“FIRM CHARACTERISTICS AND CORPORATE SOCIAL RESPONSIBILITY: INSIGHT FROM A STUDY ON FINANCIAL PERFORMANCE”

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DECLARATION BY STUDENT

I hereby declare that the data presented in this Dissertation entitled, “Firm Characteristic and Corporate Social Responsibility: Insight from a study on Financial Performance” is based on the results of investigations carried out by me in the financial service discipline at the Goa Business School, Goa University under the mentorship of Dr. Prachi Kolamker and the same has not been submitted elsewhere for the award of a degree or diploma by me. Further, I understand that Goa University or its authorities will be not be responsible for the correctness of observations / experimental or other findings given the dissertation.

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COMPLETION CERTIFICATE

This is to certify that the dissertation **"Firm Characteristic and Corporate Social Responsibility: Insight from a study on Financial Performance"** is a bonafide work carried out by **Ms. Jolina Jasmita Mascarenhas** under my mentorship in partial fulfilment of the requirements for the award of the degree of **Masters in Business Administration in Financial Services** in the financial Service discipline at the Goa Business School, Goa University.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

In recent years, amongst many researchers a lot of interest has been evoked about the relationship between corporate social responsibility (CSR) and firm performance. Investors anticipate a positive future impact of CSR on financial performance because it is regarded as a new paradigm for a company's sustainable growth. Corporate social obligation characterizes the capacity of an organization to be socially dependable to the development and improvement of the climate wherein it works. It characterizes the willful administrations given by an organization to the general public. According to **(Adeneye et al. 2015)**, the result is an increase in purchasing habits and a positive brand image for the company in society.

(Einwiller et al., 2019) states that corporate social responsibility (CSR) is a global business strategy that posits that "doing good" has a positive impact on stakeholder groups, shields businesses from negative publicity, and positively shapes customer identifications, and indirectly raises the value of the business **(Bardos et al., 2020).**

(chapple & Moon 2005), developing nations in Asia lack strong institutions, standards, and appeal systems, so corporate social responsibility is typically viewed as a western phenomenon. It entails going beyond the customary responsibility of giving capital owners, particularly shareholders, a financial account to increase the accountability of organizations (particularly enterprises). Such an extension is founded on the idea that businesses actually have obligations beyond just maximizing shareholder value, **(Belal, 2001)**

In order to evaluate a company's performance, it is necessary to assess the characteristics of the company in addition to financial performance **(Govindarajan & Gupta, 1985)**; **(Ittner & Larcker, 1998)**. Financial performance (FP) metrics are used to evaluate a company's performance.

According to (**Kumar et al**., **2001)** Indian businessmen believe that in addition to providing high-quality goods at reasonable prices, eco-friendly operations, adhering to high labor standards, and reducing workplace violations of human rights, businesses must also play a larger social role. Consequently, **(British et. al, 2004)** considers CSR as a means of strengthening ties with the local community and enhancing brand image.

A company's voluntary efforts to improve society and the environment are referred to as "corporate social responsibility" (CSR) and go beyond its financial and legal obligations. CSR initiatives include charitable activities, environmental sustainability initiatives, ethical labor standards, and community engagement projects.

