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Effect of CSR on Financial Performance of Selected it Firms'

Jibin T Mathew

IV Semester M. Com F.A, Kristu Jayanti College (Autonomous), Bangalore-560077

ABSTRACT

This study investigates the impact of Corporate Social Responsibility (CSR) on the financial performance of selected Information Technology (IT) firms, with a focus on Tata Consultancy Services (TCS) and Infosys Limited. Utilizing secondary data spanning five years from 2018 to 2022, regression analysis is employed to analyse the relationship between CSR activities and financial performance metrics. The research aims to provide insights into how CSR initiatives undertaken by IT companies influence their financial outcomes. By examining the specific CSR projects and activities undertaken by TCS and Infosys during the study period, the study seeks to identify the extent to which CSR efforts contribute to enhancing financial performance. The findings of this research are expected to contribute to the existing literature on CSR and financial performance within the IT industry, offering valuable implications for both theory and practice.

INTRODUCTION

In management, the concept of "corporate social responsibility" allows businesses to incorporate social and environmental issues into their daily operations and stakeholder relationships. In general, corporate social responsibility, or CSR, describes how an organisation balances the demands of its shareholders and stakeholders with the requirements of the economy, environment, and society (sometimes called the "Triple-Bottom-Line-Attachment").

CSR is a concept in strategic business management. The concept of corporate social responsibility (CSR) clearly goes beyond that, even while the latter will directly enhance a company's reputation and boost its brand and can also significantly contribute to the reduction of poverty. Strategies that take into account SMEs' particular requirements and capacities without endangering their financial stability must be created in order to motivate them to adopt CSR. UNIDO's CSR programme was built on the Triple Bottom Line (TBL) Approach, which has shown to be a useful tool for SMEs in developing nations to assist them satisfy social and environmental criteria without compromising their competitiveness.

Corporate social responsibility is a wide term that can take many various shapes, depending on the firm and industry. Companies that adopt corporate social responsibility (CSR) initiatives, volunteer, and give to charity can benefit society and build their brands at the same time. For a corporation to be deemed socially responsible, it must be answerable to both its investors and itself. Companies that take part in CSR programmes often have grown to the point where they can give back to the community. Large companies so typically use CSR as a strategy. In the end, a company that is more successful and well-known than its competitors bear an equally heavy burden of setting the bar for moral conduct among its competitors and the industry at large.

REVIEW OF LITERATURE

Nason (2018) highlighted the discussion on social performance feedback compared to financial performance feedback is lacking and attempts to examine how a firm's strategic behaviour changes according to corporate non-financial social performance feedback have been relatively insufficient.

Xu and Zeng (2020) are similar to this study in that it investigates the relationship between CSR's attainment discrepancy and CSR performance, not financial performance. However, their study considers only the social corporate social performance (CSP) aspiration level.

Smith J (2016), there is a dearth of literature addressing the impact of CSR initiatives on financial performance, overshadowing the importance of understanding the dynamics between social and financial performance feedback.

Johnson et al. (2017) underscored the deficiency in studies exploring the nuanced strategic shifts within firms in response to non-financial social performance feedback, calling for more empirical research in this domain

Gupta (2019) challenged the assumption that CSR initiatives inherently lead to enhanced financial outcomes, suggesting a more nuanced understanding of the relationship between social and financial performance feedback.

1.1 Research gap

Examining the impact of Corporate Social Responsibility (CSR) investment on the financial success of IT companies is a valuable research topic. However, identifying research gaps is essential to ensure the study's significance. Currently, few studies have focused on the specific CSR projects undertaken by IT firms, such as those promoting environmental sustainability or employee welfare. Exploring the effects of these initiatives on financial success could be a promising avenue for future research. Additionally, variations in CSR standards across regions suggest a need to investigate how CSR expenditure affects different markets. Potential research gaps include long-term versus short-term impacts, moderating variables, stakeholder perspectives, methodological approaches, comparative analyses, and industry dynamics. A thorough literature review is necessary to identify these gaps and shape research questions effectively.

