CU Global Management Review
Vol. 14, Issue 1, January-June 2025, pp. 37-42

Impact of CSR on Return on Assets (ROA), Return on Equity (ROE) and Earning Per Share (EPS) of Information Technology firm

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Abstract

Five information technology organizations were chosen, and the relationship between CSR (corporate social responsibility) and FP (financial performance) was examined. Design, Methodology, and Approach: Information was gathered from the top five most successful businesses. of the field of information technology (IT). The businesses are chosen according to their market share. Data analysis has made use of secondary data. The information is gathered from CSR and annual reports. The Company's official website for the year is where these reports are found. The data has been analyzed using correlation analysis. It was discovered that there is no meaningful correlation between CSR and any of the financial metrics, including return on equity (ROE), earnings per share (EPS), and return on assets.

Key words: Social responsibility, Technology, ROA, EPS, ROE

1. Introduction

In this VUCA World where everything is becoming unpredictable, the companies and businesses are urging towards sustainable development. Companies must frame strategies and schemes that provide benefits to the Company, business, and organization in terms of financial performance. One of the main contributors coming out from the literature for sustainable development is Corporate Social Responsibilities. Infosys has taken the initiative and started CSR doing named computer classroom which was launched in 1999. Under this initiative 2567 computers were distributed to various institutes across nation. TCS started its CSR activities under the name TCS Foundation in 2015. Wipro started CSR Activities in the year 2002 as CSR by WIPRO Cares which focuses on developmental issues of the underprivileged society. L & T started the CSR activities in the year 2014 and focuses on vocational training, health, Water Management and holistic development of School Children and Healthcare. HCL

started CSR activities in the year 2011. All the five companies from their contribution year to initiate CSR activities are rigorously active in conducting CSR activities and spending crores of rupees in doing that. This Crores investment in CSR activities gives rise to the question to the business field researcher that contributing a lot to CSR may or may not result in the improvement of final performance of the Company. After considering the CSR contribution by IT companies an attempt has been made to identify the impact of social responsibility on IT companies' financial performance.

It was found in the study that CSR has an impact on both financial and non-financial performance of the listed companies. Additionally, the study found that CSR enhances a company's reputation and that ownership patterns did not have a substantial influence on CSR success (Krishna, 2012). According to the author, corporate social responsibility (CSR) improves profitability and should be seen as an investment rather than a cost that promotes sustainability in both business and society. CSR and organizational performance in relation to revenue and return on assets (ROA) as financial metrics (Siddiq, 2014). Study revealed that CSR helps in making financial performance better. As a result, it is advisable that businesses should form a separate department for CSR to focus on financial performance which is also mentioned in new guidelines of companies act 2013. The goal of CSR is to help the business succeed in the long run. CSR concept is gaining popularity and expanding fast. The effect of CSR on Pakistani banks' performance in the service industry has been established by a study. It was found that in Pakistan there is no awareness of CSR (Malik & Nadeem, 2014).

CSR expenditures made by 19 banks in the banking industry between 2013 and 2014. 535.85 crores of Indian rupees were spent by these 19 banks in CSR activities. This implies that banks are designing their CSR policies and projects in a constructive way. greater influence on overall performance compared to expenses like sponsorships and gifts (Singh, 2015). A comprehensive strategy, corporate social responsibility benefits businesses, shareholders, and society by promoting sustainable social, economic, and environmental development (Bafna, 2017). Large studies on CSR and its impact on financial performance are available, but the mixed results have found. The results of various studies show that CSR has a great impact on company's value, but CSR is not only a factor. There are various other factors which impact the company's value. Also implementing CSR is not so easy, it includes cost. There are various controversies with respect to implementation of CSR and its impact on company's performance. Some researchers proved that implementing CSR has a long-term benefit at a very nominal cost. It was also observed that company to company impact differs. The difference is due to the nature of the companies. So different studies have different views.

Studies have proven that the CSR (corporate social responsibility) idea has delivered several good things to an organization or company. CSR is an activity that works on creating a strong relationship between customers and business enterprises, and between business enterprises and customers. It additionally teaches them to be greater moral approximately their product and toward their personnel and customers. Moreover, it motivates corporations to paint society and the environment. Many corporations are on their manner to accomplish sustainable, renewable, and recyclable options after

making CSR and incorporated a part of themselves. Majority of the studies have been performed in western countries especially CSR in banking and in pharmaceutical sectors, but few studies are available in India specifically for the information technology sector and for the period selected for the study. This study focuses on CSR activities and its impact on IT companies' financial performance. Based on the gap, the following objectives was framed:

