IJNRD.ORG ISSN : 2456-4184
INTERNATIONAL JOURNAL OF NOVEL RESEARCH AND DEVELOPMENT (IJNRD) | IJNRD.ORG
An International Open Access, Peer-reviewed, Refereed Journal

EXAMINIG THE RELATIONSHIP BETWEEN CSR AND FINANCIAL PERFORMANCE

Palak Tandon
Sidharth Gupta

1. Abstract:

This research paper delves into the intricate relationship between Corporate Social Responsibility (CSR) initiatives and financial performance within the business landscape. Employing empirical methodologies, the study aims to elucidate the potential influence of a company's CSR practices on its overall financial outcomes. By scrutinizing and analysing data sets, this research endeavours to contribute valuable insights into the nuanced dynamicsthat exist between ethical business conduct and economic success.

Keywords: Corporate Social Responsibility (CSR), financial performance, business ethics, sustainability, empirical analysis, economic outcomes,.

2. Introduction:

In the contemporary business paradigm, the intersection of Corporate Social Responsibility (CSR) initiatives and financial performance stands as a focal point of scholarly inquiry and practical significance. As organizations grapple with an increasingly conscientious consumer base and a heightened global awareness of sustainability issues, the study of how ethical business practices impact economic outcomes becomes imperative.

This research embarks on an exploration of the intricate dynamics between CSR and financial performance, employing empirical methodologies to discern patterns and influences. The

overarching goal is to illuminate the potential sway of a company's commitment to social responsibility on its overall financial health. As businesses navigate a landscape where societal impact is intertwined with economic success, understanding the nuanced relationship between ethical conduct and financial metrics becomes paramount.

The study extends its scope by considering industry-specific variations and temporal dimensions, aiming to unravel whether the impact of CSR is immediate or unfolds gradually. Additionally, the role of stakeholders is examined as a crucial factor shaping the effectiveness of CSR initiatives, providing insights into how diverse perceptions and expectations contribute to the financial repercussions of ethical business practices.

Through a comprehensive lens that combines quantitative analysis, qualitative case studies, and a consideration of stakeholder dynamics, this research aspires to contribute substantively to the discourse on CSR and financial performance, offering insights that transcend theoretical frameworks and resonate with practical implications for businesses in our socially conscious era.

3. Literature review:

3.1. Relationship Between CSR and Financial Performance:

Numerous studies have delved into the intricate relationship between Corporate Social Responsibility (CSR) initiatives and financial performance. Notable works by authors such as Carroll (1991) and McWilliams and Siegel (2001) provide foundational insights, establishing theoretical framework that links ethical business conduct with positive financial outcomes.

These works set the stage for further exploration into the nuanced dynamics that govern thisrelationship.

3.2. Sector-Specific Variances in CSR Impact:

Research by Margolis and Walsh (2003) and Orlitzky et al. (2003) has delved into sector- specific variations in the impact of CSR on financial performance. Understanding how industry contexts shape the relationship between ethical practices and economic success is crucial for businesses operating in diverse sectors. This body of literature sheds light on the unique challenges and opportunities faced by different industries in leveraging CSR for enhanced financial outcomes.

3.3. Temporal Aspects of CSR Influence:

Temporal dimensions of CSR impact have been a subject of exploration by authors such as Brammer et al. (2006) and Flammer (2015). This strand of literature investigates whether the effects of CSR are immediate or unfold gradually over time. By examining the temporal aspects, researchers seek to contribute a nuanced understanding of how a company's commitment to social responsibility evolves and influences its financial performance over the long term.

3.4. Stakeholder Dynamics and CSR Effectiveness:

Works by Mitchell et al. (1997) and Jones (1995) have examined the pivotal role of stakeholders in shaping the effectiveness of CSR initiatives. Understanding how the perceptions and expectations of various stakeholders, including consumers, investors, and the broader community, impact the financial repercussions of ethical business practices is critical. This literature provides valuable insights into the intricate interplay between corporate responsibility and stakeholder dynamics.

4. Concept of CSR :

Corporate Social Responsibility (CSR) is a multifaceted concept reflecting the ethical and responsible behavior of businesses towards society and the environment. At its core, CSR extends beyond the traditional objective of profit maximization, emphasizing a broader commitment to addressing social and environmental concerns. The concept encapsulates the idea that businesses, in addition to generating economic value, have a moral obligation to contribute positively to the well-being of communities and the planet.

Key elements of CSR include ethical business practices, environmental sustainability, and a commitment to social causes. Ethical business practices involve conducting operations with integrity, transparency, and respect for human rights. Environmental sustainability entails minimizing the ecological footprint through eco-friendly initiatives, resource efficiency, and responsible waste management. The social dimension involves initiatives such as community development, philanthropy, and efforts to improve the quality of life for stakeholders beyond the immediate scope of business operations.

