

RELATIONSHIP BETWEEN CSR AND FINANCIAL PERFORMANCE: EMPIRICAL ANALYSIS.

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ABSTRACT

A business firm has many responsibilities in addition to producing and marketing goods and services at profit. Business Corporations are more than merely economic institutions. They are responsible to the shareholders and various stakeholders like customers, employees, suppliers, Government, community, etc. As a corporate citizen, it must fulfill its economical, legal, ethical and discretionary responsibilities. The modern perspective focuses on long-term interests of stakeholders and sustainable development. Therefore, comes the concept of CSR. The term Corporate Social Responsibility forms an integrated combination of policies, programmes, education, practices which extend throughout a corporation's operations and into the communities in which they operate. It is based on the idea that business has social obligations beyond earning profits. Our paper aims to empirically prove relationship among CSR practices followed by companies and its affect on PAT using regression model. Using past five year data on CSR expenditure and PAT among 30 Indian companies it is observed that there is constructive and significant relationship among both.

1. INTRODUCTION

Corporate Social Responsibility (CSR) is the long-term dedication of business to act ethically and add to the economic development thereby superiority workforce's life and their families, community and thereby improving society. Corporate Social Responsibility (CSR) is the dedication of company to contribute to sustainable economic development by way of working with employees, their families, the local community and society at large to improve thereby improving the quality of life.

Term CSR has evolved from being just charity or donation. Nowadays, CSR is much more and above these concepts. Organizations are continuously making efforts to give their best so as to improve the environment which not helps to build good image for the business but also helps in improving overall environment.

According to Freidman (1970) the organizations seek to maximize profits by working through legal and ethical means. If they indulge in any other activity which isn't directly related to set goals of business is sheer of money and efforts by the business. But there has been a shift in this thinking. Various authors have realized the need for CSR .

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There are 3 pillars on which strategic CSR holds.

- A) **Good Governance:** It involves clarity with regard to managing & controlling the affairs of the organization.
- B) **Corporate Social Responsibility:** It takes into reflection the accountability of business towards the people at large. It is about fulfilling the requirements of the society and creating a positive impact of the organization.
- C) **Environment Accountability:** As a company takes the resources from the environment, it should pay back to society by minimize the negative effect caused by its operations and functions on the environment.

NEED FOR CSR

Even though CSR has been made obligatory w.e.f. 1 April 2014 but there are various other reasons as well that have increased the importance of CSR. They are namely:

1) Sustainable development:

Human beings are consuming resources at much faster rate than the rate at which it is replaced. So to help future generation have access to such resources there is increasing need to recognize sustainable development issues and take action accordingly.

2) Globalization:

Dealings of one economy with another leading to cross-border trade and global supply chain management has necessitated the need for CSR to minimize the unethical practices.

3) Communications:

Advancement in communication technology like Internet, mobile phones etc are making it easier to talk about corporate activities, it also provides chances to increase partnership with other countries.

4) Ethics:

After scams like that of Satyam Computers etc. have resulted in loss of faith and confidence among organizations. So by undertaking CSR activities it helps organizations in improving transparency, accountability and ethical standards among companies as well as countries.

5) Community:

Citizens of every country had made it clear that organizations should meet the higher standards of social and environmental care, no matter

where they operate.

2. REVIEW OF LITERATURE

(Carroll, 1979; 2008) "The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that a society has of organizations at a given point in time." The Commission defines corporate social responsibility as "the responsibility of enterprises for their impacts on society". To completely meet their social responsibility, enterprises "should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders". Rajput, Batra and Pathak (2012) have identified the increasing demand of 'interests of stakeholders' in social performance of the companies in which they have either invested or plan to invest. Authors aim to study the relationship among CSR and performance of firm in financial terms among Indian companies using regression model they have analyzed relationship among CSR and financial performance the results of which depicts significant relationship between corporate social responsibility (CSR) and performance of firm measured in financial terms and is named as corporate financial performance (CFP) as calculated by sales revenue and profits of five hundred Indian companies.