OBJECTIVES

- To study the CSR spending of selected IT companies for the period of 10 years.
- To analyse the significant indicator & financial performance of IT companies

HYPOTHESIS

- H0: There is no significant difference in the CSR spending by IT companies in India.
- H1: There is a significant difference in the CSR spending by IT companies in India.
- H0: There is no significant relationship difference in the financial indicator of IT companies.
- H1: There is a significant relationship between CSR activities and the financial performance of the selected companies.

Limitations of the study

- The study was conducted for period of 4 months only with 2companies.
- The reliability of study is restricted to the data of 2 IT companies
- The study is limited only 2 ITs companies.

Data and Methodology

SECONDARY DATA: Secondary data is collected from Company site, Financial statements, Books, journal, etc.

Analysis of Data

Model 1: SIMPLE REGRESSION ANALYSIS

- **TATA consultancy service (TCS)**

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.952[a]	.906	.875	.046

a. Predictors: (Constant), CSR

Inference:

The regression model shows that Corporate Social Responsibility (CSR) significantly contributes to explaining the variability in the dependent variable, with an impressive coefficient of determination (R Square) of .906. The adjusted R Square, considering the number of predictors, remains high at .875, indicating the robustness of the model in capturing the relationship between CSR and the dependent variable. The small standard error of the estimate (.046) suggests that the model's predictions closely align with the observed values, further emphasizing the reliability of the regression analysis and the importance of CSR as a predictor variable.

Table 2: ANOVA [a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.062	1	.062	28.885	.013[b]
1	Residual	.006	3	.002		
	Total	.068	4			

a. Dependent Variable: NPR

b. Predictors: (Constant), CSR

Inference

The ANOVA table reveals significant regression model, as indicated by a statistically significant F-test with a value of 28.885 and a corresponding p-value of .013 ($p < .05$).

The regression model explains a notable proportion of the variance in the dependent variable (NPR), with a sum of squares for regression of .062.

The sum of squares for the residual (error) term is .006, indicating the unexplained variance in the dependent variable after accounting for the effects of the predictor variable (CSR).In summary, the results suggest that the predictor variable, Corporate Social Responsibility (CSR), significantly contributes to explaining the variance in the dependent variable (NPR), supporting the relevance of CSR in predicting NPR.

Table 3: Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	**(Constant)**	**1.148**	**.119**		**9.618**	**.002**
	CSR	**.001**	**.000**	**.952**	**5.374**	**.013**

a. **Dependent Variable: N**

Inference

The coefficient for the constant term (intercept) is 1.148, indicating the predicted value of the dependent variable (NPR) when the predictor variable (CSR) is zero. The coefficient for the predictor variable, Corporate Social Responsibility (CSR), is .001. This suggests that for every one unit increase in CSR, the dependent variable (NPR) is expected to increase by .001 units, holding all other variables constant. The standardized coefficient (Beta) for CSR is .952, indicating the strength and direction of the relationship between CSR and NPR. This suggests that CSR has a strong positive impact on NPR. The t-test statistic for CSR is 5.374, with a corresponding p-value of .013 ($p < .05$), indicating that the coefficient for CSR is statistically significant. Therefore, CSR is a significant predictor of NPR in the regression model.

- **INFOSYS**

Table 4:Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.172[a]	.030	-.294	.1577

a. Predictors: (Constant), CSR

Inference

The regression model has a low coefficient of determination (R Square) of .030, indicating that only approximately 3% of the variability in the dependent variable is explained by the model. The adjusted R Square is negative (-.294), which suggests that adding the predictor variable (CSR) to the model did not improve its explanatory power. Instead, it may have worsened the fit of the model. The standard error of the estimate (.1577) represents the average deviation of observed values from the predicted values. A higher value indicates less precise predictions by the model. Overall, the model appears to have poor explanatory power and may not be suitable for predicting the dependent variable based on the predictor variable (CSR) alone. Additional factors or variables may need to be considered to improve the model's performance.

Table 5 :ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	.092	.781[b]
	Residual	.075	3	.025		
	Total	.077	4			

a. Dependent Variable: NPR

b. Predictors: (Constant), CSR

Inference

The ANOVA table indicates that the regression model is not statistically significant, as evidenced by a non-significant F-test with a value of .092 and a corresponding p-value of .781 ($p > .05$). The sum of squares for regression is .002, which represents the explained variance in the dependent variable (NPR) attributable to the predictor variable (CSR).

