



## ROLE OF CSR EXPENDITURE IN FINANCIAL PERFORMANCE OF TOP IT COMPANIES IN INDIA: A PRE-, DURING AND POST- PANDEMIC STUDY

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### Abstract

Understanding CSR's impact on finance performance is becoming increasingly important, at an era where Corporate Social Responsibility has become a requirement rather than choice. This study will focus on this critical aspect, during the financial years 2019-2023 which includes pre-, during and post pandemic times. The focus is primarily on India's Top 5 IT companies, namely TCS, Infosys, Wipro, HCL Technologies and Tech Mahindra. The study examines the role of CSR expenditure in the key financial performance indicators such as Sales, Net Profit and Return on Equity (ROE). It also studies the focus areas of CSR expenditure during pre-, during and post-pandemic times. The study will use correlation and regression analysis to determine the relationship between CSR expenditure and financial performance of the above-mentioned companies. The findings of the study will contribute to the companies in helping them to identify the CSR expenditure areas that are most likely to have a positive effect on the financial performance. The findings can also be used by policy makers to create policies promoting CSR and creating a more supportive environment for businesses which take on social responsibility.

**Keywords:** CSR Expenditure, Pandemic, Net Profit, Sales, ROE.

### 1.1 introductions

The significance of Corporate Social Responsibility (CSR) in influencing a company's financial outcomes has been a subject of considerable debate in recent times. This study seeks to investigate this correlation, specifically within the framework of India's leading Information Technology (IT) firms, with an emphasis on the timeframes pre, during, and post the COVID-19 pandemic.

India's IT sector, celebrated for its creativity and economic impact, has been deeply affected by the pandemic. This research will explore how these firms have utilized their CSR strategies during these difficult times and assess if these endeavours have resulted in any noticeable effects on their financial outcomes.

Evaluating financial performance and CSR spending is essential as it offers a glimpse into a company's operational efficiency and its commitment to societal welfare. Robust financial performance signifies a company's capacity to generate profits and offer returns to its shareholders. Conversely, CSR spending demonstrates a company's commitment to tackling social, environmental, and economic challenges, thereby boosting its standing and rapport with stakeholders.

CSR offers numerous advantages to the economy, the organization, and society at large. From an economic perspective, CSR initiatives can stimulate job growth and contribute to national revenue. For organizations, CSR can bolster brand perception, customer loyalty, and employee contentment. From a societal standpoint, CSR initiatives can address pressing issues such as poverty reduction, environmental preservation, and community growth.



By scrutinizing the CSR spending of these firms, this paper aims to shed light on the strategic value of CSR activities in contributing to societal welfare while also boosting corporate financial performance. The insights gained from this study could provide valuable lessons for other industries and regions on the potential advantages of aligning business strategies with social responsibility objectives.

This research will contribute to the ongoing discussion on the role of CSR in business strategy and performance, particularly in times of global crises.

## 1.2 Objectives of the research

- 1 To study the impact of CSR expenditure on financial performance on selected Indian IT companies.
- 2 To study the CSR expenditure areas during pre-during and post pandemic times.

## 2. Theoretical Review

Corporate Social Responsibility (CSR) is a self-regulating business model that assists companies in becoming socially accountable to themselves, their stakeholders, and the public.

Companies that practise CSR can be aware of the influence they have on all elements of society, including the economic, social, and environmental.

Environmental implications, ethical obligation, charitable endeavours, and financial duties are sometimes divided into four areas in CSR. It's a wide idea with several variations based on the organisation and sector. Businesses may improve society while enhancing their brands by implementing CSR programmes, charity, and volunteer actions.

To be socially responsible, a firm must first be accountable to itself and its shareholders. As a result, CSR is often a strategy pursued by major corporations. Small and medium-sized enterprises, on the other hand, develop social responsibility programmes, however such initiatives are rarely as extensively publicised as those of bigger organisations.

