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Corporate Social Responsibility and Firm Performance

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ABSTRACT

As part of their responsibility to the society, companies engage in activities that benefit employees, suppliers, customers and society at large. These activities reduce the present value of the cash flows generated by the firm and thus reduce the return available to the shareholders. However, these activities may give better image to the company in the society and the firm value may be increased. Further, by virtue of the good image, the company may be able to record a better performance. In this study, it is tried to establish a relation between CSR spending and firm performance. It is also examined whether there is any difference in the quantum of CSR spending by companies of different sectors. The study is conducted with reference to thirty companies listed on the National Stock Exchange. The study found that there is no significant relation between CSR spending and firm performance. It also found that there is no difference in the quantum of spending on CSR activities by consumer goods, industrial goods and service sector companies.

Keywords: CSR, Firm Performance, ROE, ROA, ROS.

INTRODUCTION:

Corporate Social Responsibility is the responsibility of business towards various stakeholders. It is defined as achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment. The CSR activities may give better image to the company in the society. However, these activities may reduce the present value of the cash flows generated by the firm. Paine (2002) states that companies should engage in activities that benefit employees, suppliers, customers and society at large, even if those activities reduce the present value of the cashflows generated by a firm.

In India, it is mandatory to spend a certain percentage of the profit of the company for CSR activities. Under section 135 of The Companies Act 2013, every company having a net worth of Rs.500 crores or more, or a turnover of Rs.1000 crores or more, or net profit of Rs.5 crores or more during any financial year has to spend at least 2% of its average net profit made during the three immediately preceding financial years on CSR activities.

A company spending on CSR will have good image and reputation, better financial performance, increased sales and customer loyalty, increased ability to attract and retain employees, reduced government interference, easier access to capital and so on. Different companies follow different CSR practices. The present study is conducted for examining whether CSR spending leads to better financial performance. A comparison of CSR spending of various sectors is also done.

STATEMENT OF THE PROBLEM:

Corporates all over the world are spending for social and community causes voluntarily. In India also even before the CSR spending made mandatory, companies have been undertaking several social projects for the benefit of the community as a whole. When the CSR spending was made mandatory even there were discontent among many corporates as they were spending more than what is specified as the statutory minimum. However, at the same time there are corporates who earnestly believe that social spending is a breach of contract with the shareholders and the primary objective of a corporation is to increase the return to the shareholders.

The companies which spend more on CSR activities may have better acceptance from all stakeholders which ultimately may lead to better firm performance. Previous research has yielded mixed results regarding the relationship between CSR and financial performance of firm. Wright and Ferris (1997) identified a negative relationship; Posnikoff (1977) reported a positive relationship, while Siew, Ivo and Paul (1999) found no relationship between CSR and financial performance. One of the major factors that influence the CSR spending is the type of industry. The quantum of CSR spending by consumer goods companies, industrial goods companies and services may vary.

REVIEW OF LITERATURE:

Cornell and Shapiro (1987) found that firms with an image of high CSR may find that they have more low-cost implicit claims than other firms and thus have higher financial performance.

Stanwick and Stanwick (1998) examined 125 firms to study the relationship between corporate social performance and the three variables, viz., financial performance, environmental performance and organizational size. It was found that corporate social performance has a positive relationship with profitability and firm size, and an inverse relationship with the pollution created by the firm.

Amrousy, Gavious and Yosef (2012) studied whether the adoption of CSR influence the financial performance of companies by taking 78 listed firms in Israel. Financial performance was measured using the variables ROA and ROE. It was found that there is no significant difference in financial performance of CSR firms and non-CSR firms.

Flammer (2013) views CSR as a valuable resource for the company and argue that it leads to superior financial performance.

Kanwal et al. (2013) found 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.

Kapoor (2014) in his study of India's top 100 companies in fifteen sectors found that cement, metal and FMCG companies have disclosed CSR initiatives undertaken better than other industry sectors.

Musau (2015) found that there is significant improvement on the performance of banks, improvement in bank profitability, customer satisfaction, customer retention and improved service delivery after the introduction of CSR in the financial sector.

OBJECTIVE OF THE STUDY:

The objectives of the study are:

1. To examine whether there is any relationship between CSR spending and firm performance.
2. To examine whether there is any difference in CSR spending of consumer goods, industrial goods and service sector companies.

HYPOTHESES OF THE STUDY:

1. There is no relationship between CSR spending of companies and firm performance.
2. There is no difference in CSR spending of consumer goods, industrial goods and service sector companies.

