


IMPACT OF CORPORATE SOCIAL PERFORMANCE ON PROFITABILITY: A CASE STUDY OF LISTED INDIAN COMPANIES

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| ARTICLE INFO | ABSTRACT |
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| <p>Article history:</p> <p>Received 31 June 2023</p> <p>Accepted 27 September 2023</p> | <p>Purpose: This section outlines the main objective of the research and what the study aims to achieve. In this case, the purpose is to investigate the relationship between corporate social performance (CSP) and financial performance in firms listed on BSE and NSE. The purpose is to understand if there is a connection between these two aspects of business performance.</p> |
| <p>Keywords:</p> <p>Corporate Social Performance; Operating Profit; Corporate Social Responsibility; Net Profit.</p> <div data-bbox="172 949 480 1189" style="text-align: center;">  </div> | <p>Design/Methodology/Approach: This section describes the methodology and approach used to conduct the research. It mentions the data collection methods, data sources, and analysis techniques. In this case, the design/methodology/approach involves collecting seven years' mean data of corporate social responsibility (CSR) spending and three years' mean data of financial performance, followed by regression analysis to assess the relationship between CSP and financial performance.</p> <p>Findings: This section presents the key results and outcomes of the research. It summarizes what the data analysis and regression analysis revealed about the relationship between CSP and financial performance for the firms listed on BSE and NSE. This is where the main discoveries and insights are shared.</p> <p>Research, Practical & Social Implications: Here, the broader implications of the research are discussed. This includes how the findings of the study can impact future research in the field, practical applications for businesses, and the potential social consequences of the relationship between CSP and financial performance. It looks at the "So what?" aspect of the research.</p> <p>Originality/Value: In this section, the paper highlights the originality and value it brings to the existing body of knowledge. It discusses how the research contributes to the field and why it is important. This section emphasizes the significance of the study's findings and how they can add to the understanding of the topic.</p> <p>Doi: https://doi.org/10.26668/businessreview/2023.v8i10.3879</p> |

IMPACTO DO DESEMPENHO SOCIAL CORPORATIVO NA LUCRATIVIDADE: ESTUDO DE CASO DE EMPRESAS INDIANAS LISTADAS

RESUMO

Objetivo: Esta seção descreve o principal objetivo da pesquisa e o que o estudo pretende alcançar. Neste caso, o objetivo é investigar a relação entre o desempenho social das empresas (PSC) e o desempenho financeiro das empresas incluídas na lista de EEB e EEN. O objetivo é compreender se existe uma conexão entre esses dois aspectos do desempenho dos negócios.

Projeto/Methodologia/Abordagem: Esta seção descreve a metodologia e abordagem usadas para conduzir a pesquisa. Ele menciona os métodos de coleta de dados, fontes de dados e técnicas de análise. Neste caso, a concepção/metodologia/abordagem envolve a recolha de dados médios da despesa com a responsabilidade social das empresas (RSE) durante sete anos e de dados médios do desempenho financeiro durante três anos, seguidos de uma análise de regressão para avaliar a relação entre a PSC e o desempenho financeiro.

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Constatações: Esta seção apresenta os principais resultados e resultados da pesquisa. Resume o que a análise de dados e a análise de regressão revelaram sobre a relação entre os PSC e o desempenho financeiro das empresas listadas em BSE e NSE. Aqui é onde as principais descobertas e insights são compartilhados.

Pesquisa, Implicações Práticas & Sociais: Aqui, as implicações mais amplas da pesquisa são discutidas. Isso inclui como os resultados do estudo podem impactar a pesquisa futura no campo, aplicações práticas para as empresas e as potenciais consequências sociais da relação entre CSP e desempenho financeiro. Ele observa o aspecto "E daí?" da pesquisa.

Originalidade/valor: Nesta seção, o artigo destaca a originalidade e o valor que traz para o corpo de conhecimento existente. Discute como a pesquisa contribui para o campo e por que é importante. Esta seção enfatiza a importância dos resultados do estudo e como eles podem contribuir para a compreensão do tópico.