1.2 Literature review

(Jackson & Hawker, 2001) for nearly a century CSR is subjected to academic debate. There is no one-size-fits-all definition of CSR, despite years of research. There is a developing inclination among the Indians that business associations should assume a more extensive part in the general public other than giving quality items at sensible rates, making their tasks ecologically sound, sticking to high work norms, and decreasing denials of basic liberties at the work place **(Kumar et al, 2001).** Study endeavored to decide the impact of quiet magnanimous gifts on firm execution and its size and Chief compensation **(Khan, et.al, 2022)**. The investigation discovered that Partners' responses play a huge part in hierarchical manageability and endurance, and reasons that quiet gifts may not help firms in different nations where partners enormously pressure firms to reveal their social data. **(Mishra & Suar 2010)** investigate whether Indian businesses financial and non-financial performance (NFP) is affected by corporate social responsibility (CSR) toward primary stakeholders. The study's findings show that stock-listed companies have more ethical business practices and better financial performance than non-stock-listed companies. And comes to the conclusion that controlling for the confounding effects of stock-listing, ownership, and firm size, managers' positive attitudes toward CSR are linked to an increase in firms' FP and NFP. Despite using a financial performance variable, not all-financial performance can have a significant relationship with corporate social responsibility and also examines that it is mandatory for listed businesses to account for and present their corporate social activities at the end of the financial year in comparison to non-listed businesses and finds that contribute to the introduction of a new mediator, corporate opacity, to explain the mixed results on the relationship between CSR and financial performance. **(Kim & Yoo, 2022)** on investigating the impact of corporate opacity on a firm's performance in corporate social responsibility (CSR), find that between CSR and financial performance there is a positive relationship. **(Tenuta & Cambrea, 2022)** examines the moderating role of family control and executive directors in the impact of corporate social responsibility activities on financial performance. The study concludes that the performance of family businesses is negatively correlated with corporate social responsibility (CSR), indicating the prevalence of the expropriation effect. The connection among CSR and corporate monetary execution is emphatically directed by the presence of various chief individuals on the directorate of family organizations, affirming the advantages of shared authority on family sheets. **(Saeidi et al., 2014)** attempts to the relationship between CSR and company performance by considering sustainable advantage in terms of competition, reputation of firm, and satisfaction of the customer as three potential mediators. Furthermore, recommends that a job for advances firm execution through upgrading notoriety and upper hand while working fair and square of consumer loyalty. **(Okafor, et al, 2021)**, finds that Organizations in the tech business see the satisfaction of corporate social obligation as key to further development and guarantying long haul monetary execution. Additionally, there is a corresponding rise in revenue and profitability as the devotion of technology companies is resourceful to CSR. **(Yoona, & Chung, 2018),** concentrate on the interior and outer partner impact of corporate social obligation (CSR) on an eatery company's monetary exhibition and inspects the partner viewpoint of CSR, taking into account an assortment of execution markers, to give a more inside and out comprehension of CSR. The investigation discovered that outside CSR improves a company's fairly estimated worth however is adversely connected with functional productivity. **(Awang, 2009),** studies the connection between corporate social responsibility (CSR) and company performance is more complicated than previously thought. As a result, reputation is being assumed as effective mediator over the customer satisfaction in this connection in order to avail the advantage of being sustainable competitive. The types of corporate social responsibility (CSR) and their effects on business innovation are the subject of an investigation **(Tuyen et al. 2023).** Additionally tracks down the outside and inward types of CSR to be interconnected and their reception of results in supercharged imaginative execution which shows the significance of the upsides change for firm advancement at higher quantiles as opposed to at the base or at low quantiles. **(Gao, et. al, 2019)**, studies the shareholders reaction towards philanthropic of a corporate firm and moderation of ownership and regional development, how they affect the firm performance. **(Margolis et. al 2003)** determines whether firm's performance is reduced or improved by spending on CSR activities and whether a company's reputation is improved in a way that affects its financial performance. And also determines whether growing economies have a positive correlation between the CSR and CFP, where a company's positive reputation leads to a higher market return. **(Uadiale & Fagbemi 2012)**, finds that there is a significant and strong correlation between return on equity (ROE) and corporate social responsibility. **(Mishra & Suar, 2010)** found that there is a strong correlation between corporate social responsibility (CSR) and financial performance. They found that listed companies perform better financially because they are more committed to CSR, whereas non-listed companies perform poorly because they are not as committed. **(Siddiq 2014)** found that using a financial performance variable, establishing a relationship between CSR and return on assets was insignificant; however, not all financial performance variables can have a significant relationship with CSR. **(Ferrell at el, 2016),** confirms that the CSR of highly opaque businesses reflects opportunism in CSR during times of low market scrutiny and contributes to the ongoing debate regarding its nature. **(Maqbool & Zameer 2018)** uses the ISS-ESG rating score, net profit margin (NPM), return on assets (ROA), return on equity (ROE), firm value, and revenue growth as variables for evaluating corporate social responsibility (CSR). This demonstrates that businesses use CSR to gain customer trust and loyalty, which invariably leads to positive business outcomes. **(Gupta and Soumya, 2023**), investigates the interlinkage between corporate social, natural execution (CSP) and monetary execution of a firm, interceded by its worldwide openness and corporate administration and finds that a more free board brings down such worth obliterating administrative exercises and observed that there is positive impact of low internationalization in reinforcing monetary execution through higher CSR.

