Corporate social responsibility and financial performance: An empirical analysis of Indian Manufacturing Companies

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Abstract
Corporate Social Responsibility (CSR) is one of the most significant concepts prevailing in the corporate world these days. It is like a moral duty. In today's economic and social environment, issues related to social responsibility and sustainability are gaining more and more importance. The relationship between CSR and corporate financial performance has caught wide attention of researchers in the last decade. In this paper, an attempt has been made to studies the relationship of corporate social responsibility and corporate financial performance in Indian manufacturing companies, using a sample of 31 companies from Nifty. Various tests like regression, the correlation has been performed using secondary data of the financial year 2014-2018. The study found that there is no significant relationship between CSR Initiatives and Corporate Financial Performance of the selected manufacturing companies.

Keywords: Corporate Financial Performance, Corporate Social Responsibility, Manufacturing Companies

1. Introduction

Indian corporations have a long tradition of being engaged in social activities that have gone beyond meeting a company's immediate financial objectives. However, since the late nineties, Corporate Social Responsibility (CSR) activities have increasingly come under the scrutiny of policymakers, researchers and corporate stakeholders as governance issues acquired increasing prominence. Over the past few years, as a consequence of rising globalization and pressing ecological issues, the perception of the role of companies has been altered. Corporates consider themselves as a vital part of society and accordingly act in a socially responsible way that goes beyond economic performance (KPMG and ASSOCHAM, 2008). As a result of this shift from purely 'profit' to 'profit with social responsibility', many corporations are endorsing the term 'CSR'. It is essentially a concept whereby companies decide voluntarily to contribute to society to make it better and environmentally cleaner (European Commission, 2001). The World Business Council for Sustainable Development (1999) suggests that: ''CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large''. A corporation that improves the well-being of employees is not all about being socially responsible, but rather it includes abiding by the law, actions to improve the environment, community, and lives of all the stakeholders of an organization (The Sarbanes-Oxley Act of 2002).

Over the last few years, CSR has continuously grown in importance for business performance at a global level (Carroll and Shabana, 2010). Two major theories were used to describe the relationship between CSR and corporate performance. These theories are Social Exchange Theory (Cropanzano & Mitchell, 2005) and Stakeholder Theory (Jamali, 2008; Kumar & Tiwari, 2011) or Instrumental Stakeholder Theory as noted by Gherghina, Vintilă, and Dobrescu (2015). Stakeholder theory establishes the relationship between relevant stakeholders such as customers, employees, shareholders and the shareholders' wealth maximization. Gherghina et al. (2015) explained that the instrumental stakeholder theory describes a positive relationship between CSR and firm values. Gherghina et al. (2015) noted that the use of shareholders funds effectively for CSR undertakings will improve the value of shareholders. Social responsibility rather seems to have an ambiguous and complex impact on firm performance though no true causality has been proved yet. Where some research argues that investment in social responsibility raises a firm’s costs, which makes it less competitive (Friedman, 1970; Brummer, 1991; McWilliams and Siegel, 1997), the others have suggested that by investing in social performance, a firm can achieve competitive advantage by attracting resources and quality employees more easily, differentiating its products and services, reducing its exposure to risk, etc. (Cochran and Wood, 1984; Turban and Greening, 1996; Waddock and Graves, 1997; McWilliams and Siegel, 2001; Godfrey, 2004).

2. Review of Literature

According to Arrowsmith and Maund (2009) CSR is the major developments affecting businesses over the last few years. The influence of CSR on financial performance has been found to be depending on as opposed to universal (Wang et al. 2016) and to vary across different operational and manufacturing environments. The brief reviews of the relevant literature related to this are as under:

Tsoutsoura (2004) examine nexus between CSR and financial performance of S&P 500 firm data span from 2000 to 2004. The study result found that the statistically significant positive relationship between studied variables. The study result also supported that the CSR and financial performance can be associated with a series of bottom-line benefits. Flammer (2013) studied CSR lead to superior financial performance. The study result found that adopting a CSR-related proposal leads to superior financial performance. The effect is weaker for companies with higher levels of CSR, suggesting that CSR is a resource with decreasing marginal returns. It also found that the effect is stronger for companies operating in industries Performance. The effect is weaker where institutional norms of CSR are higher. Aggarwal (2013) argued that no significant association between overall sustainability rating and financial performance. However, further analysis reveals that four components of sustainability have significant but varying impact on financial performance.

