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Corporate Social Responsibility as a Strategic Tool: It's Effect on Financial Performance in Selected Corporate Sector in India

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ABSTRACT

Corporate social responsibility is a very important part of the business. According to the Companies Act 2013 in India, companies that meet particular standards need to allocate funds to fulfil their corporate social responsibility. This paper showcases the impact of CSR on the financial performance of selected Indian oil and natural gas companies. For this, three companies act as samples, and previous three years of secondary data were collected. The study found that CSR spending and the net profit of the company have a positive relationship, and CSR spending positively affects the net profit of the company. On the other hand, ROA and ROE of the selected companies are found to be negatively related to CSR spending. The impact of CSR may differ based on the nature, characteristics, and type of the company. How well the company implements CSR activities may affect the financial performance of the company.

***Keywords**: CSR, Corporate Social Responsibility, Financial Performance, Oil and Natural Gas Company.*

Introduction

Corporate social responsibility is an emerging term; a firm is responsible towards society and its stakeholders. Along with profit-making, each firm has to perform its social responsibility.

The phrase 'corporate social responsibility' is becoming more popular in this century. Most businesses allocate resources for CSR to fulfil the requirements of society. India is a developing country, and with the help of corporates, the development process of the country may become faster. It is important to understand that the major responsibility of the firm is not only fulfilling the profit-making objective. A firm should perform its social responsibility by being ethical and sustainable in society.

According to Schedule VII of the Act and the Companies (CSR Policy) Rules, 2014, companies that meet certain financial limits are required by Section 135 of the Companies Act, 2013 to allocate at least 2% of their average net profit from the previous three financial years in CSR initiatives.

If a company satisfies any of the following requirements in the financial year before, it is liable to CSR provisions:

- Net worth of ₹500 crore or more.
- Turnover of ₹1,000 crore or more.
- Net profit of ₹5 crore or more.

Businesses can become more responsible members of society by implementing Corporate Social Responsibility. Additionally, it helps businesses enhance their brand image, attract socially conscious investors and customers, and create stronger connections with their stakeholders.

According to UNIDO (United Nations Industrial Development Organization), a management concept known as 'corporate social responsibility' refers to how businesses incorporate social and environmental issues into their operations and relationships with stakeholders. In simple terms, corporate social responsibility is the process by which a business balances the demands of the economy, the environment, and society, also known as the Triple-Bottom-Line Approach, while simultaneously meeting the expectations of stakeholders and shareholders. This is why it's critical to distinguish corporate social responsibility, which can be a strategic business management idea, from charitable giving, sponsorships, and philanthropy; although the latter can also significantly reduce poverty and directly improve a company's image and reputation.

Review of Literature

There are numerous literatures existing in respect of the study of corporate social responsibilities. Here, the researcher has tried to examine few research studies which are related to the research problem.

(Emezi, 2015) Presents the study about impact of CSR on organizational profitability, author found that there is positive correlation between CSR investment and organizational profitability, study suggests that firm should implement CSR programs after consultation with stakeholders of the company and all organisations should make a long-term investment in corporate social responsibility (CSR) in accordance with their company goal and vision.

(Sharma & Kumar, 2020) this study analyse the impact of CSR on financial performance of 5 IT companies, study found that CSR does have positive relation with net profit of the company, so that it suggests that companies should spend more on CSR projects.

(Awan & Saeed, 2015) The objective of the study is to determine how corporate social responsibility affects the southern Punjabi ghee and fertiliser industry's financial performance. Study found that firm’s social responsibility influence firm’s financial performance, those companies who perform their CSR practices accordance of social, environmental, and work force oriented are CSR project implements are getting increase in sales revenue and high return on capital. Research proves that companies with a high level of corporate social responsibility (CSR) not only serve their customers pith their product or services but also improve their reputation, revenue, and profitability.

(Zhang & Liu, 2023) This study presents the impact of CSR on financial performance and brand value, it is based on listed Chinese companies and for analyses the impact regression analysis tool is used. Study found that CSR is positively correlate with financial performance and brand value. Study suggests that business should aware about their corporate social responsibility and consider factors like environment, social development and interest of shareholders. They should set approach for sustainability, CSR practices ought to be developed strategically rather than just for immediate gains.

