



AN ANALYSIS OF CORPORATE SOCIAL RESPONSIBILITY (CSR) ON ORGANIZATIONAL PROFITABILITY IN THE CONTEXT OF THE INDIAN TEXTILE INDUSTRY

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Abstract

This paper explores the impact of Corporate Social Responsibility (CSR) on the profitability of organizations within the Indian textile industry. By examining various CSR initiatives and their corresponding financial outcomes, this study aims to identify patterns and provide insights into how CSR activities influence profitability. The research methodology includes a mix of qualitative and quantitative analyses, utilizing case studies, financial data, and industry reports. Findings indicate that while CSR investments may initially appear as additional costs, they often lead to long-term financial benefits through enhanced brand reputation, customer loyalty, and operational efficiencies.

Keyword: CSR, Corporate Social Responsibility, Textile Industry, Companies Act 2013.

1. Introduction

The Indian textile industry is one of the most significant and historic sectors of the Indian economy, contributing approximately 2% to the country's GDP and employing over 45 million people directly and 60 million people indirectly. This industry is crucial for both the rural and urban economy, providing employment opportunities and acting as a backbone for various communities. The textile sector in India encompasses a wide range of activities

including fiber production, spinning, weaving, knitting, and garment manufacturing, making it a highly diversified industry with a robust supply chain.

In recent years, there has been a growing emphasis on sustainable and ethical business practices globally. Corporate Social Responsibility (CSR) has emerged as a critical component of business strategy, particularly in industries that have significant social and environmental impacts, such as textiles. CSR refers to the commitment of businesses to contribute to sustainable economic development by working with employees, their families, the local community, and society at large to improve their quality of life in ways that are both good for business and good for development.

In the context of the Indian textile industry, CSR activities often include efforts to minimize environmental damage, such as reducing water and energy consumption, managing waste effectively, and ensuring fair labor practices. Additionally, textile companies engage in community development initiatives, such as supporting education, healthcare, and infrastructure projects in areas where they operate. These activities not only help in addressing societal and environmental challenges but also contribute to building a positive brand image and gaining consumer trust.

Despite the growing emphasis on CSR, there is a limited understanding of its impact on organizational profitability within the Indian textile industry. While numerous studies have explored the relationship between CSR and financial performance in Western contexts, and in various other industries, the unique dynamics of the Indian textile sector have not been extensively examined. This sector's specific characteristics—such as its dependency on natural resources, labor-intensive processes, and the socio-economic backdrop of its operations—present a distinctive context that warrants a focused study.

The challenge lies in quantifying the benefits of CSR, which are often perceived as long-term and intangible, against the immediate costs associated with implementing these initiatives. This research seeks to address this gap by analyzing how CSR activities influence profitability, considering both direct financial metrics and indirect benefits such as enhanced brand reputation, customer loyalty, and operational efficiencies.

This study aims to fill this research gap by analyzing the impact of CSR initiatives on organizational profitability in the Indian textile industry. It seeks to provide insights into the extent to which CSR activities contribute to financial performance and how these contributions can be optimized for sustainable business growth.

2. Significance of the study

- **Strategic Insights for Business Leaders:** Provides data-driven evidence on the financial benefits of CSR activities.

- **Policy Formulation and Regulation:** Offers insights that can help policymakers design regulations and incentives to promote CSR.
- **Enhanced Corporate Reputation:** Shows how CSR initiatives can enhance a company's brand image and reputation.
- **Investor Relations:** Provides evidence that responsible business practices can lead to better financial performance, making companies more attractive to socially conscious investors
- **Employee Engagement and Retention:** Demonstrates the role of CSR in improving employee morale and job satisfaction.

3. Review of Literature

Jayanthi R. and Lavanya L. (2022) researched on "Financial Performance Analysis of Textile Companies in Tamil Nadu with Reference to Coimbatore – A Study". With objective to evaluate the financial statement analysis of Selected Textile Companies in Tamilnadu with Reference to Coimbatore. To make a comparative analysis of their financial soundness and performance under the study period for a period of 5 Years - between 1st April 2015 and 31st March 2019. The information related to theoretical background has been collected from websites, journals, magazines, newspapers and books. Accounting Ratios and Statistical Tool was also used. Findings of the study Textile industry to grow at a rate of 8.7% between 2007 and 2023 and reach US\$ 226 billion by 2023. The Indian Textile industry contributes 7% of industrial output in terms of value, 2% of India's GDP and 15% of the country's export earnings.

