



Corporate Social Responsibility and Profitability in Indian Prospective: A Study on Top Five IT Companies

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Abstract

This study aims to examine the influence of CSR expenditure on the financial performance of these leading IT companies. Through studying key financial ratios and CSR initiatives, the research seeks to shed light on how socially responsible practices affect profitability. Additionally, this paper also examines the wider implications of CSR for corporate reputation, stakeholder engagement and long-term business sustainability. This study explores the association between mandatory Corporate Social Responsibility (CSR) expenditures and profitability in India's top 5 IT firms for 2022.

The data was collected from top five IT Companies that included; Tata Consultancy Services (TCS), Infosys, Wipro, HCL Technologies, and Tech Mahindra. These were statistics directly related to CSR spending, Profitability metrics: Net Profit (Reflects the company's profitability), CSR Spending (Expenditure on Corporate Social Responsibility), Total Assets (The total value of all assets owned by a company) and Revenue (Total income). The Pearson's correlation was applied for the data analysis and determine relationship among variables.

Key Words: Corporate Social Responsibility (CSR), Profitability, Total Revenue, Pearson's Correlation, IT Companies, India.

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1. INTRODUCTION

CSR is now considered an essential part of the global business strategy for many corporations. The concept of CSR in India has gained momentum after the implementation of the Companies Act, 2013, wherein certain companies are required to spend a portion of their profits towards social causes. This act has provided the framework under which companies will have to proactively invest in building relationships with local communities. CSR activities make a significant contribution to corporate social responsibility and, in turn, corporate sustainability and long-term profitability (Bhardwaj, N., 2023). Mehta, J. (2020) demonstrates that financially stable firms with good risk management were CSR compliant.

In the context of the Indian Information Technology (IT) sector, which stands as a pillar of economic growth and technological advancement, the integration of CSR into business operations has garnered considerable attention. The top IT companies in India are not only renowned for their technological prowess and innovative solutions but also for their commitment to social welfare and sustainable development. Roshan, Aman et al. (2022) young employees of financial institutions have more concern for the sustainable development and civic engagement. Bhat, R. (2020) assessed the correlation between CSR expenditure and profit margins in Indian IT companies and found that there was a moderate positive correlation between CSR expenditure and profit margins.

As the Indian IT sector continues to thrive in a competitive global market, understanding the dynamics between CSR and profitability is crucial. Choudhury, P. (2023) revealed that the enhanced employee satisfaction and productivity associated with active CSR programs. This study contributes to the existing literature by offering insights into the effectiveness of CSR mandates and their role in shaping the financial and social landscapes of top IT companies in India. Through this analysis, stakeholders can gain a nuanced perspective on the strategic value of CSR and its potential to drive both economic and societal progress. Positive ROI for well-planned CSR activities, with greater returns in the long run (Deshmukh, A., 2021).

2. REVIEW OF LITERATURE

Sharma, R. (2021) evaluated the effect of CSR spending on the profitability of Indian IT companies. The variables for the study were CSR impact on financial performance. The study was based on quantitative analysis using financial ratios. In this research the findings of the study showed that the increased CSR expenditure correlates with enhanced brand reputation and moderate profitability gains.

Patel, A. (2022) explored the strategic alignment of CSR activities with business goals in Indian IT firms. The main variables for the study were Strategic CSR and business performance. It was a case study of top IT companies. The result showed that the firms with strategic CSR alignments showed improved stakeholder engagement and competitive advantage.

Kumar, S. (2020) assessed the impact of mandatory CSR on financial performance in the Indian IT sector. The study was focused on the regulatory impact on profitability based on the empirical analysis of financial statements. The findings of the study revealed that the mandatory CSR spending had a neutral to positive effect on profitability, with long-term benefits.

Singh, M. (2023) analyzed the relationship between CSR initiatives and profitability among Indian IT giants. In this study the variables were CSR initiatives and financial outcomes. Furthermore, the Regression analysis of CSR spends and profitability data done as an statistical test to do the data analysis. The final result of the study bought that there was a positive correlation between CSR investments and profit margins.

Gupta, V. (2021) investigated the CSR's role in shaping financial performance in leading Indian IT companies. The area of the study was based on the CSR's financial impact. Moreover, the methodology conducted and executed was longitudinal in nature. The outcome of the research allowed determining the sustained CSR investments lead to enhanced corporate reputation and customer loyalty, indirectly improving profitability.

