

CORPORATE SOCIAL RESPONSIBILITY IN INFORMATION AND TECHNOLOGY SECTOR: A CASE STUDY OF WIPRO

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ABSTRACT

The IT sector is uniquely positioned in terms of skills and expertise that can help benefit society in the long-run. The aim of the study is to assess the CSR (Corporate Social Responsibility) expenditure and the CSR activities undertaken by Infosys for twelve years (2007-21). Qualitative analysis is done based on CSR activities undertaken by Wipro over the years. The profitability aspect has also been considered (gross profit and net profit) and it is found that there is a positive and a significant relation between the CSR expenditure and the profitability. A CSR index is also created consisting of ten parameters to find out the extent of CSR involvement during the study period. The sources used for collecting data include annual reports of Infosys and the Prowess database. SPSS version 23.0 is used to analyze the data. Infosys can widen its CSR domains to yield more benefits in the long-run.

Keywords: CSR, IT Sector, Gross Profit, Net Profit, Qualitative Analysis.

INTRODUCTION

CSR covers social impact, ethics, and various sustainability initiatives practiced by different companies irrespective of the sector (Dhanesh, 2014). Infosys is one of the successful companies in the IT sector that has contributed to the environment as their business has grown to such an extent where they have enough resources that they can give back to society. The businesses have rebranded their belief systems and values to inculcate social responsibility in their business strategies. CSR demonstrates how companies think beyond profit margins (Garg and Gupta, 2020). As far as the current scenario is concerned, in the Companies Act 2013 a new section was added (Section 135 effective from 1st April 2014) related to the mandatory contribution of companies as 2% of the average of the profits of immediately preceding three years by the companies whose annual turnover is more than Rupees 1000 crores or whose net worth is Rupees 500 crores or whose profit after tax is Rupees 5 crores (Atale & Helge, 2014).

CSR has been quite an emergent area of research among different academicians and practitioners. While going through the vast literature in the context of CSR, the researchers surely have focused upon various aspects of CSR separately. But there are not many prevalent studies that have focused upon the profitability aspect of the organizations and establishing the association of the same with CSR.

The information technology (IT) sector has been chosen as it is uniquely positioned in terms of skills, expertise and facilities that can help benefit society in the long run. Infosys has been selected in the context of the IT sector because of its outstanding contribution in terms of

CSR. Infosys has proven to be a global leader in outsourcing, consulting and also enabling and helping clients to execute and create digital transformation in the Information and Technology (IT) sector. A remarkable contribution has been made by Infosys when it comes to monetary contribution and also the qualitative contribution towards CSR in terms of the domains and initiatives. The CSR activities of the company are undertaken by two foundations: Infosys foundation which was established in the year 1996 for social welfare activities. Infosys Foundation USA which was established in 2015 the focus of which was the expansion of CSR on the global front. The focus areas, in this case, have been training of teachers, education of students, CSR awareness, school aids, curriculum and research. Infosys is also one of the companies with larger market capitalization. Many awards and recognitions have also been received by Infosys in the context of CSR.

CSR as an area of research has gained importance over the years as companies try to engrain CSR in their mission and their vision statements to think beyond the profit margins. It is also one of the reasons for enhanced goodwill, image management and reputation building of the organizations. The role of CSR has grown more relevant to such an extent in the post-pandemic as companies have started to acknowledge the operational values and beliefs and there is an elimination of prejudice and corporate bias. As it is going to take years from now to recover from the pain and pandemic-related losses, social and political unrest which is prevalent. A sense of normalcy and stability needs to be provided by the organizations. Pandemic is the reason why companies irrespective of the sector need to go public about their actions, initiatives and the ways they are addressing and making a change in society. CSR started as a voluntary act and now it has become mandatory with effect from 1st April 2014 where it is more about serving different stakeholders and the community in general. The investors are one of the external stakeholders who are going to benefit if the company is profitable.

The reason why the IT sector has been chosen is that it has been a major contributor to GDP in the last decade. It is one industry even in the post-pandemic that has kept everything stable that is IT digital. Physical distancing requirements have demanded contactless technology which has been possible because of the IT sector in hotels and airports. There is a need for companies to focus more on e-commerce platforms and real-time analytics. The focus in the present study has been on two profitability ratios which are GP and NP. The novelty of this section is that in this case, the profitability ratios other than ROA and ROE have been considered namely; gross profit and net profit and it can be said that there is a significant association between the CSR expenditures and the companies' profitability. This is going to be useful for academicians and practitioners in the field of CSR. The benefits are going to accrue for the investors because the investment in the shares of the company is going to increase only when the company is profitable and can at least maintain a stable profit after all the interests and the tax has been accounted for.

