

Nexus Between Corporate Social Performance And Corporate Financial Performance: Evidences From An Emerging Market

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ABSTRACT

This study aims to perform a descriptive research on the effect of Corporate Social Responsibility on Corporate Financial Performance in Indian context using the Index S&P BSE 500. The Corporate Social responsibility has been taken more seriously with the effect of amendment in Companies Act 2013, CSR (Policy) Rules (the Act) from April 1, 2014 and hence the data disclosed in Prowess database by these companies are taken for the study from the time period between FY2014 - FY2018. These values are compared with the financial indicators including the firm size and financial performance and risk measures. Evidences of the relationship is been brought through correlation and regression models. There has been a positive relationship identified with the variables Earnings per Share, Net Profit Margin, Return on Net worth, Return on Capital Employed with the Corporate Social Performance of the firms. Dynamic Panel Regression is used for the panel data with an assumption that the previous year financial performance affect the current year performance. Econometric issues which can arise is also addressed using tests of autocorrelation and endogeneity. The study identifies that the firm size and leverage ratio can affect the CSR expenditure with respect to the profitability variables. The study suggests that keeping a control on interest payments and debt position would be helpful for future performance.

Key Words: *Corporate financial performance; Corporate social performance; Net profit margin; Return on net worth.*

1. INTRODUCTION

CSR is different and broader from the very act of charities or any other philanthropic activity, but the former tries to go deep and address longstanding socio-economic and environmental issues. CSR is considered to be important because it will help to make the employees more loyal and thereby company can retain them in the long run. These activities can help the company to have a wider reach that will lead to increasing market share. The stakeholders benefit from these activities as they can improve their standard of living, maintain healthier atmosphere and to grow more fiscally. Carols explain the role of CSR as a responsibility of the firm in varied levels. CSR pyramid explain about the responsibilities related to the CSR. The foundation of the pyramid explains the economic responsibilities of a corporate towards its stakeholders. As any firm have formed with the objective of earning profit and maximizing its shareholders wealth firm should focus on increasing profits without compromising interests of the stakeholders. The next level of the pyramid explains the legal responsibilities of the firm. Performing the activities in the most desired manner is to comply with the laws. Especially with regard to CSR after the Act has passed in the year 2013 the firms gave taken CSR in a strategic manner so that the actions are more transparent and it can also help in convincing the stakeholders in various matters. The next higher pyramid explain the ethical responsibilities that a firm should have towards the society and on the higher note the firm should take initiatives on philanthropic responsibilities because it is only when the firm understands the social need and stand for the socio-economic development the stakeholder interests are satisfied. CSR Laws are necessary as they can help to transfer excess capital from the haves to have not's via act of charity in the most legal manner. The data shows that CSR have provided a monetary contribution from \$600 million to \$2 billion annually which will help to increase the growth of economy. India is one of the most traditional country in the world which have its culture rooted in providing service to its fellow beings. Even though the term Corporate Social Responsibility is new to India the concept can be seen in the Mauryan history. Philosophers like Kautiliya emphasized on the ethical practices of conducting the business. CSR was initially practiced in the form of charity to the underserved of the country.

CSR has gradually become an imperative of business practice in recent years. A constant debate surrounding CSR is whether a firm's investment in CSR pays off in the long term. There are two measure to evaluate the financial performance and CSR in which one is market measure and other one is accounting measure used by the researchers when firms engage in either socially responsible or irresponsible activities initially uses the event study methodology to evaluate the short-run financial impact. The second type of study is by using accounting or financial measures of profitability to examine the relationship between measures of long term financial performance, and some measure of corporate social performance. Those firms which are playing greater role in the welfare of society, creating good working conditions, providing health situations in the convenient manner, creates good reputation in the mind of customers, suppliers and also employees in competitive setting. These firms get more benefits than the cost they have to bear for the welfare of society. Therefore, Firm's CSR

