An Attempt to Compare the Financial Performance of CSR Companies with Non-CSR Companies

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Abstract

Despite its lengthy history, CSR is still debated and underdeveloped in certain places today. For example, identifying the link between CSR and corporate financial performance (CFP) is a contentious topic and one of the key topics offered. The economy depends on finance. As a result, we believe it will have an impact on corporate social responsibility (CSR) and economic development sustainability. Despite its lengthy history, CSR is still debated and underdeveloped in certain places today. For example, identifying the link between CSR and corporate financial performance is a contentious topic and one of the key topics offered (CFP). More study into the disparities in CSR practises across the private and public sectors, as well as in emerging countries, is needed. Finally, additional variables that may influence the link between CSR and CFP, such as internal controls, corporate governance, or capital costs, must be investigated, particularly in developing nations.

Keywords: *Financial, Corporate, Companies, Listed, Responsibility.*

I. INTRODUCTION

Corporate Social Responsibility (CSR), formerly known as Social Responsibility (SR), has been addressed since the 1930s. According to Carroll (1999), the notion was not popularised and addressed in the same manner as it is now until Bowen's Social Responsibilities of the Businessman was published in 1953. CSR is defined by Bowen (1953) as "the responsibility of businessmen to pursue those policies, make those judgments, or follow those courses of action that are desirable in terms of our society's aims and values."

According to Moura-Leite and Padgett (2011), the focus of CSR has evolved from recognition of social interest to being a significant aspect of many organisations' entire strategic strategy. CSR is gaining popularity across the world, and while various firms have varied approaches to the subject, more corporations are undertaking voluntary activities aimed at reducing its negative impact on society and the environment. As of 2013, 93 percent of the world's 250 largest firms published corporate sustainability reports, up from 71% in 2008. This recent upward trend is due not just to corporations adopting an ethical business strategy, but also to increased demand from stakeholders to show accountability and sustainability. While CSR-related regulatory and legislative requirements are not yet universal, several unions and nations, such as the European Union, have begun to enact such reforms. A new order, beginning December 6, 2014, mandates enterprises with 500 or more workers to publish information on policies, social and employee elements, risks and outcomes in environmental matters, and so on, in their management reports. The European Union's member states were then given two years to incorporate the new directives into national legislation.

<u>Dimensions of CSR</u>

The Triple Bottom Line (TBL) framework is a typical approach used by organisations to establish and coordinate their CSR operations. TBL stands for three distinct entities: people, planet, and profit, sometimes known as the 3P's. People refers to how a corporation conducts business in relation to the impacted workforce, Planet to how the company handles environmental issues, and Profit to how the firm provides economic advantages for society. TBL was coined by economist John Elkington in the mid-1990s and has since become a widely used word in the fields of CSR and sustainable development. When the petroleum corporation Shell was heavily condemned for its drilling tactics in Nigeria during the 1990s, it was an illustration of how the principle might be put into effect. Shell engaged experts to help it enhance its public image, and their ideas were based on the TBL framework as a way to turn the company's bad image into a good one. The social, environmental, and financial components of a company's CSR performance have also been referred to as the 3Ps. If appropriately analysed, these three aspects should encompass corporate sustainability and capital growth, as well as the demands of a company's direct and indirect stakeholders.

- Social dimension
- Environmental dimension
- Financial dimension

II. METHODOLOGY

The model

The major goal of our study is to determine the influence of CSR initiatives on a company's financial performance. We employ two key indices from the economic literature to quantify a firm's financial performance, namely:

Market capitalization - which reflects investors' perceptions of a company's quality and profitability as shown in market stock price movement.

To begin, we will use a simple regression model based on panel data for the years 2012-2020, and then we will emphasise the influence of CSR on market capitalization and return on investment for each year within that time period.

We chose the companies listed on the NSE India by excluding 26 enterprises that were not accessible for trade or whose financial data was not available for the whole period 2012-2020. Only 15 of the 54 firms in the final sample have CSR efforts explicitly specified in their annual reports or websites.

