



International Journal of Humanities & Social Science Studies (IJHSSS)
A Peer-Reviewed Bi-monthly Bi-lingual Research Journal
ISSN: 2349-6959 (Online), ISSN: 2349-6711 (Print)
ISJN: A4372-3142 (Online) ISJN: A4372-3143 (Print)
UGC Approved Journal (SL NO. 2800)
Volume-III, Issue-VI, May 2017, Page No. 258-267
Published by Scholar Publications, Karimganj, Assam, India, 788711
Website: <http://www.ijhsss.com>

Does CSR Influence Firm's Financial Performance: An Empirical Investigation on 250 Indian Companies

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Abstract

Purpose of the paper is to investigate the impact of Corporate Social Responsibility (CSR) contribution on firms' financial performance. We have used secondary data which have been collected from different books, research papers, journals, online data base and India CSR Outlook Report 2016. We have taken 250 Indian companies as sample from India CSR Outlook Report 2016. Our study is based on four variables CSR contribution, Profit after Tax (PAT), Earning per Share (EPS) and Turnover. In this study we have considered PAT, EPS and Turnover as firm's financial performance indicator. We have taken CSR contribution of each of the 250 companies for the year 2015-16 as independent variable and PAT, EPS and Turnover as dependent variables. We have examined the impact of CSR contribution on profitability, earning per share and on turnover separately. Statistical package SPSS 16 has been used for analyzing the data set used in this study. For obtaining the result we have applied statistical tools like simple correlation, simple regression. Our study reveals that positive correlation between CSR and PAT is significant at 1 percent confidence level, correlation between CSR and EPS is also positively significant at 5 percent confidence level but correlation between CSR and Turnover is positive but not at all significant. Regression equation shows that PAT, EPS and Turnover are explained by CSR contribution at 39.4 percent, 0.05 percent and 1.6 percent respectively.

Key Words: CSR, PAT, EPS, Turnover, Environment, Sustainability.

I. Introduction: Various activities by the corporate world on society and nature are now an important issue. Today every business house has to think about society, environment and future sustainability. Corporate social responsibility (CSR) is a vital issue emerges in recent years. It means that the entire business house should operate in such a way that they can discharge some social responsibilities. CSR concept helps in sustaining the clean livable pollution free society for all. Abundant corporate activities are causing the ecological disorder. Various CSR initiatives protect the environment, it prevents the corporates from their relentless use of natural resources, prevent them from making society as an industrial

dustbin. A number of Indian multinationals have stepped forward for executing the CSR initiatives. They have spent their CSR contribution for the society by means of establishing schools, colleges, providing various healthcare facilities, extending helping hands for sports, disaster management etc. CSR activities are not only for the betterment of the society and environment but also for the betterment of firm's own financial performance, brand image and overall reputation. Nowadays CSR practices are a prestigious tradition in the corporate world. Business houses have gained competitive advantage beating the peer groups in environmental consciousness. A new phenomenon has been noticed that investors feel proud in investing on responsible and prestigious companies which think about the society and the environment. CSR policies enhance the concept of socially responsible investment all over the world. Today investors are also eager to invest their money on that concerns or the projects which are environmentally conscious, eco-friendly and responsible for the society. CSR disclosure practices help an organization long-term business growth, profitability and its own future sustainability. After the year 2012, all the Indian corporates are moving towards CSR disclosure practices as indicated in company's bill. In 2013 Corporate Social Responsibility (CSR) act has been passed. As per the act, a company having net worth of Rs. 500 crore or more, or turnover of Rs. 1000 crore or more, or net profit of Rs. 5 crore in any financial year have to contribute towards CSR consisting of 3 or more directors out of which 1 director shall be an independent director. The new company's bill makes it mandatory at 2% of their net profit must be contributed for CSR activities. In this paper we are trying to examine the effect of CSR initiatives on firms' financial performance. We have taken 250 Indian companies from various sectors. We have selected all these companies from India CSR Outlook Report 2016. (Source: www.ngobox.org, <http://indiacr.in/wp-content/uploads/2016/09/CSR-Outlook-Report-2016-India.pdf>)

II. Literature Review: Though corporate social responsibility (CSR) concept is comparatively a new one, a number of worth research works have been done in this field. So many works have been published on in- depth understanding of corporate social responsibility, its emergence in the corporate world, effectiveness of it for the society and corporate houses. We find many empirical as well as descriptive studies in India as well as foreign country for evaluating the emergence of CSR, its impact on various activities of the corporates.

