

Performance Indicators of CSR Fund Management: Insights from Selected Indian Corporates

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Abstract

In accordance with section 135 of the companies act, 2013, corporate Social responsibility (CSR) of Indian companies has become a strategic necessity of the Indian companies, considering that the required expenditure in the CSR of the qualifying companies was institutionalized by the legislation. Despite the intense emphasis on the amount of CSR spending and their focus area, a minor empirical research has been conducted on the performance indicators under which CSR investments may be held and operated successfully. The suggested study will identify, investigate and evaluate the key performance indicators (KPIs) of the CSR fund management in the sampled Indian companies that operate in manufacturing industry, banking industry, and service industry. The research design is descriptive, as it is analytical and involves the use of primary and secondary data. The direct sources of data used were the structured questionnaires and interviews with the CSR managers and finance executives, the annual reports, CSR disclosures, sustainability reports, and corporate governance statements were known as secondary data sources. There are the indicators of financial efficiency (fund utilization ratio, administrative cost ratio, variance analysis), the impact assessment (beneficiary outreach, social return on investment, outcome measurement), governance (board oversight, audit mechanisms, compliance reporting), and transparency (disclosure quality, third-party verification, digital reporting practices), which are studied. The findings indicate that effective governance systems, impact assessment systems that are properly designed and open reporting systems are positively correlated with proper management of CSR funds. Business corporations with special CSR committees and online surveillance systems are more efficient in using their finances and measurable impact on their community. However, the gaps of measuring the impacts universally and being sustainably evaluated in the long run still exist. The paper will give a proposal of an elaborate CSR performance measurement model that incorporates aspects of financial accountability, measures of social impact, good governance and stakeholder engagement. This research can be incorporated into the formation of an emerging discourse on the topic of CSR responsibility in India since it offers a proper model of performance variables that could help provide transparency, effectiveness, and alignment of CSR programs with the common goal of sustainable development.

Keywords: Corporate Social Responsibility, CSR Fund Management, Performance Indicators, Governance, Impact Assessment, Indian Corporates, Sustainability.

Introduction

CSR has now evolved into India based legal, voluntary and corporate philanthropic actions. With the introduction of the Companies Act, 2013 an introduction of Section 135, the corporate governance system also altered as the companies that are eligible had to allocate at least two percent of their average net profits to the activities of CSR. This is a legal requirement that moved India into the ranks of the first governments to enact its expenditures in the area of corporate responsibility on a legislative level, elevating the debate of corporate responsibility in the social and environmental arenas. Therefore, CSR is no longer felt, nor was it an ancillary good will, but is an element of strategies that is incorporated into business strategies, systems of sustainability and stakeholder engagement models. However, because the volume of CSR expenditure has dramatically increased over the years, the effectiveness of CSR funds management, measures that guide its utilization have become valuable areas within which scholarly research and administrative scrutiny should be systematized.

The desire to come up with proper mechanisms of monitoring, assessment and reporting of use of the CSR funds has been heightened by the growing pressure of responsibility by the business, sustainability and Environmental, Social and Governance (ESG) standards. Corporates are no longer just spending so much to become barely passable but demonstrating quantifiable social impacts, transparency, governance compliance and integrity. Consequently, CSR fund management has emerged as one of the top performance measures because of its capacity to ensure efficiency, accountability and its ensuing implementation. Examples of such indicators are financial performance indicators such as fund utilization ratios, administration overhead ratios, budgetary control, governance indicators which include board boards oversight, CSR committee efficiencies, audit control systems, and compliance indicators including beneficiary outreach, fund sustainability, and social return on investment (SROI). The integration of such multidimensional types of the performance measures should fill the void of the gap between the spending of CSR and the tangible developmental outcomes.