The following indicators were calculated for each year and company:

- Market capitalization – the product between the final price for each year and the number of shares. These values will be linearized by applying logarithmic function;
- ROA (return on assets) – ratio between the profit and assets value for each firm and each year.

III. RESULTS

Table 1 shows descriptive data for market capitalization and return on investment for the time period under consideration. At first look, we may see a distinction between organisations that engage in CSR initiatives and those who do not. Financial performance (market capitalization and return on investment) appears to be stronger for CSR firms than for non-CSR enterprises.

Table 1. Descriptive statistics for analysed variables (entire period)

Variable	Mean	Median	Std. Dev.	Skewness	Kurtosis
CSR companies					
Ln_MCAP	18.7690	19.0390	3.5302	-3.7688	19.7077
ROA	7.71%	4.74%	0.1969	5.9317	15.0487
NON-CSR companies					
Ln_MCAP	16.2361	16.9606	4.2561	-3.0572	12.2073
ROA	2.72%	1.33%	0.2520	7.1302	16.5799
ALL companies					
Ln_MCAP	16.9501	17.4121	4.2569	-2.9333	12.5652
ROA	4.15%	1.95%	0.2392	6.9145	22.5005

Furthermore, we can see that CSR firms have a ROA that is 2.7 times greater than non-CSR enterprises. Further, we can evaluate the influence of the financial crisis on the evolution of both market capitalization and ROA by examining the yearly descriptive statistic shown in Table 2.

Table 2. Descriptive statistics for analysed variables for each year

Variable	Mean	Median	Std. Dev.	Skewness	Kurtosis
Ln_MCAP					
2020	17.3194	17.5150	3.5970	-3.3963	14.9228
2019	17.5229	17.5428	2.7808	-3.5894	23.3624
2018	17.7832	17.5079	1.7012	0.7706	1.0849
2017	17.0700	17.2754	3.5646	-3.2874	14.5048
2016	16.5121	17.1488	4.7764	-2.7161	7.5703
2015	16.7793	17.2719	4.2965	-2.9462	9.9654
2014	16.1592	17.2741	5.2360	-2.4109	5.3714
2013	16.1860	16.7735	4.5644	-2.7732	7.7107
2012	17.1188	18.5254	5.5625	-2.4053	5.2557
ROA					
2020	4.49%	2.18%	0.4142	4.1649	35.2874
2019	1.91%	2.02%	0.1098	-1.2682	9.2097
2018	1.57%	1.27%	0.1273	-2.5915	15.7408
2017	1.94%	1.95%	0.0980	-0.5795	2.1067
2016	2.03%	2.00%	0.0965	0.2038	2.5097
2015	1.78%	1.45%	0.0760	-0.5211	2.3691
2014	2.55%	1.40%	0.0780	0.3013	1.0263
2013	3.38%	2.77%	0.1110	1.4568	7.7383
2012	7.56%	3.75%	0.4999	3.7235	15.7772

The increasing effect is shown in ROA, which fell from 7.56 percent in 2012 to 1.78 percent in 2015, owing to an increase in the number of enterprises that experienced losses during the financial crisis.

Table 3. Unit root test for panel data

Variables	t-test	p-value
LN_MCAP	-26.51***	0.0000
ROA	-16.75***	0.0000

*, **, *** – Indicates significant at the 0.1 level, 0.05 level and 0.01 level.

Our regression models will capture the influence of CSR efforts of listed firms on the NSE India on their financial performance throughout the period 2012-2020. We find that all market capitalization and ROA series are stationary using the Unit root Levin, Lin, and Chu test for panel data in table 3.

Results. The first step is to calculate the regression equation for the whole period 2012-2020 in order to assess if CSR has an impact on listed firms' financial performance. Table 4 shows the regression coefficients that have been estimated.

Table 4. Full period regression models estimation

Year	ROA	Ln_MCAP
constant	0.0281** (0.0121) a	16.2360*** (0.2082)
CSR	0.0489** (0.0232)	2.5328*** (0.3998)
R-squared	0.0082	0.0757

a – (standard errors in parentheses).

