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Corporate Social Responsibility and Its Impact on Business Performance

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Abstract

Corporate social responsibility (CSR) refers to the voluntary and mandatory actions of a business that go beyond its economic and legal obligations and contribute to the welfare of society and the environment. In India, CSR became a legal requirement for eligible companies under Section 135 of the Companies Act, 2013, and since 2014-15 the amount spent on CSR has increased considerably. At the same time, managers and investors ask whether such spending improves business performance or only adds to cost. This paper studies the growth and pattern of CSR in India and the relationship between CSR and business performance on the basis of secondary data. Official data on CSR expenditure were taken from the replies of the Ministry of Corporate Affairs based on the National CSR Portal, and the evidence on performance was collected from published research articles and meta-analyses. Three comparison tables are prepared: year-wise growth of CSR expenditure, a comparison of sector-wise CSR spending in 2019-20 and 2023-24, and a comparison of the findings of important empirical studies on CSR and performance. The analysis shows that CSR spending increased by nearly 40 per cent in four years to about ₹34,909 crore in 2023-24, with a growing share going to education, and that the research evidence supports a positive or at least non-negative link between CSR and performance in most studies, although the relationship depends on context, stakeholder awareness and the quality of implementation. The paper concludes that CSR works best when it is integrated with business strategy and measured for impact, and not treated as a compliance expense.

Keywords: Corporate Social Responsibility, Business Performance, Section 135, CSR Expenditure, Stakeholders, Shared Value, Financial Performance

Introduction

The idea that business has duties toward society is old, but the modern study of the subject began with Bowen, who defined the social responsibility of businessmen as the obligation to follow policies and take decisions that are desirable in terms of the objectives and values of society (Bowen 6). The idea was challenged by Friedman, who argued that the only social responsibility of business is to use its resources to increase profits within the rules of the game (Friedman 33). The debate between these two views has continued for decades and is the background of most CSR research.

Carroll gave an influential classification and later represented it as a pyramid with four layers: economic responsibility as the base, followed by legal, ethical and philanthropic responsibilities (Carroll 499; Carroll 42). Freeman shifted the focus from shareholders to all stakeholders, such as employees, customers, suppliers, communities and the government, who affect or are affected by the firm (Freeman 46). Dahlsrud analysed thirty-seven definitions of CSR and found that they commonly refer to five dimensions, namely environmental, social, economic, stakeholder and voluntariness (Dahlsrud 4). Garriga and Melé grouped CSR theories into four types: instrumental theories, which treat CSR as a means to profit; political theories, which stress the power of business in society;

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integrative theories, which focus on responding to social demands; and ethical theories, which are based on moral duty (Garriga and Melé 51). These theories show why CSR can be seen both as a moral obligation and as a business strategy.

Legal Framework of CSR in India

India is among the first countries to make CSR spending mandatory by law. Section 135 of the Companies Act, 2013, together with Schedule VII and the Companies (CSR Policy) Rules, 2014, requires every company having a net worth of ₹500 crore or more, or turnover of ₹1,000 crore or more, or net profit of ₹5 crore or more in the preceding financial year, to constitute a CSR committee and to spend at least two per cent of its average net profit of the three preceding years on CSR activities as per its CSR policy (Ministry of Corporate Affairs 2). The provisions came into effect from the financial year 2014-15. Eligible activities are listed in Schedule VII and include education, health care, eradication of hunger and poverty, rural development, environmental sustainability, skill development and women empowerment.

The Indian framework is disclosure based. Companies must file details of their CSR committee, policy and projects through the MCA21 registry, and the data are made available publicly through the National CSR Portal (Ministry of Corporate Affairs 2). The expenditure on CSR activities must also be audited by the statutory auditor. As a result, India has a rich and transparent source of data for studying the pattern of corporate social spending, which is used in this paper.

Business Performance and Its Link with CSR

Business performance is measured in two ways. Financial performance covers profitability, return on assets, return on equity, sales growth and market value. Non-financial performance covers brand image, customer loyalty, employee morale and retention, supplier relations and relations with the community and regulators. Several theories explain why CSR may influence these outcomes. Stakeholder theory suggests that firms that treat stakeholders well gain their cooperation and trust (Freeman 46). Porter and Kramer argue that CSR that is linked with the firm's strategy can improve its competitive context and create advantage, and they later developed the idea of creating shared value, in which economic value is produced by addressing social needs (Porter and Kramer, Strategy and Society 80; Porter and Kramer, Creating Shared Value 64). McWilliams and Siegel treat CSR like any other investment, which should be pursued up to the level where marginal benefit equals marginal cost (McWilliams and Siegel 125).