However, Indian corporate world Major businesses in the manufacturing, banking, and information technology and energy industries have been building systematic CSR frameworks in line with the national priorities and the United Nations Sustainability Development Goals (SDGs). There is also the enhanced disclosure programs and reporting to the stakeholders where numerous companies release elaborate CSR and sustainability reports. However, there are still disparities in the level of impact measurements practices, surveillance models and transparency standards. Despite the fact that there are corporates assessing the project performance through third-party audits and e-dashboards, there are those that apply the less stringent expenditure report without putting a vigorous scrutiny on the result. This distinction speaks of the need to identify clear and consistent means of performance that could be employed as a guideline in proper management of CSR funds.

Also, the shifting regulatory environment, amendments in the law that governs CSR, and growth in concerns of regulators and institutions that monitor the society have also brought out the issue of accountability. The corporates have been compelled to introduce systematic evaluation frameworks with the advent of impact assessment, which is mandatory in large CSR projects and the escalated reporting requirements. Nevertheless, issues of measurement of the qualitative social change, steering the outcomes of interventions to CSR and trade-offs between the short-term visibility and long-term sustainability are still present. The type of projects undertaken within the social development field and specifically on the education, healthcare, rural developments and environmental protection projects necessitate the incorporation of useful monitoring tools and non financial compliance measures.

It is against this platform that the present research paper seeks to explore how the selected Indian corporates perform in relation to the management of the CSR funds in terms of performance indicators. It seeks to look into the design, implementation, monitoring, and evaluation of CSR expenditures in organizations, and the impact of governance mechanism on the efficiency of funds and social impact. The research should aim at creating a holistic understanding of best practice of the CSR fund management and lack of best practice in terms of exploration of financial, governance, transparency and impact related pointers. Results of this paper will probably contribute to policy guidelines, reformation of corporate governance and the academic literature by proposing a hybrid performance measurement plan that will be employed within the Indian context. Lastly, the management of CSR finances can better the performance indicators so that the credibility of the corporations can be enhanced, the confidence of stakeholders becomes established, and the investments in CSR should be made to have a tangible effect and introduce any sustainable development into the community.

Literature Review

The Corporate Social Responsibility (CSR) research trend shows that scholars are slowly becoming interested in researching the financial consequences of CSR, its regulatory facet, and its performance consequences, in the case of Indian environment since the adoption of Companies Act, 2013. The approaches that researchers have researched about CSR include financial performance, governance structure, disclosure processes, value creation to the shareholders, and outcomes of societal, and economical development.

The research article by Bag and Omrane (2022) empirically searched the correlations between the CSR activities and the financial performance of the Indian companies. Based on their findings, the participation in CSR is positively related to financial outcomes, i.e. it is possible to suggest that socially responsible firms are apt to achieve improved financial performance as well as reputation on the market. This is coupled with the stakeholder theory that presumes that responsible corporate citizenship enhances more stakeholder trust and long term sustainability. Similarly, Mangalagiri and Bhasa (2022) studied the concept of CSR involved among the listed companies of the Indian National Stock Exchange and determined that regular use of CSR practice yields favorable performance indicators of the company such as Return on Assets (ROA) and market value. All the discussed researches contribute to the comprehension that the concept of CSR is not only the requirement but an instrument of strategy, which is added to the financial results.

Nag and Bhattacharyya (2016) described the CSR reporting practice in India and their current relation to the overall firm performance. In the study, they emphasized that greater degree of transparency and systematic CSR reporting has positive effect on investor perception and corporate reputation. Against this line of thinking, Fahad and Rahman (2020) looked at the impacts of the corporate governance processes in relation to the CSR disclosure. They established that the quality and coverage of CSR reporting is highly influenced by good governance structures (primarily, independent boards and active audit committees). The results show that there is relevance of performance measures related to governance in the management of CSR funds.

Dharmapala and Khanna (2018) talked about the economic impacts of mandatory CSR regarding the Companies Act, 2013. They have discovered that the mandatory CSR clause had an empirical impact on the strategic pattern of corporate spending and restructured philanthropic priorities in the course of research. Similarly, Manchiraju and Rajgopal (2013) also studied how shareholders reacted to the CSR requirements and reported that, initially stage regulatory intervention showed negative market effects when it came to particular firms, particularly those with excessive compliance costs. However, as the age increase, formal CSR system resulted in improved corporate system of governance and accountability. These researches point to the value of regulatory environment in defining the mechanisms of distributing the CSR funds and controlling their delivery.