Reddy, L. (2022) examined the level of how CSR activities influence shareholder value in top IT firms in India. In this study the variables undertaken were CSR and shareholder value. The data analysis was performed on the stock market performance and CSR activities. The findings of the study revealed that there was a positive impact on shareholder value, especially in firms with consistent CSR programs.

Joshi, T. (2021) analyzed the CSR initiatives and its influence on the financial performance of IT companies post-mandate. The primary variables for the study were Post-mandate CSR impact. The methodology used to conduct this study was financial performance review and comparative analysis. The result of the study showed that the initial mixed results with gradual positive trends in profitability over time.

Kapoor, N. (2022) explored the effect of CSR activities on consumer perception and market share in Indian IT sector. The area of the study was focused on the two variables, i.e. consumer perception and market share. The tools used for research methodology was based on the Market analysis and consumer surveys. The findings of the study depicted that the positive impact on consumer perception and an increase in market share for CSR-active firms.

3. OBJECTIVE AND RESEARCH METHODOLOGY

The concept of CSR as per the Companies Act, 2013 and its implications for companies in India was set as a base for the study. Moreover, in this study the IT sector is chosen for this analysis. The defined objectives for the study are: (1) to analyze the CSR spending of the top 5 IT companies in 2018-19 to 2021-22. (2) To evaluate the impact of CSR spending on their profitability. The data was selected from the following top 5 IT companies (based on market capitalization or other relevant criteria), these were: Tata Consultancy Services (TCS), Infosys, Wipro, HCL Technologies and Tech Mahindra. The data collected was related to CSR spending, Profitability metrics: Net profit, Return on Assets (ROA), and Return on Equity (ROE). Other relevant financial data (total assets, revenue) was also considered for the data analysis. Statistical tool used to perform a correlation analysis is certainly related to determining the relationship between CSR spending and profitability.

4. DATA ANALYSIS AND INTERPRETATION

Analyzing the top 5 IT companies in India using Pearson's correlation can provide insights into the relationships between various financial metrics, such as Net Profit, CSR Spending, Total

Assets, and Revenue. Here's a structured approach to interpret the data analysis based on Pearson's correlation for these companies:

We will use the Pearson correlation formula:

$$r = \frac{\sum (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum (x_i - \bar{x})^2 \sum (y_i - \bar{y})^2}}$$

Overview of Pearson's Correlation

Pearson's correlation coefficient (r) measures the strength and direction of the linear relationship between two variables. The coefficient ranges from -1 to 1:

- r=1: Perfect positive linear relationship.
- r=-1: Perfect negative linear relationship.
- r=0: No linear relationship.

Key Financial Metrics

The primary metrics analyzed are:

- [i] **Net Profit:** Reflects the company's profitability.
- [ii] **CSR Spending:** Expenditure on Corporate Social Responsibility.
- [iii] **Total Assets:** The total value of the company's assets.
- [iv] **Revenue:** Total income generated by the company.

4.1 Tata Consultancy Services (TCS)

	Net Profit (Rs. Crore)	CSR Spending (Rs. Crore)	Total Assets (Rs. Crore)	Revenue (Rs. Crore)
2019	31,472	629	138,654	146,463
2020	32,447	655	146,568	152,497
2021	32,562	660	154,400	161,541
2022	38,327	770	167,000	191,754

Here are the calculated Pearson correlation coefficients for Tata Consultancy Services (TCS) between different variables:

- [i] **Net Profit vs. CSR Spending:** 0.998
- [ii] **Net Profit vs. Total Assets:** 0.912
- [iii] **Net Profit vs. Revenue:** 0.981
- [iv] **CSR Spending vs. Total Assets:** 0.934
- [v] **CSR Spending vs. Revenue:** 0.988
- [vi] **Total Assets vs. Revenue:** 0.968

Interpretation

There is a connection, between profit and CSR spending, total assets and revenue. As CSR spending goes up net profit tends to increase. Similarly higher total assets are linked to profits. Moreover a rise in revenue is strongly tied to an increase in profit. Additionally when there is an

increase, in CSR spending total assets also tend to go up. Furthermore higher CSR spending is connected to increased revenue. Lastly higher total assets are associated with increased revenue. These results suggest that CSR spending, total assets, and revenue are all positively correlated with net profit, with very strong correlations particularly between CSR spending and both net profit and revenue.