Darji I.S. and Dahiya S. (2021) made research on the topic "financial performance of the textile industry in India: the case of Haryana". This study aimed to evaluate the financial performance of the textile industry in Haryana located in the northern part of India. Period of study 2017-2020. Tools such as data envelopment analysis, as well as the return to scale technique, were used to conduct the analysis. The findings show that textile units in Haryana have hugely underperformed financially with a consolidated technical efficiency score of only 0.35. Both private and public limited textile companies with respective scores of 0.46 and 0.24 were technically efficient. Public limited textile companies are more efficient than private limited companies.

Dixit P. and Lal R.C. (2019) made a study on the topic "a critical analysis of Indian textile industry and insight into inclusive growth and social responsibility ". The objective of the study was to see how the textiles sector is contributing to inclusive development and to find out the current problem and solution of unorganized textile workers; To know the environmental issues regarding textile informal sector; To find out the contribution of unorganized sector in employment generation. Period of study was from 2009 to 2014. For analyzing the data, critical evaluation thoughts and SPSS tools had been used. The finding was that the textile is contributing in employment

generation and inclusiveness. The anticipated upsurge in a job and also the creation of complete man-power base can attract massive scale investments.

S.Gupta, (2017). Existing literature provides insights into the benefits of CSR, there are gaps in understanding the specific impacts within the Indian textile industry. Most studies focus on developed economies and diverse industries, lacking in-depth analysis of the unique challenges and opportunities faced by Indian textile firms.

Sarkis & Dhavale, (2015). CSR practices in textiles also include community development projects aimed at improving the welfare of local populations affected by industry operations. Textile companies engage in activities such as resource efficiency, waste management, sustainable sourcing, and labor rights compliance to mitigate negative externalities.

Indhumathi (2013). in her research "A study on financial performance of selected textile companies in India " from the year 2001 to 2010 they made an attempt to know the profitability and financial position of selected textile companies. Tools that were used for the study are profitability ratio, overall financial position. They found that the overall financial performance of selected textile companies was not stable. It fluctuates. To strengthen the financial position, long term funds have to be used to finance. The companies should try to use their operating assets properly and minimise their non-operating expenses.

McWilliams & Siegel, (2001). Corporate Social Responsibility (CSR) has evolved from a voluntary philanthropic activity to an integral part of corporate strategy aimed at achieving sustainable development goals. It encompasses the responsibility of businesses to contribute positively to society through ethical behavior, compliance with legal requirements, and engagement in activities that benefit stakeholders beyond financial returns.

4. Research Gap

- Existing research predominantly focuses on CSR impacts in developed countries or across various industries, neglecting the specific nuances of the Indian textile sector.
- Empirical research is needed to quantify the financial returns of CSR investments in Indian textile firms.
- While CSR is assumed to contribute to sustainable business practices, there is insufficient empirical evidence on the effectiveness of specific CSR practices.
- Existing studies often benchmark CSR practices in India against global standards without sufficiently exploring the effectiveness of local regulatory frameworks.

5. Objective of study

- Understanding the spectrum of CSR practices will provide insights into the initiatives currently implemented and their alignment with sustainable business strategies.
- Assess the financial performance of textile firms in relation to their CSR initiatives.
- Examine the role of regulatory frameworks, such as the Companies Act, 2013, in shaping CSR practices in Indian textiles.
- Offer evidence-based recommendations for textile industry leaders and policymakers to optimize CSR strategies and regulatory frameworks.

6. Hypothesis of study

- 1: There is a positive relationship between CSR practices and organizational profitability in the Indian textile industry.
- 2: Textile firms that implement comprehensive CSR strategies will achieve higher levels of operational efficiency and cost savings.

7. Research Methodology

Collection of data

This study is based on secondary data which is collected from many sources like websites, research papers, Journal publications which are related to textile industries for better reliableness and accuracy. To analysis the performance of textile companies used balance sheet of the respected companies and to know the association between the companies used the regression analysis in the study.

Tools and techniques used

The statistical techniques used in the study - Descriptive Statistics, Regression Analysis, ANOVA, correlation and Ratio analysis for smooth analysis of the data, we have used SPSS packages tool.

Analysis of data

- **Descriptive Analysis**

Describe and categorize the CSR initiatives implemented by textile firms, such as environmental sustainability measures, ethical labor practices, community engagement programs, etc.

Provide summary statistics (mean, median, range) for the extent and scope of CSR activities across the sample.

