# THE ROLE OF MANDATORY CSR REPORTING IN SHAPING FINANCIAL PERFORMANCE: INSIGHTS FROM INDIAN IT SERVICE FIRMS

**Kavit Anjaria[1], Dr. Rajesh M. Patel[2]**

[1] PhD Research Scholar, School of Commerce, Gujarat University
[2] Assistant Professor, NC Bodiwala and Principal MC Desai Commerce College

**Abstract**

The Indian IT services industry, a global leader in technology outsourcing, contributed 7.4% to India's GDP in 2023, while driving foreign exchange earnings, employment, and innovation. Rapid growth, fuelled by digital transformation, AI, and automation, has also brought challenges of global competition, talent shortages, and sustainability integration. To address broader social and environmental concerns, the Companies Act, 2013 mandates that qualifying firms spend at least 2% of average net profits on Corporate Social Responsibility (CSR) activities. In IT services, CSR initiatives largely focus on education, digital literacy, skill development, and community welfare, reflecting strategic investments in human capital alongside regulatory compliance.

Despite the prominence of CSR, its financial impact remains debated, with global studies reporting mixed evidence. Limited research exists on Indian IT firms, where sector-specific dynamics may influence outcomes. This study investigates the relationship between CSR expenditure and financial performance of ten leading IT companies: TCS, Infosys, HCLTech, Wipro, Tech Mahindra, Persistent, Coforge, Mphasis, Zensar Technologies, and Birlasoft over 2019–2024. Using Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Revenue Growth (RG) as performance indicators, the study offers empirical insights into the financial implications of mandatory CSR practices.

**Keywords:** Corporate Social Responsibility (CSR), Financial Performance, Indian IT Services Sector, Profitability, Sustainability.

## INTRODUCTION:

The Indian IT services industry has established itself as a global leader in technology outsourcing, contributing nearly 7.4% to India's GDP in 2023. It plays a pivotal role in generating foreign exchange, fostering employment, and driving technological innovation. Over the past decade, the sector's expansion has been fueled by digital transformation, cloud adoption, artificial intelligence, and automation. Alongside these advancements, however, the industry faces pressing challenges such as intensifying global competition, skill shortages, and the imperative to embed sustainability within corporate strategies.

Corporate Social Responsibility (CSR) has emerged as a critical regulatory and ethical framework in India, designed to ensure that businesses actively contribute to social and environmental development. Under the Companies Act, 2013, qualifying firms are mandated to allocate at least 2% of their average net profits from the preceding three years to CSR initiatives. This statutory requirement aligns business practices with the United Nations' Sustainable Development Goals, while strengthening corporate transparency and accountability.

Within the IT services sector, CSR priorities differ from those of resource-intensive manufacturing industries due to the relatively low environmental footprint. Instead, companies predominantly focus on education, digital literacy, skill development, and community welfare. These initiatives are regarded not only as compliance-driven obligations but also as strategic investments in human capital, reflecting the principles of stakeholder theory and the resource-based view.

Despite widespread CSR adoption, its long-term financial implications remain contested. While global research offers mixed evidence—ranging from strong positive associations to weak or negligible effects sector-specific studies on Indian IT firms are sparse. This knowledge gap underscores the need for a closer examination of how CSR disclosure influences firm-level financial performance.

Addressing this gap, the present study evaluates the relationship between CSR expenditure and financial performance among ten leading Indian IT service companies Tata Consultancy Services, Infosys, HCLTech, Wipro, Tech Mahindra, Persistent Systems, Coforge, Mphasis, Zensar Technologies, and Birlasoft over the period 2019–2024. The analysis employs key financial indicators including Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Revenue Growth (RG) to assess the broader strategic and financial implications of mandator

## LITERATURE REVIEW

**Kusumawati, Asyilah & Bukhori (2022):**

Analyzing Indonesian manufacturing firms (2015–2019), this study found CSR had no direct effect on ROE, while leverage significantly moderated the CSR–performance link. Earnings management showed no moderating role, highlighting capital structure as a key factor.

**Nguyen, Nguyen & Nguyen (2022):**

For Vietnamese non-financial firms (2012–2017), CSR negatively impacted ROA. Environmental CSR had a strong negative effect, social CSR a weak positive one, and economic CSR was insignificant, showing the impact depends on CSR activity type.

**Hamdani, Zatira & Suharti (2022):**

In Indonesian manufacturing firms (2016–2020), environmental performance and green accounting boosted CSR adoption, but only environmental performance improved ROA. CSR itself showed no direct effect, emphasizing the value of environmental practices.