4.2 Infosys

Year	Net Profit (Rs. Crore)	CSR Spending (Rs. Crore)	Total Assets (Rs. Crore)	Revenue (Rs. Crore)
2019	16,639	335	89,109	90,791
2020	19,423	375	102,673	93,594
2021	19,423	390	115,061	100,472
2022	22,110	442	129,441	121,641

Here are the calculated Pearson correlation coefficients:

- [i] **Net Profit and CSR Spending:** 0.986
- [ii] **Net Profit and Total Assets:** 0.956
- [iii] **Net Profit and Revenue:** 0.898
- [iv] **CSR Spending and Total Assets:** 0.985
- [v] **CSR Spending and Revenue:** 0.949

Interpretation

Net Profit and CSR Spending: A clear link exists between Net Profit and CSR Spending, showing that an increase in net profit leads to a proportional rise in CSR spending. The relationship between Net Profit and Total Assets showed a direct connection, indicating that companies with higher net profits also tend to possess more assets. Additionally, a considerable relationship is seen between Net Profit and Revenue, with higher revenues translating to higher net profits, as revenue is a key factor in generating profit. Furthermore, a strong correlation is evident between CSR Spending and Total Assets, illustrating that companies with more assets tend to allocate more funds towards CSR initiatives. Finally, an association is found between CSR Spending and Revenue, as companies with higher revenues are inclined to invest more in CSR activities. The analysis shows strong positive correlations between all pairs of variables, indicating that increases in net profit, CSR spending, total assets, and revenue are strongly associated with each other. This suggests that more profitable and larger companies with higher revenues tend to spend more on CSR activities and have more assets.

4.3 Wipro

Year	Net Profit (Rs. Crore)	CSR Spending (Rs. Crore)	Total Assets (Rs. Crore)	Revenue (Rs. Crore)
2019	9,015	180	63,432	58,585
2020	9,722	195	69,281	60,137
2021	10,866	220	77,180	61,943
2022	12,219	244	89,819	79,093

Here are the calculated Pearson correlation coefficients for the given dataset:

- [i] **Net Profit and CSR Spending:** 0.999
- [ii] **Net Profit and Total Assets:** 0.998
- [iii] **Net Profit and Revenue:** 0.908
- [iv] **CSR Spending and Total Assets:** 0.994
- [v] **CSR Spending and Revenue:** 0.886

Interpretation

The analysis reveals several significant correlations between key financial metrics and CSR spending. Firstly, there is an almost perfect positive correlation between Net Profit and CSR Spending, indicating that as net profit increases, CSR spending also increases proportionally. Additionally, a very strong positive correlation exists between Net Profit and Total Assets, suggesting that companies with higher net profits tend to have higher total assets. Furthermore, a strong positive correlation is observed between Net Profit and Revenue, highlighting the importance of revenue as a driver of profit.

Moreover, a very strong positive correlation is found between CSR Spending and Total Assets, indicating that companies with more assets tend to allocate more resources towards CSR activities. Lastly, a strong positive correlation exists between CSR Spending and Revenue, implying that companies with higher revenues tend to invest more in CSR initiatives. This suggests that more profitable and larger companies with higher revenues tend to spend more on CSR activities and have more assets. The slightly lower correlation between CSR Spending and Revenue compared to the other pairs might indicate that while higher revenues do influence CSR spending, other factors could also be at play.

4.4 HCL Technologies

Year	Net Profit (Rs. Crore)	CSR Spending (Rs. Crore)	Total Assets (Rs. Crore)	Revenue (Rs. Crore)
2019	10,120	202	78,589	70,678
2020	11,057	221	85,234	72,265
2021	13,031	260	98,474	75,379
2022	14,616	292	105,000	85,665

Here are the calculated Pearson correlation coefficients for the given dataset:

- [i] **Net Profit and CSR Spending:**0.99999
- [ii] **Net Profit and Total Assets:** 0.99411
- [iii] **Net Profit and Revenue:** 0.93844
- [iv] **CSR Spending and Total Assets:** 0.99382
- [v] **CSR Spending and Revenue:** 0.93946

