

An Analysis of Corporate Social Responsibility on Organisation Profitability With Reference To Indian Textile Industry

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Abstract:- Indian Textile and Apparel industry is very dynamic and vast in nature. Indian textile industry contributes 4% in GDP and provides employment to 45.19 million workers out of total Indian population of 1.34 billion. As feeding such a significant number of workers Indian Textile and Apparel industry also looking forward for corporate social responsibility. An innovative idea of corporate social responsibility aimed for sustainable development, by framing norms and policies regarding investment in economic policies, energy measurement, climate change, sustainable utilization of natural resources, gender equality and labour issues. India enforced corporate social responsibility from 1st April 2014 as a law by adding clause in company's law.

The purpose of this study is to explore the impact of corporate social responsibility (CSR) practices on financial position of the Indian textile Industry. The sample data includes 8 companies of Textile sector. The data was collected from annual reports of these textile companies between 2013 to 2016. The Pearson's correlation test is done in SPSS -16. The outcome clearly indicates a positive correlation between CSR and net profit. A study also explore the opportunities and problem facing by the Indian textile industry. The paper also attempts to discuss contribution of Indian Textile and Apparel industry for corporate social responsibility.

Keywords: -Corporate Social Responsibility, Financial position, Sustainable Natural Resources, Indian Textile and Apparel Industry.

I. INTRODUCTION

Corporate social responsibility is a corporate inception to take responsibilities toward improving social welfare and environmental issues. According to Jobber & Devid, Corporate social responsibility is an ethical principle that an organization should be responsible for how its activities and behaviour might affect society and environment. Corporate social responsibilities is set of standard framed by Government of India legitimately enforce for business corporations to pay 2% of their

average net profit of preceding 3 years, if they have net worth more than or equal to INR 500 crore.

As Indian textile industry have strong availability of multi – fibre raw material, large amount of manpower system and diverse & expand availability of domestic market. Apart from all this government also support textile and apparel industry by running different scheme for its upliftment. The Market size of Indian materials industry, at present evaluated at around US\$ 120 billion and is anticipated to achieve US\$ 230 billion by 2020.

Indian textile and apparel industry is world largest manufacturing business. The primary concern of the textile industry is with the production, design and distribution of yarns, cloth and clothing. The raw material can be natural or synthetic using products of the chemical industry. This industry includes hosiery, decentralized power looms and knitting sectors and the handicraft and handloom sector.

Sectors under Textile Industry: -

Power Loom: - A power loom is a motorized loom controlled by a line shaft and was one of the key improvements in the industrialization of weaving amid the early industrial revolution. As name suggests power loom work with power but India don't have enough power supply in all zones so workers are compel to work with hand loom. This handloom production is not efficient up to the level of power looms.

Hand loom: - A handloom is a straightforward machine utilized for weaving. In a wooden vertical-shaft lingers, the heddles are settled set up in the pole.

Handicraft: It is a customary fundamental division of art and applies to an extensive variety of inventive and outlines exercises that are identified with making things with one's hands and expertise, incorporating work with materials, plant and inflexible materials, paper, plant filaments, and so on.

Investment in Textile & Apparel Industry

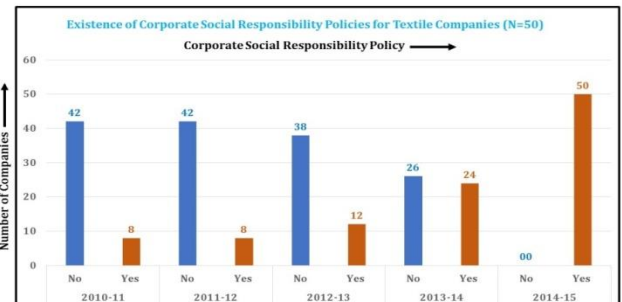
Foreign Direct Investment (FDI) worth US\$ 2.68 billion amid April 2000 to September 2017 is pulled in by this industry. The upcoming plans for the Indian materials industry are as per the following: -

