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CSR Investments and Financial Performance of Maharatna Companies in India

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Abstract

Purpose: The research is made to know the relationship between CSR expenditure made by the Maharatna Companies of India and their financial performance. It is done to understand the pattern of CSR investment of these companies.

Methodology: The author uses CSR expenditure and financial performance indicators including return on assets, return on sales, asset turnover ratio, and return on equity for five years from 2019-20 to 2023-24 extracted from the annual report of 14 Maharatna companies to study the relationship of financial performance and CSR expenditure. It uses descriptive statistics, correlation, and regression to study the relation.

Findings: The study finds a weak correlation between CSR expenditure and financial metrics of the fourteen Maharatna companies taken as a sample. It contributes to the ongoing research on CSR effectiveness and strengthens long-term strategy on corporate sustainability.

Practical Implications: This study helps business executives to consider CSR expenditure as a long-term investment rather than a short-term profit-generating strategy. It helps in earning reputation and goodwill.

Social implications: The investment made by Maharatna Companies in CSR creates a significant change in society. It helps in achieving social responsibilities and changing stakeholders' perspective towards the company.

Originality: The research is the original work of the writer. The writing encourages future research on understanding the qualitative dimensions of CSR expenditure like brand equity-enhancing effects, employee satisfaction and durability of the business.

Keywords: Maharatna Companies, CSR Expenditure, Financial Performance, sustainability, ROA, ROS

Introduction

Corporate Social Responsibility deals with the moral and social aspects of a business. It is important in managing the corporate sector. There has been an increase in attention paid to the sustainability aspect of the business. Corporate social responsibility is adding to solving socio-economic challenges. The Companies Act 2013 has made it necessary and mandatory for companies exceeding a specific threshold limit in their turnover, net worth, and profitability to contribute in CSR activities. Corporations are now playing a critical role in the development of the nation (Kapoor & Dhamija, 2017). This has also played an important role in creating a good corporate governance framework for companies and establishing a strong strategy for governance.

There has been a debate about the relationship between corporate finance and the performance of the company. The stakeholder theory suggests that investment in CSR activities increases the brand name of the company. It increases the stakeholder's trust. It helps them earn a long-term financial reward for the company. However, there is a risk of the resources being diverted from the profit-making motive. It may

lead to an extra financial burden on the company without any direct financial returns (Jensen & Meckling, 1976). Many researchers provide different opinions. Some research indicates a positive relationship and a significant contribution to CSR expenditures (Mishra & Suar, 2010).
Maharatna Companies are the few largest public sector enterprises in India that play a dominant role in the Indian economy. These companies must also mention their CSR contribution and briefly describe their CSR programs across different areas. These companies contribute to wide sectors, including education, health care, environmental sustainability, and rural development. This study aims to understand the relationship between Corporate Social responsibility (CSR) expenditure and the financial performance of the Maharatna Companies of India. The outcome of this study will significantly benefit the decision-makers within the corporations, policymakers, and stakeholders in judging the financial viability of CSR initiatives in India's public sector enterprises.

Review of Literature

CSR is considered an obligation towards social welfare towards society. The CSR of any company depends on the environment and the regulatory structure of the country in which it operates. Garg & Gupta (2020) found that mandatory CSR compliance improved corporate reputation and lowered financial risk, thereby enhancing firm performance. Shirasu & Kawakita (2020) note that in Japan, CSR investment did not reflect positively on stock price improvement in the short run, but it eventually enhanced stakeholder engagement and risk management at the firm, thus leading to perceived enterprise value appreciation in the long run. Market signs like Tobin's Q risk-adjusted returns and enterprise value are widely used variables in analyzing CSR. Investing in CSR has a positive effect on stock market performance, where there is good brand loyalty (Kapoor & Dhamija, 2017). Research on Indian banks has found that financial firms enjoyed more benefits from CSR initiatives since they helped improve consumer trust and regulatory goodwill (Bandna et al., 2024). Companies in these countries have incorporated CSR into their business plans, often balancing their sustainability efforts with financial goals. Research finds that investments in CSR are profitable in the long term, as their outcome helps enhance the corporate reputation, risk reduction, and confidence building among investors. Some studies have found risk in creating financial value while investing in CSR. CSR spending is not a profit booster. (Carroll & Hatfield, 1985) (Maqbool & Zameer, 2018) (Singh & Kadyan, 2017). The study by Kadyan (2017) found that Indian Fortune 500 companies found CSR investments as welfare development initiatives measurable financial gain could not be accounted for by such investments from those companies. Manufacturing and heavy industries considered CSR expenses as an additional operational cost instead of as an investment that would yield tangible returns (Arora et al., 2020). It is the sustainability tool that helps to survive the competition. A good governance can make a good framework for CSR policies.

