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**IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON  
FIRM'S FINANCIAL PERFORMANCE-A CASE STUDY OF  
SOME INDIAN COMPANIES**

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**ABSTRACT**

*The concept of the corporate social responsibility of organizations has a substantial concern in India over the last decade. While international data shows significant relationship between CSR and Financial Performance of the firms. This paper tries to explore the relationship between CSR & Financial Performance by taking the data from 15 companies listed on Bombay stock exchange, using correlation analysis which is used to find the cause and effect of the relationship. CSR is the foundation to realize the responsibilities of organization towards the society where the organization executes their activities. Financial Performance plays the dynamic role to carry out the CSR activities as the strong financial performance results in provision of necessary and reasonable funds and investments to carry out their social activities. These CSR activities not only develop the firm's social value and reputation but also the profitability as well. The study shows that there is a significant 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.*

**KEY WORDS:** *Corporate social responsibility, financial performance of firm, India, society welfare, Total net profit, Total asset.*

## 1. INTRODUCTION

CSR has become the soul of every business in today's competitive world and it advances a competitive edge and safeguards sustainable growth. The influence of corporate activities on the environment and society has increased the reputation of sustainable practices and the corporate social responsibility. The increasing pressures from various agents have made companies implement CSR activities and, consequently disclose their behavior and achievements. The European Commission (2011) defines CSR 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" They simplified the definition of CSR as the responsibility of enterprises for their impacts on society, which indicates that enterprises should have a process in place to integrate CSR agenda into their operations and core strategies in close corporation with stakeholders.

There was no strong legislation, as in India, for CSR spending and spending by corporate sector was voluntary. Guidelines released in July 2011 were also voluntary in nature. The Companies Act, 2013 has detailed provisions relating to CSR making it mandatory for companies above a certain size. With this, India has become the first country to mandate CSR through a statutory provision. Countries like U.K, U.S.A, China, Germany and Australia have voluntary guidelines for CSR spending/reporting. Others like France, Denmark, Sweden, Indonesia and Malaysia have mandatory guidelines, but they follow a specific code and all companies do not come under the purview of mandatory guidelines.

## 2. RESEARCH OBJECTIVES

1. The main purpose of this study is to find impact of CSR on financial performance of the firm.
2. To find the relationship between CSR & firm's profitability (net profit & total assets).
3. To know the significant difference in CSR expenditure of BSE listed companies before and after the implementation of Companies Act, 2013.

## 3. RESEARCH METHODOLOGY

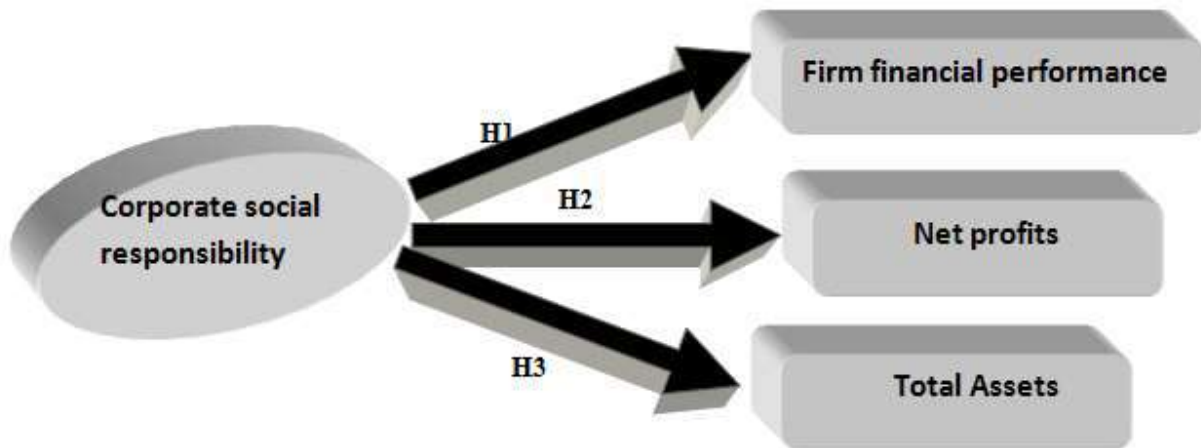
The study is based on secondary data, presented in tables and graphs. BSE listed companies are the largest and the most influential, establishing benchmarks for others to measure up to and also in August 2012 Securities Exchange Board of India (SEBI) mandated to publish Business Responsibility Report (BRR) separately or along with their Annual Report for top 10 companies listed on BSE.