3. RESEARCH METHODOLOGY

A complete detailed analysis of annual reports, CSR reports as well as all publically available information about the company has been studied in depth. Not only have that, all CSR expenditure of companies along with their average profited after tax is found for five years. Using regression model relation between CSR and Average profits has been identified. For the purpose of same BSE, NSE websites have also been studied to identify the companies which are engaged in CSR activities. Three models have been developed to find relationship between CSR and CFP. They are discussed in detail in objective section.

4. OBJECTIVES

The main motive of this paper is to find the relationship between CSR expenditure as well as average profit after tax. Three models have been developed.

MODEL1: In this we find whether PAT are affected by CSR spending of the company.

MODEL2: In this model we aim to find out whether PAT depends on CSR spending of previous year.

MODEL3: In this model we find if CSR spending of this year are affected by previous PAT.

In order to find relationship among them we have used regression model.

5. DATA ANALYSIS

MODEL1: In this we find whether PAT are affected by CSR spending of the company.

$$PAT = \alpha + \beta_1 CSR + e$$

Using regression model we found that $p < 0.05$ and f value is also significant. This shows presence of significant relationship among two variables.

MODEL2: In this model we find whether PAT depends on CSR spending of previous year.

$$PAT = \alpha + \beta CSR(1-1)$$

The above regression equation can be interpreted as CSR spending of previous year affects PAT of this year or not. Again regression model is used and we found out that p value is significant and f value is also coming out to be significant depicting that there is relationship among both the variables.

MODEL3: In this model we find if CSR spending of this year are affected by previous PAT.

Again we have used regression model for which following equation is made:

$$CSR = \alpha + \beta PAT(1-t)$$

Running regression model again we found significant affect of previous year PAT on CSR spending.

Summary of all the results are shown below:

RESULTS OF MODEL 1		
Regression Statistics		
Multiple R		0.711262289
R Square		0.505894044
Adjusted R Square		0.49657129
Standard Error		4448.866601
Observations		55

ANOVA

	Df	SS	MS	F	Significance F
Regression	1	1074024317	1074024317	54.26444271	0.00
Residual	53	1048997944	19792414.04		
Total	54	2123022261			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	1900.111592	788.9278883	2.408473094	0.019529369	317.7226764	3482.500508
83	48.58812256	6.595875426	7.366440301	0	35.35847214	61.81777297

RESULTS OF MODEL 2	
Regression Statistics	
Multiple R	0.385913
R Square	0.148929
Adjusted R Square	0.113467
Standard Error	5635.014
Observations	26

ANOVA

	Df	SS	MS	F	Significance F
Regression	1	1.33E+08	1.33E+08	4.19975576	0.05151233
Residual	24	7.62E+08	31753378		
Total	25	8.95E+08			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	3596.511	1619.184	2.221187	0.036027023	254.6793914	6938.34241
288	58.65352	28.62082	2.049331	0.04151233	-0.41694762	117.7239874

RESULTS OF MODEL 3	
Regression Statistics	
Multiple R	0.928830916
R Square	0.862726871
Adjusted R Square	0.857235946
Standard Error	41.16518897
Observations	27

ANOVA

	Df	SS	MS	F	Significance F
Regression	1	266249.0256	266249.0256	157.1186722	2.80534E-12
Residual	25	42364.31958	1694.572783		
Total	26	308613.3452			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	24.29630365	10.33562915	2.350732916	0.026929027	3.009677126	45.58293017
7783	0.016633471	0.001326994	12.53469873	0	0.013900475	0.019366466

6. CONCLUSIONS

Therefore from our study we found that there is significant impact of CSR spending on the Profit after tax of the companies. We have found that companies are themselves taking initiatives for the betterment of companies as well as to create good image in the market. For example companies like ONGC is into Waste Water Management; Promotion of heritage Sites; Resource efficiency, TATA MOTORS Self Employment for Unemployed Youth; Use of Clean and Renewable Energy HDFC Bank is into Paperless Banking; Rainwater Harvesting, Ashok Leyland Operates Fun bus for differently abled children; AIDS Awareness Mahindra & Mahindra Sessions Zero Waste Management; Rain Water Harvesting. Though there are more companies who are doing CSR activities, this are just few of them. This not only gives them good image but also give competitive edge to the companies.

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