

“A STUDY ON CSR AND ITS IMPACT ON FINACIAL PERFORMANCE OF LISTED COMPANIES IN INDIA”

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Abstract

Corporates realized that government alone is not responsible towards the society, but also the entities is also responsible towards the well-being of the society. It must undertake certain activities such as education, training, health etc.. towards the society. This is a concept that must be concerned more than a profit. The company act 2013 encourages company to undertake Corporate Social Responsibility activities. It can improve business performance in terms profitability and also Sustainability can be achieved. In this regard this study focuses on “Corporate Social Responsibility with profitability” of the company by considering variables Average Profit and CSR Spent. To analyse the data a simple regression applied and summarised.

(Keywords: Corporate social Responsibility, sustainability, Average profit)

I. INTRODUCTION

People live in a society and everyone is part of the social organization. A business organization does not operate in vacuum. Business is wholly dependent on society. It can only thrive in well-organized societies where individuals cannot, themselves, produce all their needs and wants. Thus, a stable and well-organized society fundamentally makes it possible for people to engage in business. It is on this basis that social activists have strongly argued that the business community ought, in return, show concern to the society that sustains an ideal environment for profit making. Corporates interact with society in many ways. They invest in facilities, produce and sell products, employ people and subcontract or in-source many activities. They also have an impact on the environment by the nature of their activities, by using valuable resources, or creating by-products, which influence the physical environment. Their interaction with society is through their employees and the many facets of society around them. Further, corporates may act explicitly as responsible, for either emotional reasons or business purposes.

As the organization is a part of the society, it cannot function in isolation. So there is an obligation and responsibility from the part of the corporate to take action that protects and improves the welfare of society as a whole along with their own interest. The society plays pivotal role in the success of any organization. Hence, no organization can achieve long-term success without fulfilling the responsibility towards the society.

Corporate Social Responsibility is part of an international drive towards transparency and accountability and sustainability of the business operations and a way of monitoring how Corporate Perform against environmental, ethical and social indices in the profitmaking process.

II. REVIEW OF LITERATURE

Windsor (2001), article examined the future of Corporate Social Responsibility or the relationship between business and society in long run. The researcher tried to find out that whether the organization and society will come closer to each other in future or not and what will be the changing phase of CSR. With the help of history or past trend of CSR, Carroll’s model analysis and in global context, the researcher found three emerging alternatives of CSR i.e. conception of responsibility, global corporate citizenship, stakeholder management practices. **Katy Wright (2009)**, in his research paper on “Corporate Social Responsibility: A Review of the Literature”, has provided

