

# CSR COMPLIANCE IMPACT ON FINANCIAL STRENGTH OF PUBLIC SECTOR ENTERPRISES IN INDIA: BEFORE AND AFTER MANDATORY CSR SPENDING

**Renu Hooda**

Assistant Professor

Maharaja Surajmal Institute, Janakpuri, New Delhi

**E-mail:** gurukulamrenu@gmail.com

## ABSTRACT

*Transitioning of corporate social responsibility in the corporate sphere sparked a scholarly discourse in business and economics literature, focusing on assessing the influence of CSR expenditure on the sustainability of corporations. This study endeavors to augment the current body of literature by investigating the financial resilience of listed Public Sector Enterprises before and after compliance. Absolute performance metrics like total assets, net sales, PAT and PBIT significantly improved. However, the leverage ratio showed little change. The study indicates that CSR compliance didn't enhance shareholders' wealth, evidenced by a decline in EPS. While NPM and ROCE increased insignificantly, the increase in ROA and ROE were significant. Overall, CSR expenditure compliance didn't positively affect profitability and earnings, with variations observed across sectors.*

**Keywords:** CSR, Corporate Social Responsibility, Ratio Analysis, PSU

## INTRODUCTION

CSR was formally defined by Bowen in a seminal work entitled “The Social Responsibilities of Businessman” in the 1950s. Since then, the concept has enlarged over a period, leading to a paradigm shift in how businesses conduct their operations. CSR is defined as the business allegiance towards economic upswing and elevating the welfare of its employees, their families, indigenous population and society at large, while behaving ethically (WBCSD, 1998). Carroll (1991) delineate CSR as “a combination of economic responsibilities, legal responsibilities, ethical responsibilities, and philanthropic responsibilities metaphorically through a pyramidal shape”. CSR is an extension of responsibilities of corporate entities towards society, besides merely fulfilling their economic and legal obligations. A study carried out by UN Global Compact - Accenture among 1000 CEOs worldwide discovered that 93% view CSR as an important determinant in influencing the firm's success. Therefore, it has been a matter of academic debate in business and economics literature to identify whether it is a corporate strategy that enhances firm value or a social externality in terms of cost (Aswani *et al.*, 2021). CSR has extended in its ambit mere philanthropic giving to effectively addressing the interests of different stakeholders (Kaimal & Uzma, 2024).

Concomitantly, there has been a transition in the organizational approach to business, shifting from investor-oriented to stakeholders-oriented (Roy *et al.*, 2022). Essentially, businesses have an obligation to society that goes beyond their primary obligation to their owners or shareholders (Narwal, 2007).

Globally, many countries have now mandated corporations to communicate their corporate responsibility and sustainability initiatives through various regulations (Narayanan & Singh, 2024). However, India was the first country to enact explicit legislation mandating Corporate Social Responsibility. Companies Act, 2013, requisite that corporations satisfying a threshold with respect to shareholder's investment, sales and profitability must allocate at least 2 per cent of their average net profit from the preceding three years on stipulated activities on „comply or explain basis'. Enacted section specified the following threshold to identify the companies subject to mandatory CSR expenditure: companies with annual (1) shareholder's investment of ₹500 crore or higher; (2) sales of ₹1000 crore or higher; (3) profitability of ₹5 crore or higher. Besides, India is acknowledged as world's most populous nations, often characterized by significant poverty and inequality, with a notable affluent elite (Bhatnagar *et al.*, 2023). Although India recorded a GDP of USD 3.385 trillion in 2022 with an annual growth rate of 7 percent, placing it among the world's top five economies, its average GDP per capita ranks much lower at 140th globally. Socio-economic indicators also reflect persistent challenges, as India stands 132nd out of 191 countries on the Human Development Index and 111th out of 125 on the Global Hunger Index. The country reports relatively modest life expectancy at birth (70.62 years), a high infant mortality rate (30.6 per 1,000 live births), and a literacy rate of only 73.6 percent. Furthermore, income and wealth distribution remain highly unequal, with the richest 1 percent of the population controlling more than 40.5 percent of total national wealth, as highlighted in the latest Oxfam report. Considering these facts, the Government of India incorporated a clause in the Companies Act, mandating profitable corporations to participation in economic development and the establishment of a more equitable society (Bhattacharyya & Rahman, 2019). Several studies have been undertaken to examine the trends and patterns of CSR expenditure (Atale & Helge, 2014;

