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# The impact of corporate social responsibility on financial performance – Infosys way

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**Shailesh N. Ransariya**

Smt. KSN Kansagara Mahila Arts & Commerce College, Rajkot, Gujarat, India  
Email: snransariya@gmail.com

**Sanjay J. Bhayani (Corresponding Author)**

Department of Business Management, Saurashtra University, Rajkot, Gujarat, India  
Email: sjbhayani@gmail.com

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## Abstract

*The current study sought to examine the effect of Corporate Social Responsibility (CSR) on the financial performance of Infosys Ltd over five years spanning 2016-17 to 2020-21. To assess financial performance, we employ various profitability and liquidity ratios. The findings show that CSR has a high positive impact on Return on Capital Employed and a high negative impact on Return on Net Worth, Operating Profit, Net Profit, Current Ratio, and Liquid Ratio. In conclusion, CSR had no significant impact on Infosys Ltd.'s financial performance during the study period.*

**Keywords:** Corporate Social Responsibility, Financial Performance, CSR Score.

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## **1. Introduction**

The role of a company in the social context in which it operates has shifted in recent years due to globalization and pressing environmental issues ([Jamali & el Safadi, 2019](#); [Scherer & Palazzo, 2011](#)). Companies are now attempting to meet the needs of today's generation without endangering unborns' ability to meet their own needs. Many businesses support "Corporate Social Responsibility (CSR)" due to the shift from profit to socially responsible profit. CSR has widened the corporate sector's sphere from stockholders to stakeholders by assigning its responsibility towards all institutions affected by the company ([Fallah Shayan et al., 2022](#); [Tamvada, 2020](#); [Žukauskas et al., 2018](#)). CSR goes beyond legal obligations and duties because it is a voluntary initiative by businesses supported by local and foreign governments, though they are hesitant to regulate it. Despite extensive research, CSR still needs theoretical clarity. Various scholars regressed to develop an inclusive definition that reflects the essential CSR character. There is no consistent definition of CSR because of the social edifice of definition, which varies over time and space. However, CSR may be considered a mirror of the company-stakeholders relationship. It continues the motivation that drove earlier businesses to engage in philanthropic endeavors, which evolved into a broader definition of stewardship commitment. The inclusion of CSR activities in financial statements now demonstrates the significance of these activities. Academics are interested in the association between CSR and financial performance (FP) ([Cherian et al., 2019](#); [Sameer, 2021](#)).

Social responsibility refers to the obligation of businesses to make decisions and follow frameworks that are required to achieve societal objectives and values ([Latapí Agudelo et al., 2019](#)). Decisions can have ramifications for the environment, consumers, and the community. Thus, social responsibility is the duty of policymakers to protect and improve society's welfare while also protecting and improving their own ([Camilleri, 2017](#)). According to the United Nations Industrial Development Organization, CSR is a management concept in which companies blend social and environmental concerns and interactions with their stakeholders



into their business processes (*Newman et al., 2020; Schwartz & Carroll, 2003*). In general, corporate social responsibility (CSR) is the process by which a company achieves a balance of economic, environmental, and social imperatives (Triple-Bottom Line-Approach) while meeting the expectations of its shareholders and stakeholders.

The concept of social responsibility is not new to our country. When there was famine, flooding, or other natural disasters, the area's leading businesses would provide food and other aid to those in need. However, CSR has been incorporated into India's new Companies Act 2013. CSR is based on the giving and taking ideology. Businesses obtain raw materials, human resources, and other resources from society. Companies contribute in CSR activities to pay back to society. This has now been made mandatory for some corporates. Section 135 and Schedule VII of the Companies Act, as well as the Companies (Corporate Social Responsibility Policy) Rules, 2014 (CSR Rules), and certain amendments made in May 2016, cover these aspects.

“If any of the following conditions were met during the previous fiscal year, Section 135 of the Companies Act 2013 would apply to the company:

1. Net worth of the company to be Rs. 500 crore or more; or
2. Turnover of the company to be Rs. 1,000 crore or more; or
3. Net profit of the company to be Rs.5 crore or more

Net assets, turnover, and net profit shall be calculated as per Section 198 of the Indian Companies Act 2013.”

Furthermore, the CSR Rules state that the CSR provisions apply to Indian companies and foreign companies' branch and project offices in India. Section 135 (5) of the Companies Act of 2013 mandates that the Board of Directors of each eligible company "shall ensure that the company spends, in every financial year, at least 2% of the average net profits of the company made during the three immediately preceding financial years, or where the company has not completed three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy".

This paper is further divided into four sections. Section 2 describes data, methodology, and literature review, Section 3 provides the results and discussion, Section 4 concludes the study.