is said to enhance the financial performance of firm, and hence when a firm has good financial performance it can do more towards the welfare of society. This study shows that firm's CSR and FP are related to each other. Companies should consider activities pertaining to Corporate Social Responsibility when any decision is made because it protects the company from expenses which occurred due to criticisms, oppositions and strikes and lawsuits against environment hazardous activities. Across the years CSR activities have improved and the law of mandatory disclosure have played a major role in the same. The SEBI guidelines ensure that the disclosures are made and the companies satisfy the stakeholders in the most legal and transparent manner. The reporting of the activities have also improved. Manufacturing companies have shown a better rate of improvement in CSR activities, followed by service oriented companies. Public sector companies have also put in their share to improve their contribution to CSR activities. There is a tough competition among the private sector companies in the performance of CSR activities and have led to socio-economic development in the right decision. (Fernandes, 2018)

2. STATEMENT OF THE PROBLEM

There is an argument that the company's financial performance is directed by the profitability and not by any other factors. In the contemporary world most investors and customers look for the social commitment of the companies than the financials stated in the statements of the company. One of the major aims of the guiding the principles of the Corporate Social Performance is to help improve users' judgments and decisions when confronted with a variety of information sources. Therefore, it becomes very essential to publish corporate social responsibility (CSR) information as part of the president's report to stockholders. This information helps report users to make more informed decisions. In the backdrop many researches have been conducted to find the relationship between CSP and CFP. Some of them have shown negative relationship and some other positive relationship. Very lately in 2008 a neutral relationship has been established by Choi and Jung (2008). More recently researchers have also developed a non-linear relationship between CSP and CFP (Barnett & Salomon, 2012). There is an absence of consensus behind the relationship between the Corporate Social Performance and Corporate Financial Performance. Through the literatures it was found that most studies conducted has not included any Indian firms and the study sampled firms belonging to banking and insurance sectors. The studies have either restricted to the dimensions of the CSP. That is by considering only one element of the CSP. The other issue that could be identified is that for different countries the thought of CSP may vary so the control variables have a contributed a greater impact. And different studies have taken different measures of CFP and has contributed to diversified results. For example, it is argued that CSP is more correlated with accounting-based CFP measures than with the marker-based ones. The two measure reflect two different results, the former reflect shareholder-related performance whereas latter capture the company's internal operational efficiency (Cochran & Wood, 1984). Thus there is a need to formulate proper units of measure to prove the correct relationship between Corporate Social Performance and Corporate Financial Performance.

The study intends to focus on finding the relationship between Corporate Social Performance and Corporate Financial Performance based on Indian firms complying with CSR disclosure

formalities from the S&PBSE 500 list is taken to consideration. The database depended for the study is Prowess and the time period considered is from FY2014- FY2018 accounting year ending to be December. The dependent variable under the study is Corporate Financial Performance and the analysis will be restricted to the CFP indicators like Earnings per Share, Return on Net worth, Return on Capital Employed, Net Profit Margin. The independent variable taken for the study is Corporate Social Performance and the analysis would consider only the amount disclosure as expressed in Prowess database. As the study relate to financial performance of the firm there is a need to consider control variables. Firm size and debt position is taken as control variables. Firm's size is expressed by total assets and financial debt as ratio of net debt and shareholder equity. This study is an attempt to find out the relationship between Corporate Social Performance and Corporate Financial Performance