The sum of squares for the residual (error) term is .075, indicating the unexplained variance in the dependent variable after accounting for the effects of the predictor variable.

Overall, the results suggest that the predictor variable, Corporate Social Responsibility (CSR), does not significantly contribute to explaining the variance in the dependent variable (NPR) in the regression model. Therefore, the model may not provide a reliable basis for predicting NPR based on CSR alone.

Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.855	.752		2.466	.090
	CSR	.001	.002	.172	.303	.781

a. Dependent Variable: NPR

Inference

Constant Term (Intercept): The constant term (intercept) is 1.855. This represents the predicted value of the dependent variable (NPR) when the predictor variable (CSR) is zero. In this context, the intercept suggests a base level of NPR even in the absence of CSR expenditure.

CSR Coefficient:

The coefficient for the predictor variable, Corporate Social Responsibility (CSR), is 0.001.

This indicates that for every one-unit increase in CSR expenditure, the dependent variable (NPR) is expected to increase by 0.001 units.

The low coefficient value suggests a relatively small impact of CSR on NPR.

Standardized Coefficients (Beta):

The standardized coefficient (Beta) for CSR is 0.172. Beta reflects the strength and direction of the relationship between CSR expenditure and NPR after standardizing the variables. A Beta value less than 1 suggests a relatively weak positive relationship between CSR and NPR.

Statistical Significance: The t-test statistic for CSR is 0.303, with a corresponding p-value of 0.781 ($p > 0.05$). This indicates that the coefficient for CSR is not statistically significant at the conventional significance level of 0.05. Therefore, in this model, CSR may not be a significant predictor of NPR, as the p-value is greater than 0.05.

Comparison

- TCS demonstrates a strong relationship between CSR and financial performance, with a high coefficient of determination (R Square) of .906, indicating that a significant portion of the variability in financial performance (NPR) is explained by CSR initiatives. The adjusted R Square remains high at .875, emphasizing the robustness of the model. Additionally, both the ANOVA analysis and the t-test confirm the statistical significance of CSR as a predictor of financial performance.

- Contrastingly, Infosys exhibits limited explanatory power in its regression model, with a low R Square of .030 and a negative adjusted R Square. The ANOVA analysis suggests that CSR may not significantly contribute to explaining financial performance variance, a conclusion supported by the non-significant t-test for CSR.

Findings and Conclusions:

Based on the findings for TCS, Infosys

Leverage CSR for Financial Performance (TCS):

- TCS demonstrates a significant positive relationship between CSR and financial performance, as indicated by the high coefficient of determination (R Square) and the statistically significant regression model.
- TCS should continue to invest in and leverage its CSR initiatives as a strategic tool for enhancing financial performance.
- Further research could explore specific CSR activities that have the most significant impact on financial outcomes, allowing TCS to allocate resources effectively.

Reevaluate CSR Strategy (Infosys):

- Infosys shows limited evidence of a significant relationship between CSR and financial performance, with a low coefficient of determination and a non-significant regression model.
- Infosys should reevaluate its CSR strategy to better align it with financial objectives or explore alternative approaches that may yield stronger connections between CSR initiatives and financial outcomes.
- Conducting a thorough analysis of specific CSR activities and their potential impact on financial metrics could inform strategic adjustments.

In summary, the analysis of Corporate Social Responsibility (CSR) and its implications on financial performance across several prominent IT firms presents a nuanced picture. Among these firms, TCS stands out for its strong positive correlation between CSR initiatives and financial success, as indicated by a high coefficient of determination (R Square) and significant statistical findings in regression analyses. This suggests that TCS's commitment to CSR activities positively influences its financial outcomes. On the other hand, Infosys demonstrates limited explanatory power regarding the relationship between CSR and financial performance. Despite including CSR as a predictor variable in the regression model, the results show negligible improvement in explaining the variability in financial performance, with non-significant statistical findings. This suggests that, at least within the scope of this study, CSR initiatives may not significantly impact Infosys's financial performance.

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