Bhunia, A., et.al. (2015) have conducted a study on the impact of corporate social responsibility on firm's profitability. They have taken seven maharatna companies of India as their sample of the study. They have used ten years data ranging from 2004 to 2013. Simple correlation, simple regression and multiple regressions have been applied for obtaining the result and ascertained the degree of impact of CSR on firm's profitability. They found that only Gas Authority of India (GAIL) has the positive impact of CSR on its profitability but no other companies under study indicates such result. Other six companies have the negative impact of CSR on their profitability.

Razak, R.A. (2015) studied on current practices of corporate social responsibility disclosure (CSR D). He also tried to find out the fact that whether CSR disclosure is the

potential determinant of the firms' character or not. The study based on secondary data consisting of 166 companies of Tadawul Stock Exchange in the year 2013. Content analysis has been applied in the study for analyzing the CSR practices in the annual reports of the respective companies. He has taken five elements such as size, profitability, leverage, consumer proximity and environment sensitivity as the independent variables and tried to find the relationship with the CSR. He has found that 66 percent of the companies listed in Saudi Arabia disclose CSR in their annual report and the empirical result through regression analysis indicates that a positive relationship among CSR, companies size and profitability. He has pointed out that company with huge size and profitability are more responsive for disclosing their social information.

Govindarajan, V.L. and Amilan, S. (2013) tried to identify the linkage between corporate social responsibility initiatives with financial performances as well as market performance of the firm. They studied on Indian Oil and Gas products industry. Sample of 12 companies of Oil and Gas sectors have been chosen for the study. Secondary data have been applied for the study. Various statistical tools have been used for obtaining the result. They have assigned some scores on CSR initiatives and then regressed it with the financial as well as market parameters. They found the result is significant and CSR initiatives influence the EPS and market capitalization at 19 percent and 9.1 percent respectively.

Togun, O.R. et. al. (2015) examined the effects of corporate social responsibility on performance of listed manufacturing companies in Nigeria stock exchange. They have selected 15 companies out of 74 companies of five different segments of manufacturing industry by applying stratified random sampling and simple random sampling. The study reveals that CSR initiatives have a moderate positive impact on performances of manufacturing companies in Nigeria. The study also indicates that apart from profitability manufacturing companies did CSR activities for brand image, gaining competitive advantages, employee satisfaction, organizational values etc. They have recommended that the companies under study engage in CSR activities not only better performances but also for its well-built legal affairs and fame.

Raihan, M.Z. et.al (2015) have investigated the impact of corporate social responsibility expenditure on financial performance of Islami Bank Bangladesh Ltd. They have taken Return on Equity and Deposit per Employee as the dependent variables and a number of CSR expenditure components as independent variables. Secondary data have been used for five years starting from 2008 to 2012. The result reveals that all the CSR expenditure components have a negative correlation with the Return on Equity and positive correlation with Deposit per Employee. 35.3 percent and 11.2 percent variation on Return on Equity and Deposit per Employee respectively due to these expenditure components have been found. In conclusion they have stated that the bank authority should invest more in CSR expenditure to increase the Deposit per Employee into the bank.

Nasieku, T. et.al. (2014) have undertaken a study to observe the situation by paying full attention on CSR and in turns achievement of long-term organizational objectives, its

effectiveness and performance. They have done a theoretical review based on the CSR with different aspects like financial performance, environment, corporate governance, shareholders value, competitive advantage etc. They have also put their observations regarding various issues like stake holders' theory, legal aspects, ethical concept, shareholder theory, agency theory etc. They opined that to attain and achieve the organizational aim and strategy including maximization of organizational performance and effectiveness in the long as well as short term all the organization should devote full attention on CSR practices.

Fiori, G. et.al. have explored a study on corporate social responsibility and firms performance. The main objective of their study was to inspect the impact of CSR on firm's stock price. They have taken 25 listed Italian companies operating in different sectors including bank and insurance sector as sample. They have considered three years data where they have taken three CSR parameters (Employment, Environment and Community) and some financial ratios for their study. Their empirical study reveals that even after giving greater emphasis on CSR aspects, CSR has no impact on Italian listed firms' stock price. They noticed that interest of the investors has the short-term but impact of CSR is mainly for medium to long term.

Asatryan, R. and Brezinova, O. (2014) have done experiment on the impact of corporate social responsibility on firm's financial performance. The main objective of the paper is to highlight the relationship between CSR initiatives and financial performance of the Air line companies under study and the effect of CSR on financial performance. Their sample consists of 20 audited financial statement of Air line firms taken from Central and Eastern Europe. They have taken Return on Equity and Return on Assets is as financial performance indicator. Community performance, Environmental management system and Employee relations are taken as CSR components. They have found a significant positive relationship between financial performance indicator and CSR activities. They have recommended that Air line firms within Central and Eastern Europe should increase CSR investment so that they can enhance their brand image, status and returns.