3. LITERATURE REVIEW

The prior literatures gives an insight into the relationship between Corporate Social Performance and the Corporate Financial Performance; mainly the direction and the effect of time lag in the performance of the organization. It was in the late 1950's debate for what the actual responsibilities of the firm with respect to CSR came into the picture. In 1997 there had been significant rise in the stakeholder activism. The stakeholder theory proposed by Freeman has been the most important approach in explaining how CSR investment leads to a higher CFP; that is, how a firm's commitment to social activities contributes to its financial wealth. This theory draws conclusions that it is insufficient for managers to focus exclusively on the perceived needs of shareholders. In this view, the firms should resort to meeting the demands of their important stakeholders rather than the interest of the shareholders alone. When applied to a firm's commitment to social activities, stakeholder theory supports that a firm's investment in CSR activities are with the objective to enhance its relation with its customers, employees and shareholders (Wright, McWilliams, & Siegel, 2006). For instance, Greening and Turban, suggest that people can react to a firm's CSR investment by seeking employment with the firm, instead of involving in purchasing products from the firm. Thus, the impact of CSR on a firm's financial performance or its value can be examined from multiple facets (Greenin & Turban, 2000). Another view on CSR proposed by Russo and Fouts (1997) here they explained a resource based view on CSR by suggesting to use it as a competitive advantage. The firm can focus on performance and on intangible resources which can lead to improvement in internal operations provided it is supported by management and culture. Thus the two other theories which have its relevance in finding the relationship between CSP and CFP are the slack resource theory and good management theory. Most of the activities conducted by the company under the name of corporate social performance are meant to develop and enhance the company's competitive advantage through image, reputation, segmentation, and long term cost saving. (Hasan Fauzi, 2010). Numerous papers looked at the relationship between CSP and CFP where the findings varied from no significant relationship to mild and strong positive links. Very few papers found explicitly negative links in terms of this relationship like the study of Wright and Ferris. (Demetriades & Auret, 2014). Mahoney and Roberts in the year 2007 measured the positive relationship between CSR and FP in Canada. They used ROA and ROE in their study as proxies for FP and control variables were debt level and firm size (FS). They explain a significant relationship of CSR on the

financial performance without controlling on the investment made and by not restricting on the R&D (Roberts & Mahoney, 2007). The study conducted by Kanwal on 15 listed companies in the Karachi stock exchange Pakistan showed a positive relationship of Corporate Social Performance and Corporate Financial Performance. The study put forward suggestions like companies should not only invest in CR but also disclose the same so as to ensure transparency. It can also help the firm to sustain the competitive market. (Kanwal, Khanam, Nasreen, & Hameed, 2013). Further Nadeem and Malik have also explained a significant relationship with effect to Profitability of the firm. They explain businesses as social units, which is involved in serving the stakeholder interest, and tend to execute CSR on priority basis and subsequent disclosure as well. Thus priority should be given not only in the performance of the CSR activities but also in disclosing the same (Bagh, Khan, Azad, Saddique, & Khan, 2017). The research by Miklesh and Manju Gupta on CSR relationship with the profitability focus on Indian Companies of the private sector. The results showed a positive result in the relationship thereby concluding profitability is an outcome of profit earned by the firm. Since every firm aim today to be better than yesterday and this thought ensures that they reap profit (Yadav & Gupta, 2015). Another study performed by Orlitzky, Schmidt and Rynes (2003) give a detailed information of a meta-analysis that they conducted on 52 studies that comprise of a total population of 33,878 observations give a varied view of relationship between Corporate Social Performance and Corporate Financial Performance. The results showed a positive relationship of Corporate Social Performance with the accounting measures and less positive relation with the market based measures. Reputation that derives out of CSR is considered to be a major fact. The study conclude by putting forward four major measures of Corporate Social Performance.

4. RESEARCH METHODOLOGY

The study was based on secondary data pertaining to 55 Indian companies selected from S&P BSE 500 Index for the years 2014 – 2018. These years were selected because the act of compulsory disclosure of CSR was passed in the year 2013. The panel data contain 220 observations. The analysis was done using dynamic panel regression with an assumption that the previous year financial performance affect the current year performance. The lag term of each dependent variable is explained with the CSR spent for the purpose of the study. The software used for analysis is STATA. The dynamic panel regression includes the levels equation and difference equation to make the result robust. The population taken for the study was 500 Indian Companies S&P BSE 500 Index. The data was collected from Prowess IQ database. The database provide three major components of CSR which include the amount to be spent by the companies as per the Act 2013, amount spent for CSR activities and the amount unspent. Of the 500 companies of S&P BSE Index, most of the companies have not disclosed these details and that has brought the sample size to 55. Hence the sample for this study is 55 Indian companies listed in S&P BSE 500, who have complied with the mandatory CSR disclosure requirements. Each firm is measured in multiple time period, so 55 companies measured 4 times (FY2014 - FY2018) form our dataset of 220 observations. The study uses secondary data available in the Prowess IQ database for the time period from 2014 - 2018. For the analysis of the data Stata software is used. Data analysis is done using the Dynamic Panel Regression using two step GMM approach. The unit root test is also

conducted to find stationarity of the panel data. Stationarity means we are capable of predicting the movements of the variables. Fisher Choi 2001 unit root test is run incorporating ADF and PP unit test with trend and without trend.