**Sample-** In this research the sample of five year data from (2013 to 2017) of 10 Indian listed corporations in Bombay stock exchange (shown in table 1.1) has been taken. The data which is used in this research financial data, earnings, total assets and CSR extracted from annual reports of the firms.

**Research Instrument-** For profitability testing we use the correlation method to find the cause and affect relationship between CSR and impact on financial performance of the firm. We collect the data, net profits, total assets and the CSR of the company's annual reports for (2013 to 2017) and then find out the relationship between them. In this report only those companies which shows the CSR in amount (RS) and also listed in Bombay stock exchange

**Analysis-** In this study to find the impact of CSR on the financial performance of firm the net profit, total assets and CSR of five year data (2013 to 2017) of 10 companies listed in BSE has been collected in rupees. The data is analyzed using SPSS Software using correlation, one -sample t-test and paired sample t-test.

## RESEARCH MODEL-



## 4. LITERATURE REVIEW

**Saha (2013)** studied the current practices of CSR in several Indian companies. For this study, 18 companies were selected on arbitrary basis from the depository of the Global Reporting Initiative (GRI). The study determined that the performances of the selected companies on CSR were good. Many companies however over performed whereas many couldn't perform well to that degree.

**Wankhade (2014)** conducted a study on "Analysis of Corporate Social Responsibility Spending of the Indian Companies" The results of the study disclosed that the CSR spending as a percentage of Profit after tax of the Indian Companies is not equal to 2 %. Further there was no substantial difference in the CSR spending of Public Sector Companies & Private Sector Companies. The results also depicted that there was no significant difference in CSR transparency score of Public Sector Companies & Private Sector Companies. The Companies Act, 2013 states a unique opportunity to stand up to the encounter of providing equal access to opportunities. With a system of proper answerability & transparency it can bring about a remarkable change in the society by making the organization socially sensitive and responsible.

**India CSR Outlook Report (2015)** on "A snapshot of CSR spend in FY 2014-15: 250 BSE listed companies" provided an in-depth analysis of CSR spending in India in the first financial year after the enactment of the Companies Act 2013. The report presented how, where and on what CSR money was spent by companies in FY/14-15. The insights like which state gets highest CSR spent, which is the most preferred theme for CSR project implementation, how do companies implement CSR projects etc were also presented in the report. The observations of the report

showed that most of the companies who could not spend the prescribed CSR budget, have not given any specific reason for not spending the full prescribed amount, and instead chose to give a generic commitment to spend the remaining amount in the next financial year. Many of the companies have not given information as per the format provided in the Schedule VII of the Companies Act

**Verma (2015)** conducted a study on "CSR practices and reporting scenario of Indian banks" The study aims to know about CSR activities that how banks in India are taking different types of CSR initiatives in which areas and it's reporting by taking sample of 10 leading Indian banks which includes 5 from public sector and 5 from private sector for the financial year 2013-14 and 2014-15. Various parameters like total budget allocated in respective years, amount actual spend out of the budget on CSR, CSR or Sustainability report publication, formation of CSR committee and Publication of Business Responsibility Report (BRR) and the area of CSR activities contribution were analysed to understand the aptitude of each selected bank toward CSR. The results of the study concluded that though the Indian banks were making efforts in the CSR areas but still there was a requirement of more emphasis on CSR activities and especially on CSR reporting in a more responsible way.

**B. Ramesh (2015)** conducted a study to get an overview on the New CSR provision envisaged under section 135, and investigated the spending pattern of Indian companies contributing towards CSR activities.

**Verma et al. (2015)** studied Corporate Social Responsibility expenditure of the ten largest and most powerful companies in India prior to the implementation of CSR provisions of Companies Act 2013- Studies suggest that large corporations are

precursors to CSR commitments in a society and hence, mandatory CSR spending in large companies is

likely to positively influence CSR in smaller companies.

### 5. FINDINGS OF THE STUDY

**Table 1: showing CSR Spending for the FY 2013-14 and 2014-15 with Company entity**

COMPANY	2013-14(IN CR.)	2014-15(IN CR.)
WIPRO LTD.	16	133
TATA STEEL LTD.	212	171
INDIAN OIL CORPORATION LTD.	81.91	113.79
ITC LTD.	107	214
NTPC LTD.	128.35	205.18
INFOSYS LTD.	9	240
HDFC BANK LTD.	70.37	118.55
TATA CONSULTANCY SERVICES	93.58	219
OIL AND NATURAL GAS CORPORATION LTD.	341.25	495
RELIANCE INDUSTRIES LTD,	711.72	761

#### FIRST FORMULATION

H<sub>0</sub>: There is no significant difference in CSR expenditure of BSE listed companies before and after the implementation Companies Act, 2013.