Dharmapala & Khanna, 2018; Narayanan & Singh, 2024) and its impact on various performance measures such as (Bhagawan & Mukhopadhyay, 2024; Garg & Gupta, 2020; Garg, 2016; Mukherjee *et al.*, 2018a; Oware & Mallikarjunappa, 2022). However, studies focused on CSR expenditure in public sector undertaking are still lacking. Furthermore, research evaluating the influence of CSR expenditure in a comprehensive way is scarce. Present study tried to fill this gap in the study of CSR in India, by answering the following question:

1. To what degree will Corporate Social Responsibility expenditure impact the financial strength of the listed Public Sector Enterprises (CPSEs) during before-compliance and after-compliance of CSR expenditure period?

This study seeks to assess the financial strength of listed PSEs on BSE PSU index in India, in analyzing indicators such as positional measures, growth measures, profitability ratios, leverage ratios and shareholders wealth ratios and their significant variations in the before and after CSR compliance period. These companies were selected due to their substantial contributions to the social and economic welfare of society (Subramaniam *et al.*, 2017). Since the inception of the new state, the Government of India has tasked public sector enterprises with the goal of fostering inclusive growth, with the aim of promoting equity and justice within society. The public sector contributes 20 per cent to GVA in 2020-21 and the aggregate market capitalisation of public sector undertakings (PSUs) surpassed ₹50 lakh crore. The findings of this research will assist Government of India, lawmakers and other regulatory authorities in amplifying the overall implementation of CSR guidelines. This will serve as a valuable point of reference for future research endeavours concerning corporate social responsibility within public sector undertakings of developing nations. Additionally, this study enhances the extant literature regarding the impacts of corporate social responsibility on financial strength within the public sector undertakings of emerging economies. The significance of this research lies in its contribution to prompting SEBI and the Government of India to reassess whether the outcomes align with the initial intentions behind the introduction of corporate social responsibility expenditure. Moreover, this study will be indispensable to various stakeholders, as it examines the financial strength of public sector

enterprises both before and after the obligatory corporate social responsibility expenditure.

### THEORETICAL BACKGROUND

The investment in Corporate Social Responsibility (CSR) initiatives and their efficacy has been articulated through diverse theoretical frameworks. For instance, within the framework of agency theory, shareholders assume a prominent role as principals, while managers serve as agents representing the interests of the shareholders. In the views of Friedman (1970), if managers are left unchecked, they tend to prioritize their personal objectives over maximizing shareholders wealth. As per legitimacy theory, CSR is a legal obligation of an organisations. It is articulated as an effort to reconcile the actions of companies with legal obligations, ensuring that shareholders view their activities as legitimate (Deegan, 2002). Institutional theory proposes that administrative bodies, government and social agencies determine the environment and social performance of an organisation (Kumar, 2020). Signalling theory addresses the problem of information asymmetries that exist between the management and diverse stakeholders of the firm. According to Mahoney *et al.* (2013), when companies are disclosing their environment and social performances in a comprehensive way, it indicates their superior dedication towards sustainability to stakeholders. The efficacy of this dedication hinges on the caliber and breath of information provided in sustainability reports (Kumar, 2020). Stakeholder theory posits that companies should consider the concerns of all individuals or groups who have a significant impact on, or are impacted by, the well-being of the company (Mukherjee *et al.*, 2018).

### LITERATURE REVIEW

An examination of the existing literature concerning Indian corporations demonstrates a diverse range of results. Garg and Gupta (2020) examined the firm value with respect to mandatory CSR expenditure using listed public and private sector companies on NSE. Results stated that mandatory CSR spending led to lesser firm value in the case of public sector companies. Also, it identified that there was no notable variation in the value of private sector companies that are meeting and not meeting mandatory CSR expenditure. Bhattacharyya and Rahman (2019) explored the relation of mandatory CSR expenditure on firm performance using a sample of 1516 firm years'