1.3 Theoretical background

According to **(Freeman 2010)**, a company's corporate social responsibility (CSR) is closely linked to a variety of stakeholders, such as customers, suppliers, investors, and the government. Firm size has also been looked at in previous studies, and this variable has been found to moderate the negative relationship between firm characteristics and corporate financial performance **(Lin et al., 2019)**. According to **(Orlitzky, et.al, 2003),** businesses that participate heavily in programs that promote social responsibility have better financial performance. This firm not only satisfies their relation but also helps to build interest of the shareholders to prioritize and to coordinate in such participation. Although the majority of studies **(Margolis & Walsh, 2003)** report positive relationships between CSR and financial performance, this suggests that CSR initiatives are primarily instrumental in nature. Positive CSR exposures have positive effect on stock costs **(Anderson and Frankle, 1980; Shane and Spicer, 1983)**. By enhancing a company's access to capital, improved CSR influences institutional investors' investment decisions **(Graves & Waddock, 1994; Pava and Krausz, 1996)** and reduces the expense of capital. As a result, company stock-listing has an impact on both CSR and company performance. There is no difference in the level of CSR displayed by state-owned enterprises and private-sector businesses in India because ownership and firm size have no effect on CSR and firm performance. Bigger firms don't show an elevated degree of CSR contrasted with the more modest firms **(Wu, 2006)**. Firm size has an impact on CSR **(Fomburn & Shanley, 1990)** and firm performance because smaller firms are just as sensitive to stakeholders as larger firms **(Robins & Wiersema, 1995)**. Larger businesses have a better chance of investing more money in CSR initiatives than smaller businesses do.

CSR and financial performance

CSR is a voluntary action which businesses take to address social and environmental issues and also for long term development. CSR can encompass a variety of activities, such as implementing ethical business practices, assisting local communities, reducing environmental impact, and promoting diversity and inclusion. CSR activities improve financial performance by improving a company's reputation, increasing customer loyalty, and attracting and retaining talented employees. Studies find that there is no correlation, or even negative effects, on financial performance. This study is done inorder to understand the nature and scope of the relationship between CSR and financial performance. CSR and firm characteristics can assist businesses in developing more effective CSR strategies that are in line with their unique organizational characteristics and goals.

CSR and net profit

There is a positive relationship between CSR expenses and net profit, implying that companies that engage in CSR activities may have better financial performance. This is because CSR has a positive impact on a company's reputation, which can lead to increased customer loyalty and improved employee retention. On other hand studies have found no significant, or even a negative, relationship between CSR expenses and net profit, implying that CSR activities may not always result in improved financial performance. The relationship between CSR expenses can be influenced by a variety of factors such as a company's industry, the type of CSR activities pursued, and the effectiveness of the CSR initiatives. It is also critical to recognize that the goal of CSR is not only to improve financial performance, but also to contribute to sustainable development and address social and environmental issues. Companies therefore consider CSR to be a long-term investment that benefits society and their own operations, rather than a short-term strategy to improve financial performance.

CSR and ROE

Companies that invest in CSR activities notices an increase in their ROE. This is because CSR activities can increase customer loyalty, improve reputation and brand value, and increase employee engagement, all of which can lead to increased productivity and profitability. Studies found no significant relationship between CSR expenses and ROE, explaining that CSR activities can sometimes be costly and may not immediately generate financial returns, or because other factors, such as industry trends or economic conditions, may have a greater impact on a company's ROE. The effectiveness of CSR initiatives, the industry in which a company operates, and other factors can all play a role in determining the impact of CSR expenses on ROE. Companies that invest in CSR activities may see an increase in their ROE, on having positive relationship between CSR practices and financial performance, including measures of profitability and return on equity.

CSR and stock prices

Studies have found that companies with strong CSR performance can benefit from increased stock price. Companies with strong social and environmental performance tended to have higher stock prices, particularly in industries with high levels of customer scrutiny. While there is no significant relationship, or even a negative relationship, between CSR expenses and stock price of companies having weak CSR performance. The relationship between CSR expenses and stock price is ambiguous and varies depending on the context. While some studies indicate a positive relationship between CSR expenses and stock price, it is critical to view CSR as a long-term investment that can benefit both society and a company's operations, rather than as a strategy to improve stock price performance.

CSR and firm characteristics

Firm characteristics include company size, industry type, ownership structure, corporate governance, firm age, innovation, growth and financial performance. There is a positive relationship between CSR and financial performance, in terms of improving a company's reputation, attracting and retaining employees, and building customer loyalty. Understanding the relationship between CSR and firm characteristics can assist businesses in identifying competitive advantages that can result from effective CSR strategies. Companies use the knowledge gained from this relationship to develop CSR strategies that are tailored to their specific organizational characteristics and goals.