The effect of CSR can also work in the opposite direction. Waddock and Graves found that social performance was related to earlier financial performance as well as to later financial performance, which suggests a mutually reinforcing cycle in which profitable firms can afford more CSR and CSR in turn supports profitability (Waddock and Graves 313). Kotler and Lee describe six forms of corporate social initiatives, ranging from cause promotion and cause-related marketing to philanthropy, volunteering and socially responsible business practices, and show that firms use them to build brand and community goodwill (Kotler and Lee 23).

Objectives

1. To explain the concept and legal framework of Corporate Social Responsibility (CSR) in India.

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2. To analyse the growth of CSR expenditure by companies in recent years.
3. To compare the sector-wise pattern of CSR spending between two different points in time.
4. To examine and compare empirical evidence on the relationship between CSR and business performance.

Review of Literature

The review of literature is arranged in three parts: positive evidence, mixed and conditional evidence, and Indian and review studies.

Positive evidence. McGuire, Sundgren and Schneeweis examined the link between corporate social responsibility and financial performance and found that prior financial performance was a better predictor of CSR than the reverse, while CSR was also related to lower risk (McGuire et al. 864). Waddock and Graves reported a positive association of social performance with both previous and later financial performance (Waddock and Graves 313). Orlitzky, Schmidt and Rynes carried out a meta-analysis of studies and found a positive association between corporate social performance and corporate financial performance across industries and measures (Orlitzky et al. 421). Eccles, Ioannou and Serafeim studied matched samples of firms and found that companies with high sustainability policies outperformed low-sustainability companies in the long run in both stock market and accounting terms (Eccles et al. 2845). Flammer used close-call shareholder proposals on CSR to separate cause from effect and found that the adoption of such proposals led to positive stock market reactions and better operating performance (Flammer 2560). Friede, Busch and Bassen aggregated the evidence from more than two thousand empirical studies and reported that about ninety per cent of them found a non-negative relationship between environmental, social and governance factors and financial performance (Friede et al. 210).

Mixed and conditional evidence. Margolis and Walsh reviewed 109 studies published over thirty years and found that about half showed a positive link, a quarter showed no relationship, about a fifth were mixed and a small number found a negative relationship (Margolis and Walsh 277). Servaes and Tamayo found that CSR increases firm value only for firms with high customer awareness, mostly through advertising, and reduces value for firms with low awareness (Servaes and Tamayo 1045). Barnett argued that the financial return to CSR depends on the firm's ability to influence stakeholders and on the stakeholders' perception of the firm's motives (Barnett 794). Brammer and Millington found a U-shaped relationship, in which firms with unusually high and unusually low social performance both did better financially than those in the middle (Brammer and Millington 1325).

Indian and review studies. Mishra and Suar studied Indian companies and found that responsibility toward stakeholders was related to better financial and non-financial performance (Mishra and Suar 571). Aguinis and Glavas reviewed the literature and observed that most studies were conducted at the institutional and organisational level, and that the processes through which CSR influences outcomes needed more attention (Aguinis and Glavas 937). There is a gap in studies that connect the official data on the size and pattern of CSR spending in India with the global evidence on performance, which this paper tries to fill.

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Research Methodology

The study follows a descriptive and analytical design based entirely on secondary data. Data on CSR expenditure of companies for the financial years 2019-20 to 2023-24, in total and by development sector, were taken from the reply of the Ministry of Corporate Affairs in the Lok Sabha, which is based on filings in the MCA21 registry and the National CSR Portal. The evidence on business performance was gathered from journals, books and meta-analyses listed in the references. Year-on-year growth, an index with 2019-20 as the base year, the percentage share of each sector and the growth between 2019-20 and 2023-24 were calculated to make the data comparable. The figures are rounded, and the latest values should be checked on the National CSR Portal before reuse.

The limitations are as follows. The data show how much was spent and in which sector, but not the quality or the outcome of the projects. The comparison of research findings is based on studies using different samples, countries, periods and measures of performance, so the summary indicates the general direction of evidence and not an exact effect. Since CSR in India is mandatory for eligible companies, the Indian experience may differ from that of countries where CSR is voluntary.