observation and concluded that mandatory CSR expenditure has positive relation with ROA and cash from operation. In addition, actual CSR expenditure was significantly but not solely determined by mandatory CSR regulation, however, firm-specific economic factors have lessened effect. Likewise, Bhatnagar *et al.* (2023) selected 165 companies listed on BSE from 2008 to 2019 and studied the impact of social expenditure and business responsibility reporting (BRR) score on their performance. Study concluded that BRR score have positive, however, social expenditure has negative impact on firm performance. Chauhan and Amit (2014) attempted to explore the relation of firm characteristics on CSR expenditure using a sample of companies listed on BSE 30 index for the period 2007-12. Firm characteristics were measured based on firm size, profitability, leverage and sales. It identified from the study that firm size and sales have positive relation, however, profitability has a negative relation with CSR expenditure. Ali (2023) aimed to explore the relationship of food agribusiness companies in Indian using a sample of 362 companies for the year 2019. T-test, correlation and regression were used to analyse the secondary data. Results of the study revealed that there were a positive relation and impact of CSR expenditure on ROS, ROA and PAT. Also, firm characteristics such as sales, assets, age, size and profits differ significantly with and without CSR expenditure. Kaimal and Uzma (2024) reviewed the influence of CSR expenditure on firm value of companies listed on NSE and BSE for 2020 to 2021. Using regression analysis, the study identified that mandatory CSR expenditure positively influenced Tobin's Q, although, negatively influenced the ROA. Furthermore, the relationship between CSR expenditure and Tobin's Q have been positively moderated by family ownership. Mukherjee *et al.* (2018) investigated the success of CSR spending in the context of companies and beneficiaries. Results of the study revealed that mandatory CSR spending didn't meet the expectation in terms of expenditure generation for CSR and the activities to which they have been directed. Furthermore, CSR legislation has a negative influence on profitability that resulted in unwillingness of organisation to spend in this area. Ghosh (2015) reviewed the design of CSR activities undertaken by top 500 private sector companies of India from 2006-07 to 2008-09. CSR data was collected using Qualitative analysis.

Results indicated that CSR activities focused on education, health, and the environment were highly favored, while initiatives related to urban development, clean water access, and sanitation were less preferred. Also, there was high correlation among the CSR activities pursued by the companies. Manufacturing and diversified sector companies were highly susceptible towards CSR activities. Kapoor and Dhamija (2017) examined the status of CSR expenditure by companies listed on the S&P BSE 500 index in the backdrop of the Companies Act, 2013, which mandated CSR spending for specified categories of firms, during its first year of implementation (2014-15). Data was collected using content analysis. Results of the study stated that 75 per cent of mandated CSR amount was spent by more than 75 per cent companies of sample. Also, MNCs have performed superiorly to PSUs and other companies in CSR spending. Mansi *et al.* (2017) explored the vision and mission statement of 230 public sector companies and concluded that 50 per cent of companies have incorporated CSR related terminology in their vision and mission statement. Besides, in majority of public sector companies have used environment related terminology, further, companies in big size and extractive industries have higher probability of using CSR related term in their vision and mission statements. Narayanan and Singh (2024) explored the role of statutory CSR outlay on companies' actions and increase in social welfare projects due to state regulation of mandatory CSR. Data were collected from government repository for the period 2014-15 to 2019-20. It revealed from the study that there was rise in CSR amount from 2014-15 to 2019-20. Further, around 75 per cent of corporations reported CSR allocation exceeding the statutory requirement. Education, healthcare and rural development were among the activities that received most priority than other activities specified in schedule VII.

The studies available in the literature found mixed results. Also, the available studies are concentrated on studying the impact on profitability of companies after statutory CSR outlay. Therefore, the present study seeks to address this research void by considering other measures of performance and has analysed the financial strength of the firms during the before and after CSR compliance period.

Because of the identified gaps, the study will investigate the following hypotheses:

## **HYPOTHESES DEVELOPMENT**

### **Positional Measures**

**H01.** Companies' net sales before and after CSR expenditure compliance is not significantly different.

**H02.** Companies' total assets before and after CSR expenditure compliance is not significantly different.

**H03.** Companies' profit after tax (PAT) before and after CSR expenditure compliance is not significantly different.

**H04.** Companies' profit before interest and tax (PBIT) before and after CSR expenditure compliance is not significantly different.

### **Profitability Measures**

**H05.** Companies' Net Profit Margin (NPM) before and after CSR expenditure compliance is not significantly different.

**H06.** Companies' Return on equity (ROE) before and after CSR expenditure compliance is not significantly different.

**H07.** Companies' Return on capital employed (ROCE) before and after CSR expenditure compliance is not significantly different.

**H08.** Companies' Return on assets (ROA) before and after CSR expenditure compliance is not significantly different.

### **Leverage Measures**

**H09.** Companies' Debt equity ratio (D/E ratio) before and after CSR expenditure compliance is not significantly different.