Variables and Operational Definition

Earnings per Share (EPS) – it is an indicator of company's profitability that is explained by company's profit allocated to each stock. It is calculated as profit after tax/no: of ordinary shares. It is an apparatus that showcase members use every now and again to measure the benefit of an organization before purchasing its offers. It is a term that is of much significance to speculators and individuals who exchange the securities exchange. The higher the income per offer of an organization, the better is its benefit.

Net Profit Margin (NPM) – it indicate the money related proportion used to ascertain the level of benefit an organization produces from its absolute income. It is calculated as net profit/revenue. The net revenue is planned to be a proportion of the general accomplishment of a business. A high net revenue shows that a business is estimating its items effectively and is practicing great cost control. It is helpful for contrasting the consequences of organizations inside a similar industry, since they are generally subject to a similar business condition and client base, and may have around a similar expense structures. A net overall revenue in overabundance of 10% is viewed as superb, however it relies upon the business and the structure of the business.

Return on Capital Employed (ROCE) - Profit for capital utilized or ROCE is a benefit proportion that estimates how proficiently an organization can create benefits from its capital utilized by contrasting net-working benefit with capital utilized. It is calculated as EBIT/capital employed. At the end of the day, return on capital utilized shows speculators what portion of profit is generated from capital employed. ROCE is a long haul productivity proportion since it demonstrates how adequately resources are performing while at the same time mulling over long haul financing. This is the reason ROCE is a more helpful proportion than profit for value to assess the life span of an organization.

Return on Net worth (RONW) – It can also be explained as Return on Equity. It reveals how much profit the company generate with the money invested by the equity shareholders. It is calculated as net income/shareholder equity. Profit for Net worth is a proportion created from the point of view of the investor and not the organization. By taking a gander at this, the investor checks whether whole net benefit was passed on to him, how much return he would get. It clarifies the proficiency of the investors' funding to produce profit. It's a proportion of productivity. A rising ROE recommends that an organization is expanding its capacity to create benefit without requiring as much capital. It likewise shows how well an organization's administration is conveying the investors' capital. At the end of the day, the higher the ROE the better.

The study consists of control variables or the constant variable used to control the effect on the outcome. The variables used are total assets which shows the firm size and debt-to-equity

ratio that show the leverage position of the firm.

Size (LNTA): The total of the assets of the firm are taken to evaluate the firm size. Firm value is usually affected by firm size. The bigger the firm size it is easier to get internal or external source of funds. There are two types of assets namely current assets and fixed assets. The proportion of those advantages will decide the firm asset structure. The state of the organization's advantages may influence the organization's policies. Organizations that have progressive current assets in their asset structure will in general use obligation to meet their financing exercises

Debt-to-Equity ratio (DTE): is a risk ratio which is determined by partitioning an organization's all out liabilities by its investor value. These numbers are accessible on the monetary record of an organization's budget summaries. The proportion is utilized to assess an organization's money related influence. The D/E proportion is an imperative measurement utilized in corporate fund. It is a proportion of how much an organization is financing its tasks through obligation versus completely claimed assets. All the more explicitly, it mirrors the capacity of investor value to cover every single remarkable obligation in case of a business downturn.

5. RESULTS

In order to test the direction of the relationship between Corporate Social Performance and Corporate Financial Performance a regression analysis was done. Four models were used to test the relationship. The first model consider Earning per Share as the dependent variable and CSR amount spent by the firm as the independent variable along with the leverage ratio which is the debt-to-equity ratio and size of the firm which is taken as log of the total assets of the firm. The second model considered the relationship of Net Profit Margin with the CSR followed by the third and fourth model that used efficiency variables such as Return on Capital Employed with CSR amount spent and Return on Net-worth with CSR spent a debt- to-equity ratio and log of total assets as independent variables. The model also includes all other unobserved firms and also the time series in two different variables. The error term of the model incorporate all possible errors that can occur.