1. A new aptitude improvement plan, named Plan for Capacity Building in Textile Sector with a cost of Rs 1,300 crore (US\$ 202.9 million) from 2017-18 to 2019-20 has supported by the Cabinet Committee on Economic Affairs (CCEA), Government of India.
2. Future Group is arranging to open 80 new stores under its cut-rate design organized by Fashion at Big Bazaar (FBB).It is focusing on offers of 230 million pieces of clothing by March 2018, which is probably going to increase to 800 million units by 2021.
3. Raymond has coordinated efforts with Khadi and Village Industries Commission (KVIC) to offer Khadi-checked readymade pieces of clothing and texture in KVIC and Raymond outlets crosswise over India.
4. Max Fashion, a Dubai based Landmark Group, targeted to develop its business system to 400 stores in 120 urban areas by spending Rs 400 crore (US\$ 60 million) in the up and coming 4 years.

These are some major giants of Indian textile industry which going to provide new dimension to this industry. As the Indian textile industry is growing with upcoming opportunities, weakness also increase. On front of opportunities India having expanding market area and cheap labour availability but basic weakness of this industry is unorganised sector with unskilled manpower backed by obsolete technology system. Along with this change in environment, leads different amendments in laws and regulation which happen time to time. Along one of them is corporate social responsibility clause introduced in Company Law 2013. As it is duty of companies to maintain a cordial growth environment but rather than this, they are focusing on profit maximization. Now a day's no company work on concept of wealth maximization. Wealth maximization is holistic concept that states that development of all groups of people which directly and indirectly associated to the companies' viz. supplier, distribution channel, customers, shareholders, money lender, employees etc. Even though some companies adopt unethical practices too, just to generate more profit. To ensure cordial atmosphere government expand the area of wealth maximization and introduced a law named as corporate social responsibility, later on it get mandatory for big giants for all sectors. There is a survey conducted by Ministry of Textiles specifically in context of Textile and apparel sector considering 50 textile companies which are come under jurisdiction of corporate social responsibility as per their profit after tax. It is clear via graph that before when there is no law exist for corporate social responsibility only eight textile companies pay the attention on the issue

in 2010-11 but as government enforce it by making amendment in Company law ,all 50 companies start paying attention toward corporate social responsibility in year 2014-15.

Graph I



Current status of CSR in Indian Textile Industry

Corporate social responsibility is not a new concept for this industry .Many of companies in Indian Textile industry is already pay attention in this regard but it was not in structured form. Adityabirlagroup, Arvind mill limited etc are name in this series. Through donation and charity events many other companies are trying perform their task for betterment of society. After enforced by law every companies who are under ambit of this law is executing their task. By this way Companies are classified on the basis of their contribution into three parts:-

Highly Active companies toward CSR

Aditya Birla Nuvo
Raymond Ltd
Arvind Ltd
Century Enka
Trident Ltd
Welspun Ltd
Ambika Cotton mill

Active companies toward CSR

Bombay Dyeing & Manufacturing Company Ltd
Indo Rama Synthetics India Ltd
Vardhaman Textile ltd.
Nitin Spinner Ltd

Passive companies toward CSR

SRF Ltd.
JBF India Ltd
Sangam India Ltd
Alok Industries Ltd
BSL Ltd
Loyal Textile mills Ltd

Highly active and active companies are contributing toward CSR but passive companies are still lagging behind. Though they are under ambit but their investment amount for CSR is very less. According to a report by the textile ministry of India conducted on 45 companies in year 2014-15, 45 companies of textile contributed 68.58 crores, out of which 49% contribution is done in education sector followed by social welfare as 18%. It is followed by health care and then creating environment care.

II. LITERATURE REVIEW-ABOUT CSR

McWilliams and Siegel (2001) suggested that the correlation between organization's social initiatives and advertisement is positively related and organizations need to put maximum efforts to highlight their CSR differentiations.

As per the definition of Joyner et al. (2002) corporate social responsibility is the continual commitments by businesses to contribute for the economic development of the region where they operate and putting efforts for the improvement of standards of employees and society.

According to Crane and Matten (2007) CSR is sort of responsibility on the part of company which every company must have to fulfil towards its society and stakeholders.