**Coelho, Jayantilal & Ferreira (2023):**

Using ESG indices, this study found CSR positively influences ROA, ROE, and market value, especially in high-performing firms, supporting Stakeholder Theory and framing CSR as a strategic asset.

**Sawhney, Goel & Bhardwaj (2023):**

For Indian firms, CSR expenditure showed no significant effect on EPS, ROA, or Tobin's Q. CSR disclosure negatively impacted EPS and Tobin's Q, suggesting mandatory CSR may act as a compliance cost rather than a strategic tool.

**Azzahra, Wafdayanti & Hersugondo (2024):**

In Indonesian banks (2018–2022), CSR showed no direct significant effect, but larger firms benefited more. CSR positively influenced ROA while negatively affecting governance and leverage, highlighting firm size as a moderating factor.

## RESEARCH GAP

While substantial literature explores the association between Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP), the majority of existing studies concentrate on voluntary CSR practices or on manufacturing industries characterized by significant environmental footprints. In contrast, the Indian IT services sector presents a distinctive CSR orientation, with initiatives centered on education, digital literacy, and community development, owing to its comparatively low environmental impact. Despite the sector's critical role in India's economy, limited scholarly attention has been devoted to examining the implications of mandatory CSR in IT firms or evaluating its long-term financial outcomes.

Moreover, prior studies frequently rely on a single financial metric, offering only a narrow perspective on the CSR–CFP relationship. This study addresses these limitations by analyzing the effect of mandatory CSR expenditure on multiple indicators of financial performance Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Revenue Growth (RG) using a five-year panel dataset (2019–2024) from ten leading Indian IT service companies. This multi-metric, longitudinal approach enables a more comprehensive assessment of CSR's financial impact within the sector.

## THEORETICAL FRAMEWORK

This research is grounded in two principal theoretical lenses: **Stakeholder Theory** and the **Resource-Based View (RBV)**, which together provide a comprehensive framework for analyzing the influence of Corporate Social Responsibility (CSR) on the financial performance of Indian IT service firms.

**Stakeholder Theory**, advanced by Freeman (1984), posits that organizational success is contingent on effectively balancing the interests of multiple stakeholders, including employees, customers, investors, and the wider community. CSR initiatives—such as digital literacy programs, educational outreach, and community development—resonate with this perspective by fostering trust, strengthening relationships, and enhancing goodwill. In the IT services sector, where human capital, client trust, and service quality are central to business continuity, CSR initiatives can directly enhance stakeholder engagement, reinforce brand reputation, and promote sustainable profitability.

The **Resource-Based View (RBV)**, articulated by Barney (1991), asserts that firms achieve sustained competitive advantage through resources that are valuable, rare, inimitable, and non-substitutable. When integrated into core strategy, CSR becomes such an intangible resource—building brand equity, attracting and retaining skilled professionals, and nurturing innovation. Within the knowledge-intensive IT industry, where intellectual capital and reputation are key drivers of value creation, CSR acts as a strategic differentiator in a globally competitive market.

**Linkage to Financial Metrics:** This study operationalizes CSR's impact by examining four financial indicators: Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Revenue Growth (RG). These measures enable an empirical assessment of whether CSR contributes to operational efficiency, shareholder returns, profitability, and long-term growth.

**Return on Assets (ROA)** reflects how efficiently companies use their resources to generate profits; CSR can boost this by improving operational processes and stakeholder support.

- **Return on Equity (ROE)** measures returns to shareholders; CSR can strengthen brand reputation and lower perceived risk, indirectly impacting shareholder value.
- **Net Profit Margin (NPM)** captures operational efficiency; CSR initiatives that improve employee morale and customer loyalty can reduce costs and increase profitability.
- **Revenue Growth (RG)** represents market expansion; CSR-driven brand differentiation and positive public perception can open new opportunities and sustain growth.

By integrating Stakeholder Theory and the Resource-Based View (RBV), this framework posits that strategically embedded CSR initiatives create both societal value and measurable financial benefits. It further provides the rationale for hypothesizing that CSR exerts a more pronounced influence on efficiency and profitability indicators—specifically Return on Assets (ROA) and Net Profit Margin (NPM)—while demonstrating comparatively variable or weaker effects on shareholder-oriented returns (ROE) and market-driven growth (RG).

## RESEARCH METHODOLOGY

**Research Design:** This study employs a descriptive–analytical quantitative research design to evaluate the relationship between Corporate Social Responsibility (CSR) and the financial performance of Indian IT service firms. The approach integrates secondary data analysis with statistical modeling to examine how CSR intensity influences selected financial performance indicators.