*, **, *** – Indicates significant at the 0.1 level, 0.05 level and 0.01 level.

We can observe that CSR efforts have a large influence on both financial performance proxies, although market capitalization has a bigger impact. This is a logical and expected consequence, because CSR initiatives are considered by investors as a positive aspect in a company's profitability and long-term viability.

Table 5. Yearly regression models estimation for ROA

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
constant	0.1502* (0.0772) a	0.0235 (0.0170)	0.0157 (0.0118)	0.0051 (0.0112)	-0.0009 (0.0139)	0.0053 (0.0147)	-0.0032 (0.0191)	0.0106 (0.0169)	0.0471 (0.0642)
CSR	0.0934 (0.1484)	0.0375 (0.0326)	0.0358 (0.0227)	0.0503** (0.0216)	0.0784*** (0.0268)	0.0517* (0.0283)	0.0700* (0.0367)	0.0310 (0.0324)	-0.0082 (0.1233)
R-squared	0.0069	0.0225	0.0416	0.0866	0.1305	0.0552	0.0598	0.0157	0.0001

a – (standard errors in parentheses).

*, **, *** – Indicates significant at the 0.1 level, 0.05 level and 0.01 level.

We also want to evaluate if the influence on financial performance varied from year to year, particularly before and after the financial crisis. We calculate the annual regression equation for both ROA and market capitalization for this purpose.

The results concerning the influence of CSR on ROA are shown in table 5. We can see that there is a considerable influence for the period 2015–2018 based on it. Furthermore, we can emphasise, based on table 6, that the influence of CSR efforts on market capitalization is quite substantial for the period 2015–2020.

As a result, it is obvious that CSR efforts had no impact on company financial performance in both scenarios during the financial crisis.

Table 6. Yearly regression models estimation for Ln_MCAP

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
constant	16.4250*** (0.7448) a	15.5217*** (0.7093)	15.7461*** (0.7084)	15.7412*** (0.5224)	15.4848*** (0.5934)	16.2380*** (0.5277)	17.1863*** (0.2346)	16.9551*** (0.4134)	16.5263*** (0.5369)
CSR	2.5581 (1.5581)	2.0806 (1.3620)	1.1541 (1.5524)	3.4593*** (1.1952)	3.7880*** (1.3316)	3.0676*** (1.0133)	2.2012*** (0.4505)	2.4613*** (0.7939)	2.9246*** (1.0310)
R-squared	0.0418	0.0393	0.0096	0.1281	0.1243	0.1384	0.2951	0.1443	0.1236

a – (standard errors in parentheses).

*, **, *** – Indicates significant at the 0.1 level, 0.05 level and 0.01 level.

Similarly, the stronger impact of CSR activities on market capitalization might be explained by investors' expectations of firms that engage in such activities. Typically, such businesses are highly regarded by investors, who place their faith in them and invest in their shares.

IV. CONCLUSION

CSR and its implications on financial performance have been studied in theoretical and empirical research projects, however the results are mixed. This might be due to various CSR practises, distinct CSR and financial performance measurements, or different analytical models.

The goal of this study was to look at the influence of CSR initiatives on the financial performance of firms listed on the NSE India from 2012 to 2020. We chose two indices for gauging financial performance to do this, based on the economic literature: ROA and market capitalization.

Despite the fact that the NSE India has clear regulations and norms in place addressing corporate social responsibility, only 16 of the 85 listed businesses engaged in CSR activities between 2012 and 2020. Based on descriptive data, we found that organisations that engage in CSR activities had better financial performance than those that do not. Further, it appears that the average ROA of CSR firms is 2.7 times greater than that of non-CSR enterprises.

In various aspects, this study contributes to the subject of CSR and financial performance connection research: First, our findings will help to enhance the current research, and second, policymakers will be able to utilise our findings to implement suitable rules or incentives for CSR initiatives. This is also in line with the United Nations Global Compact's suggestion in its Report that market authorities and securities exchanges in various markets implement sustainability efforts connected to listed firms..

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