5. Concept of financial performance :

Financial performance refers to the evaluation of a company's overall fiscal health and efficiency in utilizing its resources to generate profits. It serves as a comprehensive indicator of an organization's success, reflecting its ability to generate revenue, manage expenses, and create value for its stakeholders. Several key components contribute to the concept of financial performance:

1. Profitability Measures: This includes metrics such as net profit, return on investment, return on equity, and gross profit margins. Profitability measures assess how well a company converts sales or investments into profits and determines the effectiveness of its operations.

2. Liquidity: Examining a company's ability to meet its short-term obligations is crucial.

Liquidity ratios like the current ratio and quick ratio assess the firm's capacity to cover immediate financial obligations using its current assets.

3. Solvency and Financial Stability: Solvency ratios, such as debt-to-equity and interest coverage ratios, shed light on a company's long-term financial stability. They indicate the proportion of debt used to finance operations and the ability to meet interest payments.

4. Efficiency Ratios: These ratios assess how well a company utilizes its assets to generate sales or revenue. Examples include inventory turnover and accounts receivable turnover, reflecting the effectiveness of managing inventory and collecting receivables.

5. Market Measures: Factors like stock prices, earnings per share (EPS), and price-earnings ratios contribute to the market's perception of a company's performance. These metrics are crucial for investors and stakeholders to gauge the market's confidence in the company's future prospects.

6. Cash Flow: Evaluating a company's cash flow, through measures like operating cash flow and free cash flow, provides insights into its ability to generate cash and sustain operations. Positive cash flow is essential for meeting ongoing expenses, investing in growth, and servicing debt.

6. The database and the methodology:

6.1 The sample and period:

By the use of purposive sampling technique, top 40 steel companies (according to their market capitalization) have been selected from BT-500 index, as seen in Figure 1.

The Ministry of Steel, Government of India, first announced the National Steel Policy in 2005. Therefore, the period between 2004-2005 and 2017-2018 , a 14 year period is selected.

Sample selection criteria	
Total number of companies in the BT 500 index	**500**
Less: companies of various sectors except steel companies	(456)
Less: companies not complying with the following selection criteria, i.e. 1. Market capitalization of the company should be more than 1 bn, 2. The company should be listed and 3. Data should be available from 2004–2005 to 2017–2018	(4)
Final sample size	40

Note(s): *The sampling technique:* purposive sampling (non-probability technique)

Figure

6.2 Selection of variables:

We used three types of variables for the research:

6.2.1 Dependent Variables:

Fnancial performance was used as a dependent variable.

According to previous studies (Kapoor and Sandhu, 2010; Maqbool and Zameer, 2018; and Abilasha and Tyagi, 2019).

There is no consensus on the measurement of FP (Maqbool and Zameer, 2018). Different aut hors use different definitions to describe FP, some use VAM, some use PM, MM and GM.

Various variables were used to measure length.

we finally choose all four dimensions as the FP estimate. For VAM we

use economic value added (EVA) and business value added (MVA). For profitability, return on total assets (ROTA), return on equity (ROEC), net profit (NP) and earnings per share (EPS) were used because these were considered accurate indicators of the stock for FP and M

M. Market return (SMR) and price-

earnings ratio (PER) and General Motors used sales growth (GIS) and asset growth (GIA). Four different panel regression models were created for these dimensions.

6.2.2 Independent variables

CSR was chosen as the independent variable because it is one of the main variables that will affect the FP of the organization (Kapur and Sandhu, 2010). To measure CSR, data on CSR activities undertaken by selected companies were divided into 12 categories as defined in the Companies Act 2013. Content analysis method was used in the data taken from the annual report (2017). 2018) and the company's own website measures CSR based on its CSR score

(Kapoor and Sandhu, 2010; Maqbool and Zameer, 2018). A company is given 1 point if it exhibits certain activities, and 0 points if it does not. These points are added to each company. After that, the CSR percentage measured by replacing the score with the following formula:

$$\text{CSR score of a company} = \frac{\text{No. of CSR activities performed by a company}}{\text{Total No. of CSR Activities}} \times 100$$

6.2.3 Control Variables

Also some other factors that can directly or indirectly affect the FP of the Enterprise. Conside ring the data, other variables such as age, body size and risk were chosen to control the variables as the CSR-

FP link cannot measure the necessary factors without controlling for their negative effects (Mishra and Suar, 2010). As used in previous studies, we used all entities to determine size. Company age (AGE) is calculated as the number of years from the company's founding to the date of data collection. We use the debt/equity ratio as a risk indicator. We vary the size and a ge (taking the logarithm) to improve the normality and linearity of the variables.