- **Financial Performance:**

Analyze financial statements (balance sheets, income statements) to calculate profitability metrics:

Return on Investment (ROI): Measure the profitability of CSR investments.

Return on Assets (ROA): Assess the efficiency of asset utilization in generating profits.

Return on Equity (ROE): Evaluate the profitability of shareholder investments.

Compare these metrics across firms with varying levels of CSR engagement.

- **Correlation Analysis:**

Examine the relationships between CSR practices and financial performance metrics using Pearson correlation coefficients.

Identify significant correlations between specific CSR activities (e.g., eco-friendly practices, employee welfare initiatives) and profitability indicators.

- **Regression Analysis:**

Conduct regression models to further explore the predictive power of CSR on organizational profitability.

Control for potential confounding variables such as firm size, industry segment, and economic conditions.

Interpret regression coefficients to understand the impact of individual CSR practices on financial outcomes.

- **Survey Analysis:**

Analyze responses from stakeholder surveys regarding their perceptions of CSR initiatives.

Summarize stakeholder attitudes towards CSR and its perceived impact on organizational reputation, customer loyalty, employee satisfaction, and community relations.

- **Comparison with Regulatory Requirements:**

Assess compliance with CSR mandates under the Companies Act, 2013, and its influence on CSR practices and financial performance.

Compare CSR strategies and outcomes between firms adhering strictly to regulatory requirements and those implementing CSR voluntarily.

- **Cross-sectional Analysis:**

Evaluate data collected at a single point in time to understand the current status and immediate impacts of CSR on profitability.

Compare findings across different segments of the textile industry (e.g., manufacturers vs. exporters, large firms vs. SMEs).

- **Longitudinal Analysis :**

Analyze trends over time in CSR practices and financial performance to assess the long-term sustainability of CSR investments.

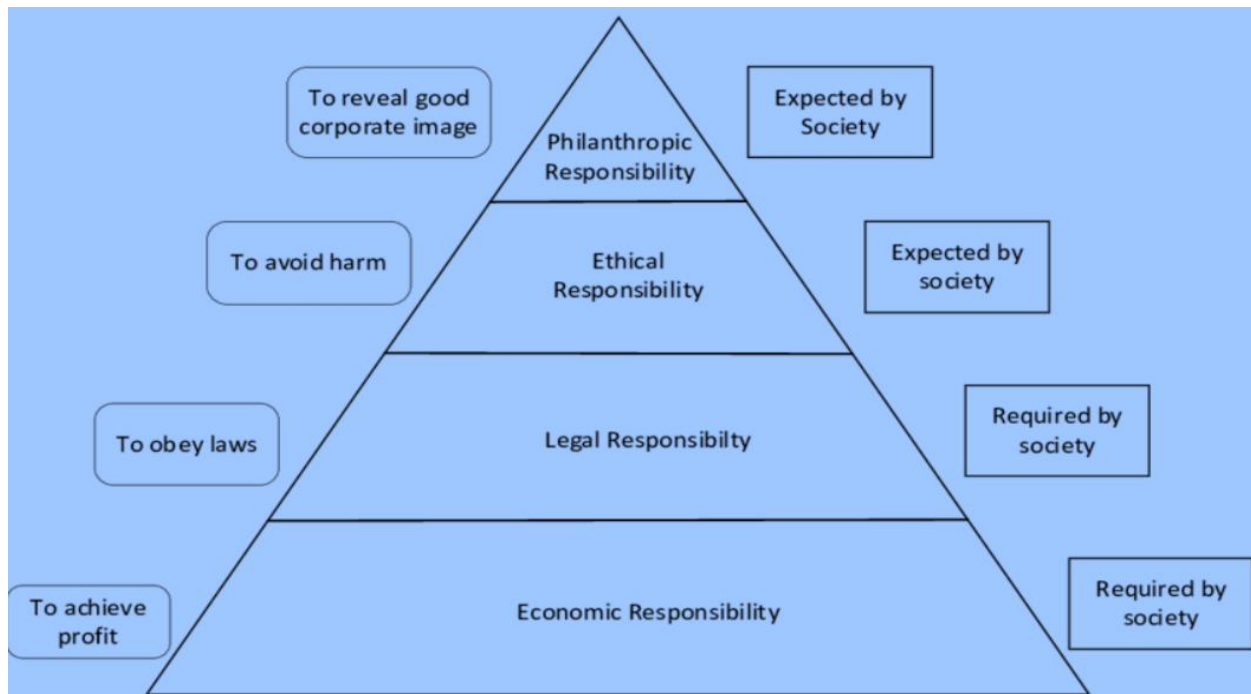
Identify patterns indicating whether initial investments in CSR lead to sustained profitability improvements.