Firms Financial Performance (ROCE, EPS, NPM, RONW) act as the dependent variable in the model. The model is as follows:

$$\text{EPS}_{it} = \alpha_1 + \beta_1(\text{EPS})_{it-1} + \beta_2(\text{CSP})_{it} + \beta_3(\text{DTE})_{it} + \beta_4(\text{LNTA})_{it} + \lambda_i + \mu_t + \epsilon_{it}$$

$$\text{NPM}_{it} = \alpha_1 + \beta_1(\text{NPM})_{it-1} + \beta_2(\text{CSP})_{it} + \beta_3(\text{DTE})_{it} + \beta_4(\text{LNTA})_{it} + \lambda_i + \mu_t + \epsilon_{it}$$

$$\text{ROCE}_{it} = \alpha_1 + \beta_1(\text{ROCE})_{it-1} + \beta_2(\text{CSP})_{it} + \beta_3(\text{DTE})_{it} + \beta_4(\text{LNTA})_{it} + \lambda_i + \mu_t + \epsilon_{it}$$

$$\text{RONW}_{it} = \alpha_1 + \beta_1(\text{RONW})_{it-1} + \beta_2(\text{CSP})_{it} + \beta_3(\text{DTE})_{it} + \beta_4(\text{LNTA})_{it} + \lambda_i + \mu_t + \dots + \epsilon_{it}$$

Where, (α_1) is the constant and (it) is used to distinguish between the current positions of different firms used in the study. $(it-1)$ is used to explain the lag effect. The lag effect is taken for one year. To define financial performance profitability indicative measure like Earning per Share, Return on Capital Employed, Return on Net worth, Net Profit Margin is considered. Their lag terms explain that previous year performance affect current year performance. The (λ_i) captures all unobserved firms and (μ_t) captures all unobserved time series. The (ϵ_{it}) explains all other variables that have not been included in the model. The control variables are LNTA which is the log of total assets and leverage ratio which is exhibited by debt-to-equity ratio is also considered for the model. The CSP measures include the amounts disclosed by the companies and the control variable taken for the study is firm size which is expressed as log of total assets and debt position of the firm by debt-equity ratio.

The analysis have been done using dynamic Panel Regression approach (system GMM) using both level and difference equations to analyze the relationship between CSR and financial performance.

There is an effect of lag term in the dependent variable as previous year's performance can affect the current year performance. To advocate the econometric issues like serial correlation, multicollinearity and endogeneity; Sargan and Abond test were are also performed.

Sargan test is used to check robustness of the model. It advocates and identify the econometric issue of endogeneity. The basic assumption of the test is that instruments are correlated with all the independent variable but uncorrelated with the error term. So an insignificant value of the sargan test shows that over- identifying restrictions are valid which means the instrument variables that have been injected to normalize the effect is true and valid. Test for Serial correlation (AR Test)-This test checks for autocorrelation. This basic assumption of the test is that say that the variables are not correlated with the independent variable but are correlated with the error terms. The Abond of Order 2 is taken to consideration for checking the significance as this explain autocorrelation in level equation. The insignificant value explains that there is no autocorrelation. The descriptive statistics is given in Table

Table 1: Descriptive Statistics

Variables	Mean	S.D	MIN	MAX
CSR Spent	175.383	504.6484	0.1	4000
CSR Act	322.381	691.920	6.8	4970
CSR Unspent	149.773	294.691	0.2	2023
EPS	46.311	193.304	-24.84	3127

NPM	14.911	14.025	-60.90	48.41
ROCE	14.106	11.540	-20.98	47.55
RONW	19.567	23.714	-49.21	315.09
LnTA	11.214	1.811	7.737	15.749
DTE	1.008	2.096	0	12.71
Total Assets	4,02,609.7	9,62,530.4	2,292.8	69,14,576