Research Methodology

The study covers 14 Maharatna companies. It aims to understand the impact of the financial performance of the Maharatna companies on CSR expenditure. The data are collected from sustainability reports, annual reports, and business responsibility reports about CSR expenditure and financial performance for the last five years (2019-20 to 2023-24). The sample consists of a combination of energy, manufacturing, and financial service companies to ensure diversity of representation in this study. The following 14 Maharatna companies are included in the study. These are the government corporation that are important in the Indian economy. They are accountable to the public. They make huge contributions to education and skill development, health and sanitation, environmental sustainability, community development, employee welfare, and safety. CSR expenditure is the dependent variable and Return on Assets (ROA), Return on Equity (ROE), Return on Sales (ROS), and Asset Turnover Ratio are the independent variables for financial performance. Mean median, skewness etc are found to understand the descriptive statistics. Pearson Correlation is employed to know the strength and direction of the relationship between CSR expenses and financial performance. The multiple Linear Regression Model shows the causal relationship between CSR spending and financial performance.

The objective of the study includes

1. To find the relationship between the Financial Performance of Maharatna Companies and their CSR spending.
2. To study the impact of Maharatna Companies' financial performance on CSR spending

To study the objectives, the following hypotheses are framed

H1: ROA has no impact on CSR Spending

H2: ROE has no impact on CSR Expenses

H3: Asset Turnover Ratio has no impact on CSR Expenditure

H4: ROS has no impact on CSR Spending

The Regression Model for the same is

$$CSR\ Expenditure = \alpha + \beta_1(ROA) + \beta_2(ROE) + \beta_3(ROS) + \beta_4\,(Asset\ Turnover\ Ratio) + \epsilon$$

where:

α = Intercept

$\beta1,\beta2,\beta3,\beta4$ = Coefficients of independent variables

ϵ = Error term

Analysis and Result

The mean CSR expenditure of Maharatna company is 206.08 crores. The standard deviation is 149.86. The maximum expenditure was 634 crores, while the minimum spending by any of the companies was less than 4.01 crores. The average is 6.92 percent in return on assets (ROA), with the minimum value being at -4.82 percent, meaning some companies have quite negative returns or losses whilst the maximum rests at 17.2 percent, suggesting profitable operations for some. The asset turnover ratio has a minimum value of 0.12 and a maximum is 15.07. The ratio can be interpreted as the companies do not spend much on CSR. The companies are not operationally effective. The positive skewness is 1.25 only.

Table 1 contains the details of the same. The average mean of return on equity (ROE) is 16.78 percent, return on sales (ROS) is 12.76 percent. The maximum and minimum values are from -5.79 percent to 36.5 percent.

Table 1: Descriptive Statistics

Statistics	*CSR Exp in crores*	*ROA%*	*ROE%*	*ROS %*	*Asset Turnover Ratio*
Mean	206.0831429	6.918142857	16.78442857	12.76257143	3.6598571
Standard Error	17.91198265	0.554574027	1.690137028	1.145910483	0.5285031
Median	162.195	6.805	13.33	11.16	1.39
Mode	304.92	1.51	13.04	11.16	4.25

Standard Deviation	149.8623988	4.639899203	14.14070091	9.587374954	4.421774
Sample Variance	22458.73858	21.52866462	199.9594221	91.91775851	19.552085
Kurtosis	1.187198504	-0.408159792	2.373042245	-0.764272542	0.7460609
Skewness	1.248001045	0.183471847	1.5462194	0.434199084	1.4322352
Range	629.99	22.02	68.12	42.29	14.95
Minimum	4.01	-4.82	-7.08	-5.79	0.12
Maximum	634	17.2	61.04	36.5	15.07
Sum	14425.82	484.27	1174.91	893.38	256.19
Count	70	70	70	70	70