The authors, Acharyya and Agarwala (2022), have put into consideration the issue of the CSR incentives and the social corporate performance within the Indian power industry. Their research has established that intrinsic motivations, comprising of ethical commitment and a stakeholder orientation results into stronger social performance performances than intrinsically extrinsic motivations whose aim is nothing short of compliance. This means that allocation of CSR funds must be done efficiently; therefore funds management will rely on the organizational motive and strategic orientation.

An analysis of CSR activities undertaken by Public Sector Undertakings (PSUs) in Odisha was provided by Pasumarti (2020), where the paper addressed the role of the activities in the socio-economic progress. The study did discover that despite the law, CSR expenditure was more but there was still a lack of systematic measures to gauge performance and effects. This finding represents a broader problem on the discontinuity on the literature of CSR on the reporting and measurement of the expenditure.

The Kurniati and Nuryasman (2021) investigated the disclosure of CSR regarding such financial variables as capital intensity and tax aggressiveness. Another implication of their study is that more CSR-transparent companies have lesser opportunities to access aggressive tax treatment, according to the fact even the measurements of performance in the context of CSR may also serve as a precursor of ethical financial management. Despite the fact that the study was carried out in another regulatory environment, its findings are applicable to the Indian companies where emphasis on disclosure and responsibility are even adopted.

Muttakin, Khan, and Subramaniam (2015) examined how the practices of the CSR are impacted by the behavior of the firm and diversification of the boards. They made an announcement that both CSR engagement and quality of reporting are highly dependent on the board composition and diversity. This is corroborated by the fact that board structure and regulation are governance indicators that are significant to effective systems of management of CSR funds.

Individually, the literature analysis indicates that three major dimensions are highlighted: (1) CSR has positive correlation with financial performance; (2) governance and disclosure practices are instrumental aspects of enhancing the effectiveness of CSR practice; and (3) regulatory force presented by the Companies Act, 2013 in encouraging application of CSR practice on Indian soil. However, despite the considerable amount of research already conducted on the CSR disclosure and financial performance, there is scarcely any study specifically aimed at the systemized measure of performance of the CSR fund management specifically in the consideration of financial efficiency, quality of governance, transparency standard, and measurable social impact.

The present study will therefore attempt to fill this gap by undertaking a systematic study of performance results of CSR fund management with respect to a sample of corporates in India and this will assist in formulating a comprehensive assessment model which is in tandem to the requirements of the regulation and sustainable development objectives.

Objectives of the Study

1. To examine the financial performance indicators used in CSR fund management by selected Indian corporates.
2. To analyze the governance mechanisms influencing CSR fund allocation and monitoring.
3. To evaluate the efficiency of CSR fund utilization and administrative cost management.

Hypotheses

H0 (Null Hypothesis): There is no significant relationship between financial performance indicators and CSR fund management practices among selected Indian corporates.

H1 (Alternative Hypothesis): There is a significant relationship between financial performance indicators and CSR fund management practices among selected Indian corporates.

Research Methodology

Considering the peculiar features of the research, the descriptive analytical research design is suitable to examine the facets of financial performance measurement used in CSR funds management of the selected businesses in India. The research article is based on both primary data as well as secondary data so as to have a comprehensive analysis and precision of findings. Primary data was collected, through the application of structured questionnaires that were availed to CSR managers, finance executives and CSR committee members of sampled companies and a few semi-structured interviews which assisted in offering additional information about financial monitoring and evaluation processes. Secondary data was compiled by use of annual reporting, CSR reporting, sustainability reporting and financial statement of the companies that have been prepared in compliance with Section 135 of the Companies Act, 2013.