METHODOLOGY OF THE STUDY:

The study is conducted with secondary data. Data were collected from annual reports and business responsibility reports. For the purpose of the study, thirty companies listed on the National Stock Exchange are selected, ie., ten each from consumer goods, industrial goods and service sector.

In this study, accounting measures are used to investigate the relationship between CSR and firm performance. For measuring corporate performance, three variables have been used, viz., Return on Equity (ROE), Return on Assets (ROA) and Return on Sales (ROS).

Corporate performance and CSR spending of financial years 2015, 2016 and 2017 were used for the study. The data analysis is done in SPSS and the hypotheses are tested by using correlation and one-way ANOVA.

LIMITATIONS OF THE STUDY:

- The CSR spending of companies are studied only on the basis of published data. Further verification on the accuracy of data is not done.
- Since CSR spending is mandatory from 2014-15, and the data are available only for that period the study is conducted using data for three years only.

Analysis 1: Relation between CSR spending and firm performance
Firm performance is measured by three variables, viz., Return on Equity (ROE), Return on Assets (ROA) and Return on Sales (ROS). These variables were calculated using data from annual reports. CSR spending is taken as a percentage of its average net profit made during the three immediately preceding financial years. Correlation is done to test whether there is any relationship between CSR spending and firm performance. The results are given in tables1, 2 and 3 respectively for consumer goods, industrial goods and services sectors.

Table 1: Correlation between CSR spending and Firm Performance of Consumer Goods Companies

Particulars	2015	2016	2017
CSR and ROE	-0.2176	-0.3032	-0.1113
CSR and ROA	-0.1833	-0.5257	-0.102
CSR and ROS	0.3906	-0.0701	-0.1657

Source: Computed * significant at 5% p value

Table 2: Correlation between CSR spending and Firm Performance of Industrial Goods Companies

Particulars	2015	2016	2017
CSR and ROE	-0.6148	-0.5909	-0.9012*
CSR and ROA	-0.431	-0.5813	-0.7911*
CSR and ROS	0.2238	0.1433	0.0494

Source: Computed * significant at 5% p value

Table 3: Correlation between CSR spending and Firm Performance of Service sector

Particulars	2015	2016	2017
CSR and ROE	-0.4422	-0.2045	-0.083
CSR and ROA	-0.5416	-0.4464	-0.2975
CSR and ROS	-0.7026*	-0.6506*	-0.6063

Source: Computed * significant at 5% p value

It is found that CSR is negatively related to ROE, ROA and ROS in the case of consumer goods companies and service sector companies. In the case of industrial goods companies CSR is positively related to ROS.
The negative relationship of CSR spending with ROE and ROA implies that investors are not bothered about CSR spending or are against it. The positive correlation between CSR spending and ROS in the case of industrial goods may be due to the fact that the companies while purchasing industrial goods may give more preference to CSR driven companies than non-CSR companies.

Analysis 2: CSR Spending of Companies
The Companies Act, 2013 makes it obligatory for companies to spend at least 2% of its average net profit made during the three immediately preceding financial years on CSR activities. The sector to which the company belong to may have an influence on the amount of spending. Accordingly, CSR spending of the 30 selected companies classified into three sectors, namely, consumer goods (CG), industrial goods (IG) and service sector (S) are presented in table 4.

Table 4: CSR Spending of Companies (in percentage)

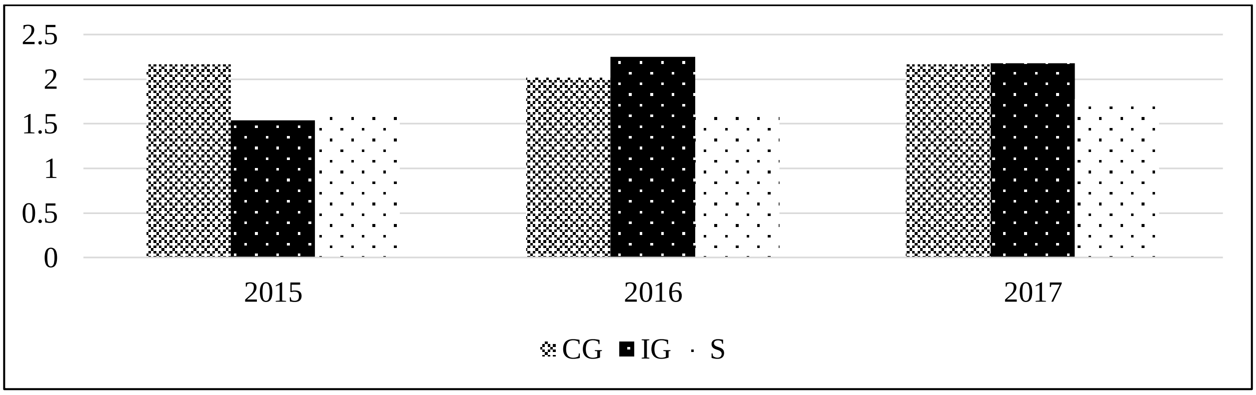
	2015			2016			2017		
	CG	IG	S	CG	IG	S	CG	IG	S
C1	1.27	2.23	1.8	2.04	2.07	1.64	3.51	2.33	1.05