## **2. Research Methodology**

Market multiples based on accounting are the most commonly used in corporate valuation. We talk about the relationship between CSR and financial performance. We examine Infosys Ltd.'s financial performance using their annual account reports, which include data on growth, investments, earnings, and costs, among other things. Because a company's value is reflected in its balance sheet, we used indexes-ratios based on balance sheets to link these data with CSR performance.

### *2.1. Statement of the problem*

What is the significance of CSR in today's world? If the company is doing well, it may suddenly feel the need for CSR. The answer can be found in society's contribution to the business organization's image and reputation. The current need, the rise of CSR, and the status of CSR provide answers to these questions. The current study was carried out to see if companies could be motivated to improve their CSR initiatives if it affected their financial performance. This research aims to add to the existing literature in this field by investigating the impact of CSR on financial performance.

## 2.2. Review of literature

Numerous empirical studies on corporate social responsibility and financial performance have been conducted in India and elsewhere. The current review focuses on the financial performance of Infosys Ltd and the relationship between CSR and financial performance. *Mishra and Suar (2010)* discover that being accountable to stakeholders can be advantageous and profitable. However, because their study had only 150 participants, it cannot be generalized and requires additional research.

According to *Kapoor and Sandhu (2010)*, CSR has a significant positive effect on FP but a negligible effect on Corporate Growth, indicating that companies that participate in CSR activities make a good profit. *Tyagi and Sharma (2013)* investigate the relationship between CSR and CFP (CFP). They discover a minor negative relationship between CSP and CFP, indicating that if such a relationship exists, it is negative. *Kansal et al. (2014)* investigate the factors influencing corporate social responsibility disclosures in India. They discover that while overall disclosure is low, firm profitability and industry affiliation significantly impact CSR. Profitability influences CSR positively. They couldn't find any link between CSR and risk. The study's limitation is that it only looked at one year's data from the sample company. *Dhanesh (2014)* investigates the drivers of CSR, intending to develop a more culturally grounded analysis of CSR's critical motivating factors in the Indian context. They discover that the elite believes participants comprehend the motivators of concurrently negotiated opposing concepts of Moral and Economic necessities. They went on to say that Dharma (as mentioned in Indian Puranas/Bhagavat Geeta) is an influencing factor in India. *Gautam et al. (2016)* discover a causal relationship between FP and CSR, validating theories predicting that CSR can influence CSR FP and vice versa. *Maqbool and Zameer (2018)* use a novel method to validate the effect of CSR on profitability and returns to investigate the association between CSR and FP. They discover that CSR improves FP and that valuable and redundant resources can be used to create competitive advantages for the firm. *Chakroun et al. (2019)* investigate the impact of the ISO 26000 (Global CSR standard) on financial performance and discover that good corporate governance improves financial performance. It also helps businesses maintain their social, environmental, and financial performance. The impact of corporate social responsibility spending on financial performance is investigated by *Grizel (2019)*. They produce contradictory outcomes. While the firm's net profits had a significant effect on CSR spending, the other variables did not affect the firm's CSR spending.

The impact of CSR on financial performance is becoming increasingly important to a diverse set of corporate stakeholders, including investors and strategic managers. This study adds to the small body of literature by identifying the 25 CSR parameters used to calculate Infosys Ltd's CSR index.

## 2.3. Objectives of the study

The following are the study's objectives:

1. To derive the CSR parameters and calculate the CSR score for Infosys Ltd.
2. To assess Infosys Ltd's financial performance.
3. To investigate the impact of CSR on Infosys Ltd's financial performance.
4. To understand the relationship between Infosys Ltd's CSR and financial performance.

The scope of the research is limited to looking into the association between CSR and financial performance. This study also includes CSR practices and its consequences.

#### 2.4. Selection of sample

Infosys is a global leader in digital services and consulting for the next generation. Clients in more than 50 countries rely on the company to help them navigate their digital transformation. For the past 40 years, the company has provided services. According to market capitalization, Infosys is the second-best company in the IT industry. As a result, researchers have decided to assess the effects of CSR on Infosys Ltd's financial performance.

#### 2.5. Data collection

This study is primarily based on secondary data gathered from Infosys Ltd.'s financial statements and annual reports for various years, Dion Global Solutions Limited, www.bseindia.com, and www.moneycontrol.com. The current study spans the years 2016-17 to 2020-21.

#### 2.6. Significance of the study

CSR is not a new concept. Social responsibility, for businesses, was not usually regarded as a significant issue from Adam Smith's time until the Great Depression. However, social responsibility has grown in importance in business and the theory and practice of law, politics, and economics since the 1930s, particularly since the 1960s.

This research is significant in several ways. First, it investigates the practice of CSR to determine its true essence. It then looks into the association between CSR and financial performance. Third, it reveals the beneficiaries' perspectives on the company's CSR.