The study employs the purposive sample of a chosen sample of corporates in India working in manufacturing, banking industry as well as the service side that offers to adhere to the provisions of the CSRs as enacted in the Act. The financial metrics that should be examined were the CSR fund utilization ratio, administration expense ratio, deduction of allocated funds and spent funds, the ratio of return on asset (ROA), profit trends, etc. The statistical software employed to interpret the data involved the required statistical analysis including descriptive statistics, correlation and regression to identify the correlation between the variables of financial performance and the practices of the CSR funds management. The method of organizing the instruments as well as testing their reliability when necessary ensures the viability of the research. The findings are discussed according to the principles of the corporate governance and accountability to make out reasonable conclusions and implications in the practice of efficient management of the CSR funds.

Table: Descriptive Statistics of Financial Performance Indicators and CSR Fund Management Practices

Variables	N	Minimum	Maximum	Mean	Std. Deviation
CSR Fund Utilization Ratio (%)	50	65.00	100.00	89.45	8.72
Administrative Expense Ratio (%)	50	1.50	8.00	4.36	1.52
Variance between Allocated & Spent Funds (%)	50	0.50	12.00	5.18	2.94
Return on Assets (ROA) (%)	50	2.10	18.50	9.84	4.11
Net Profit Growth Rate (%)	50	-5.00	22.00	11.27	6.35
CSR Governance Score (Composite Index)	50	2.80	4.90	3.95	0.48

The descriptive statistics reveals that it has notable financial performances indicators and CSR fund management trends across the selected Indian corporates. The mean CSR Fund Utilization Ratio is 89.45-percent which implies that the majorities of companies are utilizing most of the budgeted CSR funds implying that there is high compliance with the provisions of Section 135-companies Act, 2013. The fact that the standard deviation is slightly less (8.72) implies that there exists average degree of uniformity among the firms as far as the practice of fund utilization is concerned. The Administrative Expense Ratio is 4.36 on the mean, which signifies that the companies are maintaining the administrative expenses under control and, consequently, a considerable portion of the CSR funds is used on the program implementation rather than on the overheads.

The variance between the expended and planned amounts is 5.18 and this indicates that the budget implementation was done with minor variances. It means that working on CSR spending is usually systematically budgeted by the majority of corporates, yet there might be certain implementation gaps either when there is an operating delay concerning project implementation or when there are varying regulations. The mean values of the Financial performance indicators will be 9.84% and 11.27% Return on Assets (ROA) and Net Profit Growth rate respectively that mean that the sampled firms have stable performance in terms of Financial performance. The means of dispersion of these variables show that there are some movements in the financial power, therefore, there are possibilities, of the influence of financial power on the CSR expenditure power and financial management performance.

Additionally, the CSR Governance Score that had the mean of 3.95 on the composite index scale means that most of the firms have been organized in governance checks regarding the CSR including the monitoring and reporting systems at the board level. The measure of uniformity of governance standard within the sampled firms is the dispersion 0.48 relative.

Overall, the descriptive data reveal that the sampled Indian corporates possess fairly high crossovers towards the utilisation of CSR funds, the level of administrative costs is regulated and the administrative process is governance regulated by a high level of measures. These trend patterns indicate a preliminary confirmation to the second hypothesis (H1) that it may be significant that financial performance is characterized by factors and CSR fund management practice is associated greatly and this relationship may be more substantiated by correlation and regression analysis.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.682	0.465	0.431	0.412

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	6.842	3	2.281	13.45	0.000
Residual	7.876	46	0.171		
Total	14.718	49			

^a Dependent Variable: Practices
 Predictors: ROA, Net Profit Growth, CSR Fund Utilization Ratio

Coefficients^a

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	1.245	0.382	—	3.26	0.002
ROA	0.318	0.094	0.421	3.38	0.001
Net Profit Growth	0.205	0.081	0.296	2.53	0.015
CSR Fund Utilization Ratio	0.412	0.123	0.387	3.35	0.002

^a Dependent Variable: CSR Fund Management Practices

The result of the multiple regression analysis indicates that there exists statistically significant relationship of multiple regression according to multiple indicators of financial performances and the corporate fund management practices of the selected Indian corporates. The personal hierarchy of the model shows that the R value is 0.682, which states that there is strong positive correlation between the independent variables (ROA, Net Profit Growth and CSR Fund Utilization Ratio) and between the independent variable to the dependent variable (CSR Fund Management Practices). The R Sq of 0.465 implies that the six finance indicators that were chosen result in 46.5 percent of the variance in the CSR fund management practices. The additional evidence that the model continues to possess a substantial amount of explanatory power despite the value of the number of predictors being modulated is in the Adjusted R Square 0.431.

