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A Study to Know The Relationship Between CSR and Financial Performance of The Companies in India

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ABSTRACT

In India, the concept of CSR is governed by section 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 Crore INR and more, or a net worth of 500 Crore INR and more, or a net profit of 5 Crore INR and more. The new rules, which will be appropriate from the fiscal year 2014-15 onwards. This study examines the relationship between corporate social responsibility and firm's financial performance in India with the use of secondary data, sourced from ten randomly selected Indian companies annual report and financial summary for the period of four years. The purpose of the present paper is to study the level of CSR initiatives taken by the Indian companies and its influence on the performance of the companies. All the variables of the selected companies have been tested with one way Anova, Karl Pearson's correlation and correlation t-test for its validity. The study result shows that there is a considerable positive relationship between the CSR and Financial performance of the firm, and firms spending on CSR not only benefits from continuous long term sustainable development but also enjoy enhanced financial performance. Overall, there is a significant difference between CSR and Firm's financial performance by accepting alternative hypothesis and rejecting null hypothesis at 5% significance level.

Keywords: CSR, CSR Activities of Companies, CSR Committee Requirements, Financial Performance

Introduction

According to the UNIDO, “**Corporate Social Responsibility** is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their investors. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (Triple-Bottom-Line Approach), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or compassion. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.” CSR refers to ensuring the success of the business by inclusion of social and environmental considerations into a company's operations. It means satisfying stakeholders' and customers' demands while also managing the expectation of other stakeholders such as employees, suppliers and the community at large. It also means



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contributing positively to society and managing your organization's environmental impact. Hence, CSR is a contribution to sustainable development, implying the way a company balances its economic, environmental and social objectives while addressing stakeholder expectations and enhancing shareholder value. The aim of Social responsibility of the corporate is to create higher standard of living, while preserving the Profitability of the organizations, for people within and outside the organizations. CSR is a concept which suggests that commercial corporations must fulfill their duty of providing care to the society. CSR has been a focus of all stakeholders including the government, corporate sector, media, customers, suppliers, employees and communities. The Government of India's initiative to provide a mandate to public sector enterprises to spend a certain percentage of profit after tax for CSR has set the wheels in motion for increased contribution and more socially responsible behavior to lead to inclusive growth. Moreover, the National Voluntary Guidelines on Social, Environmental and Economic responsibilities of business by the Ministry of Corporate Affairs indicates that governments emphasize on CSR and engaging public and private companies and enhancing their contribution toward lessening the gap between economic and social progress. CSR has rapidly evolved in India with some companies focusing on strategic CSR initiatives to contribute toward nation building. Gradually, the companies in India started focusing on need based initiatives aligned with the national priorities such as public health, education, livelihoods, water conservation and natural resource management.

1.1 Objectives

The study has been carried out with the aim of analyzing the CSR with Financial performances of the selected companies in the various sectors. The aim of the study has been carried out with the following specific objectives:

1. To review the corporate social responsibility expenditure of selected Indian Companies.
2. To analyze the relationship between the CSR and Financial Performance of the selected companies in India.



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To study the present scenario of corporate social responsibility in India Table 1:

CSR Activities of different companies in various sectors during the last four years in India.

S. No	Companies	CSR activities
1	Tata Steel Ltd.	<ul style="list-style-type: none">• Livelihood– Through agricultural development, skill development and entrepreneurship;• Health– Through primary healthcare, maternal and child healthcare, specialized healthcare and adolescent health programmers;• Education– Through improving the quality of education for all and scholarships for meritorious students;• Empowerment– Through grassroots institutions such as Self Help Groups and Village Committees and youth empowerment.
2	UltraTech Cement Ltd.	<ul style="list-style-type: none">• Preschool Education Project - Balwadies/ playschools/ crèches, strengthening Anganwadi Centre.• Preventive Health Care –Pulse Polio & Health Check-up Camps, Mobile Dispensary Program, Malaria/ Diarrhoea /Control Programs, Health & Hygiene Awareness Programs, School Health/Eye/Dental Camps, Yoga/ Fitness Classes.• Agriculture and Farm Based - Agriculture & horticulture training program/ farmers group transfer of technology- demonstration plots, support for horticulture plots, seeds improvement program, support for improved agriculture equipment and inputs, Exposure visits / support for agricultural meal, integrated agricultural/ horticultural improvement, program/ productivity improvement programs, soil health and organic farming.