#### 2.7. Hypothesis of the study

We formulate the following hypotheses:

*H0: "There is no significant impact of CSR on the financial performance of Infosys Ltd. during the study period."*

*H1: "There is a significant impact of CSR on the financial performance of Infosys Ltd. during the study period."*

#### 2.8. Tools for statistical analysis

Regression and analysis of variance (ANOVA) are used in addition to descriptive statistics. In this study, we examine the effect of CSR on the financial performance of Infosys Ltd using ratios such as Return on Capital Employed, Return on Net Worth, Earnings Per Share, Net Profit Ratio, and Current Ratio, and Liquid Ratio. We use the regression model, ANOVA test, and t ratio for hypothesis testing.

We select 25 parameters of CSR for this study (see [Table 1](#)).

**Table 1: Parameters of CSR**

Employee welfare	Environment	Taxation
Provident Fund	Pollution Control	Medical Health Care
Employee Retire Benefit	Reserve for S.C./S.T. candidates	Farming
Employee Education	Industrial Relation	Water & Sanitation
Employee Health	Women Empowerment	Rural Development
Employee Training Exp.	Sports Exp.	Eradicating hunger
Employee Insurance Exp.	Gratuity Schemes	Poverty Alleviation
Job Security	Community Development	
Social & Culture Exp.	Research & Development	

Notes: This table presents the different parameters of CSR based on the previous literature.

Source: Prepared by the authors from the review of previous studies.

### 3. Results and discussion

The association between CSR score and financial performance is measure in terms of six variables: (1) Return on Capital Employed (ROCE); (2) Return on Net Worth (RONW); (3) Operating Profit Ratio (OPR); (4) Net Profit Ratio (NPR); (5) Current Ratio (CR); and (6) Liquid Ratio (LR). The descriptive statistics of the variables are presented in [Table 2](#).

**Table 2: CSR Score & Financial Performance**

Year	CSR Score (in %)	ROCE (in %)	RONW (in %)	OPR (in %)	NPR (in %)	CR	LR
2016-17	88.00	27.84	20.31	29.02	23.30	3.80	3.77
2017-18	80.00	31.35	25.44	27.92	26.08	3.83	3.74
2018-19	88.00	31.37	23.44	25.54	20.11	3.03	2.96
2019-20	88.00	33.08	25.09	25.34	19.66	2.56	2.49
2020-21	92.00	34.39	25.36	28.46	21.00	2.42	2.42
Mean	87.2	31.606	23.928	27.256	22.03	3.128	3.076
MAX	92	34.39	25.44	29.02	26.08	3.83	3.77
MIN	80	27.84	20.31	25.34	19.66	2.42	2.42
SD	4.382	2.461	2.18	1.704	2.664	0.667	0.654

Notes: This table shows the descriptive statistics of CSR scores and financial performance for 2016-21.

[Table 3](#) presents the correlation coefficients and the results of the hypothesis testing. 1. The correlation coefficient between CSR score and ROCE is 0.306, indicating that Infosys Ltd's CSR score and ROCE had a positive relationship during the study period. The analysis of t-value leads to the acceptance of H<sub>0</sub> and rejection of H<sub>1</sub>, indicating no significant relationship between CSR and ROCE in Infosys Ltd. During the sample period, the correlation between Infosys Ltd's CSR score and RONW was -0.1667, indicating a negative correlation between CSR score and RONW. The analysis of t-value leads to the acceptance of H<sub>0</sub> and rejection of H<sub>1</sub>, indicating an insignificant relationship between the CSR and RONW in Infosys Ltd. The correlation between CSR score and OPR is -0.0167. There was a negative relationship between Infosys Ltd's CSR score and its OPR during the study period. The analysis of t-value leads to the acceptance of H<sub>0</sub> and rejection of H<sub>1</sub>, indicating an insignificant relationship between the CSR and OPR in Infosys Ltd. During the study period, the correlation between Infosys Ltd's CSR score and NPR was -0.782, indicating an inverse relationship between CSR score and NPR. The analysis of t-value leads to the acceptance of H<sub>0</sub> and rejection of H<sub>1</sub>, indicating an insignificant relationship between CSR and NPR in Infosys Ltd. This is contrary to the findings of [Grizel \(2019\)](#). The correlation between CSR score and CR is -0.722, indicating that Infosys Ltd's CSR score and CR were negatively associated during the study period. The analysis of t-value leads to the acceptance of H<sub>0</sub> and rejection of H<sub>1</sub>, indicating an insignificant relationship between the CSR and CR in Infosys Ltd. The correlation between CSR score and LR is -0.693, indicating that Infosys Ltd's CSR score and LR were negatively associated during the study period. The analysis of t-value leads to the acceptance of H<sub>0</sub> and rejection of H<sub>1</sub>, indicating an insignificant relationship between the CSR and LR in Infosys Ltd.