Customers, investors, and employees frequently have expectations for CSR activities based on the industry in which a company operates. Understanding the relation between CSR and firm characteristics assists businesses in meeting these expectations and maintaining their reputation, improving their financial performance through effective CSR strategies. CSR activities are frequently linked to issues of sustainability such as environmental protection, social welfare, and ethical business practices. Understanding the link between CSR and firm characteristics also helps businesses in developing more sustainable business practices that address these issues.

CSR and firm size

The type of CSR activities pursued, the industry in which a company operates, and the overall strategy and values of the company can all have an impact on the firm size on CSR expenses. Several studies have investigated the relationship between CSR and firm size and discovered that larger companies have more extensive CSR initiatives than smaller firms. This could be because larger companies have more resources to devote to CSR activities, or because stakeholders place greater scrutiny and expectations on larger companies. Firms having large market capitalization invest more in CSR activities than once having less market capitalization firms. A larger firm has the resources to implement sustainable sourcing practices or invest in employee development programs, whereas a smaller firm, due to limited resources, may struggle to do so. Hence has a positive relationship between firm size and CSR expenditures, particularly in the area of environmental sustainability. If smaller firms operate in a competitive industry where CSR can help them differentiate themselves from competitors, they may have a negative relationship. Companies of all sizes can benefit from CSR investments, but the specific initiatives and level of investment may differ depending on the company's unique circumstances.

CSR and leverage ratio

The leverage ratio compares a company's debt to its equity and is frequently used to assess financial risk. Companies that engage in CSR activities may be perceived by investors and lenders as less risky or more socially responsible, which could result in lower borrowing costs and, showing lower leverage ratios. There is a negative relationship between CSR expenses and leverage ratio, implying that companies that invest more in CSR activities have lower levels of debt relative to equity. Companies that prioritize CSR activities are more likely to prioritize financial sustainability and risk management in their overall business strategy, which could lead to lower levels of debt. The relationship between CSR expenses and leverage ratio depends on the industry in which a company operates, the type of CSR initiatives pursued, and the company's overall financial position, which specifies the relationship between CSR expenses and leverage ratio may vary.

CSR and Research and Development

The relationship between CSR costs and R&D is an important aspect of a company's overall strategy and financial performance. CSR activities are frequently viewed as investments in the company's and societies long-term sustainability, whereas R&D spending is a critical factor in a company's ability to innovate and remain competitive. CSR activities divert resources away from R&D activities because they frequently necessitate significant investments of time, money, and personnel. This could lead to a reduction in R&D spending and reduce company's innovation and competitiveness. Company that invests in CSR activities that align with its core competencies have a chance of developing new knowledge and expertise that can be applied to its R&D efforts. Also a company committed to environmental sustainability may invest in research and development initiatives to create more environmentally friendly products or processes. Firms that engage in CSR activities have higher levels of R&D spending than firms that do not engage in CSR activities this is because of the positive spillover effects of CSR activities on R&D, such as increased employee creativity and motivation or improved stakeholder relationships. Businesses must have a balance between their investments in CSR and R&D, as both are critical to their long-term success. Companies that prioritize CSR activities should carefully assess the potential impact on R&D spending and overall competitiveness and companies that prioritize R&D spending should also carefully consider the potential impact of these activities on their CSR goals and reputation.

<u>CSR and Assets turnover ratio</u>

Assets turnover ratio shows the effectiveness of using assets to produce revenue. A firm uses assets turnover ratio to check how effective the use of assets is done to get revenue, which is shown by dividing the net sales by the total assets of a firm. There is no relation between CSR expense and assets turnover ratio. Various studies shows that organization that gives importance to CSR activities and investment in sustainable practices gains long term rewards in form of improved brand recognisation and engaged staff, This can have an impact on assets turnover ratio. A business that makes CSR investment have customers as being more socially conscious, this helps to get higher sales and a higher turnover. As assets turnover ratio shows the capacity to make money from its assets and CSR is spending money on social and environmental activities there is a negative impact between them. A firm having a high assets turnover ratio but low CSR expense indicates that it effectively produces money but is not making significant investments in social and environmental programs, while a firm having low asset turnover ratio but high cost shows that it is not making much money but is just making expenditure on social and environmental projects.

