Analysis the Effect of Financial Performance on Corporate Social Responsibility

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ABSTRACT

CSR stands for corporate social responsibility. A growing field of knowledge and needs more focus and citations from researchers to develop. The objective of this study is to examine the relationship between corporate social responsibility and financial performance of companies in the Indian context. The accounting-based indicator EPS is employed to quantify the financial company performance. We pull fixed-effects and pooled regression models to examine the impact of CSR on the financial performance of the Bombay Stock Exchange SENSEX 30 companies in India. The empirical research uses panel data of the Bombay Stock Exchange SENSEX 30 companies for the period 2016 and 2023. The main results indicate that CSR does not have a significant impact on EPS. We have also done sector investigation to look into the relationship between financial performance and CSR. We have selected 2 sectors that have the highest number of companies listed in BSE SENSEX 30 (The Software sector has 5 companies and the banking sector has 6 companies). We found that CSR does not have a favorable effect on EPS for software and banking industry companies.
INTRODUCTION

The concept of CSR has gained significant attention within the business community in recent years. Companies are no longer expected to be merely profitable, but ethical and socially conscious. The focus is no longer just on financial performance, but also on the impact business have on society and environment. According to Rijba et.al (2020) a study discovered that the detrimental effects of economic policy uncertainty on financial performance are lessened by social capital investments made through corporate social responsibility initiatives. Corporate image is a psychological construct and can be created by implementing CSR practices. In addition to demonstrating good corporate behaviour to customers, companies can improve their corporate image by demonstrating concern for and appreciation their stakeholders Yu-Chen Wei (2018). The good image of the company could encourage employees to work more efficiently and achieve higher productivity and efficiency, as well as attracting qualified employees (Stuebs and Sun, 2010). The CSR strategy shows the long-term approach that companies with more established positions in the market are adopting. The higher value of market capitalization and profitability motivate the companies to invest in CSR initiatives (Mądrasawicka, M., & Paliszkiewicz, J. 2020). Good CSR practices could lead to increased stock returns since the return of an adjusted market in the ensuing term is positively correlated. In a similar vein, investors are now interested in investing not only in companies with short-term profits but also with companies with long-term, sustainable profits. As previous studies have shown, involvement in CSR improves firms’ ability to enhance performance in the near term and long-term Yu, Y. and Choi, Y. (2014). It is a shared belief among authors that corporate social responsibility plays a crucial role in achieving sustainable development. The study concluded that companies could achieve long-term growth by not only focusing on their shareholders but also considering the interests of through corporate governance and CSR initiatives, to their wider stakeholders. Therefore advocating for responsibility towards promoting social and environmental to achieve sustainable outcomes and embedding social and environmental practices in business processes will likely become increasingly important in the future. As a result, companies are emphasizing the importance of incorporating economic, social, and environmental objectives into their fundamental business activities, rather than only focusing on CFP and financial outcomes. Our hypothesis is that companies that spend more on CSR initiatives would see an improvement in their bottom line. Thus, the CSR-financial performance nexus of the Bombay Stock Exchange SENSEX 30 companies was identified in this study. Essentially, we offer hard data demonstrating how CSR affects the bottom line of companies that are traded on the Bombay Stock Exchange. This research offers further understanding to scholars, professionals, and authorities for creating regulations that encourage corporate social responsibility and unity. Upon analysing the literature, we discovered that the BSE SENSEX 30 Companies have not received much attention in the great majority of studies assessing the financial success of businesses based on CSR policies, especially in India. In a
similar vein, practitioners including regulators could benefit from this study's distinctive findings.