REVIEW OF LITERATURE

As the profitability of various corporations irrespective of the sector kept fluctuating, there is a need to study the association between CSR and profitability. Nag and Bhattacharyya (2016) analyzed the CSR activities and policies of the firms with the help of annual reports and linking them to the accounting and marketing performance of the selected firms. Environment-related disclosure of CSR negatively impacts the performance of the terms in the context of market-based measures. Shyam (2016) in the paper focuses on the association between CSR practices and the firms' profitability by taking into account various measures

including ROA, ROE, return on investment, or capital employed (ROCE), GPR. The methodology includes creating an index of CSR practices and linking it to the profitability ratios of the firms. The conclusion states that there is a positive association between CSR practices and profitability ratios.

Sung & Oh (2019) in their findings suggest that an enhancement or increasing involvement in CSR does not guarantee or always lead to higher company value but the level of involvement needs to be so high to have a significant positive effect on the value of the company. The theory on which this paper is based is stakeholder theory. Kwarteng et al. (2016) analyzed the association between CSR and firm performance which was coming out to be positive. DiSegni et al. (2015) in their study analyzed the association between CSR and financial performance by taking into account environmental leadership as well. Yu and Choi (2014) analyzed the association between CSR and financial performance by taking into account organizational trust as a mediating variable. Chen and Wang (2011) in their study found out that there is a positive association between CSR and financial performance. Arendt and Brettel (2010) suggest that there is a positive association between CSR, firm image, identity and financial performance. Lindgreen et al. (2009) suggested a positive association between CSR and firm performance when it comes to US organizations.

Crisostomo et al. (2011) in their study found a negative association between CSR, the value of the firm and financial performance in the context of Brazilian organizations. Brammer et al. (2006) and Boyle et al. (1997) in their studies suggested a negative association between CSR and the stock market returns of the organizations.

A CSR disclosure index is prepared following schedule VII of the Companies Act 2013 and the global resource initiative (GRI) framework has also been referred to. While inquiring about the level of disclosure in the annual reports of the organizations, content analysis has been employed similar to the present study (Dagiliene, 2010). Another study aims to do an empirical investigation on firm performance by taking into consideration different categories based on the GRI framework including environmental, social and governance disclosures (Fahad & Busru, 2021). Another study where content analysis has been used by preparing a checklist for CSR disclosure by dividing CSR into four categories including employee relations, community development and engagement, issues of consumers and products and ultimately the environment (Aspal and Singh, 2020). Bazhair (2020) in their study employs the technique of content analysis where the CSR practices are investigated with the help of interpretative analysis in the context of companies listed on the Tadawul stock exchange during 2010-19. Pistoni and Songini (2013) in their study used content analysis as well as a disclosure index for analyzing the association with financial performance. Kamaliah (2020) in his study prepared a CSR disclosure following different frameworks which are available for sustainability reporting like GRI, TCFD, SASB and reflective indicators were added in the study to check the association between CSR and the firm performance and value. There is no standard or framework which is applicable in the Indian context. Schedule VII of the Companies Act 2013 applies to all Indian companies.

Objectives and Hypotheses of the Study

The study has the following research objectives:

1. To analyze the CSR expenditure of Wipro for the post-mandate period.
2. To analyze the CSR domains of Wipro in the Indian context over the years.
3. To assess the relationship between CSR expenditure and profitability aspect of Wipro.

Hypotheses of the Study

A negative correlation was found out between CSR and the value of the firm, the reason being CSR does not consider the consumers and the other stakeholders as per Criso'stomo et al. (2011). The utility theory of CSR states that CSR does not always increase the value of the firm or the profitability because when an organization spends on CSR, additional and costs over and above the basic ones are incurred by the companies. These additional costs put the firm or the companies at a disadvantage when it comes to lesser socially responsible organizations. It can also be said that CSR negatively affects the profitability of the firm because there are so many other factors apart from CSR which can positively affect the profitability of the firm. However, CSR includes extra costs but the benefits achieved from involvement in CSR outweigh the costs involved. As per DiSegni (2015) the costs implicit to the firm are less when it is compared to the lesser socially responsible firms and this is the reason why the organizations achieve higher performance, following null hypotheses have been proposed:

H01: There is no significant association between CSR expenditure and gross profit. H02: There is no significant association between CSR expenditure and net profit.

