

# Analyzing the Impact of Corporate Social Responsibility (CSR) on the financial performance of Tata Consultancy Services Limited

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**Abstract:** In this article, we undertake an analysis of the influence of Corporate Social Responsibility (CSR) on the financial performance of a prominent Indian software company. Our case study focuses on Tata Consultancy Services Limited (TCS) during the period from 2019 to 2023. While traditional success metrics like profitability and market leadership remain vital, today's stakeholders also evaluate companies based on their commitment to community service. CSR holds the potential to enhance a company's competitiveness, reduce financing costs, and bolster financial performance, contributing to overall economic value. This study unveils the CSR initiatives embarked upon by TCS and delves into their impact on the company's financial performance. Our research relies on secondary data derived from TCS's annual reports and CSR reports spanning five years. We have formulated hypotheses to investigate the correlation between CSR expenditures and key financial performance indicators, including Profit before Tax, Return on Assets, Return on Equity, and Return on Capital Employed. Employing correlation analysis, we seek to uncover the connections between CSR endeavors and financial outcomes. Through this study, we aim to shed light on how CSR practices have affected TCS's financial standing, providing insights into the broader relationship between corporate social responsibility and economic performance in the software industry.

**Keywords:** Corporate Social Responsibility, Financial performance

## Introduction

Corporate Social Responsibility (CSR) is a voluntary business model aimed at ensuring a company's social accountability to itself, its stakeholders, and the public. In India, CSR spending has been made mandatory for profitable companies. The CSR framework, outlined in Section 135 of the Companies Act, 2013, is built on the principle that profitable enterprises should allocate a specified portion of their profits to support social and environmental causes. These causes typically include initiatives like eradicating hunger and poverty, promoting education, gender equality, and healthcare. According to this section, companies with a net worth of Rs. 500 crore or more, a turnover of Rs. 1,000 crore or more, or a net profit of rupees five crore or more during any financial year must establish a CSR Committee of the Board. This committee should consist of three or more Directors, including at least one Independent Director. Their role is to recommend activities for fulfilling corporate social responsibilities, ensuring that the company allocates at least 2 percent of its average net profits from the previous three years to specified CSR activities. It's important to note that only CSR activities conducted within India are considered, and activities solely benefiting employees and their families do not qualify. CSR initiatives can enhance a company's reputation and increase its overall value, making it a mutually beneficial endeavor for both the company and society. Keep in mind that CSR regulations may evolve, so staying updated with compliance requirements is crucial for Indian companies.

## Review of Literature

(Abilasha and Madhu Tyagi, 2019) have analyzed the effectiveness of New Companies Act, 2013 with respect to CSR and examine its impact on financial performance of selected 10 Indian companies. They have analyzed the

financial ratios such as profit before tax, return on capital employed, return on Equity and return on Assets. The impact of CSR on overall financial performance is significantly positive with respect of financial ratios like PBT, ROC, ROA, ROE but individually insignificant. When CSR contribution increases, the company's financial performance increases and vice versa.

(Harish Tigari, 2017) has examined the corporate social responsibility initiatives undertaken by Reliance Industries Limited, and emphasizes the importance of CSR by analyzing the different social welfare schemes introduced by the company in India.

(BeitingChenag, 2018) suggests that companies should develop good CSR strategies for long term sustainability of the companies. He also states that the increased CSR performance leads to better access to finance. The author found that the firms which contributes more towards CSR activities, have better access to financial resources.

(Truptha, 2016) has stated that there is positive relationship between CSR and financial performance relating to ROC, ROE, ROA, Net profit and the like and non-financial parameters like job satisfaction, employee commitment and internal reputation. He suggests that companies should integrate CSR in their strategic planning for sustainability of business for long run and for Society's welfare.

(Shoukat Malik, 2014) has indicated that CSR impacts positively on the financial performance of banks in Pakistan for the period 2008-12 by adopting EPS, ROA, ROC and Net profits as financial indicators. Further, suggested that Government should motivate banks to spend more towards CSR which results in increasing profit and reputation for the longer period of time.