Palavras-chave: Desempenho Social Corporativo, Lucro Operacional, Responsabilidade Social Corporativa, Lucro Líquido.

IMPACTO DEL DESEMPEÑO SOCIAL CORPORATIVO EN LA RENTABILIDAD: ESTUDIO DE CASO DE EMPRESAS INDIAS COTIZADAS

RESUMEN

Finalidad: En esta sección se esboza el objetivo principal de la investigación y lo que el estudio pretende lograr. En este caso, el propósito es investigar la relación entre el desempeño social corporativo (CSP) y el desempeño financiero en las empresas que cotizan en la BSE y NSE. El propósito es comprender si existe una conexión entre estos dos aspectos del desempeño empresarial.

Diseño/Metodología/Enfoque: En esta sección se describe la metodología y el enfoque utilizados para realizar la investigación. Menciona los métodos de recolección de datos, fuentes de datos y técnicas de análisis. En este caso, el diseño/metodología/enfoque implica la recolección de datos medios de siete años de gasto en responsabilidad social corporativa (RSE) y de tres años de desempeño financiero, seguidos de un análisis de regresión para evaluar la relación entre la RSE y el desempeño financiero.

Hallazgos: En esta sección se presentan los principales resultados de la investigación. Resume lo que revelaron el análisis de datos y el análisis de regresión sobre la relación entre la CSP y el rendimiento financiero de las empresas que cotizan en la EEB y la NSE. Aquí es donde se comparten los principales descubrimientos y percepciones.

Investigación, implicaciones prácticas y sociales: aquí se discuten las implicaciones más amplias de la investigación. Esto incluye cómo los hallazgos del estudio pueden impactar futuras investigaciones en el campo, aplicaciones prácticas para las empresas, y las potenciales consecuencias sociales de la relación entre la CSP y el desempeño financiero. Se analiza el aspecto "¿Y qué?" de la investigación.

Originalidad/Valor: En esta sección, el artículo destaca la originalidad y el valor que aporta al cuerpo de conocimiento existente. Se discute cómo la investigación contribuye al campo y por qué es importante. En esta sección se enfatiza la importancia de los hallazgos del estudio y cómo pueden contribuir a la comprensión del tema.

Palabras clave: Desempeño Social Corporativo, Ganancia Operativa, Responsabilidad Social Corporativa, Ganancia Neta.

INTRODUCTION

Companies are under increased pressure to fulfill the different stakeholder expectations as a result of social and environmental challenges. Differences within industries and across borders industry illustrate the context-dependence of corporate social performance (CSP). Managers and policymakers must be aware of institutional elements that influence CSP but are not directly controlled. Also, firm size and financial success appear to affect CSP, whereas evidence for industry effects is minimal. With this into consideration, an attempt was made to include the different small cap, mid-cap and large cap industry for better understanding the CSP that help organizations to contribute better profitability.

REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

Kapoor and Sandhu (2010) evaluate the impact of CSR on 93 Indian firms' corporate financial performance (CFP). CSR had a significant positive impact on profitability, implying that a greater focus on CSR areas may provide a competitive advantage by increasing corporate profitability. Using a sample of four well-known agricultural sectors, Resmi et al. (2018) demonstrated that firms that prioritise CSR have high returns on equity and net income, which contributes to their greater FP. If all else is equal, larger FP may result in higher CSP, and better CSP may lead to greater FP, according to Abilasha and Tyagi (2019). Wu et al. (2020) identified a significant positive relationship between CSR and FP of stable organisations, showing that business stability improves CSR's role in promoting CFP. A company's correct attention to the social well-being of its neighborhood may help it generate more income (Nnenna and Carol, 2016). According to Byun and Oh (2018), positive media coverage of a company's CSR activities has a positive impact on and enhances its operating performance. Other authors like Awan and Saeed (2015), Hafez (2016), Xu and Zeng (2016), Min et al. (2017), Brogi and Lagasio (2018), Maqbool and Zameer (2018), Rehan et al. (2018), and Li et al. (2018) indicated a significant positive relationship between CSR and profitability in their research findings.

