

Corporate Social Responsibility and its Impact on the Profitability of select Private, Public and Multi-National Companies in India: An Empirical Study

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ABSTRACT

Corporate Social Responsibility is companies concern towards society. Survival is the fittest, the basic principle the companies should follow to stay in the corporate world. If the company spends some percentage out of the profit earned towards the betterment of the society directly or indirectly then there is a chance that society will in return support the growth of the company. Companies are serving society through the medium of corporate social responsibility and it is seen that Corporate Social Responsibility has always been taken care of by the companies in India after the Companies Act 2013. Companies have to spend 2% out of the average profit of the preceding three years earned towards Corporate Social Responsibility. In this paper an attempt has been made to assess the performance of Corporate Social Responsibility of select companies (ownership wise) in India and studied the impact of Corporate Social Responsibility of the companies on their profitability. The average actual % expenditure on CSR of current year profit does not differ significantly between three types of ownerships (i.e. private, public and MNC) for all financial years CSR Expenditure, Private Company and Public Ownership plays an important role in increasing the Net Profit of the company.

Keywords: Corporate Social Responsibility, Ownership, Companies Act 2013.

INTRODUCTION:

Corporate Social Responsibility means the unambiguous commitment of corporations to a systematic consideration of the social, environmental, ethical and cultural dimensions of their operations. Corporate Social Responsibility means that firms act beyond the economic and legal imperatives and integrate social and environmental concerns in their daily business operations and in their interaction with their stakeholders on a voluntary basis.

Manufacturing companies play a vital role in the growth and development of countries like India and the health of the company is largely dependent on the society in which it operates in the Domestic and Global economy. CSR reiterates the notion that development of the society is not exclusively the responsibility of the Government; corporate too has a legitimate and responsible role to play for the betterment of the society. If the company spends some percentage out of the profit earned towards the betterment of the society directly or indirectly then there is a chance that society will in return support the growth of the company. Companies are serving society through the medium of corporate social responsibility and it is seen that Corporate Social Responsibility has always been taken care of by the companies in India after the Companies Act 2013. The Company started realizing that they would have to rise over and above the Profitability and take care of all those associated with their survival in the society directly or indirectly. Corporate Social Responsibility is a Company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognizing the interest of the stakeholders.

LITERATURE REVIEW:

Nidhi Sharma and Babita Kundu (2014) they explored CSR initiative of selected private and public sector companies in India. The sample of 20 companies (10 public sector and 10 private sector has been selected from different sectors i.e., Oil and Gas, Power and Electricity, Chemicals and fertilizers, Heavy electrical and engineering, Metal and Mining. Data was collected by them through websites, Annual Reports, sustainability reports and Business responsibility reports of selected companies'. The statistical tools such as mean, standard deviation, rank, t-test were used. The findings of their study gave an insight about CSR practices and fund utilization by selected companies on the basis of parameters given by ministry of corporate affairs India. All selected companies were focusing in relation to initiatives but few companies are spending as per norms.

Ramesh .K.V.(2015) He made a study on CSR performance in India. In which he tried to study the CSR spending of PSUs & Private companies, Performance, transparency score and to recommend suggestions for improving CSR initiative by the companies. The Main objectives were To study the CSR spending of PSUs and Private Companies in India. analyze the CSR performance of top companies in India. To study the transparency Score of top companies in India. data were secondary data which are collected through journals, articles, and annual report data from a sample of 5 Maharatna PSUs, 16 Navaratna PSUs, top 10 Private Companies is collected and 25 top companies among top 100 companies in India was chosen he concluded that Most of the companies spend below 2% of Average PAT towards CSR activities. Most of the companies scored less than 10 Transparency Score. All the companies are to be motivated to spend at least 2% of Average PAT towards CSR activities. All the companies are motivated to disclose their spending on CSR activities.

Dr. Chitta Ranjan Sarkar, Dr. Kartik Chandra Nandi (2011) they makes an attempt to make an empirical study of Hindustan Petroleum Corporation Ltd. (HPCL) for measuring the performance from 1999-2000 to 2009-10 through generation of value added, application of value added, various ratios relating to value added reporting and with the help of some statistical techniques. The analysis of this study clearly signifies that the management of the company has not only improved its profitability but has also fulfilled its responsibility towards the society at large. Simple statistical techniques i.e. Mean, Coefficient of Correlation, Growth Rate and Regression Analysis has been used and also statistical test like 't'-test has been applied in the appropriate places. The analysis of study clearly signified that the management of the company has not only improved its profitability but has also fulfilled its responsibility towards the society at large.