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3	Mahindra & Mahindra Ltd.	<ul style="list-style-type: none">• Supports the Education of Underprivileged Girls - Mahindra Pride Schools, which provide livelihood training to youth from socially and economically disadvantaged communities.• Scholarship Programs - Providing opportunities to youth from low income group families to undergo diploma courses at vocational education institutes, to allowing meritorious students to pursue their post graduate studies at reputed universities overseas.
4	ITC Ltd	<ul style="list-style-type: none">• Company's Agri Business Areas - The communities residing in close proximity to our production units.• Promoting Preventive Healthcare - Sanitation & Poverty Alleviation Livelihood Enhancement.• Economic Empowerment of Women• Ensuring Environmental Sustainability• Protection of National Heritage, Art & Culture, Rural Development
5	Bharat Petroleum Corporation Ltd.	<ul style="list-style-type: none">• BPCL takes up CSR projects largely in the 5 core thrust areas of: Education, water conservation, skill development, health /hygiene & Community development.
6	Larsen & Toubro Ltd	<ul style="list-style-type: none">• Community Development Programme - Addresses the most pressing needs –water, sanitation, education, health and skill-building.
7	Infosys Ltd.	<ul style="list-style-type: none">• Infosys Foundation - Supporting projects in eradication of hunger and malnutrition, promoting education, art and culture, healthcare, destitute care and rehabilitation.• Environmental sustainability - Disaster relief and rural development projects.



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8	ACC Ltd.	<ul style="list-style-type: none"> • Education Initiatives - Scholarships were awarded to 465 meritorious students belonging to weaker sections of society. • DISHA Programme - About 4,234 unemployed youth received skill development training as on the date of this report; over 60% of them had received job placements in various manufacturing and service sector enterprises.
9	YES Bank Ltd	<ul style="list-style-type: none"> • Livelihood & Water Security - Bank has brought access to safe and clean drinking water across 150 community locations in Maharashtra (Pune, Satara, Sangli and Kolhapur) with the installation of unique micro-fibre technology based water purifiers.
10	Reliance Industries Ltd.	<ul style="list-style-type: none"> • Livelihoods - More than 19 lakh farmers and fisher folks enhanced with support from Reliance. 103 lakh cubic meter of rainwater harvesting capacity created, 107 villages secured for drinking water through sustainable rainwater harvesting initiatives. • Health Consultations - Over 5 lakh health consultations provided to patients through Reliance managed hospitals, mobile and static medical units and various health camps.

Present scenario of corporate social responsibility in India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. The new rules, which will be applicable from the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director. The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The ministry's draft rules, that have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India. Clause 135 of the Companies Act, 2013 requires a CSR committee to be constituted by the board of directors. They will be responsible for preparing a detailed plan of the CSR activities including, decisions regarding the expenditure, the type of activities to be undertaken, roles and responsibilities of the concerned individuals and a monitoring and reporting mechanism. The CSR



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committee will also be required to ensure that all the income accrued to the company by way of CSR activities is credited back to the CSR corpus.

CSR Committee Requirements -

- A CSR committee of the board should be constituted. It should consist of at least three directors out of whom at least one is an independent director. This composition will be disclosed in the board's report as per sub-section (3) of section 134.
- The CSR committee shall formulate and recommend a CSR policy to the board, indicating the activities as specified in Schedule VII of the Act recommend the amount of expenditure to be incurred on the activities indicated in the policy monitor the CSR policy regularly.

1.2 Hypothesis

H0: CSR has no significant impact on the firm's financial performance and corporate reputation.

H1: CSR has significant impact on the firm's financial performance and corporate reputation.

2. Literature Review

Chih Hung Chen (2011) studied CSR models with best goodness of fit by applied Structural Equation Modeling to assess the proposed CSR model containing Accountability, Transparency, Competitiveness and Responsibility.