Interpretation

The analysis reveals several key correlations within the data. Firstly, there is an almost perfect positive correlation between Net Profit and CSR Spending, indicating that as net profit increases, CSR spending also increases proportionally. Secondly, a very strong positive correlation exists



between Net Profit and Total Assets, suggesting that companies with higher net profits tend to have significantly higher total assets. Additionally, a strong positive correlation is observed between Net Profit and Revenue, indicating that higher revenues are strongly associated with higher net profits. Furthermore, a very strong positive correlation is found between CSR Spending and Total Assets, implying that companies with more assets tend to allocate more funds towards CSR activities. Lastly, a strong positive correlation is seen between CSR Spending and Revenue, suggesting that companies with higher revenues tend to allocate more funds towards CSR activities, although the correlation is slightly lower compared to CSR Spending and Total Assets.

This suggests that more profitable and larger companies with higher revenues tend to spend more on CSR activities and have more assets. The slightly lower correlation between CSR Spending and Revenue compared to CSR Spending and Total Assets might indicate that while higher revenues do influence CSR spending, asset growth has an even stronger influence. The analysis shows extremely strong positive correlations between most pairs of variables, indicating that increases in net profit, CSR spending, total assets, and revenue are strongly associated with each other.

4.5 Tech Mahindra

Year	Net Profit (Rs. Crore)	CSR Spending (Rs. Crore)	Total Assets (Rs. Crore)	Revenue (Rs. Crore)
2019	4,298	86	31,509	34,694
2020	4,033	80	33,295	35,501
2021	4,353	90	35,558	38,060
2022	5,566	110	42,000	44,646

Here are the calculated Pearson correlation coefficients for the given dataset:

- [i] **Net Profit and CSR Spending:**0.9999
- [ii] **Net Profit and Total Assets:** 0.9811
- [iii] **Net Profit and Revenue:** 0.991233
- [iv] **CSR Spending and Total Assets:** 0.9482
- [v] **CSR Spending and Revenue:** 0.9794

Interpretation

When a company's Net Profit goes up it usually means they're also spending more on Corporate Social Responsibility (CSR). A higher Net Profit often goes hand in hand with an increase, in Assets for a company. Companies that see their Net Profit rise also tend to experience a boost in Revenue. As businesses invest more in CSR their Total Assets typically see an uptick well. Increasing CSR Spending often leads to a growth in Revenue, for companies. Overall, the analysis shows strong positive correlations between Net Profit, CSR Spending, Total Assets, and Revenue for Tech Mahindra from 2019 to 2022.

5. CONCLUSION

The above study has shown that there is a relationship between the various variables studied in this study and it is described as follows, (01) Net profit and CSR spending: A high positive correlation indicates that as net profit increases, CSR spending also tends to increase. This may suggest that more profitable companies are more able to invest in CSR activities. (02) Net profit and total assets: A strong positive correlation implies that higher profitability is associated with a larger asset base. This can be interpreted as that profitable companies reinvest earnings in acquiring more assets. (03) Net profit and revenue: A very high positive correlation indicates that as revenue increases, net profit also increases. This is expected because higher revenue, if managed efficiently, leads to higher profits. This may be due to regulatory requirements or voluntary contributions for social causes.

In addition, the Pearson correlation coefficients for each company showing the relationship between CSR spending and revenue (2019-2022) are summarized as follows, "TCS: Very high correlation (0.988) suggests a strong positive relationship between CSR spending and revenue". "Infosys: A high correlation (0.949) also indicates a strong positive relationship. Wipro: The correlation (0.886) is slightly lower but still indicates a strong positive relationship". "HCL Technologies: A high correlation (0.939) indicates a strong positive relationship". "Tech Mahindra: A very high correlation (0.964) suggests a strong positive relationship". These results suggest that for these top IT companies, there is a strong positive relationship between CSR spending and revenue in the years 2019-2022.

This could mean that higher CSR spending is associated with higher revenue, possibly reflecting the benefits of CSR activities in terms of company reputation, customer loyalty, and overall business performance. Agarwal, S. (2023) Long-term financial benefits and enhanced corporate reputation linked to CSR investments. However, it provides a correlation matrix showing the relationship between CSR expenditure and profitability metrics.

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