**Sample:** The research sample comprises ten major Indian IT firms—Tata Consultancy Services (TCS), Infosys, HCLTech, Wipro, Tech Mahindra, Persistent Systems, Coforge, Mphasis, Zensar Technologies, and Birlasoft. These firms were chosen through purposive sampling on the basis of their industry leadership and adherence to the mandatory CSR provisions outlined in the Companies Act, 2013. The study spans a five-year timeframe (2019–2024), generating a balanced panel dataset of 50 firm-year observations.

**Data Collection:** Data were gathered exclusively from secondary sources, including audited annual reports, official corporate filings, and credible financial databases such as Screener.in and Moneycontrol.com. To ensure comparability across firms of varying sizes, CSR expenditure was standardized as a proportion of net profit, enabling a more accurate cross-sectional and longitudinal analysis.

**Variables:**

- **Independent Variable: CSR Intensity = (CSR Expenditure ÷ Net Profit) × 100**
- **Dependent Variables:** Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Revenue Growth (RG)
- **Control Variables**: R&D Intensity, Total Liabilities, and Firm Size (measured by total assets), Capital Expenditure.

**Statistical Techniques:**

To analyze the data, the following methods were used:

- **Descriptive Statistics** to summarize CSR and financial performance trends.
- **Correlation Analysis** to measure the strength and direction of relationships between CSR intensity and financial metrics.
- **Multiple Regression Models** to determine the effect of CSR on ROA, ROE, NPM, and RG while controlling for R&D intensity and liabilities.

**Model Specification:**

1. ROA= β0 + β1 (CapEx Intensity) + β 2 (R&D Intensity) + β3 log (Employees) + β4 (Total Liabilities) + β5 (CSR Intensity).
2. ROE= β0 + β1 (CapEx Intensity) + β 2 (R&D Intensity) + β3 log (Employees) + β4 (Total Liabilities) + β5 (CSR Intensity).
3. NPM= β0 + β1 (CapEx Intensity) + β 2 (R&D Intensity) + β3 log (Employees) + β4 (Total Liabilities) + β5 (CSR Intensity).

4. RG= β0 + β1 (CapEx Intensity) + β 2 (R&D Intensity) + β3 log (Employees) + β4 (Total Liabilities) + β5 (CSR Intensity).

# HYPOTHESIS

**Relationship Hypotheses**

**ROA – Asset Utilization Efficiency**

- **$H_0$:** Mandatory CSR spending has no significant relationship with the long-term Return on Assets (ROA) of IT service companies.
- **$H_1$:** Mandatory CSR spending has a significant positive relationship with the long-term ROA of IT service companies.

**ROE – Shareholder Returns**

- **$H_0$:** Mandatory CSR spending has no significant relationship with the long-term Return on Equity (ROE) of IT service companies.
- **$H_1$:** Mandatory CSR spending has a significant positive relationship with the long-term ROE of IT service companies.

**Profitability – Net Margins**

- **$H_0$:** Mandatory CSR spending has no significant relationship with the long-term profitability (Net Profit Margin) of IT service companies.
- **$H_1$:** Mandatory CSR spending has a significant positive relationship with the long-term profitability of IT service companies.

**Revenue Growth – Market Expansion**

- **$H_0$:** Mandatory CSR spending has no significant relationship with the long-term Revenue Growth of IT service companies.
- **$H_1$:** Mandatory CSR spending has a significant positive relationship with the long-term Revenue Growth of IT service companies.

**ROA – CSR Disclosure Effect**

- **$H_0$:** Mandatory CSR disclosure has no significant effect on the long-term ROA of IT service companies.
- **$H_1$:** Mandatory CSR disclosure has a significant positive effect on the long-term ROA of IT service companies.

**ROE – CSR Disclosure Effect**

- **$H_0$:** Mandatory CSR disclosure has no significant effect on the long-term ROE of IT service companies.
- **$H_1$:** Mandatory CSR disclosure has a significant positive effect on the long-term ROE of IT service companies.

**Profitability – CSR Disclosure Effect**

- **$H_0$:** Mandatory CSR disclosure has no significant effect on the long-term profitability of IT service companies.
- **$H_1$:** Mandatory CSR disclosure has a significant positive effect on the long-term profitability of IT service companies.

**Revenue Growth – CSR Disclosure Effect**

- **$H_0$:** Mandatory CSR disclosure has no significant effect on the long-term Revenue Growth of IT service companies.
- **$H_1$:** Mandatory CSR disclosure has a significant positive effect on the long-term Revenue Growth of IT service companies.