Esra Nemli et al (2011) concluded that there is casual relationship between Corporate Reputation and Corporate Financial performance and Corporate Reputation does not impact performance measure of ROE, but ROE improves corporate reputation.

Akinmulegun Sunday Ojo (2012) empirically examined the effect of financial leverage (measured by Debt-Equity ratio) on Earnings per Share (EPS) and Net Assets per Share (NAPS) and found that leverage shock on EPS indirectly affect the NAPS. Leverage therefore significantly affects Corporate Performance.

Dr. R.S. Ramesh et al (2012) said most Indian companies feel that CSR was only possible if profitability was high and concluded that there is a need today for Indian companies to re-examine their CSR interventions and determine their effectiveness through "think globally and act locally".

Subramanium et al (2014) used content analysis to develop CSR index and multiple regression analysis to see the relationship among CSR index, management and institutional ownership, corporate governance



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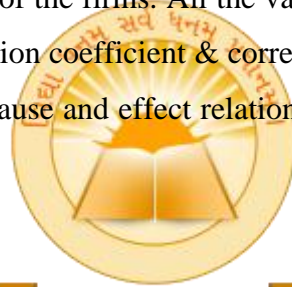
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mechanisms and the liquidity of equity shares of these companies. The result showed a positive relationship between CSR reporting and liquidity of equity shares which means that if the companies adopted greater level of CSR disclosure the higher will be the liquidity in terms of price impact.

Valmohammadi (2014) investigated the influence of seven dimensions of CSR (such as organizational governance, human rights, labor practices, the environment, fair operating practices, consumer issues and community involvement and development) on organizational performance in Iran. The result revealed a significant positive relationship between CSR and organizational performance of these companies.

3. Research Methodologies

The study is based on the secondary sources of data collected from selected company's annual reports. In this research the sample of four years data from (2013 to 2016) of 10 Indian listed companies in National Stock Exchange has been taken. The financial parameters used in this research are Net profit, Total Assets and CSR Expenditure extracted from annual reports of the firms. All the variables of the selected companies have been tested with one way Karl Pearson's correlation coefficient & correlation t-test for its validity. For profitability testing the correlation method to find the cause and effect relationship between CSR and impact on financial performance of the firm.



4. Analysis & Interpretation

Table 1: Net Profit of Selected Ten Companies (Rs.In Crores)

Company	2016	2015	2014	2013
Tata Steel Ltd.	4,900.95	6,439.12	6,412.19	5,062.97
Ultratech Cement Ltd.	2,174.65	2,014.73	2,014.73	2,144.47
Mahindra & Mahindra Ltd.	3,167.48	3,321.11	3,758.35	3,352.82
ITC Ltd.	9,844.71	9,607.73	9,607.73	8,785.21
Bharat Petroleum Corporation Ltd.	7,431.88	5,084.51	4,060.88	2,642.90
Larsen & Toubro Ltd	5,311.46	5,056.18	5,056.18	5,493.13
Infosys Ltd.	15,786.00	12,164.00	10,194.00	9,116.00
ACC Ltd.	602.4	591.57	1,168.29	1,095.76
YES Bank Ltd	2,539.45	2,005.36	2,005.36	1,617.78
Reliance Industries Ltd.	27,417.00	22,719.00	21,984.00	21,003.00