III. Research Gap: Before undertaking this research project, we have made wide literature review in this field and found extensive studies on corporate social responsibilities. However, most of the literatures are based on theoretical aspects, a few on empirical. There are also some work on survey on the companies regarding CSR contributions and its implementations. But all the studies are based on small number of companies. No single study has concentrated exclusively on impact of CSR contribution on firms' financial performance with a huge number of Indian companies with cross section data series.

The present research work is a humble attempt to fill up the void.

IV. Objectives of the Study:

The objectives of the paper are:

1. To make a comprehensive study on the CSR activities by the Indian companies.

2. To examine the impact of CSR initiatives on profitability.
3. To investigate the influence of CSR initiatives on firms' Earning per Share (EPS).
And
4. To find out the relation between size (Turnover) of the firm and CSR contributions.

To fulfill these objectives we have made an in-depth analysis of CSR activities, top 20 CSR contributory companies' ranking on the basis of prescribed CSR and actual percentage of CSR implementation. We have also analyzed the present status of CSR in Indian companies in recent years.

V. Data and Methodology: Secondary data have been collected from different books, research papers, journals, online data base (www.ngobox.org) and India CSR Outlook Report 2016. The paper is an empirical investigation on the effect of CSR activities on firms' financial performance. The present paper also incorporates various qualitative and quantitative elements, related to Indian CSR activities. We have taken 250 Indian companies as sample from India CSR Outlook Report 2016. Our study based on four variables CSR contribution, profit after tax (PAT), earning per share (EPS) and turnover. We have taken CSR contribution of each of the 250 companies for the year 2015-16 as independent variable. We examined the impact of CSR contribution on profitability, earning per share and on turnover separately. CSR contribution as per the rule should be provided out of profit. We have taken turnover as one of the variable to justify the dissimilarity of the size of the firms. First, we investigate the degree of influence of CSR initiatives on profit after tax of respective company, then on EPS and Turnover. In case of banking sector companies we consider the total income as its turnover and total profit for appropriation as the profit after tax. We have applied statistical package SPSS 16 for finding out simple correlation, simple regression for the data set used under study for validating our results. To satisfy the above objectives we have formulated the following hypotheses:

VI. Hypothesis and Model Equations:

H₁: CSR contribution has a significant positive impact on PAT

H₂: CSR contribution has a significant positive impact on EPS

And

H₃: There exist significant positive impacts of CSR contribution on Turnover.

Model of the Study:

$$Y (PAT) = a_1 + b_1x (CSR) + \mu \dots\dots\dots (1)$$

$$Y (EPS) = a_2 + b_2x (CSR) + \mu \dots\dots\dots (2)$$

$$Y (Turnover) = a_3 + b_3x (CSR) + \mu \dots\dots\dots (3)$$

(a = constant, b = beta coefficient and μ = error terms)

VII. Findings and Discussions: Table I shows the top 20 Indian companies' contribution towards CSR in the year 2015-16. As per the new companies bill every organization have to spent two percent of their net profit for CSR. Here we have had the top 20 companies, their

prescribed CSR for the year 2015-16, their actual contribution and also the percentage of their contribution based on the prescribed one.

Table- I: Top 20 Indian Companies with Actual CSR Spend (INR Cr.) FY 2015-16

Company	Prescribed CSR	Actual CSR	Actual CSR in %
Reliance Industries Ltd	557.78	651.57	117%
NTPC Ltd	349.65	491.80	141%
Oil & Natural Gas Corp Ltd	593.70	421.00	71%
Tata Consultancy Services Ltd	360.00	294.00	82%
ITC Ltd	246.76	247.50	100%
Tata Steel Ltd	150.00	213.24	142%
National Mineral Development Corp	193.28	210.09	109%
Infosys Ltd	256.01	202.30	79%
Power Finance Corp Ltd	145.09	196.20	135%
ICICI Bank Ltd	212.00	172.00	81%
Wipro Ltd	156.00	159.80	102%
Indian Oil Corp Ltd	141.50	156.68	111%
State Bank of India	143.92	143.92	100%
Axis Bank Ltd	163.03	137.41	84%
Rural Electrification Corp Ltd	128.00	128.20	100%
HDFC Bank Ltd	127.28	120.72	95%
Larsen & Toubro Ltd	101.46	119.90	118%
Hindustan Unilever Ltd	91.94	92.12	100%
Bajaj Auto Ltd	86.46	86.72	100%
Maruti Suzuki India Ltd	65.40	78.46	120%

(Source: www.ngobox.org, <http://indiacsr.in/wp-content/uploads/2016/09/CSR-Outlook-Report-2016-India.pdf>)

All most all the companies fulfill their prescribed CSR. A few of them are below the prescribed level and some are above hundred percent levels i.e. beyond the prescribed level. The lowest contribution is arranged by Oil and Natural Gas Corporation Limited and the highest is made by Tata Steel Limited.