Data Analysis and Discussion

Growth of CSR Expenditure in India

Table 1 presents the total CSR expenditure of companies for five financial years and compares each year with the base year 2019-20. The first year of the CSR law, 2014-15, had recorded spending of about ₹10,000 crore, so the present level is more than three times the starting level (Ministry of Corporate Affairs 2).

Table 1: Year-wise CSR Expenditure of Companies in India (2019-20 to 2023-24)

Financial Year	CSR Expenditure (₹ crore)	Increase over Previous Year (₹ crore)	Growth over Previous Year (%)	Index (2019-20 = 100)
2019-20	24,965.82	-	-	100
2020-21	26,210.95	1,245.13	5	105
2021-22	27,141.45	930.5	3.6	108.7
2022-23	30,932.08	3,790.63	14	123.9
2023-24	34,908.75	3,976.67	12.9	139.8

Source: Ministry of Corporate Affairs, Lok Sabha Unstarred Question No. 2501 (4 August 2025), based on the National CSR Portal; growth and index calculated by the author.

CSR expenditure rose by about 39.8 per cent in four years. The growth was slow in 2020-21 and 2021-22, when many companies faced reduced profits during the pandemic, and it picked up to 14.0 per cent in 2022-23 and 12.9 per cent in 2023-24 as profits recovered. This pattern is consistent with the finding of Waddock and Graves and of McGuire et al. that financial performance and social spending are closely related, because profitable firms are better able to spend on social causes (Waddock and Graves 313; McGuire et al. 864). Since the legal requirement is linked to net profit, a

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part of the movement in CSR expenditure follows the profit cycle of the corporate sector. The annual increase of nearly ₹4,000 crore in the last two years also shows that CSR is now a large and stable source of social funding.

Sector-wise Comparison of CSR Spending, 2019-20 and 2023-24

The priorities of companies can be understood by comparing how the total CSR amount was divided among development sectors. Table 2 compares the six largest or most important sectors in the first and the last year of the period.

Table 2: Comparison of Sector-wise CSR Expenditure, 2019-20 and 2023-24

Development Sector	2019-20 (₹ crore)	Share in Total (%)	2023-24 (₹ crore)	Share in Total (%)	Growth, 2019-20 to 2023-24 (%)
Education	7,179.51	28.8	12,134.57	34.8	69
Health care	4,905.72	19.6	7,150.81	20.5	45.8
Rural development projects	2,301.02	9.2	2,408.09	6.9	4.7
Environmental sustainability	1,470.53	5.9	2,429.97	7	65.2
Livelihood enhancement projects	1,077.72	4.3	2,360.09	6.8	119
Vocational skills	1,181.23	4.7	1,396.55	4	18.2
All sectors (total)	24,965.82	100	34,908.75	100	39.8

Source: Ministry of Corporate Affairs, Lok Sabha Unstarred Question No. 2501 (4 August 2025), Annexure II; shares and growth calculated by the author.

Education is the largest sector in both years, and its share rose from 28.8 per cent to 34.8 per cent, an increase of nearly ₹5,000 crore. Health care also grew, but its share movement was different. The Ministry's data show that health care received about 28 per cent of the total in 2020-21 and nearly 30 per cent in 2021-22, which reflects the response of companies to the pandemic, and then its share came down to 20.5 per cent in 2023-24 (Ministry of Corporate Affairs 3). The fastest growing sector in the table is livelihood enhancement, which more than doubled, and environmental sustainability also recorded a large increase of 65.2 per cent. Rural development and vocational skills grew slowly, and their shares declined. The shift toward education, livelihood and environment indicates that companies are choosing projects that are visible, easy to measure and close to their long-term interests such as skilled workforce, community goodwill and sustainability, which is the logic of strategic CSR

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and shared value (Porter and Kramer, Strategy and Society 80; Porter and Kramer, Creating Shared Value 64). The concentration of nearly a third of all spending in a single sector also suggests that some development needs may remain under-funded.

Comparison of Empirical Evidence on CSR and Business Performance

The expenditure data show how much companies spend, but they do not show whether it improves performance. Table 3 therefore compares the evidence of important studies that have examined the relationship between CSR and business performance.