Kanwal et al. (2013) in their study found that there is a positive relationship between CSR and firms Financial Performance. The study result showed that the positive social corporate behavior of Pakistani firms towards society. The study result indicates that CSR has a positive impact on each variable of the firm's financial performance. All three hypothesis used in this study is accepted. From H1 it is concluded that a significant positive relationship exists between CSR and firm's financial performance. H2 and H3 are also accepted as a significant positive impact is found between CSR and net profit or total assets. Noor et al. (2013) found that firms were responding positively to the requirements and in fact, there was a direct relationship between board characteristics and organizations performance. Aggarwal $(2013)_b$ found that the governance rating has a positive but insignificant impact on corporate profitability of the firm. Further, it was found that corporate profitability also has an insignificant positive impact on governance rating of the firm. Chetty et al. (2014) used regression analysis the study found that the various industries provide mixed results between CSR and Financial Performance for firms over the long term. Based on these results, the study concluded CSR activities lead to no significant differences in financial performance.

According to Malik and Nadeem (2014) found that the positive but insignificant relationship between CSR and financial performance. This positive relationship between CSR and financial performance reveals the social behavior of Pakistani banks. Rahmawati (2014) examined the effect of real manipulation practices on CSR, and further examined the impact of real manipulation on the relationship between CSR and the financial performance of companies in the future. Used 27 listed companies on Indonesian stock exchange during the period between 2006 and 2008. The study result provided empirical evidence that companies engaged in the practice of real manipulation had no influence on CSR activities. The results showed that the higher level of real manipulation on operating cash flow leads to a negative effect on the relationship between CSR and financial performance. El-Chaarani (2014) found that a positive impact of insider ownership concentration on the return of Lebanese banks indicating the more shares held by insiders, the better the performance.

Cornett et al. (2014) used data of the U.S. Commercial Banks to investigate CSR and its impact on financial performance. The study result found that the largest banks appear to be rewarded for their social responsibility, as both sizes adjusted return on assets and return on equity are positively and significantly related to CSR scores. Mohan et al. (2015) studied reveal that the size of the board, remuneration to directors and composition of independent directors in the board fail to cast any sort of impact on the financial performance of firms listed in the Bombay stock exchange. However, the two corporate governance variables of board ownership and duality are exerting a significant impact on financial performance. Presence of promoters in the board has exerted a significant positive impact on financial performance. Haider et al. (2015) found a strong positive relationship in large board size and firm financial performance in developing countries like Pakistan. The existing studies suggest a positive and significant relationship; some suggested a positive but insignificant relationship; while some studies suggest no significant association between corporate governance and corporate financial performance. Thus, existing literature provides mixed and indecisive results and hence, the further empirical examination is required to be done in this context to arrive at conclusive results.

To examined the effects of CSR and corporate financial performance collecting panel data from Banks of Nigeria using data period from 2010 to 2014 (Oyewumi et al. 2018). The study result found that CSR investment no contribution to corporate financial performance. The study result also supported that firms could benefit both financially and non-financially from a strategic CSR agenda. Maqbool and Zameer (2018) used 28 Indian commercial banks listed in Bombay stock exchange study the association between corporate social responsibility and financial performance in the Indian context. The study used data period from 2007 to 2016. The study result found that the CSR positive impact on financial performance of the Indian banks. Ghoul and Karoui (2016) investigated the effects of CSR on fund performance and flows covers the period of 2003 to 2011. The study result found that Compared to low-CSR funds, high- CSR funds display poorer performance, stronger performance persistence, a weaker performance-flow relationship, and comparable persistence inflows. Sidhoum and Serra (2017) observed from 2005 to 2012 to examine the nexus between financial performances dimensions with CSR focusing on the U.S. electric utility sector using statistical copula approach. The study result found that financial performance of utilities is compatible with environmental, social, and governance performance.

The hypothesis of the study

To validate the objective following hypothesis has been formulated:

$H0_A$: There is no significant relationship between Community-related initiative and the attributes of the financial performance of selected manufacturing companies.