Note: CSRSPENT = The composite amount spent for CSR activities; CSRACT = The composite amount the companies have to spend for CSR activities according to the Act; CSRUNSPENT = The composite amount of CSR unspent in the firm; EPS= Earnings Per Share; NPM = Net Profit Margin, ROCE = Return On Capital Employed; RONW = Return On Net Worth; LNTA = Log of total assets; DTE = Debt-To-Equity Ratio; Total Assets = Total of all assets of the firm expressed numerically

Source: STATA Output

The CSR amount spent shows a mean value of 175.383 and standard deviation of 504.64 with a range from 0.1 to 4000. The variables CSR amount as per act and CSR amount that is unspent has a mean value of 322.381 and 149.773 respectively. The dependent variable Earnings per Share shows mean value of 46.311 with standard deviation of 193.304. This is because the values range from (-24.84) to 3127. The values of Net Profit Margin lie between (-60.90) to 48.41. It's mean value is 14.911 and standard deviation is 11.540. Return on Capital Employed has mean value of 14.10 and Return on Net worth has the mean of 19.56. Log of total assets shows the firm size showing values ranging from 7.737 to 15.749. The DTE shows the debt- equity ratio, and has a mean of 1.008 with standard deviation of 2.096. The range of the values is from 0 to 12.71. The Debt-to-Equity ratio represent financial leverage position of the firm indicated by proportion of shareholders equity and debt. Higher the ratio more the risk which indicate the firms have been aggressive in financing by growing its debt.

Table 2: Correlation

	EPS	NPM	ROCE	RONW	CSRSPENT	DTE	LNTA
EPS	1.00						
NPM	0.02	1.00					
ROCE	0.11	0.40	1.00				
RONW	0.05	0.18	0.61	1.00			

CSRSPENT	0.02	0.12	0.18	0.05	1.00		
DTE	-0.04	-0.00	-0.14	0.15	-0.05	1.00	
LNTA	-0.03	0.01	-0.27	-0.11	0.43	0.36	1.00

Note: CSRSPENT = the composite amount spent for CSR activities; EPS = Earnings per Share; NPM = Net Profit Margin, ROCE= Return on Capital Employed; RONW = Return on Net Worth; LNTA = Log of total assets; DTE = Debt-To-Equity Ratio

Source: STATA Output

The correlation metrics explain the correlation coefficient between the variables. The diagonal values of the table always show a set of ones as correlation between variables and itself is always 1. From the table it can be understood that there exists a positive relationship of CSR amount spent with all other variables; which means that when the amount spent for CSR activities increases the values of Earnings per Share, Net Profit Margin, Return on Capital Employed and Return on Net worth increases. It can also be seen that between the dependent variables there exists a positive relationship that is when one variable increase the other variables also increase. Log of total assets explaining the firm size have negative relationship with Earnings per Share, Return on Capital Employed and Return on Net worth which means that increase in firm size result in decrease of earnings and shareholders' funds. Studies have proven about moderate relationship between size and Earnings per Share because the relationship between these variable give important information of investors decision making on firms. The Debt-to-Equity ratio is also another control variable explain the leverage position of the firm. The metrics shows a positive relation of Debt-to-Equity ratio with Return on Net worth which indicate an increase in debt position of the firm increases the return on net worth which is a measure that is developed from the perspective of investor and not from that of the company. On the other hand, Debt- to-Equity ratio has negative impact on Earnings per Share, Net Profit Margin and Return on Capital Employed indicating opposite growth. Higher Debt-to-Equity ratio generally imply that the firm have higher interest payments, so a negative impact on EPS explain high level of interest payments. Profitability indicators like Net Profit Margin and Return on Capital Employed shows company's financial health. Therefore higher the dependence on the debt inversely affect the profit position.

Table 3: Panel Unit root tests

Variables	ADF		PP	
	Without Trend	With Trend	Without Trend	With Trend
CSRSPENT	486.681*	750.115*	486.681*	750.115*
EPS	517.750*	505.741*	517.750*	505.741*
NPM	393.271*	624.192*	393.271*	624.192*
ROCE	647.693*	701.694*	647.693*	701.694*
RONW	724.217*	781.903*	724.217*	781.903*

Note: CSRSPENT = the composite amount spent for CSR activities; EPS = Earnings per

Share; NPM = Net Profit Margin, ROCE = Return on Capital Employed; RONW = Return on Net Worth; LNTA = Log of total assets; DTE = Debt-To-Equity Ratio

The values in the table report the inverse chi-squared (P) statistic, which requires the number of panels to be finite. * denotes rejection of the null hypothesis --all panels contain unit root and accepts alternative hypothesis that at least one panel is stationary at 1 % level of significance.