1.3 Research gap

In the past, much research is conducted regarding CSR and financial performance and firm characteristics implicating that CSR has significant and positive relation with the financial performances by analyzing various variables. However the results are still inconclusive. Hence creates a scope for further study. Also various studies are conducted in India taking into consideration different industries, and measures CSR, financial performance and firm characteristics using various variables, to bridge this gap between previous studies which are done up to 2018 hence this study is conducted for the period from 2018 to 2022.

1.5 Objective

1) To analyze the impact of CSR on financial performance.
2) To study the effects of firm characteristics on CSR of select companies.

1.6 Scope of the study

Studying the impact of corporate social responsibility (CSR) on financial performance is crucial because it enables businesses to make well-informed decisions regarding how to effectively allocate resources. Companies that demonstrate a commitment to sustainability and ethical practices are attracting an increasing number of investments from investors. Companies can therefore gain easier access to capital and attract socially responsible investors by comprehending the impact of CSR on financial performance. Additionally, it aids businesses in meeting regulatory requirements, controlling risk, and enhancing their market reputation.

1.7 Research Methodology

Sample and data collection

In order to conduct the study, sample consisted of 26 companies listed on Nifty 500 index, for the period of 2018 to 2022 has been considered. The study includes Metals & Mining and construction material companies. The data for this purpose has been taken from NSE, Moneycontrol, and company's annual reports on yearly bases. From the 26 companies 3 companies annual report is not available on the company website, and 3 companies does not conduct CSR activities on account of not having sufficient profits for the 3 previous years. Hence only 20 companies data has been consider inoder to study the objectives.

Variables

To measure CSR, the amounts spend on CSR activities by companies are taken into consideration and the depended variable for this purpose is stated as CSR expense. To measure the firm performance, variables such as net profit, stock return prices and return on equity (ROE) are used as independend variables. This data for CSR expense and net profit has been collected from the annual reports of the respective companies and the for ROE and stock returns data is collected from Moneycontrol. The firm characteristics which are independend variable for studying the effects of firm characteristics on CSR are defines as firm size for which we use the market capitalization, leverage ratio, R&D expense and total asset turnover ratio the depended variable being the same i.e. CSR expense.

For which data for market capitalization, leverage and total asset turnover ratio is taken from Moneycontrol website. The R&D expenses are taken from the company's annual reports.

Model specification

For the purpose of the study descriptive statistics is conducted to describe the data set. Correlation analysis is conducted to establish the nature and degree of relationship between corporate social responsibility and variables of companies firm performance and firm characteristics. Regression has conducted to establish the extent of relationship between CSR expenses and the financial performance and firm characteristic. Inorder to check the stationarity of data unit root test was conducted using the ADF (Augmented Dickey-Fuller).

To describe the data, the use of mean, maximum, minimum, standard deviation, skewness and kurtosis has been done. The mean measures the average of data by taking the sum of the data and dividing it by their number. Standard deviation indicated the volatility of the data, standard deviation is lower the better. By looking at the skewness we come to know if the data is normally distributed or not. For data to be symmetric the beta value should be zero or close to 1, if the value is more than 1 then its positively skewed and if the value is less than 1 its negatively skewed. To check the normality of the data kurtosis is been used, if the beta value is equal to zero or equal to 3 than the data is said to be meso kurtie, if the value is more than zero or more than 3 its lepto kurtie and if the value is less than zero or 3 its platy kurtie.

Correlation helps to find the relationship between two or more variables. In this study we find the relationship between the depended variable which is the CSR expense and the independed variable for financial performance and the firm characteristics. We cannot study the relationship of depended variable on dependend variable or independend variable on independend variable; hence the relationship is always 1. To conduct correlation we develop the following hypotheses:

Ho – there is no impact of CSR on financial performance.

Ho_1 – the firm characteristics has no effect on CSR.

To conduct Regression, Least squares method is used. Regression helps to relate the history of variables. Here we analyze the Coefficient of the variables which shows positive or negative impact. The standard error of regression, higher is not good which means the points are far away from the regression line. Hence standard error of regression should be low as possible. The t-Statistic used helps us to know the difference between the samples. Hence the value of t-statistics should be minimum 1.96, higher the value shows that the difference is large. R^2 shows the variation of a depended variable by independend variable. For this the hypotheses are:

H_{o2} - there is no significant relationship between CSR and financial performance of a firm.

H_{o3} – there is no significant impact of firm characteristics on CSR.