A significant body of research exists on the link between CSR spending and financial performance. However, the results are mixed. Some research discovered a favourable association between CSR spending and financial performance (Dr. Richa Gautam, Dr. Anju Singh, 2016), (Jacob Cherian, 2019), while others discovered little or even a negative relationship (Rupal Tyagi, 2013), (Kerstin Lopatta, Felix Canitz, Sebastian A. Tideman, 2022).

One possible explanation for the mixed results is that the relationship between CSR expenditure and financial performance is complex and depends on a variety of factors, including the type of CSR activities undertaken by companies, how they are implemented and measured, and the industry in which the companies operate.

Another possibility is that the link between CSR spending and financial performance has shifted over time. The COVID-19 epidemic, in particular, has resulted in a renewed emphasis on CSR, as businesses attempted to help their employees, communities, and other stakeholders during this tough period.



Carroll's four-dimensional CSR model is a popular framework for analysing the many sorts of CSR efforts. Economic, legal, ethical, and charitable are the four aspects. Carroll contended that businesses must engage in all four elements of CSR.

According to Friedman, firms' main social obligation is to maximise profits for their shareholders. He contended that CSR initiatives might divert attention away from this essential obligation and potentially undermine the economy as a whole.

According to Porter and Kramer, CSR may assist organisations financially by establishing new markets, lowering expenses, and improving distinctiveness. This method was dubbed "creating shared value."

## 1. Research Methodology

This research employs a quantitative and deductive methodology. Because the goal of the study is to analyse the link between CSR and financial success from a statistical standpoint, a quantitative method is deemed appropriate. Following a deductive method, according to Hyde (2000), indicates that a research process is built on current and established theory with the goal of verifying whether theory still applies.

### 3.1 Research Design

The correlational research design is used in this study. The most appropriate research design was chosen since the goal of this study is to investigate the link between CSR and financial success. A correlational research design, according to Kumar (2005), seeks to establish or investigate a link, association, or dependency between at least two aspects of a situation or event.

### 3.2 Sample Selection

The sample for this study consists of five top IT companies in India: Tata Consultancy Services (TCS), Wipro, Tech Mahindra, HCL, and Infosys. The time period considered for the research is pre-during, and post-pandemic years.

### 3.3 Data Collection

Secondary data was collected from the annual reports of the selected companies, available on their official websites. The data required for the study includes CSR expenditure, ROE, Net Profit, and Sales, for each company for each year during the study period.

### 3.4 Independent Variable

**CSR Expenditure** - The amount spent by the company on CSR activities in a particular year.

### 3.5 Dependent Variables

**Return on Equity (ROE)** - The net income of the company divided by shareholder's equity.

**Net Profit** - The net income of the company after all expenses have been deducted from revenues.

**Sales** - The total revenue generated by the company from its business activities.

## 2. Data Analysis

To examine the link between CSR expenditure and financial performance measures (ROE, Net Profit, Sales), data will be analysed using correlation analysis in MS Excel. The degree to which two variables move in respect to each other is measured by correlation analysis. The correlation coefficient is between -1 and +1. A number near +1 suggests a strong positive association, a value near -1



indicates a strong negative relationship, and a value near 0 shows no link. We also will use linear regression analysis in MS excel to determine how much of the variance in our dependent variables (ROE, Net Profit, and Sales) can be explained by our independent variable (CSR expenditure). A simple linear regression is a statistical procedure typically used to assess the connection between one dependent variable and one independent variable (Yan & Su, 2009). It may also assess the intensity and direction (positive/negative) of the association between the two variables (Nolan & Heinzen, 2014).

#### 4.1 Hypothesis

- There is a significant relationship between CSR expenditure of the selected Indian IT companies and their financial performance.
- The areas of CSR expenditure have significantly changed during the pandemic when compared to pre-pandemic times as a result of the changing needs of the society and expectations.
- The areas of CSR expenditure have continued to develop in the post pandemic times to show a long-term impact of pandemic on CSR.