**H10.** Companies' Current ratio (D/E ratio) before and after CSR expenditure compliance is not significantly different.

### **Shareholders Wealth Measures**

**H11.** Companies' earnings per share ratio (EPS ratio) before and after CSR expenditure compliance is not significantly different.

**H12.** Companies' dividend per share ratio (DPS ratio) before and after CSR expenditure compliance is not significantly different.

**H13.** Companies' price book value ratio (P/B ratio) before and after CSR expenditure compliance is not significantly different.

## **RESEARCH METHODOLOGY**

### **Research Design**

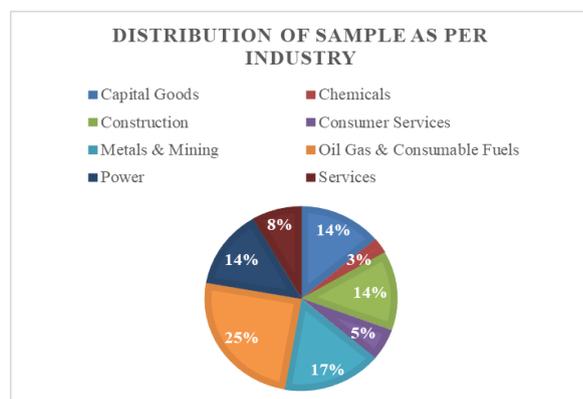
This research employs a descriptive and comparative research methodology to assess the

impact of CSR expenditure on the financial strength of public sector enterprises pre and post a CSR expenditure compliance mandate.

### Data and Sample Selection

The study draws its sample from companies constituting the S&P BSE PSU index. The index is formulated to gauge the performance of public sector undertakings (PSUs) as delineated by BSE Ltd. Figure 1 report the industry-wise classification of sampled companies.

For this study, corporate social responsibility data were extracted from the annual reports of sampled public sector enterprises. Financial data were collected from the CMIE Prowess database for the period from 2007-08 to 2021-2022 financial years. The primary rationale for choosing this timeframe is due to the applicability of the Companies Act, 2013 provisions from 1st April 2014.



**Figure 1: Industry -Wise Classification of Sampled Companies**

Source: Authors' Calculation

### Data Analysis Techniques

The research employs ratio analysis to assess the strength of individual companies using data from their annual reports, juxtaposing their average financial strength during the seven years preceding compliance (T-7, T-6, T-5, T-4, T-3, T-2, T-1) with the average during the seven years following

compliance (T+7, T+6, T+5, T+4, T+3, T+2, T+1). The implementation year (T0) is excluded from the analysis of financial performance to avoid distortions arising from mandatory spending on CSR activities. Then, a paired sample t-test is conducted utilizing SPSS to examine the hypotheses at a significance level of 5 per cent.

Following parameters are used as financial performance variables in the present study:

#### Positional Measures

Net Sales

Total assets

Profit after Tax (PAT)

Profit before Interest and Tax (PBIT)

#### Profitability Measures

Net profit margin (NPM) as PBIT divided by sales.

Return on equity (ROE) as net income divided by shareholders' equity.

Return on capital employed (ROCE) as PBIT divided by capital employed.

Return on assets (ROA) as PBIT divided by total assets.

#### Leverage Measure

Debt-equity ratio as proportion of total debt relative to total equity

Current ratio as proportion of current assets relative to total liabilities

#### Shareholders Wealth Measures

Earnings per share (EPS) as PAT divided by number of outstanding shares.

Dividend per share (DPS) as total dividend payout apportioned across the number of outstanding shares.

Price to Book value ratio (P/B) as market price divided by book value of share.

### DATA ANALYSIS AND DISCUSSION

**Table 1: CSR Expenditure**

No.	Company	2015	2016	2017	2018	2019	2020	2021	2022	CAGR
1	BEML Ltd.	326.64	459.67	351.05	334.65	310.18	262	404	565.8	7.11
2	Balmer Lawrie & Co. Ltd.	388.4	395.51	412.7	438.34	516.23	514.36	514.15	1048.16	13.21
3	Bharat Electronics Ltd.	1,846.87	1780.22	1164.12	1439.45	2416.48	2911.7	3073	2279	2.66
4	Bharat Heavy Electricals Ltd.	16500	11010	3750	1040	1601.45	506.3	144.2	91.1	-47.79
5	Bharat Petroleum Corporation Ltd.	4206	5907	9098	16601	17793.84	34557	14490	13778	15.99
6	Chennai Petroleum Corporation Ltd.	116.59	133.02	187.51	918.18	1889	1671.72	196.51	972.94	30.37
7	Coal India Ltd.	2472	7326	12805	2431	2733.12	1713.2	953.6	68.1	-36.17
8	Cochin Shipyard Ltd.	591.75	736.67	495.61	381.27	1048.84	1529	1526.98	1619.47	13.41