an overview of the literature about Corporate Social Responsibility. A number of concepts and issues are subsumed under the heading of CSR, including human rights, environmental responsibility, diversity management, sustainability, and philanthropy, meaning that it is a complex area with an interdisciplinary focus. It is generally agreed that CSR involves corporations voluntarily exceeding their legal duties to take account of social, economic and environmental impacts of their operations. **Lorraine Sweeney (2009)**, in the PhD thesis on “A study of current practice of Corporate Social Responsibility (CSR) and an examination of the relationship between CSR and Financial Performance using Structural Equation Modeling (SEM)” submitted at Dublin Institution of Technology has concluded that CSR was found to have a strong positive relationship with social reputation, employee attraction, motivation and retention and consumer attraction and loyalty but a weaker relationship with other business benefits like access to capital and business reputation. **Sanjay Pradhan and Akhilesh Ranjan (2010)**, in their paper has explore CSR Practices by corporate in Rural development. For this they have studied CSR practices of 14 public and private sector Indian companies for the rural development. The methodology used was secondary data. The purpose of their study was whether corporate considering rural people as a stakeholder? And if it is yes than what are the CSR initiatives taken by corporate for the rural development and do they take it as a part of their business strategy? The findings have concluded that CSR activities undertaken by organization have a positive impact on rural development and their business also. **The economic Times (2012)**, news highlighted the views of former president Dr. APJ Abdul Kalam in a CSR award function organized by industry body Assocham. Kalam said that companies should devote some part of its goal to corporate services. It should make mandatory for all the companies to spend a percentage of its profit on corporate social responsibility. Kalam also discussed about the proposed bill on corporate spending on CSR. They assumed greater importance of CSR in building the lives of the country’s citizens. **Benjamin James Inyang (2013)**, in their research paper on “Defining the Role Engagement of Small and Medium-Sized Enterprises (SMEs) in Corporate Social Responsibility (CSR)” has studied various CSR activities undertaken by SMEs and their role in CSR implementation and how does it help in developing economies. It was found that SMEs were focusing their CSR activities towards community development, employee initiatives, consumerism, environmental actions and supply chain requirements. The paper suggested that government should give necessary incentives and support services for effective engagement of SME towards CSR. **Singh and Sharma (2015)**, in their paper “Corporate social responsibility practices in India: Analysis of Public companies” explain the regulatory framework and CSR policies and activities carried out by public sector units i.e. Coal India Ltd. and GAIL. The initiatives taken include education, skill development, women empowerment activities, development of poor and needy section of society, nutrition, health & sanitation facilities and rural development. It also follows the mandatory clause of contributing 2% of the average profit of three immediate preceding financial years towards CSR activities. The findings revealed the facts that these companies are tremendously working for social responsibility and they are not only covering activities under Section 135 of Companies Act, 2013 but are also going beyond that. **Porwal and Sharma (1991)**, carried out a study of CSD by public and private sector Indian companies. He concluded that various types of disclosures were made in environmental aspects, community development and human resource development. The study also suggested that private companies and smaller companies made lesser disclosure than public and larger companies. It also asserted that the rate of return and earning margin had no effect on disclosures. **Agunis, glovas (2012)**, The study provided a framework of CSR actions which affects external as well as internal stakeholders and outcomes of such actions. The paper also enhanced the knowledge regarding levels, forms of CSR; need to understand CSR with outcomes etc. further the researcher also suggested a framework of research design, data analysis and measurement for future research of CSR.

III. STATEMENT OF THE PROBLEM

The concept Corporate Social Responsibility has emerged very long back. Still Corporates yet to realize that government alone is not responsible towards the society, but also the corporates is responsible towards the well-being of the society. It must undertake certain activities such as education, training, health etc...towards the society. This is a concept that must be concerned more than a profit. The company act 2013 encourages company to undertake CSR activities. The organizations undertake various social activities while performing the Corporate Social Responsibility. It can improve business performance & sustainability of the organization can be achieved. In this regard past studies have mixed opinions. To validate the same in Indian context *this study undertaken which focuses on "Corporate Social Responsibility with profitability"* The study focuses on CSR with profitability of the company by considering variables Average Profit and CSR Spent.

OBJECTIVE OF THE STUDY:

1. To understand CSR mandate as per Companies Act 2013.
2. To measure the CSR contribution as per Companies Act 2013.
3. To measure the impact of CSR on profitability of the companies.

IV.METHODOLOGY

The study extends to understand the CSR activities undertaken by the Select companies as prescribed by the Companies Act 2013.The scope of the study is limited to 30 companies. As per Companies Act 2013, the companies having a net worth of 500 crores or more, or a turnover of 1,000 crores or more, or a net profit of 5 crore or more during the preceding three financial years.

HYPOTHESIS:

H₀₁: There is no significant relationship between CSR spent and companies average profit.

H_{A1}: There is a significant relationship between CSR spent and companies average profit.

Sample description

SL.NO	COMPANYS
1	RELIANCE INDUSTRIES LIMITED
2	INFOSYS LIMITED
3	TATA CONSULTANCY SERVICES LIMITED
4	OIL AND NATURAL GAS CORPORATION LIMITED
5	ITC LIMITED
6	TATA STEEL LIMITED
7	BHARAT HEAVY ELECTRICALS LIMITED
8	NTPC LIMITED
9	WIPRO LIMITED
10	MAHINDRA AND MAHINDRA LIMITED
11	HINDUSTAN UNILEVAR LIMITED
12	LARSEN AND TOUBRO LIMITED
13	TECH MAHINDRA LIMITED
14	ULTRATECH CEMENT LIMITED
15	AMBUJA CEMENTS LIMITED
16	BHARAT PETROLEUM CORPORATION LIMITED
17	HINDUSTAN ZINC LIMITED
18	MARUTHI SUZUKI INDIA LIMITED
19	ACC LIMITED
20	DR.REDDYS LABORATORIES LIMITED
21	BHARTI AIRTEL LIMITED
22	ASIAN PAINTS LIMITED
23	TORRENT POWER LIMITED
24	TITAN COMPANY LIMITED
25	BOSCH LIMITED
26	BIOCON LIMITED
27	CIPLA LIMITED
28	BAJAJ AUTO LIMITED
29	BRITANNIA INDUSTRIES LIMITED
30	INDIAN OIL CORPORATION LIMITED