$H1_A$: There is a significant relationship between Community-related initiative and the attributes of the financial performance of selected manufacturing companies.

$H0_B$: There is no significant relationship between Employees related initiative and attributes of the financial performance of selected manufacturing companies.

$H1_B$: There is a significant relationship between Employees related initiative and attributes of the financial performance of selected manufacturing companies.

$H0_C$: There is no significant relationship between Environment related initiative and attributes of the financial performance of selected manufacturing companies.

$H1_C$: There is a significant relationship between Environment related initiative and attributes of the financial performance of selected manufacturing companies.

$H0_D$: There is no significant relationship between Governance related initiative and attributes of the financial performance of selected manufacturing companies.

$H1_D$: There is a significant relationship between Governance related initiative and attributes of the financial performance of selected manufacturing companies.

The objective of the study

The present paper aims to study the relationship between CSR and financial performance of selected manufacturing companies listed on National stock exchange.

3. Research methodology

For the present study, exploratory research design is used. The sample comprises of 31 manufacturing companies from Nifty Index for the year 2014-2018, with the availability of required financial data like return on assets, return on equity, return on capital employed, profit before tax and CSR rating data from csrhub.com website. Statistical techniques, like multiple regression, correlation were applied, using SPSS software of data analysis.

Table1: List of the Sample comprised companies

S.N.	Company	Industry
1	ACC cement	CEMENT
2	Ambuja Cements Ltd.	
3	UltraTech Cement Ltd.	
4	Grasim Industries Ltd.	
5	Cipla Ltd.	PHARMACEUTICALS
6	Dr. Reddy's Laboratories Ltd.	
7	Lupin Ltd.	
8	Sun Pharmaceutical Industries Ltd.	
9	I T C Ltd.	CIGARETTES
10	Coal India Ltd.	METAL
11	Hindalco Industries Ltd.	
12	Vedanta Ltd.	
13	Tata Steel Ltd.	
14	Asian Paints Ltd.	CONSUMER GOODS
15	Hindustan Unilever.	
16	Larsen & Toubro Ltd.	CONSTRUCTION
17	BHEL Ltd.	INDUSTRIAL MANUFACTURING
18	Bharat Petroleum Corporation Ltd.	ENERGY
19	NTPC Ltd.	
20	Oil & Natural Gas Corporation Ltd.	

21	Tata Power Co. Ltd.	
22	GAIL (India) Ltd.	
23	Power Grid Corporation of India Ltd.	
24	Reliance Industries Ltd.	
25	Cairn India	
26	Bosch Ltd.	AUTOMOBILES
27	Bajaj Auto Ltd.	
28	Hero MotoCorp Ltd.	
29	mahindra & Mahindra	
30	Maruti Suzuki India Ltd.	
31	Tata Motors Ltd.	

Variable description and data collection tools

Financial performance attributes used in the study are as follows: Return on Assets (ROA%), Return on Equity (ROE%), Return on Capital Employed (ROCE%) and Profit before Tax (PBT%). CSR initiatives of the selected manufacturing companies are defined by the four variables constituting Community-related initiatives (COM), Employees related initiatives (EMP), Environment related initiative (ENV) and Governance related initiatives (GOV). Secondary data have been used for study Therefore, data collected from the various articles, research paper and websites like moneycontrol.com and csrhub.com.

Research Model

The present study is conducted to examine the relationship of CSR rating of firm, its performance along community related, employees related, environment related and governance related (independent variable- COM, EMP, ENV, GOV) on the financial performance of companies (dependent variable- ROA, ROE, ROCE and PBT). The following four equations have been formulated for analysis:

$$ROA = \alpha + b1.GOV + b2.EMP + b3.ENV + b4.COM + \varepsilon \quad (1)$$

$$ROE = \alpha + b1.GOV + b2.EMP + b3.ENV + b4.COM + \varepsilon \quad (2)$$

$$ROCE = \alpha + b1.GOV + b2.EMP + b3.ENV + b4.COM + \varepsilon \quad (3)$$

$$PBT = \alpha + b1.GOV + b2.EMP + b3.ENV + b4.COM + \varepsilon \quad (4)$$

4. Results and Discussions

The descriptive statistics for variables used in this study have been shown in Table 2 as under. Table 2 shows the descriptive statistics of CSR variables (i.e COM, EMP, ENV, GOV) and dependent variables (ie ROA, ROE, ROCE, PBT).