9	Container Corporation. Of India Ltd.	2490	2528	2604	1589	1351.05	2288.78	1845.64	1517	-6.01
10	Engineers India Ltd.	1707.99	1410.1	1099.69	1474.29	1004.37	1128.49	670.18	3351.68	8.79
11	GAIL (India) Ltd.	4136	10482.56	7199.17	9164.68	11928.77	1253	1467.7	2049.7	-8.40
12	Gujarat Mineral Development Corporation Ltd.	4761.87	6602.67	1067	1000	943.87	1140.07	954.3	790.54	-20.11
13	Hindustan Copper Ltd.	726.44	767.92	514.65	342.95	208.15	331.01	73.69	79.6	-24.15
14	Hindustan Petroleum Corporation Ltd.	3407	7176	10811	15687	15981	18224	15635	12606	17.77
15	India Tourism Development. Corporation Ltd.	14.08	13.58	59.33	60.03	44.01	38.97	66.24	27.06	8.51
16	Indian Oil Corporation Ltd.	11379	15668	21399	33105	49060	54338	46037	29829	12.80
17	Indian Railway Catering & Tourism Corporation Ltd.	96.78	398.51	459.49	543.67	688.29	767	1250	786.85	29.95
18	Ircon International Ltd.	672.31	615.25	589.11	873.15	874.88	1004	1042	1052	5.76
19	MMTC Ltd.	48.84	46.5	81.41	48.94	62.93	80.35	2.83	4.74	-25.29
20	MOIL Ltd.	1357.57	1447.39	1143.1	961.63	480.25	1274.22	1318.12	3320	11.83
21	Mangalore Refinery & Petrochemicals Ltd.	481	410.97	144.63	1030.24	3132.02	3634.89	3283.68	973	9.21
22	NBCC (India) Ltd.	435.44	870.54	873.46	895.61	987.57	575.02	293.03	255.53	-6.45
23	NHPC Ltd.	5223.94	7267.55	7581.87	3854.71	1758.03	12644	7963	10529	9.16
24	NLC India Ltd.	4749	8193.48	3178.6	4358.77	4946	4678	4674	4080	-1.88
25	NMDC Ltd.	18864.72	21009	17418.3	16937.3	16724.13	19999	15862	28733	5.40
26	NTPC Ltd.	205.18	491.8	277.81	241.54	285.46	304.92	418.87	356.72	7.16
27	National Aluminium Company Ltd.	1931	2717	3000.8	2901.4	3034.92	3971.35	904.66	3691.38	8.44
28	Oil & Natural Gas Corporation Ltd.	49522.87	41906.6	52590	50344	61464	60697	53877	47229	-0.59
29	Oil India Ltd.	13331	9221	10837	10058	13339	12541	10525	16374	2.60
30	Power Grid Corporation Of India Ltd.	2773	11406	14259	15119	19951.28	3462.1	2404.8	2711.4	-0.28
31	Rail Vikas Nigam Ltd.	454	594	612.28	767.34	1148.46	1905	2185	1315	14.22
32	Rashtriya Chemicals & Fertilizers Ltd.	830	965.72	862.51	779.32	387.59	341.54	421.72	747.28	-1.30
33	Rites Ltd.	751.59	786.51	872.65	941.02	1022.53	1121.33	1340.69	962.38	3.14
34	SJVN Ltd.	2483.15	2887.59	3716.12	3876.15	4025.12	3543	1973.78	3199.54	3.22
35	Shipping Corporation Of India Ltd.	124	35	157	169	202.66	97.55	117.04	398.12	15.70
36	Steel Authority of India Ltd.	3504	7616	2905	2570	3118	2756	4718	9424	13.16
	Total	162910	191283.3	194578	203277.6	246463.5	257804.9	202627.4	206816.1	3.03

Source: Authors' Calculation

Table 1 shows the actual CSR expenditure of the sampled companies during 2014-15 to 2021-22. It revealed that 36 sampled companies CSR expenditure showed an increase from 2.60 per cent to 30.37 per cent, however, 12 companies showed a decrease from 0.59 per cent to 47.79 per cent. Over a period of eight years actual CSR expenditure by sampled companies showed a CAGR of 3.03 per cent.