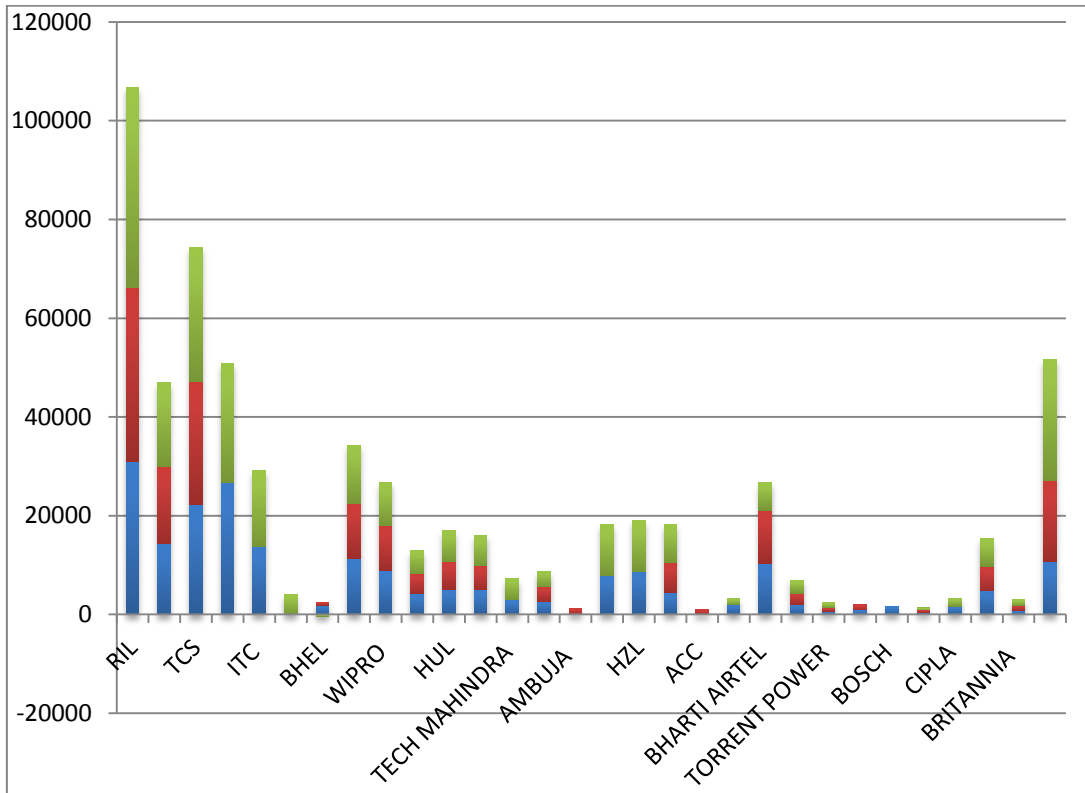
This study is descriptive and theoretical in nature and for the purpose of study 30 companies were selected randomly from BSE listing and The information has been collected. This study is completely based on the secondary data collected from various journals, articles, books, newspapers, company’s annual reports, sustainability reports, websites and social networking sites related to particular company and study uses simple mathematical and statistical tools to know amount spent on corporate social responsibility of selected companies. The study also applied regression to test the hypothesis.

V. Limitations and Scope for further research

The concept of CSR is very vast and wider, so it requires in-depth study but this research is based on the guidelines of Companies Act 2013. this study is restricted to only 30 companies; hence it cannot be generalized to all the companies.