Source: STATA OUTPUT

In statistics, a unit root test is used to examine whether a panel data with time series variable is non-stationary and possesses a unit root. The null hypothesis is generally defined as the presence of a unit root and the alternative hypothesis explain the stationarity of the panel data. Unit root tests shows for serial correlation or autocorrelation. However, while all processes with a unit root will exhibit serial correlation, we cannot conclude that not all serially correlated time series will have a unit root. The values in the table are the inverse chi-squared (P) statistic, which requires the number of panels to be finite. (*) denotes rejection of the null hypothesis indicating all panels contain unit root and accepts alternative hypothesis that at least one panel is stationary with significance level of (1 %).

Table 4: Regression results

Model	(A)	(B)	(C)	(D)
Dependent variables	EPS	NPM	ROCE	RONW
C	7.140 (0.812)	20.049 (0.001)*	30.645 (0.000)*	43.286 (0.000)*
$CSRSPENT_{i,t}$	0.007 (0.000)*	0.004 (0.000)*	0.006 (0.000)*	0.008 (0.000)*
$EPS_{i,t-1}$	0.060 (0.000)*			
$NPM_{i,t-1}$		0.598 (0.000)*		
$ROCE_{i,t-1}$			0.296 (0.000)*	
$RONW_{i,t-1}$				0.193 (0.000)*
$LNTA_{i,t}$	3.163 (0.220)	-1.630 (0.003)*	-2.169 (0.000)*	-3.296 (0.001)*
$DTE_{i,t}$	-12.016 (0.000)*	3.294 (0.000)*	2.059 (0.000)*	7.663 (0.000)*
Autocorrelation				
(1) order	-1.657 (0.097)***	-2.344 (0.019)**	-2.656 (0.007)*	-1.921 (0.054)***
(2) order	0.949 (0.342)	1.283 (0.199)	0.221 (0.824)	-0.139 (0.889)
Sargan test	26.368	25.646	19.600	21.834

	(0.283)	(0.317)	(0.665)	(0.530)
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Note: C=Constant term; CSRSPENT_{i,t} = the composite amount spent for CSR activities; EPS_{i,t-1}= Earnings Per Share with lag effect; NPM_{i,t-1}= Net Profit Margin with lag effect; ROCE_{i,t-1}= Return On Capital Employed with lag effect; RONW_{i,t-1}= Return On Net Worth with lag effect; LNTA_{i,t} = Log of total assets; DTE_{i,t} = Debt-To-Equity Ratio; * and ** indicate statistical significance of 1% and 5% level respectively. Values in the parenthesis are *p* values

Source: STATA OUTPUT

Arellano-Bond test for zero autocorrelation in first difference errors. The above results from the Arellano-Bond test show that no autocorrelation exist in first difference errors. Sargan test is used for testing over-identifying restrictions in the model. Under the null hypothesis the over-identifying restrictions are considered valid. The lag term of Earnings per Share, Net Profit Margin, Return on Capital Employed and Return on Net worth is statistically significant and positively influence the CSR amount spent. The Log of total assets which explain the firm size even though statistically significant negatively affects the Net Profit Margin, Return on Capital Employed and Return on Net worth. The firm size is indicated by the assets of the firm and when more funds drain out to increase the asset base it lowers the profit margin and lead to concern for shareholders. According to the studies the amount showing net profit margin is usually adjusted to exclude tax and include owner compensation. The Debt-to-Equity ratio show statically significant but negative influence on Earnings per Share.