H<sub>1</sub>: There is significant difference in CSR expenditure of BSE listed companies before and after the implementation Companies Act, 2013.

In order to find significant difference in CSR spending of BSE listed companies before and after implementation of Section 135 of Companies Act,

2013, Paired sample t test was used- Paired t-test is a way to test for comparing two related samples, involving small values of n that does not require the variances of the two populations to be equal, but the assumption that the two populations are normal must continue to apply. This test is generally considered appropriate in a before and after treatment study. This t-test tests if the sum of the change between the two groups differs statistically significantly from zero.

#### Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1 2013-14	177.1180	10	211.58428	66.90883
2014-15	267.0520	10	205.03831	64.83881

The statistics show that the mean for CSR expenditure for pre and post period of implementation of Company’s Act is 177.11 and 267.05 respectively indicating that there is significant difference in CSR

expenditure of BSE listed companies before and after the implementation Companies Act, 2013.

## Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 2013-14 to 2014-15	10	.936	.000

## Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
2013-14 to 2014-15	-89.93400	74.78637	23.64953	-143.43295	-36.43505	-3.803	9	.004

Through the paired sample t-test, it is found that the value of t is -3.803. So the observed value falls in the rejection region and thus we reject null hypothesis,  $H_0$  and conclude that there is significant difference in CSR expenditure of BSE listed companies before and after the implementation Companies Act, 2013 at 5 percent level.

**SECOND FORMULATION**

**H0: CSR has no significant impact on the firm's financial performance.**

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

**THIRD FORMULATION**

**H0: CSR has no significant impact on firm's net profit.**

H2: CSR has significant impact on firm's net profit.

TABLE-2 Corporate Social Responsibility:

	CSR					
				Rs. In Cr.		
SR.#	COMPANY NAME	2012-13	2013-14	2014-15	2015-16	2016-17
1.	WIPRO LTD.	14.5	16	133	159.80	186
2.	TATA STEEL LTD.	146	212	171	213.24	194
3.	INDIAN OIL CORPORATION LTD.	78.07	81.91	113.79	156.68	214
4.	ITC LTD.	82	107	214	247.50	276
5.	NTPC LTD.	79.42	128.35	205.18	491.80	277.81
6.	INFOSYS LTD.	26	9	240	202.30	289.44
7.	HDFC BANK LTD.	3	70.37	118.55	120.72	305
8.	TATA CONSULTANCY SERVICES	71.60	93.58	219	294.00	380
9.	OIL AND NATURAL GAS CORPORATION LTD.	121	341.25	495	421.00	526
10.	RELIANCE INDUSTRIES LTD.	357	711.72	761	651.57	659

**TABLE-3 Net Profits:**

NET PROFIT						
In Rs. Cr.						
SR.#	COMPANY NAME	2012-13	2013-14	2014-15	2015-16	2016-17
1.	WIPRO LTD.	5650.20	7,387.40	8,193.10	8,200.50	8,161.70
2	TATA STEEL LTD.	5,062.97	6,412.19	6,439.12	4,900.95	3,444.55
3	INDIAN OIL CORPORATION LTD.	3,627.30	7,019.09	5,273.03	11,242.23	19,106.40
4.	ITC LTD.	7418.39	8,785.21	9,607.73	9,844.71	10,200.90
5.	NTPC LTD.	12586.22	10,974.74	10,290.86	10,769.60	9,385.26
6.	INFOSYS LTD.	9429	10,194.00	12,164.00	12,693.00	13,818.00
7.	HDFC BANK LTD.	6726.28	8,478.38	10,700.05	12,817.33	15,287.40
8.	TATA CONSULTANCY SERVICES	13917.31	18,474.92	19,256.96	23,075.00	23,653.00
9.	OIL AND NATURAL GAS CORPORATION LTD.	3589.34	22,094.81	17,732.95	16,139.93	17,899.98
10.	RELIANCE INDUSTRIES LTD.	21,003	21,984.00	22,719.00	27,417.00	31,425.00

In table 3 that was the net profit of last five years in rupee of 15 listed companies in Bombay stock exchange.

**Correlations**

		CSR	NETPROFIT
CSR	Pearson Correlation	1	.808**
	Sig. (2-tailed)		.005
	N	10	10
NETPROFIT	Pearson Correlation	.808**	1
	Sig. (2-tailed)	.005	
	N	10	10

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
CSR	10	233.7230	159.55760	50.45654
NETPROFIT	10	12453.4798	5961.49344	1885.18975

**One-Sample Test**

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
CSR	4.632	9	.001	233.72300	119.5824	347.8636
NETPROFIT	6.606	9	.000	12453.47980	8188.8843	16718.0753

The correlation between CSR and Net Profit is strong i.e the value of R<sup>2</sup> is 0.808 and they are positively correlated to each other.