LITERATURE REVIEW

The concept of social responsibility has evolved, encompassing a range of definitions and practices. The literature review aims to provide a thorough understanding of the current state of research on the CSR-FP relationship, identify areas where further investigation is needed, and offer insights into how businesses can effectively integrate CSR into their operations to achieve social and financial goals. CSR is the concept that a company should make a positive contribution to society and take into account the environmental and social effects of its business decisions. Sustainability is the process of creating value for the economy, society, and environment. CSR is closely related to sustainability. CSR plays an essential role in today’s business landscape by promoting ethical values and sustainability practices. It improves a business’s brand image, builds trust with stakeholders, and attracts socially conscious customers and investors. By responding to environmental, social and ethical issues, CSR creates a more socially responsible and equitable business environment, making a positive impact on society while promoting long-term sustainable business growth. Dr. Abdul Ghafoor Awan et al. (2015) firm’s involvement in CSR initiatives has a positive impact on the firm reputation, firm sales, profitability and customer satisfaction. CSR has a positive influence on Firm performance and this relationship is more pronounced for the long-term performance of the company than for short-term performance Rodríguez, M. Del M. M., et al. (2015). Another study revealed that a firm’s engagement in Initiatives that are socially conscious significantly improve financial results. The study found that key control variables for financial success include CEO duality, overall salary to directors, and the representation of women on the board. Grigoris Giannakakos et al. (2016). Stakeholder engagement, customer satisfaction, institutional environment, customer loyalty mediates the relationship between CSR and financial performance Ansong, A. (2017.). Customer loyalty mediates the relationship between CSR and financial performance and the institution environment mediates the relationship between CSR efforts and sales Xuemei Xie et al. (2017). Anthony Okafor et al. (2021) stated profitability and revenues of those companies that are spending more on CSR are increasing. Companies that are responsive to the concept of CSR and those that consider global standards and guidelines for quality products and services as part of their business model enhance CFP Liliana Nicoleta Simionescu et al. (2018).CSR and financial performance Indicators showed a positive relationship between corporate soundness, the growth rate of total assets, social contribution Sang Jun Cho et al. (2019). Simona Fiandrino et al. (2018) CSR has a significant impact on social and environmental practices. The study concludes CSR also ability to influence corporate governed and CFP.CSR has a positive impact on firm performance and corporate governance elements such as foreign ownership, board size, and board independence has a positive relationship between CSR and financial performance, whereas state
ownership has no such influence Kabir and Hanh Minh Thai (2017). Firms should focus on CSR initiatives in order to reduce their financial exposure and maximize their CSR performance in the future Pin-Chao Liao et al (2017). CSR engagements improve governance practice and corporate image through the implementation of good internal controls and monitoring, which ultimately improve FP Md Moazzem Hossain et al (2016). Resmi et al (2018) observed the financial impact of corporate social responsibility (CSR) on agribusinesses and evaluated the correlation between CSR and EPS of agribusiness companies. For the years 2015 through 2017, the study selected a sample of four agriculture industries using a deliberate selection technique. The results show that CSR significantly affects net income and return on equity for businesses. and CSR disclosure has a negative impact on financial performance and environmental responsibility and economics aspect showed negative impact on financial performance but social responsibility showed a positive but limited effect on financial performance Canh Thi Nguyen et al. (2022). Various studies used different financial approaches as an indicator of financial performance. Xuemei (2017) observed that the Institutional environment moderates the relationship CSR efforts and return on sale. CSR reports disclosure has a significant positive impact on financial performance and firms that are disclosed CSR reports have a higher ROA and ROE. Magdalena Ma˛dra-Sawicka et al. (2020). Human rights, society and, product responsibility disclosure have a significant and positive relation with ROE. Companies that perform well on the GRI indicator also well perform financially. Lujie Chen et al (2015). CSR disclosure has a positive influence on Return on asset and Return on the equity. Krisztina Szegedi et al. (2020). Human resource disclosure, community disclosure, product and customer disclosure have a significant impact on financial performance but environment disclosure did not have any positive effect on financial performance Aliyu Baba Usman and Noor Afza Binti Amran (2015). A. Najah A. Jarbou (2013). Fonseca and Ferro (2016) the study found that companies that implement socially responsible practices and meet the expectations of their stakeholders have higher economic profit than competitors and achieve positive differentiation. CSR did not have any significant effect on ROE and EPS but a partially significant effect on ROA and NPM. Novrianty Kamatra, Ely Kartikaningdyah (2015). Nelling and Webb (2009) the study found that CSR did not have a significant impact on financial performance when effect of times series was excluded. With the help of a robust research model the study found that the previous positive relationship between CSR and financial performance will diminish as CSR engagements do not improve the financial performance of companies. Sahar Mansour (2015) Sukanya Chetty et al. (2015) Shu wang et al (2015) observed that the CSR did not have a significant impact on financial performance.
METHODOLOGY
After doing literature on CSR and financial performance: We discovered that market-based metrics like Tobin's Q and stock returns, as well as accounting-based metrics like ROA, ROE, ROS, ROA, EPS, and net profit margin, were utilized as financial performance indicators. The debate over the effectiveness of accounting-based versus market-based indicators in measuring the relationship between CSR and financial performance FP is ongoing in academic research. Both indicators have their proponents and critics, and many studies have utilized both to provide a comprehensive evaluation. The study has employed accounting-based metrics to assess the financial performance of particular companies. Regarding the accounting-based metric, EPS used to measure financial performance of companies. This ratio measured from yearly reports and financial statements of the chosen companies. To achieve the aim of this study, Panel data analysis is done through a collection of secondary data. The sample firms involve listed entities Bombay Stock Exchange (BSE) from 2016 to 2023. Data on the CSR and the CFP extracted from companies’ annual reports and expertise; the electronic database of the Centre for Monitoring Indian Economy (CMIE). Information about CSR has been collected from annual reports and information available on the companies’ websites.