Yoon et al. (2006) suggested that CSR is helpful to create a positive image in society which will give a advantage to move forward.

Chapple and Moon (2005) stated that Corporate social responsibility gives a long term benefit and create a feeling of Corporate Citizenship. CSR is a financial burden in short term but helpful in future movements.

Flammer discussed about perception of society. If company concern about people and environment it create better image in the mind of customer. This positive image increase the sale of company product.

Moore (2001) found a negative relationship between corporate social responsibility and corporate financial performance. But study done by Alexander et al (1978) exhibit a neutral or no relationship between CSR and CFP. Donaldson & Preston (1995) also show the positive result between CSR and Corporate financial performance.

Mulyadi (2012), based on a theoretical model argue that CSR is no different from the private provisioning of public goods, that it can be Pareto improving and that, CSR by private-for-profit firms will be potentially efficient when provisioning of public goods by governments is sub-optimal.

Jabeen et al. shows the positive relationship between corporate social responsibility and financial profitability. They emphasised on perceptual attribute too. Those companies pay for the betterment of society have positive perception between people. This positive perception gives a upper hand in society.

Campbell, (2004) the perspective of a firm, two distinct motivations are identified, one which is 'performance driven' and the other which is 'stakeholder-oriented'. Performance driven CSR is strategic in nature whereby firms incurring CSR expenses are driven by the profit motive and the belief that corporate social performance will translate into corporate financial performance in the long run. Stakeholder-oriented CSR is driven by the motivational desire of the firm to serve the interests of all stakeholders of the corporations beyond those of its shareholders. While the shareholder primacy view predominantly focuses on the profit motive, the stakeholder perspective is seen as reconciling the social and economic goals of an organization driven by a moral motive of serving the interests of the society at large

Ching & Yung, (2010). The main objective of company is to maximize the shareholder wealth, but company focuses to increase revenue, by increasing revenue it ultimately increases the shareholder wealth but just increasing shareholder wealth the obligations of company have not be fulfilled.

As company is part of society and it takes a lot of things from society and environment, but company doesn't repay anything to them. So, for increasing the area of obligation of company with respect to society and environment the concept of corporate social responsibility has been introduced. Before 1st of April 2014 corporate social responsibility is just an option for companies, but after 1st of April 2014 there were some amendments in Company Act which made corporate social responsibility mandatory to those companies which lies under certain defined criteria by the Company Act.

Legal Provisions

There are basic changes brought by section 135 of company act 2013, it makes mandatory to spent not less than 2% of their average net profit on Corporate social responsibility activity every year. Under company Act 2013 of schedule 7 list out various activities which shall qualified as CSR activities for the purpose of compliance of the company act mean the company cover under the ambit of CSR must indulge in CSR activities. Under section 135 of company Act 2013 puts the obligation on company by defining some criteria on which corporate social responsibility is applicable.

The criteria are as follows: -

1. Net worth is Rs 500 Cr or more in any financial year. Where net worth is defined under section 2(57) of company Act 2013 as the aggregate value of the paid-up share capital and all revenue created out of the profit and securities premium account after deducting the aggregate value of the accumulated losses, deferred expenditures and miscellaneous expenditure not written off as per the audited balance sheet. It does not include reserve created out of assets write back of depreciation and amalgamations.

2. Turnover of Rs 1000 Crore or more in any financial year.
3. Net profit of Rs 5 Crore or more in any financial year.

Corporate social responsibility is applicable on foreign companies too if they are situated within the boundary of India. If any company lies under ambit of any above given criteria, then the company must comply: -

- a. Company must constitute a CSR committee. A CSR committee shall have at least three directors.
- b. In 3 of them directors at least one director must be act as independent director.

There are certain Provisions listed by schedule VII of Company Act 2013 that relates to Corporate social activity which are as follows: -

All corporate social responsibility activity must be undertaken in accordance with the CSR policy, thus company must have to spend more than 2% of their last three-year average of net profit for corporate social responsibility activities. Along with this, contribution must be approved by the board members of CSR committee. The amount incurred by the company must disclose in the annual report on company's CSR activities in the format provided in the annexure to CSR rules.