	2015			2016			2017		
	CG	**IG**	**S**	**CG**	**IG**	**S**	**CG**	**IG**	**S**
C2	2	2.37	1.68	2.00	4.00	2.45	2.00	4.00	2.02
C3	2.02	0.41	0.16	2.02	0.63	0.20	2.02	0.78	0.63
C4	2.01	0.89	1.97	2.02	1.70	1.58	2.00	1.14	2.01
C5	2.6	1.02	0.72	2.04	1.71	1.49	2.02	1.49	2.01
C6	2.10	1.21	0.54	2.00	2.30	0.90	2.04	2.26	1.33
C7	2.87	0.78	1.53	2.01	0.74	1.64	2.00	0.56	1.70
C8	2	2.19	3.54	1.77	3.36	2.27	2.01	3.43	2.05
C9	2	1.45	2.07	2.00	3.62	2.05	2.00	2.43	2.90
C10	2.85	2.83	1.74	2.34	2.35	2.06	2.13	3.35	2.14
Avg	**2.17***	**1.54***	**1.58***	**2.02***	**2.25***	**1.63***	**2.17***	**2.18***	**1.78***
	F (2, 27) = 2.116			F (2, 27) = 1.671			F(2,27) = .758		
	p value = .140			p value= .207			p value= .478		

Source: Annual reports of companies
* means average.

CG means Consumer Goods, IG means Industrial Goods and S means Services.
Table 4 shows that there is an increasing trend in CSR spending of companies across sectors though all corporates are not spending the required amount even in the third year of implementation of the CSR rules. In the year 2017, all the companies in the consumer goods sector complied to the CSR rule. t is found that there is difference in the average CSR spending of consumer goods companies, industrial goods companies and services. On an average the consumer goods sector satisfies the mandatory limit in all the years. To test whether the difference is statistically significant or not one-way ANOVA is done taking the null hypothesis that: H0: There is no difference in CSR spending of consumer goods companies, industrial goods companies and services.
It was found that the result was not statistically significant. Hence, it can be concluded that type of industry does not influence CSR spending.

Chart1: CSR Spending of Companies



CG means Consumer Goods, IG means Industrial Goods and S means Services.
Chart 1 shows the average CSR spending of consumer goods companies, industrial goods companies and services for the three years 2015, 2016 and 2017. There is an increase in the spending of consumer goods and services while there is a slight decrease in the case of services.

FINDINGS:

- There is no relationship between CSR spending and corporate performance.
- There is no association between CSR spending and type of industry.

CONCLUSION:

The present study is conducted to know whether there is relationship between CSR spending and corporate performance and whether type of industry influence quantum of CSR spending.

The study found that there is no significant relation between CSR spending and firm performance. It is also found that there is no significant difference in the CSR spending of consumer goods companies, industrial goods companies and services. That is, the type of industry does not influence CSR spending.

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APPENDIX:

List of Companies

Consumer goods	Industrial goods	Services
Asian Paints Ltd.	ACC Ltd.	Bharti Infratel Ltd.
Britannia Industries Ltd.	Ambuja Cements Ltd.	Container Corporation Ltd.
Cipla Ltd.	Bharat Electronics Ltd.	HCL Technologies Ltd.
Colgate Palmolive Ltd.	BPCL	Infosys Ltd.
Dabur India Ltd.	Cummins India Ltd.	Oracle Ltd.
Godrej Ltd.	GAIL (India) Ltd.	Sun TV Ltd.
ITC Ltd.	Hindustan Zinc Ltd.	TCS Ltd.
Marico Ltd.	NHPC Ltd.	Tech Mahindra Ltd.
P & G Ltd.	NTPC Ltd.	Wipro Ltd.
Reliance Industries Ltd.	Tata Steel Ltd.	Zee Entertainment Ltd.