The correlation analysis displayed in table 2 shows the weak linkages among CSR spending and financial parameters which suggest that most Maharatna companies actually spend on CSR for non-financial reasons. CSR is a strategy for sustained long-term view rather than for short-term performance indicators. Policymakers must be aware that compliance towards CSR is more by regulation than profit motive. CSR consideration should be linked to social outcomes rather than to monetary returns. The correlation analyzed reveals that CSR outlay seems to have a weak association with financial performance including return on assets (ROA), return on equity (ROE), return on sales (ROS), and asset turnover ratio. The weak correlation coefficients imply that financial characteristics do not prove to be a decisive factor in determining the levels of CSR expenditure. These results are also consorted with that of the research by Aupperle, Carroll, and Hatfield (1985), where they found no noteworthy association of corporate social responsibility and its profitability. Likewise, Lin, Yang, and Lion (2009) found that CSR is unable to realize short-term financial benefits but seems to have a roll on long-term sustainability of the business.

Table 2: Correlation Analysis for the Year 2019-20 to 2023-24

	CSR Exp in crores	*Return on Assets (ROA) (%)*	*Return on Equity (ROE) (%)*	*Return on Sales (ROS) (%)*	*Asset Turnover Ratio*
CSR Exp in crores	1				
Return on Assets (ROA) (%)	0.137103	1			
Return on Equity (ROE) (%)	-0.0491	0.34935	1		
Return on Sales (ROS) (%)	0.187998	0.16026	0.138118	1	
Asset Turnover Ratio	-0.04804	0.057024	0.537837	0.000882	1

The regression analysis shown in table 3 further proved the link between CSR expenditure and financial performance indicators as being weak. The model only explained 6.14% of variables in CSR spending. Extremely low explanatory power means that financial metrics are not a primary determinant of CSR spending. The adjusted R-Square value of 0.0036 confirms that these financial variables can provide almost no prediction for CSR investments.

The p-values of all the independent variables were greater than 0.05. Since all of them are greater than the significance level of 0.05, we fail to reject the null hypotheses and conclude that financial performance indicators do not affect CSR expenditure.

The coefficient for return on assets stands at 5.01, indicating CSR expenditure is increased by a marginal amount for every increase in ROA of one unit. There is a coefficient of 2.85 relating to return on sales, supported weakly for its acceptance of small advances in CSR. The asset turnover ratio, with a coefficient value of 0.57, exhibits almost no action on CSR spending.

The findings match that of Maqbool and Zameer (2018), who they undertook a study on Indian banking firms and found that CSR expenditures cannot be directly said to enhance the financial performance of these banks in the short-run, although it influences the brand value and confidence from customers in the long-term. Non -statistical significances in regression coefficients of ROA, ROE, ROS, and asset turnover ratio indicates that CSR tends to be determined more by external factors such as government regulations, stakeholder expectations, and corporate strategy than internal financial performance(Mukherjee and Bird, 2016).

Table 3: Regression Analysis

Regression Statistics	
Multiple R	0.247846605
R Square	0.06142794
Adjusted R Square	0.003669659
Standard Error	149.5871742
Observations	70

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	157.4775	40.49270296	3.889	0.000239157
Return on Assets (ROA) (%)	5.005724	4.22491817	1.1848	0.240406694
Return on Equity (ROE) (%)	-1.45711	1.642471517	-0.8871	0.378272322
Return on Sales (ROS) (%)	2.846999	1.915079034	1.4866	0.141949437
Asset Turnover Ratio	0.572982	4.910339599	0.1167	0.907466381

Findings and Conclusion

CSR expenditure are long term investments toward the society. It can bring reputation towards the company. Policymakers must make the framework strong enough that it promotes more social welfare. It should be a social initiative. The research identifies that CSR contribution is a regulatory expect accomplished by the Maharatna companies. The study of Garg and Gupta (2020) matches the findings that regulatory pressure forms a critical component in determining CSR decision-making. Maharatna's CSR is more compliance-driven than profitability-driven. There are possibilities of further research on understanding the qualitative dimensions of CSR expenditure like brand equity-enhancing effects, employee satisfaction and durability of the business, and even how some industries treat CSR as different from others because of differences in private company's spending behavior compared with that of public sector enterprises. Future research may choose to include survey methods or interviews with the corporate executives who to get at deeper understanding of why firms allocate resources to CSR beyond compliance requirements.

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