Listed activities Under Corporate social responsibilities: -

1. Any activity for removing hunger, poverty and malnutrition, promoting preventive health care and sanitation, making available safe drinking water.
2. Enhancing education, including special education and employment, vocational training among children elderly women and differently able persons.
3. Gender equality, empowering women making homes and hostels women and orphanage facility.
4. Building old age home, day care centres.
5. Ensuring and improving environment sustainability ecological balance protection of animals, flora and fauna, preventing endangered species agroforestry, conservation of natural resources and improving quality of soils water and air.
6. Protection of natural heritage, art and culture.
7. Developing measure for benefit of armed forces veteran, war widows and their dependents.
8. Training to enhance rural sports, nationally recognized sports, Paralympics and Olympic sports.
9. Contribution to the Prime Minister relief fund or any fund mechanism set up by the central government for socio-economic development relief and welfare of SC/ST or other backward class or women or minorities.

10. Contribution or fund provided to technology development and incubation located within academic institutions approved by the central government.
11. Establishing rural development projects.

III. OBJECTIVE OF STUDY

1. To analyse the impact of CSR as law on Indian textile sector.
2. To Identify the sector which draw maximum amount of investment under CSR.
3. To find correlation between corporate social responsibility and performance level of organisation.

IV. RESEARCH METHODOLOGY

The study is based on secondary data that collected from annual reports of 8 Indian firms of Textile and apparel sector year selected from 2013 to 2016. The data is cross section as well as time series. SPSS 16 is used to analysed the data and find relationship between CSR and profitability. Along with the annual report data collected from different sources such as newspaper, government website specifically Ministry of Textile, weblogs and e-journals. The current study deal with the concept of Corporate Social Responsibility and its impact on profitability on textile industry.

Hypothesis

H0-CSR has no significant impact on the profitability of sample organisation.

H1-CSR has a significant impact on the profitability of sample organisation.

Correlation between Actual amounts spent on CSR & Profitability of the organisation

		Profitability in Rs. Crore
Actual amount spent on CSR	Pearson Correlation Sig.(2Tailed) N	.968 .000 8
Profit(Year 2013-2014) in Cr	Pearson Correlation Sig.(2 Tailed) N	.701 .018 8
Profit(Year 2014-2015)in Cr	Pearson Correlation Sig.(2 Tailed) N	.783 .011 8
Profit(Year 2015-2016)in Cr	Pearson Correlation Sig.(2 Tailed) N	1 8

V. DATA ANALYSIS & INTERPRETATION

According to the outcome of Pearson's Correlation test executed on the sample, there is significant positive correlation between Actual Amount of Investment in CSR activities done by organisation and the Actual Annual Profit of these organisations during the given years. As the Pearson correlation coefficient is 0.986 so it can be concluded that all the years the actual annual profit is strongly correlated to CSR investment.

VI. RESULTS:-

- 1.As of now after enforcement of CSR as a law every company is start contributing toward CSR.
2. The most attractive avenue for CSR investment is Education sector by 49%.
3. There is strong positive correlation between annual profit and CSR investment.

VII. FINDING

Corporate Social Responsibility is an idea of holistic development.As corporate bodies focused on its owned development by any means.The study focuses on analysis of pre and post era of implementation of corporate social responsibility. It generates feeling of togetherness. As a company is a part of society and it is for benefit of society thus, company should not take the entire profit as a whole but give some small part of it to society.As government imposes the clause of Corporate social responsibility in company Act 2013

VIII. CONCLUSION

The basic objective of this law to make textile company and other companies more socially responsible. As government give a clear mandate through the corporate social responsibility by introducing in company law 2013 that it is mandatory to pay CSR .Now companies from different background participating in CSR activities.It has been observed that from data year 2010 to 2105 ,there is surge in CSR activities adopting by companies .It is also observed that number of listed NGO's participating actively to help companies in CSR related activities. As corporate social responsibility is new concept for India. Number of the company's voluntarily participating in it before enforcement as law but now majority of companies come together.CSR is innovative concept which based on concept of development of entire society. It must be treated as holistic subject otherwise development is not possible.

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