In contrast, according to Chen et al. (2018), CSR disclosure in annual reports, as required by Indian CSR requirements under the Companies Act 2013, results in income loss. Mukherjee et al. (2019) discovered that after mandatory CSR regulation was implemented, companies that began spending on CSR activities (for which CSR spending is mandatory) demonstrated a negative relationship between CSR expenditure and profitability, indicating that more spending does not yield profits to these companies. CSR has a detrimental influence on FP in India, according to Babalola (2012), Folajin et al. (2014), and Sekhon and Kathuria (2019). They claimed that increasing CSR spending would reduce shareholder value. Lee and Park (2010) discovered no statistical evidence that CSR had an impact on airline accounting performance in the short or long term. Matuszak and Rozanska (2019) found no statistically significant association between CSR and FP in Polish banks. Due to decreasing devotion and spending on CSR activity, Akinleye and Faustina (2017) identified no significant (positive/negative) link between CSR and profit after tax of multinational corporations. According to Mulyadi and Anwar (2012) and Kiran et al. (2015), CSR has minimal impact on business profitability.

Previous research found a favourable or no relationship between CSR and GM. Awan and Saeed (2015) and Paul and Devi (2016) have shown that organisations that participate in

CSR activities have a better reputation, increased sales, and increased profitability in addition to delighting consumers. In the hotel and restaurant businesses, Assaf et al. (2017) discovered a positive and substantial association between CSR and sales and advertising costs. Firms with a greater degree of CSR experience increased sales with lower advertising expenditures, which contributes to the firm's total growth. According to Kapoor and Sandhu (2010) and Wu et al. (2020), there is no substantial association between growth and CSR, which likely impacts investors' decisions to invest in businesses.

Matar, Ali & Al-Rdaydeh, Mahmoud & Odeh, Mohammad. (2018). The influence of macroeconomic and firm-specific variables on corporate performance was investigated. The review was conducted using a sample of Jordanian industrial and service enterprises between 2007 and 2016. Macroeconomic elements such as GDP, inflation rate (INF), and interest rate (IR) have been used to illustrate macroeconomic factors, whilst company particular factors such as firm size, financial leverage, investment, liquidity, and sales growth have been used to demonstrate firm-specific factors. It has been established that, while IR does not influence firm success, GDP and INF do. Only the accounting-based metric ROA has been influenced by characteristics specific to each organisation. As a result, our studies have confirmed what is already known about the organisational performance of listed Jordanian enterprises. A solid understanding of this information will enable the execution of policies for achieving and supporting economic growth. In another study, Matar, Ali & Alshannag, Fadi & Al-Rdaydeh, Mahmoud. (2020). examines the link between Corporate Social Responsibility (CSR) Spending and Financial Performance (FP) in both directions for a sample of 164 Jordanian enterprises registered on the stock exchange. The dynamic panel system GMM measurement was applied, and the results demonstrate that CSR expenditure and accounting-based metrics have beneficial connections. In contrast, there are no links between CSR spending and market-based metrics. The findings indicated that Jordanian-listed enterprises have a lot of room for improvement when it comes to exposing their CSR operations in multiple dimensions, which might help the Jordanian government with its continuing economic and social reform agenda.(Matar et al., 2020)

H₀₁: There is no significant impact of Corporate Social Performance in terms of average spending on operating profit.

H₀₂: There is no significant impact of Corporate Social Performance in terms of average spending on net profit

RESEARCH METHODOLOGY

The present research is a descriptive one. Statistics on corporate social performance and its various indicator during the period (from 2015 to 2021) along with selected performance indicators variables were utilized to study the trends to examine the magnitude and dimensions of corporate social performance of small-cap, mid-cap and large-cap companies, the relevant literature such as articles, published books and reports including RBI and SEBI sources were consulted. The analysis of corporate social performance and its dimensions will be macro industry level. However, to get insights into the various dimensions of corporate social performance and its awareness and its influence in improving firm performance, a comparative analysis of the corporate social performance of small-cap, Mid Cap and large-cap companies listed in BSE and NSE will be attempted. The study is descriptive research based on the collection of secondary data.