RESEARCH METHODOLOGY

Data Collection

Infosys has been selected mainly because of two reasons; firstly, based on its increasing CSR expenditure over the years. Secondly, Infosys has bagged many awards for its contribution towards CSR over the years (especially in the post-mandate period). The period of study taken in this case is twelve years starting from 2007 to 2021. The relationship between CSR expenditure and profitability aspect of Infosys has also been analyzed for 2014-21. Intra-company analysis has been done to analyze the changes in CSR expenditure as well as CSR activities over the years within Infosys itself to make it easier and understandable.

Disclosure Index

A CSR index has been created based on schedule VII of the Companies Act, 2013 and GRI standards. 2020 has also been referred to:

1. Legal compliance of CSR expenditure
2. Generation of profits
3. The ethical aspect of CSR
4. Contribution towards disaster management relief
5. Women empowerment, dignity, care and support for the elderly
6. Sustainability initiatives
7. Healthcare facilities
8. Promoting art and culture
9. Community involvement
10. Philanthropic activities

The scores starting from 2014 to 2021 have been calculated out of ten. If Infosys is satisfying a specific parameter, it is given a score of 1 or else 0. The reason why this period has been chosen is that the CSR domains of Infosys started to diversify during this period itself. The scores came out to be 6,7, 8, 8, 8, and 8 starting from 2014-21. Two main profitability measures

as suggested by the literature have been taken into consideration namely; GP and NP. SPSS version 23.0 has been used to analyze the inputs of Infosys related to CSR.

1. Independent Variable: CSR Index Scores.
2. Dependent Variables: Gross Profit, Net Profit.

In the above table, the scores of CSR index as calculated and the gross profitability and net profitability of Infosys as extracted from Prowess database managed by CMIE has been mentioned.

Data Analysis

The basis of comparison here are the CSR activities and projects are undertaken by Wipro over the years (2007-21). The CSR activities of the company are undertaken by Wipro foundation are: social welfare activities like eradication of hunger, poverty, healthcare, art and culture, rehabilitation, environmental sustainability, and education.

CSR Expenditure of Infosys

Infosys has contributed more than 2% towards CSR during the financial years 2016-21. The CSR expenditure during 2007-13 was of negligible amount because it was not mandatory in these periods.

CSR Domains as per the Annual Reports on CSR Activities of Infosys Education, healthcare, rural development, destitute care and rehabilitation, art and culture, hunger eradication and malnutrition, sustainability, rehabilitation of homeless and orphans, and protection of national heritage sites are the CSR domains of Infosys over the years (2007-21). The profitability ratios have been computed with the help of the following formulas:

Correlation Analysis

Correlation is applied to check the direction of the association between the CSR expenditure and gross profit and net profit individually. Shyam (2016) made a similar analysis by correlating CSR practices and the firms' profitability aspect by taking into account various measures including ROA, ROE, return on investment, or capital employed (ROCE), GPR. In this paper, an attempt is made to correlate profit with CSR expenditure. The following hypotheses are addressed in this segment.

H01: There is no significant association between CSR expenditure and gross profit. H02: There is no significant association between CSR expenditure and net profit. Gross Profit Decision making: Reject H01 if the p-value < 0.05.

Net Profit Decision making: Reject H02 if the p-value < 0.01.

It is observed that there is a positive and a significant correlation between the CSR expenditure and the profitability aspect. Correlation is significant at 1% level as p value/Sig. value is less than .01. The reasons for positive and a significant correlation could be the reputation, image management and goodwill of Wipro.

The other approaches to measure the firm performance are market-based measures or subjective measures. The results would have come out to be different if the other kinds of measures would have been considered. The profitability measures in isolation do not accurately measure the financial performance of the organizations irrespective of the sector.

Some assumptions are the restrictions because of which the results are coming out to be different. Here, the disclosure index has been prepared according to the Schedule VII of the Companies Act 2013. If the other standards or frameworks like Global Resource Initiatives (GRI), Carbon Disclosure Projects (CDP), Task Related Climate and Financial Disclosure (TCFD), Sustainability and Accounting Standard Board (SASB) would have been considered the results would have come out to be different.