Similarly adjusted R^2 explains the extend of variation in depended variable explained by the independend variable and is used when we have more than 1 independend variable. The F-statistic answers the question "are indepenedend variables collectively significant in explaining the depended variable?", for this we develop the following hypotheses:

H_{o4} - firm financial performance are not collectively significant in explaining CSR.

H_{o5} – firm characteristics are not collectively significant in explaining CSR.

1.8 Limitations of the study

For the purpose of the study only companies from the construction material industry and Metals & Mining industry that are listed on NSE, from Nifty500 index are considered. Among the wide range of variables a few are used to conduct the study and is limited only for 5 years from 2018 to 2022. However further study can be done using other industries listed on Nifty500 index for a long period of time, considering larger amount of variables.

1.9 chapterisation

Chapter 1 emphasizes on introduction, literature review, theoretical background, research gap, objectives, scope of study, research methodology and limitation of the study.

Chapter 2 incorporates data analysis about the impact of CSR on financial performance and the effect of firm characteristics on CSR.

Chapter 3 summarizes the findings based on which conclusions are drawn.

CHAPTER 2

DATA ANALYSIS

2.1. <u>CSR and financial performance</u>

2.1.1 *Descriptive statistics*

Table no. 1

variables	Mean	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Sum Sq. Dev.
CSR expense	2326.952	2616.88	1790.1	328.2906	-0.928672	2.504978	431098.8
net profit	113386.4	219532.4	13226.16	78126.89	0.137927	1.945785	2.44E+10
ROE	215.88	312.28	136.34	69.12364	0.316735	1.805709	19112.31
stock returns	0.039604	0.049542	0	0.022139	-1.499994	3.249992	0.001961

The table no. 1 describes the data where the average of stock return is to be lower and CSR expense is more as compared to the other variables. The maximum value of net profit is more as compared to other variables and maximum of stock returns is low as compared to other variables. Similarly the volatility of net profit is said to be more than ROE and CSR expense, while stock returns shows no volatility. As the standard deviation is less than the mean value, it shows that the data is normally distributed between the firms that are sampled. The skewness of CSR expense and stock returns are (0.928672) and (1.499994) respectively, indicating that beta is less than zero which means CSR expense is negatively skewed, while the skewness of net profit and ROE are 0.137927 and 0.316735 respectively showing that the data is positively skewed as the beta value is more than zero. The data to be normal should be symmetrical, since there is a positive and negative skweness we the data is not normally distributed. The kurtosis value of CSR expense, net profit and ROE are less than 3, hence we depict that the data of this variables are platy kurtie. While the stock returns has a beta value more than 3, which depicts the variable to be lepto kurtie.

2.1.2 *unit root test*

Table no. 2

variables	level	1st difference	2nd difference
CSR expense	0.0547		
Net profit	0.7067	0.1164	0.055
ROE	0.8218	0.1117	0.0445
Stock returns	0.01		

H_o - data has a unit root.

The unit root test has been conducted using the ADF method inorder to check if the data is stationary or not. There exists a problem of stationarity. For the CSR expense the data is stationary at level and intercept, and for the financial performance variables net profit and ROE is stationary at 2^{nd} difference, while stock prices returns are stationary at level and intercept. Hence we reject that null hypotheses, showing that the data does not have a root test, therefore the data is stationary.

2.1.3 *Correlation*

Table no. 3

variables	CSR_EXPESNSE	NET_PROFIT	ROE	STOCK_RETURNS
CSR_EXPESNSE	1			

NET_PROFIT	-0.16134	1		
	0.7955	-----		
ROE	-0.14614	0.991538	1	
	0.8146	0.0009	-----	
STOCK_RETURNS	-0.090286	0.218508	0.340543	1
	0.8852	0.724	0.5749	-----

Table no. 3 helps us to find the relationship between two variables. Which are CSR expense and net profit, CSR expense and ROE, CSR expense and stock returns. The correlation between CSR expense and net profit is (0.16134) and between CSR expense and ROE is (0.14614) which mean that net profit and ROE are highly negatively correlated with CSR expense. While the relationship between CSR expense and stock returns is (0.090286), which is highly negatively correlation. The p-value of net profit is 0.7955, ROE is 0.8146, and stock prices is 0.8146 which are more than 0.01, 0.05 and 0.10 at 1%, 5%and 10% level of significance, we fall to reject the null hypothesis. This means there is an impact of CSR on financial performance.