**Table 2: CSR Expenditure by Different Sectors of PSUs**

Mean CSR Expenditure for Sectors and ANOVA Results				
Sector	No. of Companies	Mean CSR Expenditure	ANOVA Result	
			<i>F</i>	<i>P-value</i>
Capital Goods	5	1668.13	81.00	0.0000000
Chemicals	1	666.96		
Construction	5	1013.39		
Consumer Services	2	332.12		
Metals & Mining	6	5123.29		
Oil Gas & Consumable Fuels	9	15110.96		
Power	5	4901.33		
Services	3	745.43		

Source: Author's Calculation

Table 2 shows the extent of CSR expenditure by different sectors of PSUs. To test, one-way ANOVA was carried out and the results show that the extent of CSR expenditure significantly differs across different sectors.

CSR expenditure varies across industries, with some sectors allocating significantly more than others. The mean score of all sectors shows that CSR expenditure is the highest for oil, gas and consumable fuels sector (13978.08 lakhs) and the lowest for consumer services sector (237.78 lakhs) among all the sectors.

**Table 3: Comparison of Financial Ratios**

	Pre	Post	Change	Relative change (%)
<b>Positional Measure:</b>				
Net Sales	312437.66	421805.06	109367.41	56.93
Total assets	329589.11	569382.97	239793.86	66.38
PAT	22201.12	31896.97	9695.85	82.77
PBIT	36537.43	47233.12	10695.69	50.43
<b>Profitability Measure:</b>				
NPM	67.69	99.90	32.21	750.07
ROE	16.95	11.75	-5.20	-11.36
ROCE	14.26	17.78	3.52	37.73
ROA	7.78	6.24	-1.54	-86.23
<b>Leverage Measure:</b>				
D/E RATIO	0.77	0.49	-0.28	295.85
CR	2.02	1.79	-0.23	1.35
<b>Shareholders Wealth Measures</b>				
EPS	76.73	15.07	-61.66	-57.39
DPS	14.19	7.67	-6.52	115.99
P/B ratio	3.97	2.30	-1.67	25.57

Source: Authors' Calculation

**Table 4: Paired Sample T-test**

	Paired Differences					t	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the			
				Lower	Upper		
<b>Positional Measures:</b>							
Net Sales (pre) - Post	-109367.41	308736.32	19448.56	-147670.57	-71064.24	-5.623	0.000
Total Assets - Post	-239793.86	444348.29	27991.31	-294921.64	-184666.09	-8.567	0.000
PAT - Post	-9695.85	59013.13	3717.48	-17017.27	-2374.43	-2.608	0.010
PBIT - Post	-10695.69	48633.44	3063.62	-16729.37	-4662.02	-3.491	0.001
<b>Profitability Measures:</b>							
NPM - Post	-32.207	693.755	43.702	-118.277	53.863	-0.737	0.462
ROE - Post	5.197	23.763	1.497	2.249	8.145	3.472	0.001
ROCE - Post	-3.518	105.478	6.645	-16.604	9.568	-0.529	0.597
ROA - Post	1.542	10.349	0.652	0.258	2.826	2.366	0.019
<b>Liquidity Measures:</b>							
D/E RATIO - Post	0.276	3.920	0.247	-0.211	0.762	1.117	0.265
CR - Post	0.234	2.035	0.128	-0.019	0.486	1.824	0.069
<b>Shareholders' Wealth Measures:</b>							
EPS - Post	61.665	304.250	19.166	23.918	99.411	3.217	0.001
DPS - Post	6.521	40.002	2.520	1.558	11.484	2.588	0.010
P/B Ratio - Post	1.668	12.660	0.797	0.098	3.239	2.092	0.037

Source: Authors' Calculation

Table 3 illustrates that net sales, total assets, PBIT, and PAT have shown improvement during the period after CSR compliance. However, Table 4, which presents the results of the repeated measures t-test, indicates that the enhancements in total assets, net sales, PAT and PBIT are statistically significant, as evidenced by p-values falling below the 5 percent significance threshold. Consequently, all null hypotheses  $H_{01}$ ,  $H_{02}$ ,  $H_{03}$  and  $H_{04}$  are rejected. These findings suggest that compliance with CSR expenditure has a noteworthy impact on total assets, net sales, PAT and PBIT. Notably, net sales increased by 56.93 per cent during the post-compliance period, indicating a favorable reception of the companies' CSR initiatives by the public. This sentiment is further reflected in the companies' PBIT (82.77 per cent) and PAT (50.43 per cent) figures.