### Objectives of the Study

1. To examine the corporate social responsibility initiatives undertaken by the Tata Consultancy Services Limited.
2. To analyze the relationship between CSR and financial performance of TCS based on PBT, ROA, ROE, and ROCE.

### Methodology of the Study

Data pertaining to Tata Consultancy Services Limited (TCS) has been gathered from secondary sources, including the company's annual reports, sustainability and CSR reports, schedule of accounts, and auditor's reports for a five-year period spanning from 2019 to 2023. Hypotheses have been formulated to investigate the correlation between TCS's contributions to corporate social responsibility (CSR) and its financial performance during these five years. This research methodology is commonly employed to study how CSR initiatives impact a company's financial performance. Utilizing correlation analysis, the study aims to determine whether a statistically significant relationship exists between CSR contributions and various financial performance metrics. This approach provides valuable insights into the potential influence of CSR efforts on TCS's financial outcomes.

### Hypotheses of the Study

- $H_0$  = There is no significant relationship between Profit before Tax and CSR
- $H_1$  = There is a significant relationship between Profit before Tax and CSR
- $H_0$  = There is no significant relationship between Return on Equity and CSR
- $H_1$  = There is a significant relationship between Return on Equity and CSR
- $H_0$  = There is no significant relationship between Return on Assets and CSR
- $H_1$  = There is a significant relationship between Return on Assets and CSR
- $H_0$  = There is no significant relationship between Return on Capital Employed and CSR
- $H_1$  = There is a significant relationship between Return on Capital Employed and CSR

### TCS limited and it's CSR Spending

Tata Consultancy Services (TCS) is a well-known Indian multinational company specializing in Information Technology (IT) and consulting services. Its headquarters is located in Mumbai, and it operates in 46 countries, making it the second-largest Indian company by market capitalization.

TCS has a clearly defined CSR vision and mission:

• Vision: To empower communities by bridging people to opportunities in the digital economy. • Mission: To establish fair, sustainable, and inclusive pathways to opportunities, particularly for youth, women, and marginalized groups.

TCS follows a CSR model that aligns with its global technology leadership. The primary objective of TCS' CSR initiatives is to create and execute programs that promote fairness and access to opportunities in the digital

economy. This is achieved by focusing on specific priority areas, targeting key stakeholder groups, and adhering to a structured engagement model that is in line with TCS' strategic CSR goals.



Figure 1: CSR Model

Source: <https://on.tcs.com> › Global-CSR-Policy

TCS' focuses on education, skilling, entrepreneurship, and employment to help people and communities to bridge the opportunity gap. The Company also supports health, wellness, water, sanitation, and hygiene needs of communities, especially those that are marginalized. TCS also supports conservation and relief efforts to communities at the time of natural and man-made disasters. Its focuses on preserving art and heritage as well as supporting action against climate change remains consistent. The Company's CSR strategy incorporates an inclusive approach into the design of every program. TCS Foundation was incorporated in 2015 with the sole objective of carrying on Corporate Social Responsibility (CSR) activities of the Company,

**TABLE -1**  
**Corporate Social Responsibility Practices in TCS limited**  
(Rs. in Crores)

	2018-19	2019-20	2020-21	2021-22	2022-23	Total	Average
Health & Wellness	136	292	175	22	18	643	23%
Education and Skill Building	91	39	116	28	11	285	10%
Environmental sustainability	1	3	6	-	-	10	0.4%
Contribution to TCS foundation	172	92	303	350	680	1,597	56%
Disaster relief	-	7	2	273	-	282	10%
Others	-	1		1	18	20	0.70%
<b>Total</b>	<b>400</b>	<b>434</b>	<b>602</b>	<b>674</b>	<b>727</b>	<b>2837</b>	<b>100%</b>

Source: <https://on.tcs.com> › Annual-Report

TCS has a comprehensive CSR approach that covers various sectors:

1. **Health and Wellness:** TCS allocates 23% of its CSR spending to initiatives in the medical field, supporting research and disseminating health information for the benefit of society.
2. **Education and Skill Building:** The company dedicates 10% of its CSR budget to programs like Adult Literacy, Ignite my future in school aimed at promoting education and skill development.
3. **Environmental Sustainability:** TCS demonstrates its commitment to environmental sustainability with a 0.4% allocation of CSR funds.