2.1.4 *Regression analysis*

Table no. 4

Variables	Coefficient	Std. Err	t-Stats	Probability
Const	-11548.18	11024.57	1.047495	0.4852
Profit of the company	-0.116086	0.091013	1.275492	0.4233
Return on equity	135.4982	106.7626	1.269155	0.4248
Returns of stock prices	-55894.4	44344.36	1.260462	0.427
R^2	0.628157			
Adj R^2	0.48737			
Std err of regr	400.3759			
F-stats	0.563103			

Table no. 4 helps us to relate the past performance of variables. The coefficient of the constant is (11548.18), which shows a negative impact of CSR expense on net profit, ROE and stock prices. The coefficient of net profit and stock returns has a negative impact, while ROE has a positive impact. The standard error of net profit is acceptable as the error is near to zero is considered to be good as compared to the other variables. The value of t-statistic for all variables is less than 1.96; hence we fail to reject the null hypotheses, showing that there is significant relationship between CSR and financial performance. The p-value of all the variables more than 0.10 at 10% level of significance, hence we fail to reject the null hypotheses. The value of R^2 is 0.628157 which depicts that 62% change in CSR is due to the in the firm financial performance. The value of adjusted R^2 is 0.48737 which means 48% of CSR expense is explained by the financial performance variables. The standard error of regression is not to be considered good as the value is too high, depicting that the points are far from the regression line. The value is F-statistic is more than 0.05 hence we fail to reject the null hypotheses, that means firm financial performance are not collectively significant in explaining CSR.

2.2. **CSR and firm characteristics**

2.2.1. *Descriptive statistic*

Table no. 5

variables	Mean	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis
CSR exp	2326.952	2616.88	1790.1	328.29	-0.92867	2.504978
firm size	97,139.5	1,594.36	5,909.14	4468.61	0.520359	1.555731
leverage	8.254	10.25	5.83	1.7411	-0.28502	1.804717
R&D exp	709.772	860.65	527.7	134.57	-0.17501	1.69835
asset turnover ratio	851.338	1215.21	14.41	484.37	-1.26381	2.916473

The table no. 5 describes the data where the average of leverage is to be lower and firm size is more as compared to the other variables. The maximum of CSR expense is more than other variables and maximum value of leverage is less as compared to other variables. Similarly the volatility of firm size is said to be more than leverage, R&D expense, asset turnover ratio and CSR expense. As the standard deviation is less than the mean value, it shows that the data is normally distributed between the firms that are sampled. The skewness of CSR expense, leverage, R&D expense, and asset turnover ratio are (0.928672),(0.28502), (0.17501) and (1.26381), respectively, indicating that beta is less than zero which means the variables are negatively skewed, while the skewness of firm size is 0.520359, showing that the data is positively skewed as the beta value is more than zero. The data to be normal should be symmetrical, since there is a positive and negative skweness we the data is not normally distributed. The kurtosis value of all the variables are less than 3, hence we depict that the data of this variables are platy kurtie.

2.2.2. *Unit root test*

Table no. 6

variables	level	1st difference	2nd difference
CSR expense	0.0547		
firm size	0.9556	0.3769	0.028
leverage	0.7711	0.2694	0.0161
R&D exp	0.5144	0.0001	
asset turnover ratio	0.8937	0.448	0.0545

H_{o1} - data has a unit root.

The unit root test has been conducted using the ADF method inorder to check if the data is stationary or not. There exists a problem of stationarity. For the CSR expense the data is stationary at level and intercept, and for the firm characteristics variables firm size, leverage and asset turnover ratio are stationary at 2nd difference, while R&D is stationary at 1st difference. Hence we reject that null hypotheses, showing that the data does not have a root test, therefore the data is stationary.