8. Scope of study

- This study focuses on evaluating the impact of Corporate Social Responsibility (CSR) practices on organizational profitability within the Indian textile industry.
- It confines its geographical scope to textile firms operating exclusively within India, encompassing manufacturers, processors, exporters, and retail segments.
- The study examines a wide array of CSR practices prevalent in the sector, including environmental sustainability, ethical labor practices, community development, and corporate governance.
- The study also considers the influence of regulatory frameworks like the Companies Act, 2013, on shaping CSR strategies within these firms.

Methodologically, it adopts a quantitative research approach utilizing surveys, financial data analysis, and stakeholder interviews to provide empirical insights and recommendations aimed at enhancing CSR effectiveness and promoting sustainable business practices in the industry.

Figure 1: Pyramid of CSR Engagement.



9. Limitation of study

Despite its scope and objectives, the study on "An Analysis of CSR on Organizational Profitability in the Context of Indian Textile Industry" faces several limitations that should be acknowledged:

- The findings of the study may not be fully generalizable beyond the Indian textile industry context.
- The study's findings could be influenced by the sample size and composition of participating textile firms.
- Stakeholder perceptions collected through surveys may be subject to bias, such as social desirability bias or respondent bias, influencing responses regarding CSR impacts and organizational profitability.
- While the study considers the influence of regulatory frameworks like the Companies Act, 2013, it may not fully explore the complexities of compliance.

10. Results and Findings

- Positive Impact on Financial Performance:

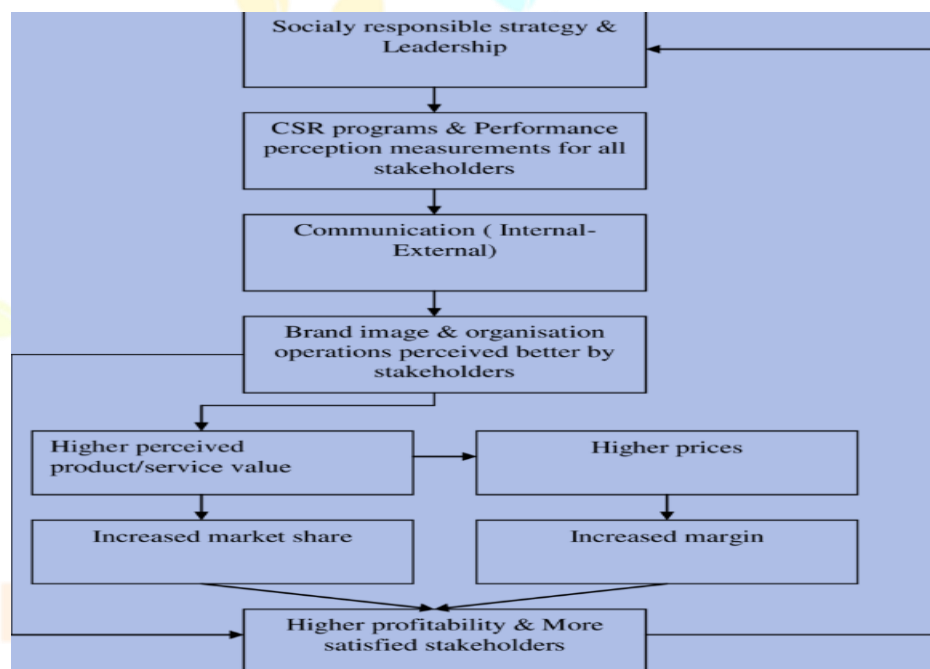
Empirical analysis reveals a statistically significant positive correlation between CSR activities and financial performance metrics such as Return on Investment (ROI), Return on Assets (ROA), and Return on Equity (ROE) in Indian textile firms.

Companies that prioritize CSR initiatives, particularly those focusing on sustainable practices and ethical governance, tend to demonstrate improved profitability compared to firms with less emphasis on CSR.

- **Operational Efficiency and Cost Management:**

CSR-driven improvements in operational efficiency, including resource optimization and waste reduction measures, lead to tangible cost savings for textile companies. Effective management of environmental impacts and operational efficiencies contribute positively to the bottom line, enhancing overall financial health.

