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The Impact of Corporate Social Responsibility Expenditure on Firm Profitability: An Examination of the IT and Pharmaceutical Sectors in India

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Abstract: ***This study delves into the relationship between Corporate Social Responsibility CSR expenditure and firm profitability, focusing on the IT and Pharmaceutical sectors in India. The research utilizes secondary data from corporate sustainability reports and annual reports of companies listed on the Bombay Stock Exchange BSE and the National Stock Exchange NSE from 2014 to 2022. The study reveals a statistically significant correlation between CSR expenditure and Return on Asset ROA in the IT sector, while no such correlation is observed in the Pharmaceutical sector. The findings suggest that the impact of CSR expenditure on firm profitability varies across sectors, and further research is needed to understand the underlying factors influencing this relationship.***

Keywords: Corporate Social Responsibility, Firm Profitability, IT Sector, Pharmaceutical Sector, India

1. Introduction

In the existing body of research, a number of studies have been conducted to investigate the importance of corporate social responsibility by analysing how different CSR activities of a company affect the financial results of that company (Sardanaet al.). It should not come as a surprise that corporate social responsibility (CSR) is frequently viewed as a strategic weapon for the purpose of gaining reputational credibility and increasing the market viability of the organisation, which ultimately contributes to the financial success of that company (Kim, 2019). In spite of the fact that it is essential to determine whether or not there is a favourable correlation among Corporate social responsibility and financial success in an Indian environment. Emerging economy manufacturing firms are likely to receive favourable perceptions from international customers for their engagement in sustainability initiatives (Gao et al., 2010). According to Section 135 of the Companies Act 2013, it is mandated that companies allocate a minimum of 2 percent of the average net profit they make from the three that preceded financial years towards the execution of their Corporate Social Responsibility.

Over the past five decades, there has been a predominant focus on examining corporate social responsibility (CSR) within developed economies in scholarly research. Corporate Social Responsibility (CSR) has gained considerable interest in recent years, particularly in the realm of developing economies (Murthy, 2008). Therefore, it is imperative to analyse the corporate social responsibility (CSR) initiatives undertaken by companies and investigate the potential connections, if any, between the CSR strategies implemented by organisations and their financial performance.

This article is broken up into a few different parts for your convenience. The following part offers a few perspectives into the academic research that has been done in the field of corporate social responsibility and the performance of companies. The next part is a section that describes the goals, which comes after this one. The next part provides an overview of the approach, which follows shortly thereafter by the analysis and the findings. The next two parts discuss possible avenues for further study as well as the management implications of those findings.

2. Literature Review

This review of the research literature focuses on recent and older studies that have been conducted on corporate social responsibility and corporate profitability. There have been a number of studies conducted on the effect that corporate social responsibility has on a company's earnings. The purpose of this section is to highlight some relevant and important studies regarding corporate social responsibility (CSR) and business performance.

Garg et al. (2021), study the need for companies in India to make CSR expenditures? This research demonstrates that necessary corporate social responsibility (CSR) expenditure is not necessary for India's companies as shown by the not significantly advantageous impact of compulsory corporate social responsibility (CSR) expenses in affecting stock returns. This conclusion indicates that required CSR spending is not useful to India's businesses. The market does not place a large amount of value on the mandated CSR expenditures that listed companies must make, and it considers these expenditures to be in conflict with the interests of investors.

Bhullar (2021), explores the relationship between a company's operational efficiency and its market value. This research tests the influence of operational performance on firm value for pharmaceutical sector and FMCG has been explored. In the pharmaceutical industry, the statistics of fixed asset turnover ratio and Net Profit Margin reveal a negative link with enterprise value, however, in the FMCG industry, enterprise value/Sales and fixed asset turnover ratio have portrayed a situation that is quite similar to this one.

Mishra and Suar (2010), examined the impact of corporate social responsibility on the profitability of Indian businesses. The presence of stock - listing position has a positive impact on corporate social responsibility (CSR), as it indicates that firms subject to regular monitoring by multiple stakeholders tend to exhibit a greater commitment to corporate social responsibility than do non - listed companies. An augmentation in the overall corporate social responsibility (CSR) positively impacts the operational effectiveness of a firm. The implementation of a positive corporate social responsibility (CSR) strategy towards customers has been found to have a positive impact on the profitability of both for - profit firms and not - for - profit organisations (NFPs).

Garg and Gupta (2020), study investigates the efficacy of private as well as public firms operating within the essential corporate social responsibility (CSR) spending system in India. Firms operating in the public sector that adhere to the obligatory corporate social responsibility (CSR) expenditure mandate exhibit diminished firm performance. Moreover, there is little variation in company performance between the private - sector companies which satisfy the required Corporate Social Responsibility (CSR) spending criteria and those that do not meet the requirement.