### 5. Results & Discussions

#### 5.1 CSR Expenditure Trends

**Table 1: CSR Expenditure of Tech Mahindra**

Company	Year	CSR Expenditure (in crores)
Tech Mahindra	2018-2019	84.41
	2019-2020	118.11
	2020-2021	105
	2021-2022	108.6
	2022-2023	118.07

**Chart 1: CSR Expenditure of Tech Mahindra**



**Table 2: CSR Expenditure of TCS**

Company	Year	CSR Expenditure (in crores)
TCS	2018-2019	434
	2019-2020	600
	2020-2021	663



	2021-2022	727
	2022-2023	783

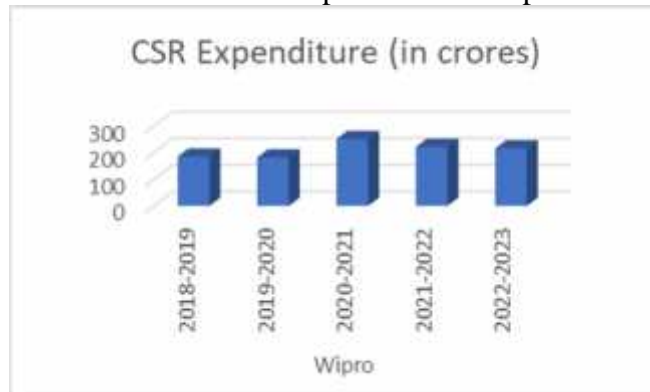
**Chart 2: CSR Expenditure of TCS**



**Table 3: CSR Expenditure of Wipro**

Company	Year	CSR Expenditure (in crores)
Wipro	2018-2019	185.3
	2019-2020	181.8
	2020-2021	251.2
	2021-2022	221.6
	2022-2023	215.7

**Chart 3: CSR Expenditure of Wipro**



**Table 4: CSR Expenditure of Infosys**

Company	Year	CSR Expenditure (in crores)
Infosys	2018-2019	342
	2019-2020	360
	2020-2021	362
	2021-2022	391.51
	2022-2023	391.51



**Chart 4: CSR Expenditure of Infosys**



**Table 5: CSR Expenditure of HCL**

Company	Year	CSR Expenditure (in crores)
HCL	2018-2019	175
	2019-2020	176.29
	2020-2021	195
	2021-2022	216
	2022-2023	216

**Chart 5: CSR Expenditure of HCL**



Table 1-5 represents the CSR expenditure of the IT companies during the period 2018 to 2023, denoting the pre, during and post pandemic times. Tech Mahindra and Wipro demonstrates a consistent CSR expenditure during the period while TCS and Infosys exhibits an increasing CSR expenditure during the same period. HCL also exhibits a gradual increase in CSR expenditure during the 5-year tenure.

## 5.2 Areas of CSR expenditure



From 2018 to 2023, below is an overview of Tech Mahindra, TCS, Infosys, Wipro, and HCL's CSR expenditure:

**Table 6: Areas of CSR expenditure of Top 5 IT CSR spending companies**

Company	Areas of CSR expenditure
Tech Mahindra	Education, employability, healthcare, rural development, environmental sustainability
TCS	Education, healthcare, rural development, environmental sustainability, skilling and vocational training, arts and culture
Infosys	Education, healthcare, environmental sustainability, skilling and vocational training, rural development, social welfare
Wipro	Education, healthcare, rural development, environmental sustainability, skilling and vocational training
HCL	Education, healthcare, rural development, environmental sustainability, skilling and vocational training, social welfare

The table 6 shows that in their CSR programmes, all five corporations have a heavy emphasis on education and healthcare. This is most likely because they are two of India's most essential sectors for social development. Education is critical for empowering individuals and assisting them in realising their full potential. Healthcare is also critical to raising the standard of living for all Indians.

Other than education and healthcare, all five corporations make significant investments in rural development and environmental sustainability. This maybe that these are two sectors of vital importance to India's future growth. Skill development and vocational training are also important areas of attention for all businesses. This is most likely due to an increase in the demand for qualified labour in the Indian Economy.

### 5.3 Correlation Result

**Table 7: Correlation matrix of CSR Expenditure and financial performance indicators**

	CSR Expenditure		
<b>Net Profit</b>	0.965214476	1	1
<b>Net sales</b>	1	0.870019268	1
<b>ROE</b>	1	1	0.83716715

The correlation study exhibited in table 7 reveals the relationship between the CSR Expenditure (independent variable) and financial performance (dependent variable) of top 5 IT CSR spending companies.