(Kamatra & Kartikaningdyah, 2015) This study shows the effect of CSR on financial performance of mining and basic chemical industry companies of Indonesia which are listed on stock markets. To study the effect of CSR on financial performance researcher choose 24 samples from the population and it measured by profitability ratios including ROE, ROA and earning per share. Study found that CSR partially effect on ROA and net profit margin but it has no effect on ROE and EPS.

(**Resmi, Begum, & Hassan, 2018)**the study's primary goal is to clarify how corporate social responsibility (CSR) affects the financial performance (FP) of Bangladesh's agribusiness businesses over a three-year period from 2015 to 2017, The results showed that while return on assets (ROA) and earnings per share (EPS) had no noticeable impact on financial performance, return on equity (ROE) and net income have a major influence on financial performance. It suggests that it is still new term for the Bangladesh and it seems that the reports of CSR are under or over reported.

(Menezes, 2019) This paper showcase the impact of CSR on financial performance by using secondary data for 5 years of 10 companies. To measure the impact of CSR, Fixed Effect, Random Effect, and Independent Pooled OLS Regression methods were applied. The results showed that while ROA and EPS had no impact on CSR spending, net profit has a strong correlation with it. The study finds a favourable correlation between the firm's profitability and its CSR spending declarations therefore this article may helpful for investors for their investment decisions.

(Mulyadi, 2012) To analyse the impact of CSR towards firm value and profitability, author of this study selected 30 Indonesia Corporation as sample. To measure the impact of CSR double linear regression model and GRI model used. The study found that there is no significant relationship between CSR and firm value and no relationship between CSR and profitability.

Research Methodology

For the present study, three major oil and natural gas firms are selected, and data from the previous three years are collected from secondary sources. To analyse the impact of CSR on the financial performance of the firms, regression models and correlation tools are used.

Time period

The study covers the period of the three previous financial years: 2021-22, 2022-23, and 2023-24.

Data Collection

Secondary data has been utilized to analyse how CSR affects a company's financial performance. Information has been gathered from a variety of sources, including company websites, published annual reports, sustainability reports, and articles from periodic journals.

Sample of Study

The convenience sampling method is used for the study. India's oil and natural gas sector is a vital part of its economy. To analyse how their CSR practices impact their financial performance, three major Indian oil and natural gas firms are selected as a sample for the study.

- Oil and Natural Gas Corporation Limited (ONGC)
- Indian Oil Corporation Limited (IOCL)
- Bharat Petroleum Corporation Limited (BPCL)

Objectives of the Study

The aim of this study is to analyse the impact of corporate social responsibility on the financial performance of selected Indian oil and natural gas companies.

- To understand the relationship between corporate social responsibility and the financial performance of selected companies.

Analysis

To find the relationship with CSR and financial performance following parameters and formulas are used.

ROE = Net Income / Shareholder's Equity

ROA = Net Income / Total Assets

Shareholders' Equity = Total Assets - Total Liabilities

Net Income = Total Revenue - Total Expenses

Regression analysis is a statistical analysis technique that applies to determine how each component affects the variable. It is also helpful to understand the relationship between groups. Correlation analysis is used to determine the association between two quantitative variables. Correlation and regression analysis was conducted on the data. The following were the findings:

Dependent Variable: Net Profit, Independent Variable: CSR

Particular	Correlation
ONGC	0.8248
IOCL	0.93
BPCL	-0.92
General	0.98

Regression Statistics	
Multiple R	0.981428
R Square	0.963202
Adjusted R Square	0.957945
Standard Error	39470.71
Observations	9

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2.85456E+11	2.85E+11	183.227	2.82251E-06
Residual	7	10905557515	1.56E+09		
Total	8	2.96362E+11			

Observation	Predicted Net Profit	Residuals	Observation	Predicted Net Profit	Residuals
1	345611.9519	57445.048	6	38410.52	1208.4806
2	358945.4341	42019.566	7	16726.1	-5044.098
3	477198.4869	-71938.49	8	18531.02	-16399.97
4	26508.60551	-2324.606	9	16089.68	10769.16
5	23977.09204	-15735.09	-	-	-

From the above data, we can say that for ONGC, the correlation is 0.824854, for IOCL, the correlation is 0.93, and for BPCL, it is -0.9. The combined correlation is 0.98, which indicates a strong positive linear relationship between the two variables. For the regression analysis, the value for ONGC is 0.68 for R Square, for IOCL it is 0.87, and for BPCL it is 0.84; overall, it is 0.96. This means that the independent variable is good at predicting the dependent variable. It suggests a moderate to strong relationship between the independent and dependent variables. This model has a good fit to the data.