Dr. Amalendu Bhunia, Lakshmi Das (2015), in their study they investigated the impact of corporate sector responsibility on firm's profitability of seven Maharatna Companies in India. their study was based on secondary time series yearly data collected from annual reports of the seven Maharatna Central Public Sector Enterprises in India for the period from 2003-04 to 2012-13. Seven Maharatna Central Public Sector Enterprises in India includes Bharat Heavy Electrical Ltd. (BHEL), Coal India Limited (CIL), Indian Oil Corporation Ltd. (IOCL), Gas Authority of India Ltd. (GAIL), Oil Natural Gas Corporation (ONGC), National Thermal Power Corporation (NTPC) and Steel Authority of India Ltd. (SAIL). The study considered corporate social responsibility expenditures, profit after tax and earnings per share as variables. In the course of analysis, correlation, simple regression and multiple regression test methods have been used. They find out that there is an impact corporate social responsibility on firm's profitability, findings of the study is that profit after tax is negatively associated with corporate social responsibility in case of BHEL, IOCL and ONGC but this relationship is positively associated with CIL, GAIL, NTPC and SAIL. Simple regression analysis also shows that profit after tax is negatively associated with corporate social responsibility in case of BHEL, IOCL and ONGC. At the same time, this relationship is positively associated with CIL, GAIL, NTPC and SAIL.

Banele Dlamini (2016) The research aims to explore and examines the relationship between corporate social responsibility (CRS) and company profitability in the context of Zimbabwe and to determine the impact Corporate Social Responsibility has on company profitability. This study used secondary data, which was obtained from the annual reports of the Econet Wireless Zimbabwe Limited The company is the only listed mobile telecommunication company in Zimbabwe out of three companies which fall under the Ministry of Information Communication Technology, Postal and Courier Services for five (5) years period, 2011-2015. The study used Vector Auto Regression (VAR) model of regression analysis and Stata as the statistical tool, in order assess the impact of CSR on profitability. Correlation and regression analysis was used and the formulated hypothesis was tested. The findings of the study indicated that there is no causal relationship between Corporate Social Responsibility and profitability and CSR has no significant impact on profitability.

Mulukalapally Susruth,(2017) his study has been carried out with the aim of analyzing the CSR with Financial performances of the selected companies in the various sectors. 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. 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 ANOVA, Karl Pearson's correlation coefficient & correlation t-test for its validity. For profitability testing 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. 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.

SCOPE OF THE STUDY:

The study is confined to examine the impact of corporate social responsibility on the profitability of select Manufacturing companies covering Private, Public and Multinational companies in India.

METHODOLOGY:

Sampling Unit:

The companies selected for the study, are out of the top 1000 companies as per Economic Times Report and Business Today Report of the year 2012-13. Out of 1000 companies, 548 are manufacturing companies. All the manufacturing companies are taken as sampling unit for the study. These companies are selected by taking into consideration factors like, Average Market Capitalisation, Net Income, Net profit, Total assets.

Sample Size:

Sample size for the study is 40 companies

Sampling Method:

Stratified sampling method is employed. At the first stage, all the manufacturing companies are conveniently classified into eight categories viz. Cement, Iron & Steel, Pharmaceutical, Auto, Oil & Gas, FMCG, Chemicals & Fertilizers and Mining. At the second stage, top five companies are selected for the study. All together 40 companies are studied.

Data Source:

The necessary secondary data are collected from the year wise published annual reports of select companies from 2005-06 to 2014-15 over and above , required information is also gathered from reference books, journals and periodicals, Press releases, reports of NGO's such as Karmyog, Ministry of Corporate affairs, Lok Sabha Reports, NGO Box, Socio Research & Reform Foundation (NGO) and New Delhi. Websites used were SEBI website, BSE website, NSE website, Company websites, Way2 Wealth and Money Control website, ET website and BT website.

Period of the Study:

The Empirical study is being carried out on Corporate Social Responsibilities for period ranging from 2005-06 to 2014-15

SELECTION OF THE COMPANIES:

The Forty selected Companies were divided as per the Type of Ownership and area of operations; the main motto is to know which Company Performs Better in terms of Net Profit and CSR Expenditure. The select forty companies were divided into three categories i.e. Private ownership, Public Sector Undertakings and Multi-National Companies they are:

Table No 1: Showing the Select Companies and their Ownership

Sr. No.	Name of the Company	Sr. No.	Name of the Company
1	AARTI IND. LTD	21	JUBILANT LIFE SCIENCE
2	ACC LTD	22	KIOCL
3	AMBUJA CEMENT	23	LUPIN LTD