RESULT AND DISCUSSION
Table 1 presents the descriptive statistics of various variables used in the study. The mean score of CSR is 1769.525; with a standard deviation of 1895.938. The mean value of EPS is observed to be 55.54 for the selected time with 280.90 as the maximum value. Moreover, Table show that mean of all variables less than standard deviations implying that there is significant dispersion of the data from the mean because the standard deviation is higher.

Table 1. Result of Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>CSR_EXP</th>
<th>EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>1769.525</td>
<td>55.54417</td>
</tr>
<tr>
<td>Median</td>
<td>1097.800</td>
<td>35.34500</td>
</tr>
<tr>
<td>Maximum</td>
<td>9220.000</td>
<td>280.9000</td>
</tr>
<tr>
<td>Minimum</td>
<td>4.500000</td>
<td>0.960000</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>1895.938</td>
<td>56.84601</td>
</tr>
<tr>
<td>Skewness</td>
<td>1.907084</td>
<td>1.982480</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>6.599600</td>
<td>6.642165</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>275.0499</td>
<td>289.8627</td>
</tr>
<tr>
<td>Probability</td>
<td>0.000000</td>
<td>0.000000</td>
</tr>
<tr>
<td>Sum</td>
<td>424686.1</td>
<td>13330.60</td>
</tr>
<tr>
<td>Sum Sq. Dev.</td>
<td>8.59E+08</td>
<td>772321.1</td>
</tr>
<tr>
<td>Observations</td>
<td>240</td>
<td>240</td>
</tr>
</tbody>
</table>

Source: Result output from E-views 12
Using E-views 12, we obtained the results of Table 1. The result shows that CSR exp. does not have significant impact on EPS. The low value of Durbin Watson stat in the above result may be due to model misspecification rather than serial autocorrelation.

Using E-views 12, we obtained the results of Table 3. The Hausman test is indeed crucial statistical test to determine whether the fixed effect model or the random effect model is more appropriate for panel data analysis. The basis for decision making in this test is as follows: The alternative hypothesis of the Hausman test is that the pooled OLS model is suitable, whereas the fixed effects model is the null hypothesis. The pooled OLS model is appropriate if the Hausman test's p-value is less than the significance level, which allows us to reject the null hypothesis. We cannot reject the null hypothesis and infer that the fixed effects model is appropriate if the p-value is higher than the significance level. The Hausman test's outcome is given in Table 3. In case of Model 1 the Hausmen test strongly rejects the REM, for the p value of the estimated chi-square statistics is very low. In this case FEM is preferred to REM. The last probability columns of the table show that CSR exp. does not have statistically significant for EPS (Earning per share).

CONCLUSIONS AND RECOMMENDATIONS

Previous literature exemplifies the relationship between CSR and financial performance, but the literature fails to provide conclusive evidence. This study seeks to bridge the gap in the literature by offering empirical evidence that elucidates the complex relationship between CSR and financial performance, potentially resolving some of the inconsistencies found in prior research. The accounting-based indicator EPS is used to measure the financial performance of companies. The result of study indicates that CSR does not have a significant impact on EPS. We have also done sector analysis to examine the relationship.
between corporate social responsibility and financial performance. We have selected 2 sectors that have the highest number of companies listed in BSE SENSEX 30 (The Software sector has 5 companies and the banking sector has 6 companies). We found that CSR does not have a positive impact on EPS in the context of software and banking sectors. The study employed a panel data set of BSE SENSEX 30 companies in India for 10 years. In this study, CSR is the independent variable and EPS is the dependent variable. Overall, the analyses did not support the view that CSR has a significant positive impact on financial performance. Today CSR has become a buzzword in the business world. Companies are not only expected to be profitable but also to be ethical and socially conscious. The integration of CSR into business operations can align social and financial targets, potentially leading to improved financial performance.

FURTHER RESEARCH

The study has some limitation, which needs discussion.

1. Firstly, only companies listed on BSE SENSEX were included in the sample. Therefore, due to the non-inclusion of large companies, that operates on a different scale and has distinct CSR strategies, the results of the final study cannot be generalized.

2. This study was limited to only one accounting measure of financial performance. The Future study can use accounting-based Measures such as ROA and ROE, ROCE, and ROI as indicators of financial performance and Tobin q as market-based measures of financial performance.

REFERENCES


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