6. DISCUSSIONS

Positive correlation of CSR amount spent on the dependent variables Earning per Share, Net Profit Margin, Return on Capital Employed, Return on Net worth indicating that when more amount get spent on CSR the firm profitability increases and satisfaction of shareholders' interests can be achieved. Negative correlation of Debt-to-Equity ratio with Earning per Share, Net Profit Margin, Return on Capital Employed; indicating that when firm have more of interest payments it reduces earnings of the firm and dependence on debt in turn affect profitable position of the firm. Inverse relation between Log of total assets which explains the firms' size to variables Earnings per Share, Return on Capital Employed, Return on Net worth. When more funds are allocated to increase the asset base without meeting the need of stakeholders it will lead to decrease in earnings and profitability. Unit roots test results explains stationarity of the panel data. Regression results shows that CSR have positive relationship on Earning per Share, NPM, Return on Capital Employed, Return on Net worth but the control variables like the Log of total assets and Debt-to-Equity ratio shows insignificant results with some variables. The Log of total assets which explain the firm size even though statistically significant negatively affects the Net Profit Margin, Return on Capital Employed and Return on Net worth of the company. The firm size is indicated by the assets of the firm and when more funds drain out to increase the asset base it lowers the profit margin and lead to concern for shareholders. The Debt-to-Equity ratio show statically significant but negative influence on Earning per Share. This indicate higher interest payments of the firm.

7. LIMITATIONS OF STUDY

The study intended to take a larger sample sized 100, but as most of the companies of the list have not disclosed the CSR details, it stood as a limitation for the study and this in turn has also lead to difficulty in giving a view of sector wise comparison of impact of Corporate Social Performance on Corporate Financial Performance. Most of the studies have taken particular element of the CSR measure whereas this study has considered the composite value which might not give selective implication of CSR on performance of the firm. The study fails to conduct a review of the past performance of the firms before which the Act came into being. Since data of most firms are not disclosed for the past years before that Act came into being it possess a difficulty to analyze the same. Hence future researches can be focusing on these aspects of sectoral analysis of the linkage between corporate social performance and corporate financial performance, comparative analysis of the relationship between these variables before and after making CSR disclosures mandatory.

8. CONCLUSION

Corporate Social Responsibility explains the obligation that each firms have towards the society. The resources of the society is the major input for any organization and they form the stakeholders in various firms. So it is a necessity of the firms to understand the needs and stand for social cause. The expenditure on CSR is not a cost but an investment as it helps to increase the firm value and create loyal customers. The Company's Act 2013 brought in amendment foreseeing the above mentioned need. Schedule vii section 135 explains about activities that the firm can invest into as a part of CSR. An investors decision depend on the disclosures like the balance sheet and profit and loss, which help them to understand the profitability and leverage position so as to decide whether to or not to invest. So it is necessary that firms clearly define their CSR activities and disclose the amount spent. The study used data of 55 Indian companies from the S&P BSE 500 list to identify the relationship between Corporate Social Performance and Corporate Financial Performance. The variables selected was Earnings per share , Net Profit Margin, Return on Capital Employed and Return on Net worth and the variables used to control the effect was Total Assets explain the firm size and Debt-to-Equity Ratio explain the leverage position of the firm. Through the analysis it is understood that there is positive relationship of CSR on dependent variables explaining the effect of stakeholder theory. Meeting the stakeholder interest where society plays a major role can help the firm to increase the profitability and market position. The study also shows a negative influence of firm size on earnings, return on capital employed and return on net worth of the firm explain the firms should focus on expenditures. At the same time the financial ratio indicating leverage position also showed negative influence on earnings, net profit margin and return on capital employed indicating a control over the interest payments and debt dependency. The results of the study is consistent with the empirical study by Kang et al, Mahoney and Roberts, which emphasized that CSR is actually considered as investment of the businesses which can be translated into performance. Therefore, if managers want to maximize shareholders their wealth they will have to invest in CSR activities besides other policies. (Roberts & Mahoney, 2007). Researchers concluded that expenditure on CSR should be treated as an investment because it increases the market opportunities of the firm, which result in higher financial performance. The results of the study proves compact with the

studies of Orlitzky et al. in the year 2003, who have also backed up the perspective of CSR being an investment leading to positive significant relationship.

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