Table: II shows that a positive significant correlation has been found between CSR contribution and PAT. This correlation is significant at 1% level of confidence. Table: II: A, depicts the regression model summary where we found R^2 is 0.394 that means 39.4 % of PAT explained by CSR contribution and regression coefficient indicates that one unit increase of PAT, CSR increased by 33.235 units.

Table-II: Correlation between CSR contribution and Profit after Tax (PAT)

Variables	CSR Contribution	Profit After Tax(PAT)
CSR Contribution	1	0.628**
Profit After Tax(PAT)	0.628**	1

N: 250, **. Correlation is significant at the 0.01 level (2-tailed).

Table-II: A: Regression between CSR contribution and Profit after Tax (PAT)

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate	Durbin-Watson
1	.628 ^a	.394	.391	2915.29416	1.982

a. Predictors:(constant), CSR, b. Dependent Variable: PAT

Table-II: B: Regression Coefficient of CSR contribution and Profit after Tax (PAT)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	279.560	196.831		1.420	.157	1.000	1.000
	CSR	33.235	2.618	.628	12.694	.000		

a. Dependent Variable: PAT

Table: III discloses that a positive association between CSR and EPS has been found and this association is statistically significant at 5% confidence level. The regression model in the Table: III: A indicates that 0.5% of variations in EPS caused by CSR. Table: III: B exhibits one unit increase in EPS, CSR increased by 4.867 units.

Table- III: Correlation between CSR contribution and Earning Per Share (EPS)

Variables	CSR Contribution	Earning Per Share (EPS)
CSR Contribution	1	0.126*
Earning Per Share (EPS)	0.126*	1

N: 250, *. Correlation is significant at the 0.05 level (2-tailed).

Table-III: A: Regression between CSR contribution and Earning Per Share (EPS)

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate	Durbin-Watson
1	.071 ^a	.005	.001	4840.21069	2.023

a. Predictors:(constant), CSR, b. Dependent Variable: EPS

Table-III: B: Regression Coefficient of CSR contribution and Earning per Share (EPS)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	480.967	326.794		10.230	.000	1.000	1.000
	CSR	4.867	4.347	.126	2.004	.046		

a. Dependent Variable: EPS

Table: IV discloses that a negligible positive correlation between CSR and Turnover has been found and this relationship is not statistically significant. The regression model in the Table: IV: A indicates the value of R² is 0.016, meaning that 1.6% of Turnover influenced by CSR. In the Table: IV: B, regression coefficient exhibits one unit increase in EPS, CSR increase 0.07 units.

Table-IV: Correlation between CSR contribution and Turnover

Variables	CSR Contribution	Turnover
CSR Contribution	1	0.071
Turnover	0.071	1

N: 250, Correlation is not significant

Table-IV: A: Regression between CSR contribution and Turnover

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate	Durbin-Watson
1	.126 ^a	.016	.012	38.62917	2.017

a. Predictors:(constant), CSR, b. Dependent Variable: Turnover

Table- IV: B: Regression Coefficient of CSR contribution and Turnover

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	26.680	2.608	Beta	1.472	.142	1.000	1.000
	CSR	.070	.035		.071	1.120		

a. Dependent Variable: Turnover

VIII. Conclusions: Corporate social responsibility is a landmark initiative in the new companies act in India. After 2013 all the profitable companies operating business in India has to contribute two percent of their net profit towards CSR. In our study we have discussed that in 2015-16 top 20 companies contributed more or less hundred percent as per their prescribed range.CSR contribution is not only for the society and environment but also for their own long-term business operations and sustainability as they are also an integral part of the society. In this research paper we want to investigate if CSR influential factor is responsible for better financial performance of a firm. Our study reveals a significant positive correlation between CSR with PAT and EPS but a negligible positive correlation between CSR and Turnover. Regression equation shows that PAT, EPS and Turnover are explained by CSR contribution at 39.4 percent, 0.05 percent and 1.6 percent respectively. So we conclude that profit after tax is moderately influenced by CSR contribution and other two variables EPS and Turn over are little-bit affected by CSR contribution for all the companies under study.

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