**Table 3. Correlation & Hypothesis Testing**

No.	Variables	Correlation	tc	tt	H <sub>0</sub> accepted/Rejected
1	ROCE	0.306	0.5567	3.182	Accepted
2	RONW	-0.1667	0.292	3.182	Accepted
3	OPR	-0.0167	0.0289	3.182	Accepted
4	NPR	-0.782	2.173	3.182	Accepted
5	CR	-0.722	1.807	3.182	Accepted
6	LR	-0.693	1.665	3.182	Accepted

Notes: tc and tt indicate calculated t-value and tabulated t-value, respectively.

*Table 4* presents the results of the regression analysis. The result shows a high positive impact of CSR on Return on Capital Employed (ROCE). The overall result shows that CSR positively affects ROCE during the study period. The significance value of F is 0.6169, which is higher than  $p = 0.05$ . Hence, we can conclude that CSR has no significant impact on ROCE during the study period. A high negative impact of CSR on Return on Net Worth (RONW) is also evident. The overall result shows that CSR negatively affects RONW during the study period. The significance value of F is 0.7888, which is higher than  $p = 0.05$ . Hence, we can conclude that CSR has no significant impact on RONW during the study period. The results show that CSR has a negative impact on the Operating Profit Ratio (OPR). The overall result indicates that CSR has a negative impact on OPR during the study period. F has a significance value of 0.9788, which is greater than  $p = 0.05$ . During the study period, we can conclude that CSR had no significant impact on OPR.

**Table 4: Regression Analysis & Hypothesis Testing**

No	Variables	Coeff.	t-Ratio	P value	Fc*
1	Return On Capital Employed	70.00067	2.257413	0.109187	0.309
	CSR	0.544179	0.555995	0.616991	
2	Return On Net Worth	95.2133	3.466553	0.040447	0.085
	CSR	-0.33489	-0.29272	0.788816	
3	Operating Profit Ratio	88.36363	2.180908	0.117249	0.0008
	CSR	-0.04269	-0.02876	0.978859	
4	Net Profit ratio	115.5491	8.813516	0.003078	4.730
	CSR	-1.28684	-2.17494	0.117908	
5	Current Ratio	102.0634	12.22596	0.001178	3.285
	CSR	-4.75173	-1.81252	0.167568	
6	Liquid Ratio	101.4779	11.61093	0.001372	2.765
	CSR	-4.6417	-1.66291	0.194918	

\* Level of significance is 5%.

The results also show that CSR significantly negatively impacts the Net Profit Ratio (NPR). The overall result indicates that CSR has a negative impact on NPR during the study period. F has a significance value of 0.1179, which is greater than  $p = 0.05$ . As a result, we can conclude that CSR had no significant impact on NPR during the study period. We find that CSR significantly negatively impacts the Current Ratio (CR). The overall finding indicates that CSR has a negative impact on CR during the study period. F has a significance value of 0.1676, which is greater than  $p = 0.05$ . During the study period, we can conclude that CSR had no significant impact on CR. Further, the results show that CSR significantly negatively impacts the Liquid Ratio (LR). The overall result indicates that CSR has a negative impact on LR during the study period. F has a significance value of 0.1949, which is greater than  $p = 0.05$ . During the study period, we can conclude that CSR had no significant impact on LR.

Throughout the study period, Infosys Ltd.'s CSR index shows fluctuating trends. Regarding the impact of CSR on profitability performance, we discover that CSR expenditure has no significant effect on ROCE, RONW, OPR, and NPR during the study period. Regarding the impact of CSR on liquidity performance, we find that CSR expenditure has no significant effect on the CR and LR during the study period. We also discovered that CSR positively influenced ROCE during the study period. During the study period, CSR was also found to have a negative impact on RONW, OPR, NPR, CR, and LR. The performance of ROCE shows an increasing trend. RONW, OPR, NPR, and CR performance varied throughout the study period. LR performance shows a decreasing trend throughout the study period.

#### 4. Conclusion

The study investigated the relationship between CSR score and financial performance and the effects of CSR on Infosys Ltd.'s financial performance during the study period. We looked into the financial performance in terms of profitability and liquidity from 2016-17 to 2020-21, and examined the effects of CSR on financial performance using 25 CSR parameters. The study's findings indicate that CSR had a mixed effect on Infosys Ltd.'s financial performance during the study period. The findings are partially in line with *Chakroun et al. (2019)* and *Maqbool and Zameer (2018)*, but contrary to *Grizel (2019)* in terms of the association between NP and CSR. This study can assist investors in making investment decisions because it reveals that CSR spending disclosures positively correlate with the firm's profitability in terms of capital employed. The findings have important implications for the stakeholders interested in knowing how CSR activities impact the financial performance of firms. Future studies may include a few more companies from India and neighboring emerging countries to provide supporting evidence for emerging nations.

#### Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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