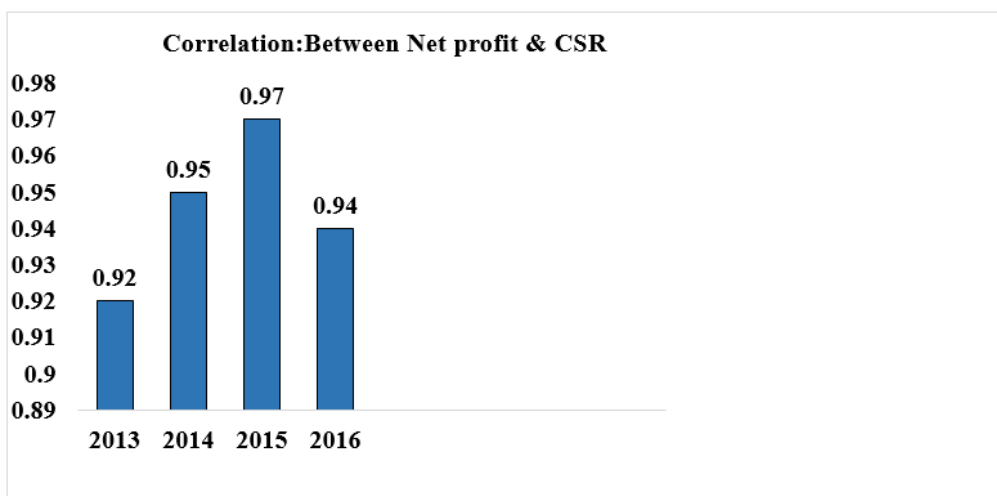
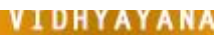


Table 2: Total Assets of selected ten companies (Rs.in crores)

Company	2016	2015	2014	2013
Tata Steel Ltd.	123,208.15	115,677.12	111,040.41	101,876.93
UltraTech Cement Ltd.	37,852.08	35,214.95	35,214.95	29,754.01
Mahindra & Mahindra Ltd.	36,412.34	32,944.87	31,288.65	27,453.59
ITC Ltd.	49,518.43	44,195.66	44,195.66	39,229.39
Bharat Petroleum Corporation Ltd.	75,989.41	69,728.88	72,427.41	66,987.39
Larsen & Toubro Ltd	97,069.71	86,903.76	86,903.76	78,304.58
Infosys Ltd.	72,767.00	61,813.00	52,712.00	43,028.00
ACC Ltd.	13,437.47	12,840.82	12,671.33	12,093.59
YES Bank Ltd	165,263.41	136,170.41	136,170.41	109,015.79
Reliance Industries Ltd.	457,720.00	397,785.00	367,583.00	318,511.00

Table 3: CSR Expenditure of selected ten companies (Rs.in crores)

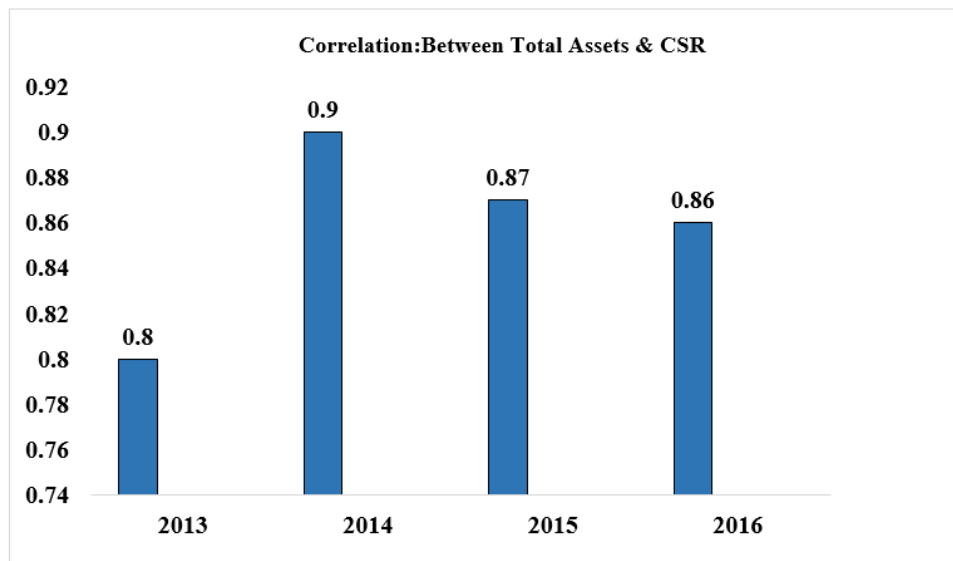
company	2016	2015	2014	2013
Tata Steel Ltd.	204	171.46	212	170.76
UltraTech Cement Ltd.	46.27	44.46	48.56	58.39
Mahindra & Mahindra Ltd.	85.9	83.24	32.69	33.52
ITC Ltd.	247.5	214.06	106.63	82.34
Bharat Petroleum Corporation Ltd.	95.59	76.01	34.38	17.88
Larsen & Toubro Ltd	120	76.54	76.5	73.16
Infosys Ltd.	202	239.54	203.88	182.32
ACC Ltd.	22.27	27.9	27.45	22.76
YES Bank Ltd	31.48	15.64	12.29	6.5
Reliance Industries Ltd.	652	712	761	351



Graph 1: shows the correlation between net profit & CSR.