4. **Contribution to TCS Foundation:** A significant portion, 56%, of TCS' CSR spending goes to the TCS Foundation, which focuses on various welfare activities for society.
5. **Disaster Relief:** TCS allocates 0.4% of its CSR budget for disaster relief efforts in India, aiding communities during times of crisis.
6. **Other Initiatives:** The company also supports other CSR activities, including youth employability training, heritage, art, and culture, with 0.70% of its total CSR budget. TCS' diverse CSR efforts demonstrate a well-rounded commitment to making a positive impact on society in various critical areas.

**TABLE – 2**  
**Financial Performance of TCS Limited**

Year	Total Income (In Crores)	PBT (In Crores)	Net profit (In Crores)	Total Assets (In Crores)	ROA	ROE	ROCE	EPS Rs.	CSR (in Crores)
2018-19	126746	34092	25880	106296	24.29%	30.33%	38.59%	67.14	400
2019-20	150774	41563	31562	114943	27.38%	35.18%	44.97%	83.05	434
2020-21	161541	42248	32447	120899	26.74%	38.44%	46.00%	86.19	602
2021-22	167311	44978	32562	130759	24.08%	37.52%	47.21%	86.71	674
2022-23	195772	51687	38449	141514	27.08%	42.99%	52.91%	103.62	727

Source – www.moneycontrol.com

Over the period from 2019 to 2023, Tata Consultancy Services (TCS) experienced consistent growth in multiple aspects. Notably, TCS's total income saw a substantial increase, rising from Rs. 126,746 crores in 2018-19 to Rs. 195,772 crores in 2022-23, marking a significant 54% growth. Similarly, the company's profit before tax showed a steady upward trajectory, climbing from Rs. 34,092 crores to Rs. 51,687 crores, reflecting a 51% increase.

TCS's net profit also followed an upward trend, surging from Rs. 25,880 crores in 2018-19 to Rs. 38,449 crores in 2022-23, signifying a notable 49% increase. Concurrently, the total assets of the company expanded, growing from Rs. 106,296 crores to Rs. 141,514 crores in 2022-23, demonstrating a substantial 33% increase.

Despite facing challenges in the years 2020-21 and 2021-22 due to the COVID-19 pandemic, TCS managed to improve its return on assets, which increased from 24.29% in 2018-19 to 27.08% in 2022-23. The return on equity exhibited a steady rise, except for a temporary dip in 2021-22, climbing from 30.33% in 2017-18 to 42.99% in 2022-23. Furthermore, the return on capital employed showed consistent growth, escalating from 38.59% in 2018-19 to an impressive 52.91% in 2022-23. This increase was attributed to reduced expenses, including administrative and staff welfare expenses, as employees worked from home during the pandemic.

Earnings per share also saw a positive trajectory, rising from Rs. 67.14 in 2018-19 to Rs. 103.62 in 2022-23, indicating strong financial performance. Lastly, TCS's commitment to corporate social responsibility is evident in its increased spending, which climbed from Rs. 400 crores in 2018-19 to Rs. 727 crores in 2022-23, aligning with the company's growing net profit.

## Hypotheses Test

### First Hypothesis

- $H_0$  = There is no significant relationship between Profit before Tax and CSR
- $H_1$  = There is a significant relationship between Profit before Tax and CSR

**TABLE -3**  
**Result of Pearson correlation between Profit before Tax and CSR**

Hypothesis	r- Value	p-Value	Relationship
There is significant Relationship between PBT and CSR	0.885	0.046	Strong Positive

Based on Table 3 , it can be concluded that there is a significant and positive correlation (correlation coefficient  $r = 0.885$ ) between Profit before Tax (PBT) and Corporate Social Responsibility (CSR). With a significance level of

less than 0.05, you have rejected the null hypothesis and accepted the alternative hypothesis, indicating that there is indeed a meaningful relationship between PBT and CSR.