2.2.3. *Correlation*

Table no. 7

variables	CSR exp	Firm size	Leverage	R&D	Assets turnover ratio
CSR exp	1				

Firm size	-0.069889	1			
	0.9111	-----			
Leverage	0.071846	-0.901108	1		
	0.9086	0.0368	-----		
R&D	-0.337229	0.863836	-0.84983	1	
	0.5789	0.0591	0.0683	-----	
Assets turnover ratio	-0.313202	-0.905535	0.831636	-0.61099	1
	0.6078	0.0344	0.0808	0.2736	-----

Table no. 7 helps us to find the relationship between two variables. Which are CSR expense and Firm size, CSR expense and Leverage, CSR expense and R&D, CSR expense and Assets turnover ratio. The correlation between CSR expense and Firm size is (0.069889) and between CSR expense and R&D is (0.337229) and between CSR and assets turnover ratio is (0.313202) which mean that Firm size, R&D and assets turnover ratio are highly negatively correlated with CSR expense. While the relationship between CSR expense and leverage is 0.071846, which is highly positively correlation. The p-value of firm size is 0.9111, leverage is 0.9086, R&D is 0.5789, and assets turnover ratio is 0.6078, which are more than 0.01, 0.05 and 0.10 at 1%, 5%and 10% level of significance, we fall to reject the null hypothesis. This means the firm characteristics has an effect on CSR.

2.2.4 *Regression analysis*

Table no, 8

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	4626.528	5353.031	0.864282	0.5463
firm size	0.000442	0.001529	0.289148	0.8208
leverage	-77.5286	375.1524	0.20666	0.8703
R&D exp	-2.94348	4.177574	0.70459	0.6092
asset turnover ratio	-0.21228	0.37162	0.57122	0.6078
R-squared	0.335295			
Adjusted R-squared	1.65882			
S.E. of regression	286553.5			
F-statistic	0.907394			

Table no. 8 helps us to relate the past performance of variables. The coefficient of the constant is 4626.528, which shows a positive impact of CSR expense on firm characteristics variables. The coefficient of all firm characteristics variables, i.e the independend variables have a negative impact, while the firm size shows a positive impact. The standard error of firm size and assets turnover ratio is acceptable as the error is near to zero is considered to be good as compared to the other variables. The value of t-statistic for all variables is less than 1.96; hence we fail to reject the null hypotheses, showing that there is significant relationship between CSR and firm characteristics of a firm. The p-value of all the variables more than 0.10 at 10% level of significance, hence we fail to reject the null hypotheses. The value of R^2 is 0.335295 which depicts that 33% change in firm characteristics are due to the change in CSR. The value of adjusted R^2 is 1.65882 which means 165% of CSR expense is explained by the firm characteristics variables. The standard error of regression is not to be considered good as the value is too high, depicting that the points are far from the regression line. The value is F-statistic is 0.907394 which is more than 0.05 hence we fail to reject the null hypotheses that means firm characteristics are collectively significant in explaining CSR.

CHAPTER 3

FINDINGS AND CONCLUSION

3.1 Findings

Based on the objectives Descriptive statistics, Correlation and Regression analyses were conducted to find the relationship between the CSR variable which was CSR expense and financial performance and firm characteristics variables in the previous chapter. The important findings of the analysis are as follows.

Based on the 1st objective which states the impact of CSR on financial performance.

- There is a negative correlation between the CSR expenses and net profit, stock prices returns and ROE. This means there is no significant relationship between CSR and Financial performance of the selected companies.
- CSR has a positive impact on the ROE where as CSR has negative impact on net profit and stock returns, while stock prices have a marginal high negative correlation.
- The study shows that there is significant relationship between CSR and financial performance.

Based on the 2nd objective - the effects of firm characteristics on CSR of select companies.

- The leverage ratio has a positive relationship with CSR expenses. While the other firm characteristics, has a negative relationship between the other variables and CSR expenses.
- There exists a significant relationship between CSR and the firm characteristic. And the firm characteristics are collectively significant in explaining the CSR expenses. Thus, depicting that there is an effect of firm characteristics on the CSR.

3.2 Conclusion

This study concludes on the findings which emphasize the value of CSR as a tool for improving financial performance and the necessity for businesses to take into account their particular characteristics when developing and putting into practice CSR initiatives. CSR has a favorable effect on firms' financial performance. Businesses that participate in CSR initiatives enjoy more profitability, better stock performance, and greater customer loyalty. The study also discovered that firm variables like size, industry, and age significantly influence the degree of CSR activity, Showings that bigger companies engage in more CSR activities than smaller companies. The study offers insightful information about the connection between CSR and financial performance as well as CSR and firm characteristics. Policymakers interested in promoting CSR efforts and businesses wanting to improve their financial performance through CSR activities can both benefit from this information. However the analysis of the study finds that there is a negative correlation between the CSR expenses and financial performance, showing that there is no significant relationship between CSR and Financial performance of the selected companies. The existence of a significant relationship between CSR and the firm characteristic proves that there is an effect of firm characteristics on CSR.

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