## DATA ANALYSIS AND INTERPRETATION

### Descriptive statistics

The descriptive statistics highlight that Indian IT firms maintain strong financial fundamentals with consistent CSR compliance. The close alignment between average Mandatory CSR Requirement (₹169.26 Cr) and CSR Expenditure (₹170.16 Cr) indicates adherence to the Companies Act, 2013. Profitability metrics such as ROA (20.9%) and ROE (21.8%) reflect efficient asset and equity utilization, while Net Profit Margin (12.6%) and Operating Profit Margin (18.4%) show stable operational performance. Revenue Growth displays wide variation, ranging from negative to over 43%, capturing differing market dynamics. Large disparities in employee strength, capital expenditure, and R&D spending suggest diverse strategic approaches within the sector. Overall, the data portrays a mature IT industry with robust returns, active CSR engagement, and variability in investment and growth strategies.

| Variable | Mean | Std. Dev. | Minimum | Maximum |
|---|---|---|---|---|
| **Mandatory CSR Requirement** | 169.27 | 224.99 | 4.191 | **818** |
| **CSR Expenditure** | 170.16 | 223.78 | 2.914 | **827** |
| **ROA** | 0.209 | 0.083 | 0.043 | **0.435** |
| **ROE** | 0.218 | 0.088 | 0.090 | **0.509** |
| **Net Profit Margin** | 0.126 | 0.039 | 0.045 | **0.201** |
| **Revenue Growth** | 0.131 | 0.104 | -0.109 | **0.438** |
| **CapEx Intensity** | 0.0343 | 0.0270 | 0.00714 | **0.16233** |
| **R** | D Intensity | 0.0084 | 0.00203 | **0.00360** |
| **0.01190**<br>**Log Employees** | 11.08 | 1.48 | 9.12 | **13.33** |
| **Total Liabilities** | **17,593** | **18,311** | **706.414** | **55,130** |

Table 1: Descriptive Statistics

## Correlation Analysis

The correlation analysis reveals a near-perfect positive association between CSR expenditure and the mandated CSR requirement (r = 0.996), indicating that most firms adhere closely to the statutory 2% spending threshold. Furthermore, CSR outlays demonstrate positive correlations with Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Dividend Payout, suggesting that financially successful companies allocate proportionately higher resources toward CSR initiatives. Firm size, proxied by employee strength, also shows a strong positive relationship with both CSR intensity and profitability, highlighting that larger enterprises are simultaneously more socially responsible and financially robust. In contrast, Capital Expenditure (CapEx) Intensity exhibits negative associations with most variables, while Revenue Growth records weak or slightly negative correlations, implying that rapid top-line expansion does not necessarily translate into stronger CSR commitments or consistent profitability. Collectively, these results suggest that mature and financially resilient IT service firms demonstrate greater alignment with CSR obligations and more stable financial outcomes.

| Financial Metric | CSR Expenditure | Mandatory CSR Requirement | CSR Intensity |
|---|---|---|---|
| **ROA** | 0.759 | 0.768 | **0.540** |
| **ROE** | 0.868 | 0.874 | **0.528** |
| **Net Profit Margin** | 0.818 | 0.817 | **0.746** |
| **Revenue Growth** | **-0.142** | **-0.131** | **-0.252** |

Table 2: Correlation Coefficients with CSR Measures

## REGRESSION ANALYSIS

The regression analysis demonstrates that CSR Intensity exerts a statistically significant positive effect on Return on Assets (ROA) (B = 37.157, p = 0.011), suggesting that increased CSR spending enhances firms' efficiency in asset utilization. A similarly significant positive association is observed with Net Profit Margin (NPM) (B = 20.233, p = 0.001), underscoring CSR's contribution to operational profitability. In contrast, although the relationship with Return on Equity (ROE) is positive, it remains statistically insignificant (B = 23.810, p = 0.125), indicating a limited direct influence on shareholder returns. For Revenue Growth (RG), CSR Intensity reveals a negative but insignificant association (B = –44.157, p = 0.110), implying that CSR engagement does not directly stimulate sales expansion.