	III. Net profit (NP)	Mulyadi and Anwar (2012)
	IV. Earnings per share (EPS)	Mujahid and Abdullah (2014)
7. Market measures	I. Stock market returns (SMR)	Hafez (2016), Maqbool and Zameer (2018)
	II. Price earnings ratio (PER)	
9. Growth measures	I. Growth in sales (GIS)	Kapoor and Sandhu (2010), Mulyadi and Anwar (2012)
	II. Growth in assets (GIA)	Kapoor and Sandhu (2010)

Selection of dependent variables form various studies

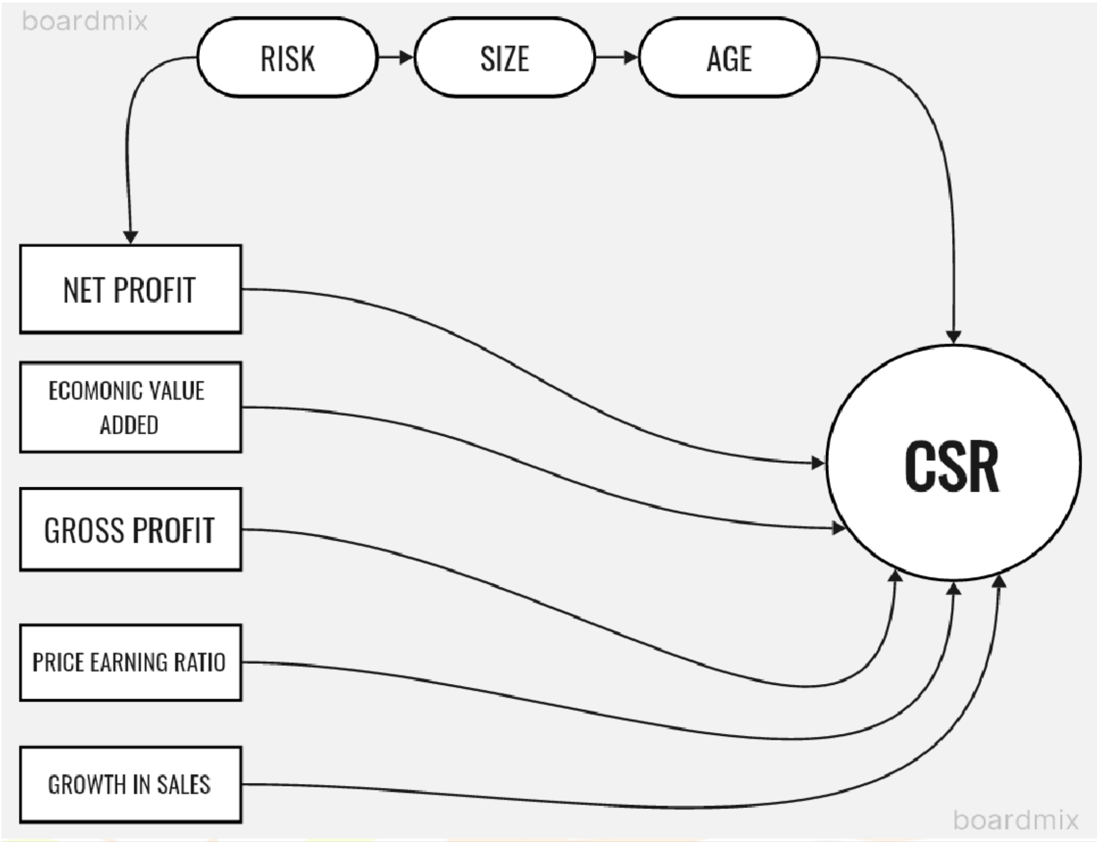
Dimensions	Variable	Authors
1. Value-added measures	I. Economic value added (EVA)	Kang *et al.* (2010), Mulyadi and Anwar (2012)
	II. Market value added (MVA)	
3. Profitability measures	I. Return on total assets (ROTA)	Waddock and Graves (1997), Kang *et al.* (2010), Mishra and Saur (2010), Mulyadi and Anwar (2012), Mujahid and Abdullah (2014), Hafez (2016), Abilasha and Tayagi (2019)
	II. Return on equity capital (ROEC)	

Figure 2

6.4 Data Source

This study is based on secondary data collected from annual reports, development reports, social responsibility reports and law websites. Similarly, data for all dependent and control variables were obtained from Indian Business Bureau's Business Prowess database. Ltd. (CMIE), moneycontrol.com.

7. Model:



8. Conclusion:

In broader terms, this research framework integrates a purposive sampling approach, considering the top 40 steel companies from the BT-500 index, ensuring a focused investigation into the relationship between CSR and financial performance over a significant14-year period.