The profitability ratios presented in Table 3 indicate that two ratios- ROE and ROA except NPM and ROCE, have decreased in the period following compliance. However, the repeated measures t-test results in Table 4 reveal that the increase in the NPM ratio between the periods before and after compliance is insignificant at a 5 per cent level of statistical significance, whereas the declines in ROE and ROA are significant. Therefore, hypothesis  $H_{05}$  and  $H_{09}$  are accepted, while  $H_{06}$  and  $H_{08}$  are rejected. It is concluded that CSR expenditure compliance has a significant impact on ROE and ROA but an insignificant impact on NPM and ROA. Table 3 further illustrates that ROE decreased by 11.36 per cent and ROA by 86.23 per cent during the post-compliance period, while ROCE increased by 37.73 percent. These findings suggest that the return on equity shareholders' funds and assets has declined, indicating mismanagement in their utilization.

The liquidity ratios demonstrate that the ratios of the sampled companies improved during the period after CSR compliance. However, the repeated measures t-test results in Table 4 indicate that the enhancement in the D/E ratio and current ratio is significant at the 5 per cent level of statistical significance. Consequently, hypotheses  $H_{09}$  and  $H_{10}$  are rejected, leading to the conclusion that CSR compliance had an insignificant impact on the D/E ratio and current ratio. Similarly, the D/E ratio increased by 295.85 per cent and the current ratio by 1.35 per cent during the post-compliance period, indicating an improvement in the short and long-

term leverage positions of the sampled companies to meet all their obligations.

The parameters measuring shareholders' wealth indicate that DPS, and P/B ratio increased except EPS during the period after CSR compliance. However, the repeated measures t-test results in Table 4 revealed that the decline in EPS, while the increase in DPS and P/B ratio is significant in the post-compliance period at a 5 per cent level of statistical significance. Consequently, hypothesis  $H_{011}$ ,  $H_{012}$  and  $H_{013}$  are rejected. These findings suggest that CSR compliance has a significant impact on EPS but an insignificant impact on DPS and P/B ratio. The decline in EPS ratio by 57.039 per cent during the post-CSR compliance period may be attributed to the lack of funds available to shareholders after the mandated CSR spending. Additionally, the increase in the P/B ratio by 25.57 per cent indicates that the stock market perceives CSR expenditure as a competitive strategy.

## CONCLUSION

This study seeks to assess the effects of obligatory Corporate Social Responsibility (CSR) expenditure on the financial strength of listed Public Sector Enterprises both before and after compliance. The research stipulated a mixed impact on the overall financial strength of the sampled companies during these periods. While certain absolute performance measures such as total assets, net sales, PAT and PBIT showed significant improvement. Key indicators like leverage ratio remained relatively unchanged. The study suggests that CSR compliance did not lead to an increase in shareholders' wealth, as evidenced by a significant decline in EPS during the post-compliance period. Regarding profitability ratios, there was an insignificant increase in NPM in the post-compliance, whereas the decline in ROA and ROE was significant. The findings of this research highlighted that the CSR expenditure compliance didn't favorably impact the company's profitability and earnings. Also, the extent of CSR expenditure significantly differs across different sectors. The findings of this research carry significant implications for strategic executives. For successful operations, companies should prioritize CSR as a strategic priority. CSR expenses ought to be regarded as a duty and an integral part of strategic planning rather than a mere obligation. Businesses integrate CSR as a mindset rather than a mere checkbox exercise. Also, findings deepen the understanding of mandated CSR expenditure by

showing performance at two different time frames. These insights will be beneficial to governmental authorities in other countries, particularly those in developing nations considering mandatory CSR activities. Furthermore, study extant to the research on the economic effects of mandated CSR expenditure. The current study has shortcomings such as it is limited to listed public sector companies. Further, studies may be extended to other companies and other nations. Future studies could also examine the causal relationship between CSR and various performance measures.