The ANOVA result (F = 13.45, p = 0.000) depicts that the regression model is significant at the level of 5 per cent of the level of significance. The general model is well suitable as the p-value is lower than 0.05 and it implies that the financial performance indicators collectively influence practices of CSR funds management.

In Coefficients table, we observe that all the three predictors are significant in positive effects. The standardized beta of ROA value is 0.421 (p = 0.001) that is higher than the standardized beta, indicating that the higher profitability would significantly enhance the efficiency of the CSR fund management. It also has a positive and significant influence in Net Profit Growth (= 0.296, p = 0.015) which states that the companies with a growth are more likely to be highly efficient and strategic in the working used of CSR funds. Similarly, the CSR Fund Utilization ratio also influences this impact (0.387, p = 0.002) in a definite positive way the efficient implementation of the given funds on the CSR leads to the improvement of overall practice of CSR management.

Generally, the findings provide empirical support to the alternative hypothesis (H1) given the significant correlation between financial performance indices and CSR fund management practices in the sampled Indian corporates that have the regulatory environment of the Companies Act, 2013. There is an indicator that the more successful companies which have much profit and development have more formal, open and professional systems of managing CSR funds.

Overall Conclusion

The existing ones examined this relationship between the financial performance measures and the management of CSR funds among sampled companies operating in India under the regulatory environment of the section 135 of the Companies Act, 2013. The findings of the study can be considered a good empirical confirmation to the fact that financial strength and profitability are some significant factor of the effectiveness, transparency and efficiency of the CSR funds management.

Inquiries of descriptive statistics established that an unequal percentage representation of sampled firms provides high ratios of CSR fund utilization, administrative cost under control, and administrative mechanism. This is to imply that the corporates are not only complying with the mandatory CSR standards, but also striving to establish a systematic monitoring and an evaluation process. The statistical significance of the legitimate influence of those financial performance indicators had a statistically significant positive influence on CSR fund management practices which are Return on Assets (ROA), Net Profit Growth, and CSR Fund Utilization Ratio as indicated by the regression. These financial variables explained nearly half of the disparity in the efficiency of managing the CSR and it demonstrates the interdependence of the strategy between the financial performance and the regulation of the social responsibility.

These results suggest that financially healthy and profitable organizations can allocate, monitor, and quantify the CSR funds more. Good financial health motivated organizations to establish a systematic framework of management, control, measurement of impacts and disclosure that is computerized. On the other hand, firms with poorer financial performance may lack the capacity to continue with high frequency CSR effectiveness and durability of programs.

The other factor that the study has brought to light is the necessity to have a balance between financial responsibility and quality of governance in addition to impact measurement. CSR fund management cannot be compliant or expenditure reporting, it should incorporate both performance-based measurement, quantitative social returns and stakeholder participation. The findings support that CSR appropriately aligned to the corporate in goals and support by effective management of funds assists in the corporate plausibility and endurance of the growth in the society.

Lastly, the paper resorts to a conclusion where it is concluded that there exists a high correlation between financial performance indicators and CSR fund management practices among the sampled Indian corporates. It has highlighted that the implementation of holistic performance measurement system that incorporates financial effectiveness, governance regulation, requirement of transparency, and measures of impact are extremely needed. Such built in mechanisms, reinforced will enhance a sense of accountability, will foster trust with the stakeholders and will ensure that the inferences needed in CSR change to the extensive and enduring social impact in the Indian corporate ecosystem.

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