RESULTS AND DISCUSSION

The changes in the CSR domains over the years are as follows:

Intra-company Analysis

Based on analysis of CSR domains of Wipro in the previous section the difference can be observed over the years (2007-21) in terms of domains covered. In the post-mandate period, Wipro has always tried to add new projects every year in each of the CSR domains except hunger eradication and malnutrition until 2018-21. It can be easily observed that a separate section on CSR is there in the annual reports of Wipro w.e.f. 1st April 2014 as per section 135 of the Companies Act 2013.

Potential CSR Domains for Wipro

The potential CSR domains or areas that can be added by Wipro are gender equality programs, women empowerment initiatives, promotion of women dignity, care and support for the elderly, livelihood enhancement programs for the poor and community involvement. There is a greater need to focus on hunger eradication and malnutrition by Infosys. Hunger eradication and malnutrition is the only CSR domain in which new projects have not been added in the post mandate period. The CSR expenditure of Infosys is up to the mark but the areas need to be more diverse.

Factors Affecting Profitability of Wipro

It is found with the help of the above analysis that there is a positive association between the CSR expenditure and the profitability measures.

Some studies have similar findings McGuire et al. (1988) where profitability aspect was a better predictor of the social responsibility of the firms. Some studies have had similar findings explained as follows: Oware and Mallikarjunappa (2020) depict a positive and a statistically significant association between CSR expenditure and financial performance. P and Busru (2021) also suggested that there is a negative effect of CSR involvement on the profitability of the firms and the value of the firm in the Indian context.

On the other hand, some studies have contradictory findings. Hagberg et al. (2015) found that no significant association can be found because other important factors affect the monetary performance of the companies to a greater extent than CSR. Kooskora et al. (2019) in their study states that the impact of CSR on the organization's performance is a crucial issue when it comes to various stakeholders including investors, the organizations itself and the top management of the company. Sung & Oh (2019) in their findings state that an enhancement or increasing involvement in CSR does not guarantee or lead to higher company value but the level of involvement needs to be so high to have a significant positive impact on the value of the firm.

However, the overall results of the present study show that there is a positive association between the CSR expenditure and the profitability aspect in the context of Infosys. The most common factors that affect PAT include direct costs, overhead costs, enterprise mix, and the number of units produced. The level of assets and capital employed in the company also affects the profitability measures chosen. It is affected by the costs and the expenses of the company but not the costs associated with increasing CSR domains in the context of Infosys. Nag and Bhattacharyya (2016) in their findings state that there is no significant impact on the performances of the firms in terms of market-based and accounting-based measures. Environment-related disclosure of CSR has a negative association with the performance of the terms in the context of market-based measures.

CONCLUSION

The name Infosys itself resonates with business ethics in the Indian corporate arena. The contribution of Wipro towards education, rural development and environmental sustainability has been commendable. The current study tries to analyze the qualitative and quantitative aspects of CSR in the context of Wipro. The motive is to analyze the CSR domains of Wipro and the profitability of Wipro in terms of its Gross Profit and Net Profit. The findings of the present study suggest that Wipro has always tried to add new projects every year to the CSR domains except hunger eradication and malnutrition. The CSR expenditure of Wipro is up to the mark but the areas need to be more diverse. Wipro needs to redefine the CSR domains as per the current scenario. Domains such as gender equality, women empowerment, and dignity, care, and support for the elderly, livelihood enhancement programs should be introduced and worked upon by the company. There is a positive and a significant correlation between the CSR expenditure and the measures of profitability, i.e. GP and NP. The other reasons could also be that profit of the company depends on other variables and not just the number of CSR domains. The company can widen its CSR domains depending upon the current scenario and the dynamic environment in which the company is operating. CSR is not the sole factor that is affecting the profitability of Wipro but other factors are involved. Wipro has created a major impact on society in the form of community involvement.

The study implies that it will be useful for the academicians, practitioners and policymakers in general being a company-specific study. Reports on various projects can be prepared by Wipro and made available so that they can be used for further in-depth research. This study will help to see if Wipro is satisfying the CSR requirements as per section 135 of the Companies Act 2013. The companies have found a way for differentiation and CSR has become a crucial issue irrespective of the development level of the companies. The companies need to rely on some beliefs and a value system which means and helps the companies to prioritize the strategies and the policies in the long run. The stakeholders can be influenced and are going to help the companies in the long run by redesigning the strategies in the context of social responsibility. The crucial question is the identification of the most relevant external stakeholders perceived by the top management of the organizations who are involved in the decision-making process of the companies.

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