Interpretation: The correlation between the CSR and net profit is strong positive in year 2013 to 2015 as shown in Graph-1 but in 2016 the graph shows trivial decreasing positive correlation between the CSR and Net profit.



Graph 2: Shows The Correlation Between Total Assets & CSR.

Interpretation There is a strong positive correlation exist between the total asset and CSR in 2013 & 2014 as shown in graph 2. But in 2015 and 2016 the correlation is moderate weak between the Total assets and CSR (graph. 2) due to the political and economic condition prevailed in the economy.

Karl Pearson Correlations t-test: The table 5 shows the positive correlation between CSR & net income of the companies and CSR & total assets of four year data of 10 selected Indian companies.



Table 4: Coefficient Of Correlation& Pearson Correlation T-Test

Years	Net Profit & CSR			Total Assets & CSR		
	R	T-Test	P-Value	R	T-Test	P-Value
2013	0.92	6.84	0.000	0.80	3.71	0.005
2014	0.95	8.36	0.000	0.90	5.86	0.000
2015	0.97	12.12	0.000	0.87	5.00	0.001
2016	0.94	7.49	0.000	0.86	4.84	0.001



One-way Anova: To test above hypotheses, one-way ANOVA is used to compare the effect of CSR on financial performance.

Table 5: The Result of One-Way ANOVA for Hypothesis Testing

Variable	Year	F-Value	P-Value(Two-Tailed)
Net Profit	2013	98.00	0.0001
	2014	69.00	0.0001
	2015	131.00	0.0001
	2016	70.00	0.0001
Total Assets	2013	12.670	0.009
	2014	30.16	0.001
	2015	22.18	0.002
	2016	21.00	0.003



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Results & Discussion:

As the tables given above 1 to 5 these are the net profits, changing in assets and spending on CSR different sectors in India during 2013 to 2016. Tables 5 showing the positive relationship between CSR and financial performance. Four years Data has been collected from 10 companies listed at national stock exchange. Correlation is used to measure the cause and effect relationship between CSR and financial performance. In first measure, corporate social responsibility is compared with net profit of the company which shows positive relationship between CSR and net profit. In Second measure CSR is compared with total assets of the firm which also shows the positive link between CSR and total assets. Thus By these findings, the results show that there is significant positive relationship between CSR and Financial performance. Results show that as the company increased spending on CSR the financial performance of the firm enhanced.

Finding and Conclusion:

The one way ANOVA table 6 showed that there is a significant difference between CSR and firm's financial performance. CSR and net profit is significant at 0.05 levels for all the 4 years while CSR and total assets is also significant at 0.05 levels for all the 4 years respectively. The Karl Pearson's correlation coefficient table 5 shows between CSR and Net profit has positively correlated and has been significant at 0.05 levels for all the 4 years while CSR and total assets is also has positively correlated and has been significant at 0.05 levels for all the 4 years. Overall, there is a significant difference between CSR and Firm's financial performance by accepting alternative hypothesis and rejecting null hypothesis at 5% significance level. Indian companies aware and spending more for society wellbeing, environmental protection, and health and education facilities. Also spending on employees wellbeing to retain and attract of new competent employees and for building confidence. Overall these all spending not just for the incessant and long term development also for the economic benefit of firm. Companies need to earn trust and so do the causes they support. Providing a service without looking at customer safety, selling products which do more harm than good won't help in getting customers to believe in company brand. Responsibility is about business values that integrate with product, price, place and promotion. The traditional benefit of generating goodwill, creating a positive image and branding benefits continue to exist for companies that operate effective CSR programmers. This allows companies to position themselves as responsible corporate citizens.



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