Table 3: Comparison of Empirical Evidence on the Relationship between CSR and Business Performance

Study (Page)	Evidence Base	Main Result	Direction of Relationship
Margolis and Walsh 277	109 reviewed studies	54 positive (49.5%), 28 no relationship (25.7%), 20 mixed (18.3%), 7 negative (6.4%)	Mostly positive, with exceptions
Orlitzky et al. 421	Meta-analysis of 52 studies	Positive association between social and financial performance	Positive
Friede et al. 210	More than 2,000 studies	About 90% of studies find a non-negative relationship	Positive or neutral
Eccles et al. 2845	Matched sample of high and low sustainability firms	High-sustainability firms outperformed in stock market and accounting terms	Positive (long run)
Flammer 2560	Close-call shareholder proposals on CSR	Adoption led to positive returns and better operating performance	Positive (causal design)
Mishra and Suar 571	Indian companies	CSR toward stakeholders related to financial and non- financial performance	Positive
Servaes and Tamayo 1045	Firms with different customer awareness	Positive for high- awareness firms, negative for low-awareness firms	Conditional
Brammer and Millington 1325	Firms with different levels of social performance	Both very high and very low social performers did better than average	U-shaped

Source: Compiled by the author from the studies cited in the first column; percentages for Margolis and Walsh calculated from the reported counts.

Table 3 shows that the balance of evidence is favourable but not uniform. In the review by Margolis and Walsh, about half of the studies found a positive effect and only about six per cent found

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a negative effect, so a positive or neutral relationship is far more common than a harmful one (Margolis and Walsh 277). The larger meta-analyses and the study of Friede et al. point in the same direction (Orlitzky et al. 421; Friede et al. 210). The studies with stronger research designs, such as Eccles et al. and Flammer, support the view that CSR can contribute to performance and not merely follow it (Eccles et al. 2845; Flammer 2560). The Indian evidence of Mishra and Suar is also positive (Mishra and Suar 571). Yet the conditional results of Servaes and Tamayo and the U-shaped pattern of Brammer and Millington show that the outcome depends on context, such as how aware customers are and how seriously the firm pursues CSR (Servaes and Tamayo 1045; Brammer and Millington 1325). Barnett similarly noted that stakeholders' judgement of motives influences the return (Barnett 794). Hence, CSR is more likely to improve performance if it is genuine, strategically aligned and communicated well.

Major Findings

The analysis leads to the following findings. First, CSR expenditure in India increased by about 39.8 per cent between 2019-20 and 2023-24 and reached ₹34,908.75 crore, with faster growth in the last two years, which shows its link with corporate profits. Second, the sector pattern has moved toward education, livelihood enhancement and environmental sustainability, while rural development and vocational skills have lost share; health care showed a temporary rise during the pandemic. Third, the empirical evidence supports a positive or at least non-negative association between CSR and business performance in most studies, as seen in Table 3. Fourth, the effect is not uniform and is conditional on factors such as customer awareness, stakeholder perception and the level of commitment of the firm. Fifth, the available data measure the amount of CSR spending but not its impact, which is a major gap in assessing the contribution of CSR to business and society.

Suggestions

Companies should link CSR projects with their core competence and long-term strategy, so that social programmes also build skills, reputation and market trust. Impact assessment should be made a regular part of CSR projects, with clear indicators for outputs and outcomes, and the results should be reported along with expenditure. Companies should broaden their attention to under-funded areas and to aspirational and backward regions, so that the concentration of funds in a few sectors and states is reduced. Communication of CSR should be honest and transparent, because stakeholders respond positively only when they believe the motives are genuine. Regulators and industry bodies can encourage partnerships with credible non-governmental organisations and provide training on project design and monitoring. Researchers should use company-level Indian data to test the effect of CSR on profitability, brand value and employee outcomes.

Conclusion

Corporate social responsibility in India has moved from voluntary philanthropy to a regulated and large-scale activity. The data show that CSR expenditure has grown steadily, and that companies are increasingly directing funds toward education, livelihood and the environment. The research evidence suggests that CSR generally does not harm business performance and often helps it, through better stakeholder relations, reputation, employee commitment and long-term value, although the benefit depends on context and on the quality of implementation. The most important lesson of the

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analysis is that spending alone is not sufficient. When CSR is aligned with strategy, carefully measured and communicated with honesty, it can serve the interests of both society and the business. Therefore, companies, regulators and researchers should shift attention from the question of how much is spent to the question of what difference the spending makes.

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