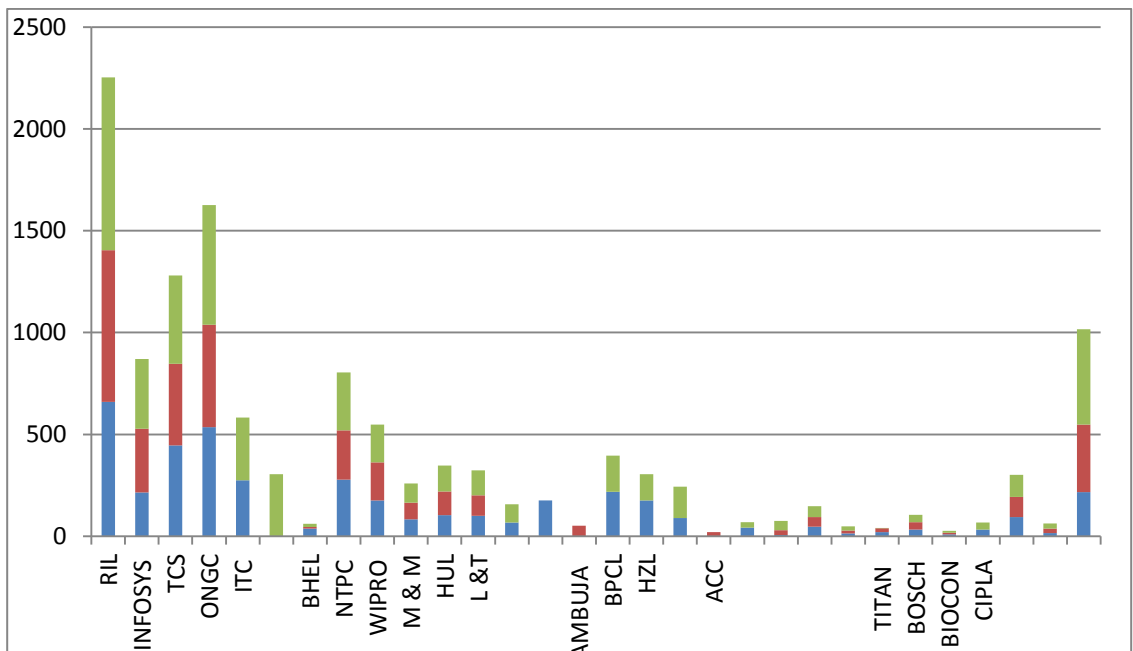
VI. Data Analysis and Results

Graph:01 Showing Average Net Profit of The Select Companies



Graph: 01 Shows that from the Observed data Reliance and TCS Company has the higher average net profit in all the three years compare to all other companies selected for the study.

Graph: 02 Showing CSR Spent of The Select Companies



Graph : 02 shows that CSR spent of RIL, ONGC, and TCS companies have a steady increase of CSR spent where as Biocon has decrease in budgeted and also it can observe that CSR spent by the various companies.

VII. Statistical Output Summary of Average Profit to CSR Spent

Regression Statistics	
Multiple R	0.996
R Square	0.992
Adjusted R Square	0.983
Standard Error	3.586
Observations	3

ANOVA

	df	SS	MS	F	Significance F
Regression	1	1515.64	1515.6	117.9	0.05847
Residual	1	12.857	12.857		
Total	2	1528.5			

	Coefficient	Standard Error	t.stat	P-Value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	7.5	12.3447	0.6076	0.652	-149.354	164.35492	-149.354	164.355
X Variable	0.019	0.00179	10.857	0.049	-0.00331	0.04221	0.00331	0.04221

H₀₁: There is no significant relationship between CSR spent and companies average profit.

H_{A1}: There is a significant relationship between CSR spent and companies average profit.

Based on the values of R Square (0.992) and Adjusted R Square (0.983), it can be interpreted that the model is a good fit and P value (0.05) which has been calculated, it can be interpreted that there is a significant relationship between CSR spent and companies average profit. Hence alternate hypothesis is accepted.

VIII. Conclusion and Discussion

The research study found that there is a significant influence between the CSR spent and average profit earned by the companies but other financial variables have a negative relation with CSR which clearly state that CSR practise in India is unable to meet the financial sustainability of the corporates. However the government and companies can strengthen the CSR practise through bridging the global CSR practises as per the sustainability guidelines given by United Nations and practises and guidelines prescribed as per GRI.

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