Sr. No.	Name of the Company	Sr. No.	Name of the Company
4	ASIAN PAINTS	24	M AND M
5	BAJAJ AUTO	25	MARUTI SUZUKI
6	B. P.C. L	26	MOIL
7	CIPLA	27	NALCO
8	DABUR INDIA LTD	28	NESTLE INDIA
9	DR. REDDY'S LAB	29	NFCL
10	GAIL INDIA LTD	30	NMDC
11	GHCL	31	OIL AND NAT .GAS
12	GLAXO SMITHCLINE PHARMA	32	PIDILITE
13	G.C. P. L	33	R.I.N.L
14	HERO MOTO CORP	34	SHREE CEMENT
15	HINDALCO IND LTD	35	SAIL
16	H.P.C.L	36	TATA CHEMICALS
17	HUL	37	TATA MOTORS
18	I.O.C.L	38	TATA STEEL
19	JSW STEEL LTD	39	THE RAMCO CEMENT
20	J.S.P.L	40	ULTRA TECH CEMENT

OBJECTIVES:

- ❖ To assess the performance of Corporate Social Responsibility of select companies in India.
- ❖ To Study the impact of Corporate Social Responsibility of the companies on their profitability.

HYPOTHESIS:

- ❖ **H0:** The Distribution of Actual % Expenditure on CSR as per the Current Year Profit does not differ significantly across various types of ownership of the industries studied during the study period.
- ❖ **H1:** The Distribution of Actual % Expenditure on CSR as per the Current Year Profit differs significantly across various types of ownership of the industries studied during the study period.
- ❖ **H0:** Net profit (NP) is not significantly affected by factors like CSREx, Ownership (MNC, Private, public)
- ❖ **H1:** Net profit (NP) is significantly affected by factors like CSREx, Ownership (MNC, Private, public)

Table 2: The distribution of average (mean) Actual % CSR expenditure of current year profit in the respective financial years and ownership type.

Ownership	Statistics	Actual % CSR Expenditure of Current Year Profit (%)									
		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Private (n=12)	Mean	1.50	1.00	0.51	0.65	0.89	1.29	1.16	1.72	2.03	1.81
	SD	2.67	2.58	0.82	0.60	1.01	1.30	0.67	2.15	3.35	1.36
Public (n=11)	Mean	0.49	1.53	0.90	1.76	1.23	1.17	1.49	2.95	2.61	2.59
	SD	0.64	2.96	0.64	2.69	0.50	0.55	0.74	2.50	1.73	1.57
MNC (n=17)	Mean	0.90	0.79	1.02	1.05	1.18	1.45	1.41	1.97	2.06	2.47
	SD	0.94	0.60	0.73	1.02	0.90	1.15	1.08	1.94	1.31	2.32
All (n=40)	Mean	0.97	1.06	0.83	1.13	1.11	1.32	1.36	2.16	2.20	2.31
	SD	1.64	2.11	0.75	1.62	0.84	1.05	0.87	2.17	2.17	1.86

Source: Computed, Values are Mean (Standard Deviation).

Table 2a: The statistical comparison of average (mean) Actual % CSR expenditure of current year profit in the respective financial years (First 5 years) across various types of ownerships.

Comparison	Statistics	2005-06	2006-07	2007-08	2008-09	2009-10
Private vs Public	T-value	1.231	-0.452	-1.242	-1.390	-1.010
	P-value	0.232	0.656	0.228	0.179	0.324
	Decision	Reject H1	Reject H1	Reject H1	Reject H1	Reject H1

Comparison	Statistics	2005-06	2006-07	2007-08	2008-09	2009-10
Private vs MNC	T-value	0.838	0.328	-1.722	-1.184	-0.818
	P-value	0.410	0.746	0.097	0.247	0.421
	Decision	Reject H1	Reject H1	Reject H1	Reject H1	Reject H1
Public vs MNC	T-value	-1.281	0.979	-0.449	0.969	0.153
	P-value	0.212	0.337	0.657	0.342	0.880
	Decision	Reject H1	Reject H1	Reject H1	Reject H1	Reject H1
Overall	F-value	1.142	0.393	1.688	1.406	0.581
	P-value	0.330	0.678	0.199	0.258	0.391
	Decision	Reject H1	Reject H1	Reject H1	Reject H1	Reject H1

Source: Computed

Table 2b: The statistical comparison of average (mean) Actual % CSR expenditure of current year profit in the respective financial years (Next 5 years) across various types of ownerships.