### Second Hypothesis

- $H_0$  = There is no significant relationship between Return on Equity and CSR
- $H_1$  = There is a significant relationship between Return on Equity and CSR

**TABLE - 4**  
**Result of Pearson correlation between Return on Equity and CSR**

Hypothesis	R- Value	p-Value	Relationship
There is significant Relationship between ROE and CSR	0.902	0.037	Strong Positive

Based on the information provided in Table 4, it can be concluded that there exists a significant relationship between Return on Equity (ROE) and Corporate Social Responsibility (CSR). This conclusion is supported by a strong correlation coefficient (r) of 0.902 and a level of significance between the two variables at 0.037, which is lower than the typical threshold of 0.05. Consequently, the null hypothesis is rejected in favor of the alternative hypothesis, suggesting that there is indeed a significant relationship between ROE and CSR.

### Third Hypothesis

- $H_0$  = There is no significant relationship between Return on Assets and CSR
- $H_1$  = There is a significant relationship between Return on Assets and CSR

**TABLE - 5**  
**Result of Pearson correlation between Return on Asset and CSR**

Hypothesis	R- Value	p-Value	Relationship
There is significant Relationship between ROA and CSR	0.103	0.869	Weak Positive

Table -5 shows relationship between return on assets and Corporate Social Responsibility. There is a weak positive relationship between ROA and CSR where  $r = 0.103$  and the level of significance between the two variables .0869 which is more than 0.05. Hence we can conclude that there is statistically insignificant relationship between ROA and CSR. Null hypothesis is accepted and alternative hypothesis is rejected.

### Fourth Hypothesis

- $H_0$  = There is no significant relationship between Return on Capital Employed and CSR
- $H_1$  = There is a significant relationship between Return on Capital Employed and CSR

**TABLE – 6**  
**Result of Pearson correlation between Return on Capital Employed and CSR**

Hypothesis	R- Value	p-Value	Relationship
There is significant Relationship between ROCE and CSR	0.879	0.050	Strong Positive

Based on the data presented in Table 6, it can be inferred that there is a significant relationship between Return on Capital Employed (ROCE) and Corporate Social Responsibility (CSR). This conclusion is supported by a correlation coefficient (r) of 0.879 and a significance level of 0.05, which is equal to the chosen threshold. Consequently, the null hypothesis is rejected, and the alternative hypothesis is accepted. In summary, there is a significant and positive relationship between ROCE and CSR based on the analysis conducted.

### Results and Discussion

- There is a strong positive correlation between Profit before Tax and CSR.
- Return on Assets and CSR exhibit a relatively weaker positive correlation.
- A robust positive correlation is observed between Return on Equity and CSR.
- Return on Capital Employed and CSR display a substantial positive correlation.
- To sum it up, the overall findings suggest that the company's financial performance is positively influenced by its CSR contributions. Specifically, as the company increases its CSR efforts, its financial performance tends to improve.

- This underscores the idea that CSR initiatives not only benefit society but also have a favorable impact on the company's financial outcomes.

### Conclusion

Corporate Social Responsibility (CSR) is a management approach where companies incorporate social and environmental concerns into their business practices and interactions with stakeholders. Companies that allocate more resources to CSR can build a positive brand image, reputation among customers, and attract talented employees and business partners. An example of a company actively engaged in CSR is Tata Consultancy Services (TCS), an Indian multinational IT services and consulting firm. To assess the influence of CSR on TCS Limited's financial performance, we conducted empirical research, utilizing various financial metrics like Profit Before Tax (PBT), Return on Equity (ROE), Return on Capital Employed (ROCE), and Return on Assets (ROA). Our findings suggest that CSR activities have a positive impact on PBT, ROE, and ROCE. However, our study did not reveal a significant relationship between CSR and ROA. Overall, our results demonstrate that as a company's commitment to CSR increases, its financial performance tends to improve. Based on these findings, we recommend that TCS further enhance its CSR contributions, as this could significantly enhance its financial performance. It's important for companies to strike a balance between CSR efforts and their core business goals, ensuring that CSR initiatives align with their values and objectives. Continued research and monitoring of the dynamic relationship between CSR and financial performance can provide valuable insights for TCS and other organizations striving to make a positive societal impact while achieving financial success.

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