1. To identify the correlation concerning CSR and ROA

2. To identify the correlation linking CSR and ROE

3. To identify the correlation relating to CSR and EPS

In view of achieving these objectives the following hypothesis has been generated:

H01: CSR and ROA have no significant relation

H02: CSR and ROE have no significant relation

H03: CSR and EPS have no significant relation

2. Method

2.1 Sample selection and data collection

Descriptive research is used for the study. ROE, ROA and EPS are financial indicators and taken as dependent variables whereas CSR is independent variable. Data was collected from the top 5 leading companies in the Information Technology (IT) sector. The reason for selecting these companies is because these are large organizations and their contribution to CSR is ample. Also, various other studies are in which companies are chosen based on market capitalization (Yusof & Ismail, 2016; Mehar & Rahat, 2017; Truptha, 2017). Data of 2014-2021 have been taken for analyzing the data. The companies selected for the study are Wipro, TCS, L&T and HCL technologies. The companies are selected based on their market share. Secondary data is used for the study. Data gathered from annual reports and a few more reports based on CSR and sustainability. A correlation test was applied to analyze the data.

2.2 Data Analysis

CSR is considered independent variables whereas financial performance indicators are considered as dependent variables. Dala analysis done using correlation. Following are the results of Correlation between CSR and ROA.

Table 1

Relationship of CSR with ROA

		CSR	ROA
CSR	Pearson Correlation	1	.131
	Sig. (2-tailed)		.455
	N	35	35
ROA	Pearson Correlation	.131	1
	Sig. (2-tailed)	.455	
	N	35	35

Table 1 *shows that the significant value is .455, which reflects that hypothesis* H_{01} *has been accepted. Hence no significant correlation was found in between ROA and CSR. Below given is the correlation between ROE and CSR.*

Table 2

Relationship of CSR with ROE

		CSR	ROE
CSR	Pearson Correlation	1	.264
	Sig. (2-tailed)		.125
	N	35	35
ROE	Pearson Correlation	.264	1
	Sig. (2-tailed)	.125	
	N	35	35

Table 2 shows that the significant value is .125 hence the hypothesis has been accepted. It was found that there is no significant correlation between ROE and CSR. Lastly, the relationship of Return on Equity (EPS) and Corporate social responsibility (CSR) have been seen.

Table 3

Relationship of CSR with EPS

		CSR	EPS
CSR	Pearson Correlation	1	.048
	Sig. (2-tailed)		.786
	N	35	35
EPS	Pearson Correlation	.048	1
	Sig. (2-tailed)	.786	
	N	35	35

Table 3 shows that the significant value is .786 hence hypothesis H03 has been accepted. And we can say that no significant correlation found between EPA and CSR. Above analysis mentioned on table shows that all independent variable CSR has no significant correlation with dependent variable i.e ROA, ROE and EPS.

3. Discussion

One of the major findings is that all the selected companies contributing more or equal to 2% of their average profits towards CSR and fulfilling the mandatory rule of Companies Act, 2013. It was depicted that CSR has no significant relation with all the dependent variables. CSR has no significant correlation with ROE. As it is known that a good image will attract investors to invest in the company, but this may not be true all the time. Sometimes investors do not have a positive perception towards CSR activities. They did not consider it beneficial and hence the interest of investors towards investment in capital reduces. Results is matched with studies of Yusuf and Ismail (2016), Bafna (2017) and Singh, Shrivastava and Rastogi (2015). Similarly, CSR has no effect on EPS,

Low value of EPS remains very less in hand of company. Due to that the company's possibilities to distribute good dividends to investors are quite few. Hence it can be said that capital which is invested by investors in a company has no impact on the community. Same result of the study is also discovered by Chikkaveerayyanavar and Kallimath (2021), Patharia and Arju (2017) and Iqbal, Ahmad, Hamad and Saltar (2014). Study also shows that there is no significant impact of CSR on ROA. ROA is the indicator for investors in analyzing the efficiency of a firm to manage its assets and generate profit. Greater ROA is good for any company. Same results are found in studies of Malik and Nadeem (2014), Prabhavathi and Dinesh (2014).

4. Conclusion

This study concluded that there is no significant relation between CSR with financial performance of a firm. Hence a need has been arising to incorporate CSR in business strategy. Corporations must understand the importance of CSR as these organizations are sustaining only due to this large society. Also, it may have indirect impact in non-monetary terms like increase in goodwill and client recognition. The limitations of the study are many, but some are lack of information on CSR spending has become a primary hindrance. Since companies are publishing CSR information only after the revised Companies Act norms, it has become hard to check the past traits in CSR and related variables. Industry other than Information Technology can be taken for further study as well as more recent years will be taken to get more accurate results.

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