, 2015-16 and 2016-17 has been taken.

##### 5.2 Population of study

The population considered for the study are banks listed in the National Stock Exchange, India.

The time period taken for the study is 2014-15, 2015-16 and 2016-17.

##### 5.3 Sample of study

The sampling method used is convenience sampling. The study considers data of 7 Banks listed in the National Stock Exchange.

##### 5.4 Hypothesis

H<sub>0</sub>: There is no significant relationship between CSR and Net Profits of companies  
H<sub>0</sub>: There is no significant relationship between CSR and Earnings per Share of a company.

H<sub>0</sub>: There is no significant relationship between CSR and Return on Asset of a company.

#### 6. Analysis

A correlation and regression analysis was done on the data. The following were the findings:

##### 6.1 CSR and NP

Table 1: This table contains the correlation analysis results between CSR and NP

Correlations

		CSR	NP
CSR	Pearson Correlation	1	.992** .000
	Sig. (2-tailed)		
NP	N	7	7
	Pearson Correlation	.992**	1
	Sig. (2-tailed)		
	N	.000	
		7	7

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

Table 2, 3, 4 and 5: These tables contain the regression analysis results between CSR and NP

Table 2

**Variables Entered/Removed<sup>a</sup>**

Model	Variables Entered	Variables Removed	Method
1	CSR <sup>b</sup>		. Enter

a. Dependent Variable: NP

b. All requested variables entered.

Table 3

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992 <sup>a</sup>	.984	.981	690.61331

a. Predictors: (Constant), CSR

Table 4

**ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	150684870.743	1	150684870.743	315.936	.000 <sup>b</sup>
Residual	2384733.717	5	476946.743		
1 Total	153069604.460	6			

a. Dependent Variable: NP

b. Predictors: (Constant), CSR

Table 5

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	202.059	361.614		.559	.600
CSR	56.821	3.197	.992	17.775	.000

a. Dependent Variable: NP

A strong positive correlation of 0.992 was observed between CSR and Net Profit. The regression analysis resulted in a significant influence between the two variables as a significant value of  $p=0.000$  which is less than 0.05. This means the model is a good fit. It was noticed that the company's net profits increased by 56.821Cr for every 1Cr increase in CSR expenditure.

## 6.2 CSR and EPS

Table 6: This table contains the correlation analysis results between CSR and EPS

Correlations

		CSR	EPS
CSR	Pearson Correlation	1	.552
	Sig. (2-tailed)		.199
	N	7	7
	Pearson Correlation	.552	1
EPS	Sig. (2-tailed)	.199	
	N	7	7

Table 7, 8, 9 and 10: These tables contain the regression analysis results between CSR and EPS

Table 7

Variables Entered/Removed<sup>a</sup>

Model	Variables Entered	Variables Removed	Method
1	CSR <sup>b</sup>		Enter

a. Dependent Variable: EPS

b. All requested variables entered.

Table 8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.552 <sup>a</sup>	.304	.165	15.38662

a. Predictors: (Constant), CSR

Table 9

ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	517.553	1	517.553	2.186	.199 <sup>b</sup>
Residual	1183.741	5	236.748		
Total	1701.294	6			

a. Dependent Variable: EPS

b. Predictors: (Constant), CSR

Table 10

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	15.528	8.057		1.927	.112
1 CSR	.105	.071	.552	1.479	.199

a. Dependent Variable: EPS

The correlation analysis between the variables EPS and CSR resulted in a moderate positive correlation of 0.552. The results of the regression show that CSR does not influence EPS significantly.

### 6.3 CSR and ROA

Table 11: This table contains the correlation analysis results between CSR and ROA

Correlations

		CSR	ROA
CSR	Pearson Correlation	.534	.534
	Sig. (2-tailed)	.217	.217
	N	7	7
	Pearson Correlation	.534	.534
ROA	Sig. (2-tailed)	.217	.217
	N	7	7

Table 12, 13, 14 and 15: These tables contain the regression analysis results between CSR and NP

Table 12

Variables Entered/Removed<sup>a</sup>

Model	Variables Entered	Variables Removed	Method
1	CSR <sup>b</sup>		Enter

a. Dependent Variable: ROA

b. All requested variables entered.

Table 13

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.534 <sup>a</sup>	.285	.142	96.14179

a. Predictors: (Constant), CSR

Table 14

ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	18393.597	1	18393.597	1.990	.217 <sup>b</sup>
Residual	46216.217	5	9243.243		
Total	64609.814	6			

a. Dependent Variable: ROA

b. Predictors: (Constant), CSR

Table 15

Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	123.783	50.341		2.459	.057
CSR	.628	.445	.534	1.411	.217

a. Dependent Variable: ROA

The variables ROA and CSR are moderately correlated. A value of 0.534 is seen between the two variables which signifies a slight positive correlation. No significant relationship can be observed between CSR and ROA in the regression analysis.

### Conclusion

The study observes the relationship between corporate social responsibility and financial performance of companies. Three variables are considered for financial performance: Net profits, Earnings per share and Return on Assets. A correlation and regression analysis between the variables is done. CSR had a significant positive influence on the Net profits of the company but no significant influence was observed with EPS and ROA. Thus, from the results, CSR does have a positive impact on the Net profits of the company which is why the companies tend to spend over the required limit for CSR. But CSR does not impact EPS and ROA though a slight positive correlation is seen between the variables.

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