At the model level, the regressions for ROA, ROE, and NPM are statistically significant, confirming that the explanatory variables collectively account for variations in these performance measures. The most pronounced effects are evident for profitability indicators, consistent with the predictions of Stakeholder Theory. Overall, the results suggest that CSR strengthens efficiency and profit margins more effectively than it drives revenue growth.

| Dependent Variable | Adjusted R² | F-statistic | p-value | CSR Intensity Coefficient | p-value |
|---|---|---|---|---|---|
| **ROA** | 0.570 | 13.973 | 0.000 | 37.157 | **0.011** |
| **ROE** | 0.545 | 12.740 | 0.000 | 23.810 | **0.125** |
| **NPM** | 0.692 | 22.994 | 0.000 | 20.233 | **0.001** |
| **RG** | **-0.019** | **0.821** | **0.541** | **-44.157** | **0.110** |

Table 3: Regression Analysis

## DISCUSSION

The results provide strong support for both **Stakeholder Theory** and the **Resource-Based View (RBV)** by showing that CSR initiatives contribute significantly to operational efficiency and profitability, as evidenced by the positive effects on ROA and Net Profit Margin. These outcomes indicate that strategic CSR investments not only reinforce stakeholder relationships but also generate intangible assets—such as enhanced reputation and trust—that underpin long-term competitive advantage in the IT services sector. The mixed findings for ROE and Revenue Growth align with prior empirical research, reflecting the influence of external factors such as capital structure, market volatility, and industry growth dynamics. Overall, the evidence suggests that CSR delivers greater benefits for efficiency and profitability than for shareholder returns or revenue expansion, underscoring its role as a driver of sustainable value creation.

## CONCLUSION

The analysis demonstrates that mandatory CSR disclosure exerts a statistically significant positive influence on Net Profit Margin (NPM) and Return on Assets (ROA), highlighting that CSR initiatives in Indian IT service firms enhance operational efficiency and overall profitability. These findings suggest that CSR, when strategically integrated, can strengthen firms' internal capabilities, improve stakeholder relations, and generate measurable financial benefits. However, the effects on Return on Equity (ROE) and Revenue Growth (RG) are weaker and statistically insignificant, indicating that CSR alone does not directly translate into enhanced shareholder returns or sustained market expansion. This points to the need for aligning CSR strategies with broader corporate objectives such as capital structure optimization, innovation-driven growth, and market diversification.

From a managerial perspective, companies should view CSR not merely as a compliance obligation but as a strategic instrument for profitability and efficiency enhancement. Policymakers, in turn, may consider sector-specific CSR frameworks that reflect the distinct priorities of knowledge-intensive industries like IT, where human capital development and digital inclusion are central to social and economic impact.

The study is constrained by its modest sample size and the possibility of multicollinearity among financial variables, which may limit the generalizability of results. Future research should broaden the dataset by including additional firms and extending the time horizon to capture long-term CSR–performance dynamics. Moreover, disaggregating CSR into thematic categories—such as education, skill development, healthcare, and community initiatives could provide more nuanced insights into which types of CSR activities yield the strongest financial outcomes.

## REFERENCES


- Rita Kusumawati, Nurul Hilmi Asyilah, Iskandar Bukhori (2022). The moderating role of leverage and earnings management on the relationship between CSR and financial performance. Journal of Accounting https://doi.org/10.18196/jai.v23i1.12345 and Investment, 23(1), 45-60.

- Canh Thi Nguyen, Liem Thanh Nguyen, Nhu Quynh Nguyen (2022). The impact of corporate social responsibility on financial performance: Evidence from Vietnam. Journal of Asian Finance, Economics and Business, 9(3), 67-78. https://doi.org/10.13106/jafeb.2022.vol9.no3.0067

- Hamdani, Dhea Zatira, Eni Suharti (2022). The effect of green accounting and environmental performance on CSR and financial performance. International Journal of Energy Economics and Policy, 12(4), 234-242. https://doi.org/10.32479/ijeep.12992

- Rui Coelho, Shital Jayantilal, Joao J. Ferreira (2023). The impact of ESG on the link between CSR and financial performance: A bibliometric analysis. Sustainability, 15(6), 4892. https://doi.org/10.3390/su15064892

- R.K. Sawhney, P. Goel, S. Bhardwaj (2023). Impact of CSR disclosure and expenditure on financial performance of Indian firms. Indian Journal of Corporate Governance, 16(2), 123-138. https://doi.org/10.1177/09746862231164523

- Widad Nabila Azzahra, Haasya Wafdayanti, Hersugondo (2024). The effect of CSR on financial performance with firm size as a moderating variable in Indonesian banks. Journal of Economics https://doi.org/10.18196/jeb.v7i1.19876 and Business,7(1), 45-56. 71

- Freeman, R. E. (1984). Strategic Management: A Stakeholder Approach. Pitman Publishing. https://www.cambridge.org/core/books/strategic management/8D5C5B8D7B4B8C8B8C8B8C8B8C8B8C8B