## REFERENCES

- Ali, J. (2023). Does mandatory corporate social responsibility expenditure affect the financial performance of food and agribusiness firms? Evidence from India. *European Business Review*, 35(4), 520-533.
- Aswani, J., Chidambaran, N. K., & Hasan, I. (2021). Who benefits from mandatory CSR? Evidence from the Indian Companies Act 2013. *Emerging Markets Review*, 46, 1-15. 100753.
- Atale, N., & Helge, E. J. (2014). Proposed framework for government of India to effectively monitor mandatory CSR initiatives of public sector enterprises in India. *Journal of Human Values*, 20(1), 75-83.
- Bhagawan, P., & Mukhopadhyay, J. P. (2025). Does mandatory expenditure on CSR affect firm value? Empirical evidence from Indian firms. *Journal of Accounting Literature*, 47(3), 525-546.
- Bhatnagar, C. S., Bhatnagar, D., & Bhullar, P. S. (2023). Social expenditure, business responsibility reporting score and firm performance: Empirical evidence from India. *Corporate Governance: The International Journal of Business in Society*, 23(6), 1404-1436.
- Bhattacharyya, A., & Rahman, M. L. (2019). Mandatory CSR expenditure and firm performance. *Journal of Contemporary Accounting & Economics*, 15(3), 1-17. 100163.
- Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons*, 34(4), 39-48.
- Chauhan, S., & Amit. (2014). A relational study of firm's characteristics and CSR expenditure. *Procedia Economics and Finance*, 11, 23-32.
- Deegan, C. (2002). Introduction: The legitimising effect of social and environmental disclosures - A theoretical foundation. *Accounting, Auditing & Accountability Journal*, 15(3), 282-311.
- Dharmapala, D., & Khanna, V. (2018). The impact of mandated corporate social responsibility: Evidence from India's Companies Act of 2013. *International Review of Law and Economics*, 56, 92-104.
- Friedman, M. (1970). Business is to Increase its Profits. *New York Times Magazine*, September, 13, 122-126.
- Garg, A., & Gupta, P. K. (2020). Mandatory CSR expenditure and firm performance: Evidence from India. *South Asian Journal of Business Studies*, 9(2), 235-249.
- Garg, P. (2016). CSR and corporate performance: Evidence from India. *Decision*, 43(4), 333-349.
- Ghosh, S. (2015). Is corporate social responsibility in India still in a confused state? A study of the participation of the private sector companies of India in corporate social responsibility activities. *Global Business Review*, 16(1), 151-181.
- Kaimal, A., & Uzma, S. H. (2024). Corporate social responsibility expenditure and financial performance: The moderating role of family ownership. *Corporate Governance: The International Journal of Business in Society*, 24(1), 101-118.
- Kapoor, G. K., & Dhamija, S. (2017). Mandatory CSR spending- Indian experience. *Emerging Economy Studies*, 3(1), 98-112.
- Kumar, K. (2020). Emerging phenomenon of corporate sustainability reporting: Evidence from top 100 NSE listed companies in India. *Journal of Public Affairs*, 22(1), 1-14. e2368.
- Mahoney, L. S., Thorne, L., Cecil, L., & LaGore, W. (2013). A research note on standalone corporate social responsibility reports: Signaling or greenwashing? *Critical Perspectives on Accounting*, 24(4-5), 350-359.

- Mansi, M., Pandey, R., & Ghauri, E. (2017). CSR focus in the mission and vision statements of public sector enterprises: Evidence from India. *Managerial Auditing Journal*, 32(4-5), 356-377.
- Mukherjee, A., Bird, R., & Duppati, G. (2018). Mandatory corporate social responsibility: The Indian experience. *Journal of Contemporary Accounting & Economics*, 14(3), 254-265.
- Narayanan, S., & Singh, G. A. (2024). Will legalizing corporate social responsibility get businesses to participate in welfare activities? The case of India. *Society and Business Review*, 19(1), 1-22.
- Narwal, M. (2007). CSR initiatives of Indian banking industry. *Social Responsibility Journal*, 3(4), 49-60.
- Oware, K. M., & Mallikarjunappa, T. (2022). CSR expenditure, mandatory CSR reporting and financial performance of listed firms in India: An institutional theory perspective. *Meditari Accountancy Research*, 30(1), 1-21.
- Roy, P. P., Rao, S., & Zhu, M. (2022). Mandatory CSR expenditure and stock market liquidity. *Journal of Corporate Finance*, 72, 1-29, 102158.
- Subramaniam, N., Kansal, M., & Babu, S. (2017). Governance of mandated corporate social responsibility: Evidence from Indian government-owned firms. *Journal of Business Ethics*, 143(3), 543-563