SAMPLE AND DATA COLLECTION

The present study was designed to be a narrative study with appropriate analytical discussions presented in tune with the proposed objectives. Data collected from different listed companies from government websites (www.csr.gov.in). For the present purpose, 90 Small Cap, Mid Cap and Large Cap (30 each) companies of different industries listed in BSE and NSE have been selected purely considering the corporate social performance based on the CSR spending of the firms. The choice of a firm from each industry was done on a random basis. Accordingly, 30 small-cap, 30 mid-cap and 30 large-cap companies from the public and private sectors have been selected and performance figures from 2015-2021 of these firms have been used for the comparative analysis. Averages of the variables have been taken for the sample period of seven years ranging from 2015 to 2021.

MEASURING IMPACT OF CORPORATE SOCIAL PERFORMANCE ON PROFITABILITY

Regression Model

Regression has employed to examine the relationship between Corporate Social Performance (independent variable, which is express in terms of corporate social spending) and profitability (dependent variable- operating profit and net profit).

HYPOTHESIS TESTING AND INTERPRETATION OF RESULTS

Impact of Corporate Social Performance on Operating Profit

To examine the impact of CSR spending/performance on operating profit. This study has applied regression model, which has profitability (operating profit) as indicator of dependent variable and CSP as independent variable. It has been hypothesized that, “*There is no significant impact of CS performance in terms of average spending on operating profit*”. The set hypothesis has been tested at 5 % level of significance. Analysis and interpretation is given in table 1 to table 3

Table 1 Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .763 ^a | .582 | .578 | 7681.70079 |

a. Predictors: (Constant), Average Spending
Source: Prepared by Authors (2023)

Table 2 ANOVA Statistics

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|-----------------|----|----------------|---------|-------------------|
| 1 | Regression | 7240038588.932 | 1 | 7240038588.932 | 122.695 | .000 ^b |
| | Residual | 5192750377.175 | 88 | 59008527.013 | | |
| | Total | 12432788966.107 | 89 | | | |

a. Dependent Variable: Average Operating Profit
b. Predictors: (Constant), Average Spending
Source: Prepared by Authors (2023)

Table 3 Regression Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|------------------|-----------------------------|------------|---------------------------|--------|-------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1779.850 | 885.728 | | 2.009 | 0.048 |
| | Average Spending | 62.471 | 5.640 | 0.763 | 11.077 | 0.000 |

a. Dependent Variable: Average Operating Profit
Source: Prepared by Authors (2023)

Table 1. Indicates the model summary. The power of a model is represented by the value of R^2 (R Square). It is the degree of variance in the dependent variable that the independent variable explains and is always between 0 and 1. As the R^2 increases, the model explains more

variation in the data and becomes more accurate at prediction. A low R^2 indicates that the model does not fit the data well and that an independent variable does not adequately explain variance in the dependent variable. The R-square value is shown. 582. It shows that average spending's explain 58.2 percent of the variation in the dependent variable i.e. 'operational profit'. Table 5.30 displays the total model fit results. The table investigation revealed that the p value is 0.000, which is less than level of significance 0.05. On the basis of the outcomes this study concluded that the model is overall fit statistically. More precisely stating, determinant has a significant impact on operating profit.