Through the one sample t-test it is found that the Sig. value is 0.000. This means that it is less than the level of

confidence, 0.05. Hence, null hypothesis is rejected and thus CSR has significant impact on firm's net profit.

**FOURTH FORMULATION-**

**H0: CSR has no significant impact on firm's total assets.**

H2: CSR has significant impact on firm's total assets.

**TABLE-4 Total Assets:**

TOTAL ASSETS						
		Rs. In Cr.				
SR.#	COMPANY NAME	2012-13	2013-14	2014-15	2015-16	2016-17
1.	WIPRO LTD.	40,706.60	33,866.20	40,655.20	47,921.70	52,870.50
2	TATA STEEL LTD.	1,01,876.93	171,644.45	158,945.53	177,511.44	173,333.24
3	INDIAN OIL CORPORATION LTD.	237,700.93	266,678.62	233,743.34	231,555.43	273,561.04
4.	ITC LTD.	34017.43	40,883.93	45,990.79	51,691.88	55,943.27
5.	NTPC LTD.	178,710.58	200,039.93	219,576.15	224,571.12	248,497.36
6.	INFOSYS LTD.	46,331	56,966.00	66,289.00	75,350.00	83,355.00
7.	HDFC BANK LTD.	400331.89	491,599.50	607,096.52	730,261.82	892,344.16
8.	TATA CONSULTANCY SERVICES	52267.22	67,137.78	73,660.88	89,096.00	103,252.00
9.	OIL AND NATURAL GAS CORPORATION LTD.	25180.85	324,910.80	337,682.68	342,585.63	445,397.48
10.	RELIANCE INDUSTRIES LTD.	3,18,511	428,843.00	504,486.00	598,997.00	712,339.00

In table 4, data of assets of last five years taking from annual reports of the firms.

**Correlations**

		CSR	TOTALASSETS
CSR	Pearson Correlation	1	.447
	Sig. (2-tailed)		.196
	N	10	10
TOTALASSETS	Pearson Correlation	.447	1
	Sig. (2-tailed)	.196	
	N	10	10

**One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
CSR	10	233.7230	159.55760	50.45654
TOTALASSETS	10	228335.3142	201333.24830	63667.16333



### One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
CSR	4.632	9	.001	233.72300	119.5824	347.8636
TOTALASSETS	3.586	9	.006	228335.31420	84310.1846	372360.4438

The correlation between CSR and Total Assets is strong i.e the value of  $R^2$  is 0.447. This means that CSR and Net profits are positively and moderately correlated to each other.

Through the one sample t-test it is found that the Sig. value is 0.00. This means that it is less than the level of confidence, 0.05. Hence, null hypothesis is rejected and thus CSR has significant impact on firm's total assets.

## 6. RECOMMENDATIONS AND SUGGESTIONS

1. This study indicates CSR is now considered as an investment not as expenditure therefore companies should invest in performing CSR because if firms do so they will get more financial benefits than what invested in CSR.
2. In addition, companies should not only invest on CSR but also disclose its spending on CSR to all stakeholders that how, where and what amount they have invested in CSR. Companies invest a lot of money on advertisement to create a good image in the mind of customers but if they also invest a little portion of this amount on CSR can also build good image.
3. Corporate social responsibility manages reputation by creating good image in the mind of customers, suppliers etc. Stakeholders will think that when a company is fulfilling its social responsibility then how it is possible that it will do anything bad for them, so their trust will enhance on company. Stakeholders trust will impact on company's profitability and success. Therefore, it was concluded that corporate social responsibility has positive impact on the financial performance of a firm.

## 7. DISCUSSION AND CONCLUSION

Through this research, we found that there exists positive relationship between CSR and Financial Performance. Those firms which are playing greater role for the welfare of society, atmosphere, providing health conveniences etc creates good reputation in the mind of customers, suppliers, employees etc in competitive setting. . These firms get more benefits

than the cost they have to bear for the welfare of society. Therefore Firm's CSR enhance the financial performance of firm, so when a firm has good FP it can do more for the welfare of society. Companies should consider the CSR when any decision is made because it protects the company from expenses which occurred due to criticisms, oppositions and strikes and lawsuits against environment hazardous etc. Thus, CSR is the best mean to enhance the firm's financial performance.

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