Table2: Descriptive Statistics

Variable	N	Mean	S. Deviation

ROA (%)	31	12.96	17.49
ROE (%)	31	18.01	25.10
ROCE (%)	31	30.80	29.54
PBT (%)	31	13.40	13.45
COM	31	56.84	4.44
EMP	31	65.90	4.64
ENV	31	60.97	6.38
GOV	31	49.93	5.62

Source: http://www.moneycontrol.com/financials/ratios (2014-18) and csrhub.com

It is observed that the mean value of the GOV rating is least in CSR variables which are 49.93 with EMP recording the highest mean value of 65.90 with the standard deviation of 5.62 and 4.64 respectively. Mean value of the CSR variables of sampled companies is around 50% which shows that companies are not too good at their CSR initiatives so they need to restructure their CSR activities.

Table 3 shows the result of various statistical techniques applied to the data under study which includes correlation and regression analysis. It's also observed from the table, that all the attributes of measuring financial performance (ROA, ROE, ROCE, PBT) have some correlation with the CSR variables with PBT recording the highest correlation (r2) followed by ROCE, ROE, and ROA which means that the change in PBT is best explained by independent variables. Also in the above table, the significance of F is less than .05 in all cases which states that the model is a good fit.

Table 3: Summarized results of the model

Particulars	ROA	ROE	ROCE	PBT
R	.610	.659	.720	.743
R^2	.372	.434	.519	.552
Adjusted R^2	.279	.351	.447	.486
F	4.003	5.186	7.272	8.329
Significance of F	.011	.003	.000	.000
St. Beta Coefficient for COM (b1)	2.420	4.508	5.135	-.771
St. Beta Coefficient for EMP (b2)	-1.762	-3.989	-4.209	-.059
St. Beta Coefficient for ENV (b3)	-.625	-.550	-.970	-.557
St. Beta Coefficient for GOV (b4)	.554	.608	.669	2.108
p-value for COM	.286	.042	.014	.685
p-value for EMP	.476	.096	.059	.977
p-value for ENV	.741	.759	.558	.727
p-value for GOV	.739	.700	.646	.141

Note: * Significant at 5 percent level of Significance

Besides this, the beta coefficient of EMP and ENV have negative, whereas GOV has a positive relationship with the financial performance elements. COM has a positive beta with ROA, ROE, and ROCE but negative beta with PBT. The most important interpretation which will validate the results of the paper is p-value.

Community-related initiatives have a significant positive relationship with ROE and ROCE selected manufacturing companies because the value of $p<.05$, hence the null hypothesis $H0_A$ is rejected for ROE and ROCE whereas it has insignificant positive relationship with ROA and insignificant negative relationship with PBT which implies that the null hypothesis $H0_A$ is accepted for ROA and PBT. Employees related initiatives have an insignificant negative relationship with the financial performance attributes of selected manufacturing companies because the value of $p>.05$, hence the null hypothesis $H0_B$ is accepted. Environment-related initiatives have an insignificant negative relationship with the financial performance of selected manufacturing companies because the value of $p>.05$, therefore the null hypothesis $H0_C$ is accepted. Governance-related initiatives have an insignificant positive relationship with the financial performance of selected manufacturing companies because the value of $p>.05$, hence the null hypothesis $H0_D$ is accepted.

5. Conclusion and Recommendations of the study

The study found that some of the components, like governance and community initiatives, have a positive relationship while others, like environment and employees related initiatives, and have a negative relationship with the corporate financial performance. The results of the present study are in conformance with the existing research results of Chetty et al. (2014) which also gave the mixed results of the association between CSR and corporate financial performance. The study also states that the relationship between CSR initiatives and financial performance is insignificant which was stated earlier in the study of Malik and Nadeem (2014).

Based on the findings of the study made above, it's argued that the companies need to spend in CSR initiatives so as to improve the society, environment, and economy, which in turn will improve the positive image of the corporation in the market and will lead to good financial results. The spending in the CSR related activities should not be restricted to the statutory requirements but instead should go beyond the statute because it is ultimately going to give positive returns to the company either directly or in an indirect way.

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