The information presented in table 2 indicates the one-way ANOVA value of F in the model. ANOVA (**Analysis of Variance**) is a framework that forms the basis for tests of significance & provides knowledge about the levels of variability within a regression model. It is the same as Linear Regression but one of the major differences is **Regression** is used to predict a continuous outcome on the basis of one or more continuous predictor variables. The F-statistic is calculated as regression Mean Square or residual Mean Square. This statistic indicates whether the regression model provides a better fit to the data than a model that contains no independent variables. In essence, it tests if the regression model as a whole is useful. If the *P* value is less than the significance level, there is sufficient evidence to conclude that the regression model fits the data better than the model with no predictor variables. This finding is good because it means that the predictor variables in the model actually improve the fit of the model. In general, if none of the predictor variables in the model are statistically significant, the overall *F* statistic is also not statistically significant. The value of *f* in the table 2 presented in less than 0.05. And hence it is concluded that regression model provides a better fit to the data than a model.

Coefficients of the predictor and test statistics of the model are revealed in table 3. Results indicated that coefficient of predictor variable 'average spending's on corporate performance' (Beta = .763, *t* = 11.077 and *p* = 0.000) show a strong relationship between average social spending and operating profit of the enterprise. Based on the outcomes of the regression model, this study concluded that there is a significant impact of corporate social performance on operating profit of the enterprises. Results of the regression model rejected the null hypothesis.

Impact of Corporate Social Performance on Net Profit of the Enterprise

To examine the impact of CSR spending/performance on net profit. This study has applied regression model, which has profitability (net profit) as indicator of dependent variable and CSR spending as independent variable. It has been hypothesized that, “*There is no significant impact of CS performance in terms of average spending on net profit*”. The set hypothesis has been tested at the 5 % level of significance. Analysis and interpretation is given in table 4 to table 6

Table 4 Shows the R Square value 0.712. It indicates that 71.2 percent variation in the dependent variable ‘net profit’ is explained by predictor variable average CSR spending.

Table 4 Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|--------------------|----------|-------------------|----------------------------|
| 1 | 0.844 ^a | 0.712 | 0.709 | 3483.72312 |

a. Predictors: (Constant), Average_Spendings

Source: Prepared by Authors (2023)

ANOVA results of overall model fit are revealed in table 5 indicates that that the p value is 0.000, which is less than the level of significance 0.05. Based on the outcomes this study concluded that the model is overall fit statistically.

Table 5 ANOVA^a

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|------------|----------------|----|----------------|---------|-------------------|
| 1 | | | | | |
| Regression | 2637584999.158 | 1 | 2637584999.158 | 217.330 | .000 ^b |
| Residual | 1067996758.515 | 88 | 12136326.801 | | |
| Total | 3705581757.672 | 89 | | | |

a. Dependent Variable: Average_Net_Profit

b. Predictors: (Constant), Average_Spendings

Source: Prepared by Authors (2023)

Coefficients of the predictor and test statistics of the model are revealed in table 6. Results indicated that coefficient of predictor variable ‘average corporate social spending’ (Beta = .844, t = 14.742 and p = 0.000), show a strong relationship between average corporate social spending’ and net profit of the enterprises. Based on the outcomes of the regression model, this study concluded that there is a significant impact of corporate social performance on net profit of the enterprises. Results of the regression model rejects the null hypothesis.

Table 6 Regression Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|-------|-------------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 547.631 | 401.686 | | 1.363 | .176 |
| | Average_Spendings | 37.706 | 2.558 | .844 | 14.742 | .000 |

a. Dependent Variable: Average_Net_Profit

Source: Prepared by Authors (2023)

CONCLUSION

The present study has provided the basis on which we can establish the argument that corporate social performance has a positive impact on profitability of the company. As we know that a corporate is working within the society. And corporate and society both are complementary to each other in the sense that society has provided that resources to business, business organization has also provided the avenue for the different stakeholders of the society, so that they can earn something in turn like share in profit i.e. dividend, better product quality and service, more environment friendly technologies, which lead towards the better firm reputation and better firm reputation is lead to more loyal customer. As we know in advance that more loyal customer is the key for the better financial performance i.e. profitability. But in this direction corporations need support from the government in terms of more robust policies regarding the corporate social expenditure and further encouragement like different tax policies for the socially responsible firms.

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