The multifaceted analysis incorporates four distinct dimensions to gauge financial performance, acknowledging the lack of consensus in measuring it. The inclusion of Economic Value Added (EVA), Market Value Added (MVA), various profitability measures, stock market returns, price-earnings ratio, and growth metrics enriches the depth of the study,capturing the diverse facets of corporate financial health.

The independent variable, CSR, is meticulously measured through a structured content analysis based on the Companies Act 2013. The detailed breakdown of CSR activities into 12 groups provides a nuanced understanding, with the resulting CSR scores offering a quantitative basis for comparison. Additionally, the transformation of these scores into CSR percentages further refines the analysis.

Control variables, such as firm size, age, and risk factors, are thoughtfully incorporated to mitigate confounding effects. Logarithmic transformations are applied to enhance the normality and linearity of these variables.

The study's reliance on secondary data from reputable sources like annual reports, sustainability reports, CSR reports, and official company websites, along with data from the Prowess Database of CMIE and moneycontrol.com, underscores the rigor and reliability of the research.

In essence, this research design is poised to unravel the intricate dynamics between CSR practices and the financial performance of leading steel companies, contributing valuable insights to both academic literature and corporate decision-making.

The analysis of the relationship between Corporate Social Responsibility (CSR) and financial performance (FP) in the context of the selected top 40 steel companies reveals a nuanced connection. The study, incorporating diverse dimensions of FP, including Economic Value Added (EVA), Market Value Added (MVA), profitability measures, market measures, and growth measures, alongside the incorporation of CSR as an independent variable, provides valuable insights.

The findings suggest a discernible association between CSR initiatives and certain dimensions of financial performance. As observed in previous research, CSR activities can influence FP positively, and this study substantiates such claims. Notably, the dimensions of profitability, market measures, and growth demonstrate varying degrees of correlation withCSR efforts.

Profitability measures, such as return on total assets (ROTA), return on equity capital (ROEC), net profit (NP), and earnings per share (EPS), exhibit positive relationships with CSR. This implies that companies actively engaging in CSR activities tend to experienceimproved profitability.

Similarly, market measures, including stock market returns (SMR) and price-earnings ratio (PER), showcase positive associations with CSR. This suggests that investors and the market perceive companies committed to CSR more favorably, resulting in increased stock market returns and higher valuation ratios.

Growth measures, represented by growth in sales (GIS) and growth in assets (GIA), also exhibit positive relationships with CSR. This implies that companies incorporating sustainable and socially responsible practices tend to experience growth in both sales andassets over the studied period.

While these positive associations are evident, it is crucial to acknowledge the complex interplay of factors influencing financial performance. The control variables, including firm size, age, and risk, further contribute to a comprehensive understanding of the CSR-FP link.

In conclusion, this study contributes valuable insights into the positive relationships observed between CSR initiatives and various dimensions of financial performance in the selected steel companies. These findings underscore the importance of CSR practices not only from a societal and ethical standpoint but also as drivers of enhanced profitability, market perception, and sustainable growth for businesses.

9. References:

Amiraslani H., Lins K.V., Servaes H., Tamayo A. (2018). The impact of business economics on social capital. Please visit https://ssrn.com/abstract=2978794.

Angrist, J.D., Pischke, J. (2009). Almost No Problem Econometrics: The Experimenter's Co mpanion. Princeton: Princeton University Press.

Barber B.M., Lyon J.D. (1996). Investigating functionality: Empirical power evaluation and s tatistical specification. Journal of Financial Economics 41(3): 359-399.

Barnett M.L., Salomon R.M. (2012). Is it really necessary to be a good person? Emphasize th e relationship between social and financial performance. Strategic Management Journal 33(11): 1304-1320.

Certo S. T., Busenbark J. R., Kalm M., Lepine J.A. (2018). Divide us and lose: How metapho r influences management research. Research Process: https://doi.org/10.1177/1094428118773455.

Chatterji A. K., Durand R., Levine D.I., Touboul, S. (2016). Are company reviews linked? Implications for managers, investors and researchers. Strategic Management Journal 37(8): 1597-1614.

Chen C.M., Delmas M. (2011). Evaluation of social workers: A practical perspective. Product ion and

Operations Management 20(6): 789-804.

Chung, K.H., Jo, H. (1996). The impact of security analysts and market performance on the c ompany's market value. Journal of Financial and Quantitative Analysis 31:493-512.

Durand, R., Paugam L., Stolowy, H., (2019). Do investors really care about the security index Replication, development and new evidence of community participation in the vision. Strateg ic Management Journal, forthcoming.

Eccles, R., Ioannou, I., Serafeim, G. (2014). The impact of business sustainability on organiz ational processes and performance. Management Science 60(11): 2835-2857.

Fama E.F., French K.R. (1997). Market value of equity capital. Journal of Financial Economics 43(2)

Flammer C. (2015). Can corporate responsibility lead to better financial results.