Comparison	Statistics	2010-11	2011-12	2012-13	2013-14	2014-15
Private vs Public	T-value	0.284	-1.132	-1.275	-0.513	-1.278
	P-value	0.779	0.270	0.216	0.613	0.215
	Decision	Reject H1	Reject H1	Reject H1	Reject H1	Reject H1
Private vs MNC	T-value	-0.338	-0.713	-0.330	-0.036	-0.883
	P-value	0.738	0.482	0.744	0.972	0.385
	Decision	Reject H1	Reject H1	Reject H1	Reject H1	Reject H1
Public vs MNC	T-value	-0.738	0.214	1.172	0.953	0.147
	P-value	0.467	0.832	0.252	0.350	0.884
	Decision	Reject H1	Reject H1	Reject H1	Reject H1	Reject H1
Overall	F-value	0.224	0.455	1.055	0.257	0.606
	P-value	0.674	0.491	0.860	0.978	0.388
	Decision	Reject H1	Reject H1	Reject H1	Reject H1	Reject H1

Source: Computed

The average actual % expenditure on CSR of current year profit does not differ significantly between private and public types of ownerships for all financial years studied (P-value>0.05 at 5% level of significance for all financial years). The average actual % expenditure on CSR of current year profit does not differ significantly between private and MNC types of ownerships for all financial years studied (P-value>0.05 at 5% level of significance for all financial years). The average actual % expenditure on CSR of current year profit does not differ significantly between public and MNC types of ownerships for all financial years studied (P-value>0.05 for all financial years).

Overall, the average actual % expenditure on CSR of current year profit does not differ significantly between three types of ownerships (i.e. private, public and MNC) for all financial years studied (P-value>0.05 for all financial years).

Operational definitions of variable, expected signs and relationship in the regression

Dependent variable	Operational definition	Source of information	Expected sign and relationship
NP	Net Profit of the company	Company Annual Reports	CSR% on Net Profit
Independent variable	Operational definition	Source of information	Expected sign and relationship
B1 CSR	CSR Expenditure spending of the company	Company Annual Reports	CSR has a significant positive relationship with Net Profit
B2 PVT	Private Companies	Company Annual Reports	Private Companies is associated positively with
B3 PUB	Public Sector Undertaking	Company Annual Reports	Public Sector Undertaking is associated positively with

Table No 3: Showing the Year wise significance values of CSR Expenditure

Year	Variable	T value	Significance
2005-06	CSR Expenditure	6.976	.000
2006-07	CSR Expenditure	6.009	.000
2007-08	CSR Expenditure	6.888	.000
2008-09	CSR Expenditure	4.912	.000
2009-10	CSR Expenditure	9.672	.000
2010-11	CSR Expenditure	11.551	.000
2011-12	CSR Expenditure	5.165	.000
2012-13	CSR Expenditure	9.706	.000
2013-14	CSR Expenditure	12.315	.000
2014-15	CSR Expenditure	11.720	.000

The CSR Expenditure shows the t value is 6.976 in the year 2005-06 whereas in the year 2014-15 the t value is 11.720 and the p value .000 which is less than the critical value (0.05 and 0.01) therefore is significant. There for NULL HYPOTHESIS IS REJECTED.

It is found that Net profit (NP) is significantly affected by factors like CSREx, Ownership (MNC, Private, public) so, it is clear from the above model that CSR Expenditure, Private Company and Public Ownership plays an important role in increasing the Net Profit of the company.

FINDINGS:

The average actual % expenditure on CSR of current year profit does not differ significantly between private and public types of ownerships for all financial years studied (P-value>0.05 at 5% level of significance for all financial years).

The average actual % expenditure on CSR of current year profit does not differ significantly between private and MNC types of ownerships for all financial years studied (P-value>0.05 at 5% level of significance for all financial years).

The average actual % expenditure on CSR of current year profit does not differ significantly between public and MNC types of ownerships for all financial years studied (P-value>0.05 for all financial years).

The results of the multiple regressions indicate a positive relationship between Net Profit and CSR Expenditure as CSR Expenditure is statistically significant at 1%.

Net Profit gained by Public Companies is significantly higher than multi-National Companies.

The CSR Expenditure shows the t value is 6.976 in the year 2005-06 whereas in the year 2014-15 the t value is 11.720 and the p value .000 which is less than the critical value (0.05 and 0.01) therefore is significant. There for NULL HYPOTHESIS IS REJECTED. CSR Expenditure, Private Company and Public Ownership plays an important role in increasing the Net Profit of the company.

CONCLUSION:

The average actual % expenditure on CSR of current year profit does not differ significantly between three types of ownerships (i.e. private, public and MNC) for all financial years studied (P-value>0.05 for all financial years). There is a positive relationship between Net Profit and CSR Expenditure. Net Profit gained by Public Companies is significantly higher than multi-National Companies. CSR Expenditure, Private Company and Public Ownership plays an important role in increasing the Net Profit of the company.

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