Mitra (2021), check the influence of strategic planning and corporate social responsibility on the overall performance of Indian companies in the post - mandate era. It has been verified that Corporate Social Responsibility has an influence that is not only good but also considerable on Firm Performance. Although CSR Management, Industrial Standards, and CSR Intent all have a favourable influence on (Variable) CSR and Firm Efficiency, the connections between these three factors are not statistically significant.

Data and Research Methodology

Secondary data are gathered covering the intent of this research from corporate sustainability reports and annual reports of companies in the pharmaceutical and information technology industries that are listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) for the eight years spanning from 2014 to 2022. The annual report is utilised as a tool for evaluating how much money was spent on CSR and how well the company did overall. The research period is restricted to a maximum of eight years due to the fact that the majority of Indian businesses just began reporting on responsibility concerns beginning in 2013–2014 as a result of the new companies' legislation of 2013.

Measurement of Variables

The Return on Asset is being utilised as a measurement of company performance, hence it is the dependent variable in this particular research. The amount spent on CSR projects will serve as the independent variable in this investigation (Sardana et al.).

3. Data and Analysis

The information on the firms' levels of profitability and the different CSR initiatives that were carried out by the company was extracted from their annual reports. It is often held that sentences supply additional research with evidence that is comprehensive, significant, and trustworthy.

(i) Correlations of IT Industry.

The present analysis aims to examine the relationship between corporate social responsibility (CSR) expenditure and the return on assets (ROA) within the information technology (IT) sector. The results indicate a low positive correlation, as evidenced by the coefficient r =.397. This correlation is deemed significant due to its statistical significance at the p < 0.01 level.

		CSR Spending (CR.)	Return on Asset
CSR Spending (CR.)	Pearson Correlation	1	.397**
	Sig. (2 - tailed)		<.001
	N	80	80
Return on Asset	Pearson Correlation	.397**	1
	Sig. (2 - tailed)	<.001	
	N	80	80
**. Correlation is significant at the 0.01 level (2 - tailed).			

(ii) Regression of IT Industry.

The findings suggest a modest positive correlation, as indicated by the coefficient r =.397 and R^2 =.157 represents the magnitude of the change in return on assets, denoted as a percentage of 15.7%, which can be attributed to the expenditure on corporate social responsibility initiatives. The significance of R^2 is noteworthy due to the fact that the p - value is less than 0.001.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.397[a]	.157	.146	5.52959
a. Predictors: (Constant), CSR Spending (CR.)				

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	445.128	1	445.128	14.558	<.001[b]
	Residual	2384.960	78	30.576		
	Total	2830.088	79			
a. Dependent Variable: Return on Asset						
b. Predictors: (Constant), CSR Spending (CR.)						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	18.019	0.775		23.257	<.001
	CSR Spending (CR.)	0.015	0.004	0.397	3.815	<.001

a. Dependent Variable: Return on Asset

(i) Correlations of Pharmaceutical Industry.

The present analysis aims to examine the relationship between corporate social responsibility (CSR) expenditure and the return on assets (ROA) within the Pharmaceutical sector. The results indicate a negligible neagtive correlation, as evidenced by the coefficient r = - .084. This correlation is deemed non - significant due to its statistical significance at the $p > 0.01$ level.

(ii) Regression of Pharmaceutical Industry.

The findings suggest a negligible negative correlation, as indicated by the coefficient r =.084 and R^2 =.007 represents the magnitude of the change in return on assets, denoted as a percentage of.7%, which can be attributed to the expenditure on corporate social responsibility initiatives. The significance of R^2 is not worthy due to the fact that the p - value is more than 0.001.

Correlations			
		CSR Spending (CR.)	Return on Asset
CSR Spending (CR.)	Pearson Correlation	1	-0.084
	Sig. (2 - tailed)		0.458
	N	80	80
Return on Asset	Pearson Correlation	-0.084	1
	Sig. (2 - tailed)	0.458	
	N	80	80

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.084[a]	0.007	-0.006	7.9517
a. Predictors: (Constant), CSR Spending (CR.)				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.248	1	35.248	0.557	.458[b]
	Residual	4931.952	78	63.23		
	Total	4967.2	79			
a. Dependent Variable: Return on Asset						
b. Predictors: (Constant), CSR Spending (CR.)						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11.559	1.303		8.872	<.001
	CSR Spending (CR.)	-0.038	0.051	-0.084	-0.747	0.458
a. Dependent Variable: Return on Asset						

4. Conclusion and Limitations

The observed correlation between Return on Asset (ROA) and Corporate Social Responsibility (CSR) is found to be statistically significant within the context of the Information Technology (IT) sector. However, this relationship does not exhibit statistical significance within the pharmaceutical sector. It can be posited that a dearth of empirical evidence exists to substantiate the existence of a causal relationship between Corporate Social Responsibility (CSR) and Return on Assets (ROA). In future iterations, it would be prudent to expand the scope of this study by incorporating multiple sectors, as the current investigation is confined solely to two industries. In addition, it is imperative to take into account various factors in order to assess the impact on Return on Assets (ROA) or overall firm performance.

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