Dependent Variable: ROA, Independent Variable: CSR

Particular	Correlation
ONGC	-0.222496785
IOCL	0.861191519
BPCL	-0.648837353
Combine	-0.418225892

Summary Output	
Regression Statistics	
Multiple R	0.418226
R Square	0.174913
Adjusted R Square	0.057043
Standard Error	0.121515
Observations	9

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.021912	0.021912	1.483953	0.262618
Residual	7	0.103362	0.014766		
Total	8	0.125274			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.192469	0.051888	3.709332	0.007561	0.069774	0.315165	0.069774	0.315165
CSR	-2.1E-05	1.69E-05	-1.21818	0.262618	-6.1E-05	1.94E-05	-6.1E-05	1.94E-05

Observation	Predicted ROA	Residuals	Observation	Predicted ROA	Residuals
1	0.097906	-0.02391	6	0.183019	-0.07859
2	0.094212	0.009384	7	0.189027	0.087761
3	0.061449	0.018948	8	0.188527	0.095957
4	0.186317	-0.11527	9	0.189203	0.184455
5	0.187018	-0.17873	-	-	-

A correlation of -0.418225892 indicates a weak negative correlation between two variables. Combine r square represents weak fit for the data. Company IOCL’s correlation is only positive but overall CSR and ROA has weak relation.

Dependent Variable: ROE, Independent Variable: CSR

Particular	Correlation
ONGC	-0.138800373
IOCL	0.801336651
BPCL	-0.954134467
Combine	-0.330952886

Regression Statistics	
Multiple R	0.330953
R Square	0.10953
Adjusted R Square	-0.01768
Standard Error	0.135079
Observations	9

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	0.01571	0.01571	0.861016	0.384333727
Residual	7	0.127725	0.018246		
Total	8	0.143436			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.19852254	0.05768	3.44180012	0.010811	0.062131	0.334914	0.062131	0.334914
CSR	-1.748E-05	1.88E-05	-0.9279092	0.384334	-6.2E-05	2.71E-05	-6.2E-05	2.71E-05

A slight negative correlation between two variables is shown by a correlation of -0.33. A combined r-squared value indicates a poor fit to the data. Overall, there is a weak association between CSR and ROE, while the correlation between IOCL is just positive.

Observation	Predicted ROE	Residuals	Observation	Predicted ROE	Residuals
1	0.11845153	-0.02918	6	0.190521	0.07863
2	0.11532352	0.010682	7	0.195608	0.018198
3	0.08758153	0.012563	8	0.195184	-0.18072
4	0.19331268	0.015345	9	0.195757	0.242689
5	0.19390657	-0.16821	-	-	-

Conclusion

From the study, selected Indian oil and natural gas companies are spending at least 2% of their average net profit to comply with the Companies Act 2013. In this study, corporate social responsibility (CSR) has a positive effect on net profit, indicating that there is a positive correlation between CSR spending and the company's net profit. However, the chosen company's ROA and ROE are found to be inversely correlated with CSR expenditures.

Corporate social responsibility is a major term, and the impact of CSR spending may vary from company to company. The relationship between CSR and net profit shows that a firm that engages in CSR activities can enhance a company's reputation, build customer loyalty, attract and retain talented employees, and improve relationships with stakeholders. These factors can lead to increased sales, reduced costs, and improved efficiency. CSR can also mitigate risks and enhance long-term sustainability, which can positively influence financial performance. The relationship of CSR with ROA and ROI is negative; it may depend on the size, characteristics, and nature of the corporation. Initially, CSR activities increase costs and may negatively affect the profitability of the company in the short term; in the long run, we can assume that CSR may positively affect the profitability of the company. The impact of CSR may also be affected by the CSR implementation of the companies.

Scope and Limitation of the Study

The study has a foundation of secondary data derived from published annual reports, sustainability reports, financial reports, journals, etc. because of this, the reliability of the findings is dependent on the data.

The study employs various statistical and accounting tools and techniques; therefore, it has its own limitations that apply to this research work.

Different experts have different views on comparing and evaluating performance. Hence, the perspective employed in the current study cannot be regarded as ideal.

The study contains the analysis of three Indian oil and natural gas companies. Further study can be done by different companies and for different time frames. The findings may be helpful to the research scholar for related studies.

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