The correlation matrix shows a very high positive correlation between CSR and Net profit showing a value of 0.965.

Similarly, there is a high positive correlation between CSR expenditure and Net sales and CSR expenditure and Return on Equity with a correlation value of 0.87 and 0.837 respectively.



The results revealed a positive correlation coefficient which denotes that an increase in CSR expenditure corresponds to an increase in the financial performance (Shafat Maqbool M. Nasir Zameer, 2018), (Namita Rajput (India), Geetanjali Batra (India), Ruchira Pathak (India), 2012). The result supports past studies that report positive correlation.

#### 5.4 Regression Result

**Table 8: Linear Regression Analysis of CSR Expenditure & Net profit**

Multiple R	0.96348841
R Square	0.928309917
Adjusted R Square	0.925051277
Standard Error	3000.124411
Observations	24

**Table 8.1: Linear Regression Analysis of CSR Expenditure & Net profit**

	Coefficient	Standard Error	t Stat	P-value
Intercept	692.065	1159.33	0.59695	0.55663
84.41	52.9015	3.13429	16.8782	4.47313

**Table 9: Linear Regression Analysis of CSR Expenditure & Net Sales**

Multiple R	0.868674065
R Square	0.754594632
Adjusted R Square	0.743439842
Standard Error	26107.22386
Observations	24

**Table 9.1: Linear Regression Analysis of CSR Expenditure & Net Sales**

	Coefficient	Standard Error	t Stat	P-value
Intercept	32341.128	10088.57	3.2057	0.00408
84.41	224.330	27.275	8.2248	3.71492

**Table 10: Linear Regression Analysis of CSR Expenditure & ROE**

Multiple R	0.837229347
R Square	0.70095298
Adjusted R Square	0.687359933
Standard Error	5.810927925
Observations	24

**Table 10.1: Linear Regression Analysis of CSR Expenditure & ROE**

	Coefficient	Standard Error	t Stat	P-value
Intercept	11.12365	2.245508	4.9537	5.8933





84.41	0.043594	0.006070	7.1810	3.3779
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In the linear regression between CSR and net sales, the p-value is less than 0.05, which indicates that the explanatory variables and firm size have a statistically significant association with CSR and net sales.

The results revealed that expenditure on CSR in previous year results in increase in average sales in the next year also, the firms having quarter average sales spend more on CSR activities.

However, there is no significant association between explanatory variable firm size and ROE, Net profit, and CSR expenditure as p-value is greater than 0.05, implying that CSR Expenditure has no impact on net profit and ROE (Dr. Umakanta Nayak, Dr. Pramod Kumar Patjoshi, 2022), (Rita Kusumawati, Nurul Hilmi Asyilah, and Iskandar Bukhori, 2022).

## 6. Conclusion

This study evaluated the influence of CSR spending on the financial success of the top five IT CSR spending businesses in India from 2018 to 2023, spanning the pre-, during, and post-pandemic periods. The study found a favourable relationship between CSR spending and financial performance as evaluated by net profit, net sales, and return on equity. This implies that organisations who invest more in CSR do better financially.

The study also discovered that CSR spending in the previous year leads to an increase in average sales the following year. This shows that CSR spending can have a favourable influence on financial success in the future.

The study also discovered that in their CSR programmes, all five IT companies in the sample placed a strong emphasis on education and healthcare. This is probably owing to the fact that they are two of India's most crucial social development areas. Education is critical for empowering people and assisting them in reaching their greatest potential. Healthcare is also critical to improve the living standards of all Indians.

Apart from education and healthcare, all five corporations invested heavily in rural development and environmental sustainability. This is perhaps because these are two areas critical to India's future prosperity. Skill development and vocational training are also crucial areas for all businesses to focus on.

The study's findings imply that CSR spending may benefit both businesses and society. Companies may increase their financial success while simultaneously having a good influence on the communities in which they operate by engaging in CSR.

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