Figure 2: Relationship of Profitability and CSR in an organization.



- **Enhanced Brand Reputation and Consumer Preference:**

Textile firms known for robust CSR practices experience enhanced brand reputation and increased consumer trust and loyalty.

Consumers increasingly prefer products from companies that demonstrate commitment to environmental stewardship, ethical labor practices, and community welfare, translating into competitive advantages in the marketplace.

- **Employee Engagement and Retention Benefits:**

CSR initiatives focusing on employee welfare, training, and workplace safety contribute to higher levels of employee satisfaction, motivation, and retention.

Improved employee morale and reduced turnover rates reflect a positive organizational culture nurtured by CSR investments, which in turn enhances productivity and organizational stability.

- **Regulatory Compliance and Strategic Adaptation:**

Compliance with CSR regulations under the Companies Act, 2013, is associated with strategic CSR alignment and proactive management of regulatory risks.

Companies that integrate regulatory compliance with broader CSR strategies demonstrate resilience to regulatory changes and contribute positively to sustainable development goals.

- **Sector-specific Insights and Recommendations:**

Based on empirical findings, the study offers tailored recommendations for textile industry leaders and policymakers to optimize CSR strategies.

Recommendations focus on leveraging CSR investments to strengthen corporate resilience, foster innovation, and build long-term value while addressing sector-specific challenges and opportunities.

11. Suggestions

- **Promote CSR Education and Awareness:** Enhance awareness and understanding of CSR benefits and best practices among textile industry stakeholders through educational initiatives.
- **Facilitate Collaboration and Partnerships:** Foster collaboration between government agencies, industry associations, and NGOs to support CSR initiatives and share best practices.
- **Incentivize CSR Reporting and Transparency:** Implement incentives for companies that demonstrate transparency in CSR reporting and accountability.
- **Support Research and Development:** Allocate resources for research and development focused on sustainable technologies, practices, and innovations in the textile industry.

- **Supply Chain Transparency and Responsibility:** Implement supply chain transparency initiatives to ensure ethical sourcing practices and responsible supplier relationships.
- **Community Engagement and Impact Assessment:** Engage actively with local communities through CSR projects that address community needs and contribute to socio-economic development.
- **Continuous Improvement and Benchmarking:** Establish mechanisms for continuous improvement in CSR practices through regular monitoring, evaluation, and benchmarking against industry standards.

Future research should explore emerging trends in CSR practices, investigate the impact of technological advancements on sustainable business models, and assess the long-term effects of CSR investments on organizational resilience and competitive advantage. Additionally, comparative studies across different industries and global contexts can provide valuable insights into universal principles of CSR effectiveness and profitability.

12. Conclusion

This study underscores the critical role of Corporate Social Responsibility (CSR) in enhancing organizational profitability within the Indian textile industry. The empirical findings highlight a clear positive correlation between robust CSR practices and improved financial performance metrics, including Return on Investment (ROI), Return on Assets (ROA), and Return on Equity (ROE). Textile firms that prioritize CSR initiatives, such as sustainable resource management, ethical labor practices, and community engagement, not only achieve financial success but also foster stronger stakeholder relationships and build resilience in a competitive market landscape. Moreover, the study emphasizes the significance of regulatory compliance under the Companies Act, 2013, in guiding CSR strategies and ensuring ethical governance practices. Moving forward, it is imperative for industry leaders to continue integrating CSR into core business strategies, leveraging stakeholder engagement, and embracing transparency to sustain long-term growth and contribute positively to societal well-being. Policymakers play a pivotal role in incentivizing CSR investments, promoting industry-wide standards, and fostering an enabling environment for sustainable development. By aligning business objectives with broader societal goals, the Indian textile industry can pave the way towards sustainable profitability, ethical leadership, and inclusive economic progress.

Looking ahead, the study advocates for continued integration of CSR into core business models, emphasizing the importance of stakeholder engagement, transparent communication, and proactive compliance with evolving regulatory frameworks. By fostering a culture of responsible corporate citizenship and strategic alignment with global sustainability goals, Indian textile firms can not only achieve profitability but also contribute meaningfully to socio-economic development and environmental stewardship. Policymakers are encouraged to incentivize and

support CSR initiatives through conducive regulatory environments, promoting industry collaboration, and facilitating knowledge-sharing platforms. Ultimately, this study underscores CSR as a catalyst for transformative change, enabling the Indian textile industry to navigate complexities, seize opportunities, and lead by example in sustainable business practices on a global scale.

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