

# IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE

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## ABSTRACT

Based on the top most companies (the biggest study on corporate reputation world-wide) this paper investigates the influence of CSR on financial performance of the company. Corporate social responsibility is measured as the summation of donation and the environmental cost which is taken from annual reports of the companies over last few years. This research study has documented that CSR influence great impact on financial performance of the companies. Also this paper shows that ITC Ltd showed a significance relation whereas Nestle Indian Ltd did not show significance relationship. Hence, through this paper it can be concluded that a significant relation may not be determined between CSR expenditure and profit after tax of companies.

**Keywords:** CSR, Financial Performance, Company, ITC, Nestle

## INTRODUCTION

Corporations round the arena are struggling with a new role, that's to fulfil the desires of the existing technology without compromising the ability of the subsequent generations to satisfy their personal needs. Organizations are being known as upon to take duty for the methods their operations impact societies and the natural environment. They also are being asked to illustrate the inclusion of social and environmental worries in commercial enterprise operations and in interactions with stakeholders. A company cannot ignore the problems of the environment wherein it operates. Therefore, there's a need to study the impact of company social duty on company's profitability in India.

The concept of Corporate Social Responsibility (CSR) asserts that agencies have an obligation to recall the pastimes of clients, employees, shareholders, groups, as well as the ecological "footprint" in all aspects in their operations. The subject of environmental and social obligation seems in a number of political and felony documents and is gaining ever-extra significance at the worldwide stage. Today, company leaders face a dynamic challenge in trying to follow societal ethical standards to responsible

business practice. Whatever are the motivations behind CSR theories, it is also interpreted as the idea of triple backside-line ("People, Planet, Profit") which captures an expanded spectrum of values and criteria for measuring organizational achievement; economic, environmental and social. Business ethics and corporate governance combine to generate the method to achieve organizational excellence. Various views have been supplied to provide an explanation for the significance or in any other case of corporate social responsibility (CSR) in enterprise pastime. For their component, neoclassical economists improve that the companies should dedicate their energies to presenting goods and offerings to their clients, they have to minimize costs and maximize income; and all this have to, of direction, take vicinity in the laws and rules/regulations of the land. Indeed, some proponents of this perspective go as a ways as to argue that CSR is not only a deflection from the principle enterprise of wealth-advent, accordingly helping blunt competition, however is also a monetary (price) imposition at the firm.

This paper serves as an added contribution to the prevailing paintings of different authors that has discussed troubles on company social duty as it goes in addition to take a look at how various factors that surrounding corporate social responsibility, how its affect firms' profitability and it's miles going to be beneficial for managers in making prudent and economic decision, business stakeholder, governments' companies and a few different interested bodies to make bigger their information on the research topic. The most important intention of this paper is to study the effect of corporate social duty at the profitability of firms in India.

## **REVIEW OF LITERATURE**

### **1) Impact of CSR on financial performance of the company**

*SOURCE:* (Munaza Kanwal, 2013)

In this review CSR is the continuing commitment by business to behave ethically and contribute to economic development. In this study they have concluded that CSR has a positive impact on the firm's financial performance. Also it is noticed that those firm's which do not pay any attention on CSR activities have not got good financial performance as compared to those have given better CSR activities. Another study also said that CSR activities which focused on welfare of its employees, suppliers, investors and consumers then it results in huge profit .There is also positive relationship between CSR and financial profit. Finally in this research it states that spending on CSR creates the positive image for the company.

### **2) Impact of CSR on financial performance of the company between Germany and US**

*SOURCE:* (Kolisch, 2015)

This paper reviews about the meaning of CSR and Firm's performance. It also states additional information about differing impact of firm's and CSR on their financial performance and

profitable position in Germany and United States. Now it has focused on the general effect and result of CSR on financial performance. It also focused on economic, legal and cultural differing environment.

### **3) The Impact of Corporate Social Responsibility on Firms' Profitability in Nigeria**

*SOURCE* : (Babalola, 2012)

This study examines the relationship between corporate social responsibility and firms' profitability in Nigeria with the use of secondary data, sourced from ten (10) randomly selected firms' annual report and financial summary between "1999-2008". The study makes use of ordinary least square for the analysis of collected data. Findings from the analysis show that the sample firms invested less than ten percent of their annual profit to social responsibility. The coefficient of determination of the result obtained shows the depicts that the explanatory variable account for changes or variations in selected firms performance (PAT) are caused by changes in corporate social responsibility (CSR) in Nigeria while recommends that laws and regulations to obligate firms to be recognized, adequate attention should be given to social accounting in terms of social costs and to comply with social responsibility.

### **4) How can CSR affect company performance? A qualitative study of CSR and its effects**

*SOURCE* : (Johan Classon, 2006)

CSR can influence customer perceptions on a product or service offering and in the end affect company performance through the links in the CSR-Performance Chain. Furthermore, we have found that companies' level of CSR must lie on or above customers' baseline (i.e. minimal acceptable level) in order for them to avoid boycotts, since boycotts affect company performance negatively.

### **5) Communicating about corporate social responsibility: A comparative study of CSR reporting in Australia and Slovenia**

*Source*: (Bartlett, 2006)

This paper is about examining how two different countries — Australia and Slovenia address their CSR reporting issues. Reporting is considered as a significant communication tool or channel that ensures greater transparency at corporate level and engagement of stakeholders in a better way. In this paper guidelines of CSR and reporting standards in the two countries are provided. The paper reflects that although the reporting standard is quite similar in both countries, there is difference due to nation cultures. In Australia reporting is affected by a driver with product, management and financial considerations where as in Slovenia it is shaped by employee. As a conclusion it is important to increase reporting incentives.

## 6) The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice

Source: (M.Shabana, 2010)

This paper refers the arguments of whether CSR cause must be accepted by the business community or not. The primary concern of business entities is that whether they gain anything from the CSR or not as it is a major expense for them. It basically refers to how they benefit from CSR activities, policies and practices. The paper first provides historical background about this as CSR is a very new concept. It also provides a series of arguments for and against the concept of CSR as it is an important question that whether a business entity owes anything to the society beyond their profit earning and maximizing its own financial well-being. The aim is description and summarization of what the business case means and review of few concepts, research and practice that are for developing this idea.

## RESEARCH DESIGN

**Statement of Problem** – The main aim of this research is to understand whether a firm shall incur expenditure on CSR activities and policies and how this expenditure will affect the profitability of a business entity. CSR is an obligation that every entity needs to carry out as it is prescribed by the law. Hence it is important to analysis that how the expenditure shall be utilized effectively and efficiently. A business entity is established is a society, therefore it owes to the society beyond their profit earning.

**Scope Of Study** – The overall aim of this study is to gain an understanding of how CSR has impacts on the firm's profitability. The following research objectives have been identified of paramount importance in helping to achieve the aforementioned purpose.

- Review the corporate social performance of the company.
- Evaluate the relationship between CSR and profitability through the research.
- Explore how CSR influence a firm's profitability in general.

**Source Of Data** – Secondary data was the chief source of information for the study. The study used annual reports of ITC Ltd, Nestle India Ltd. Data used include corporate social responsibility expenditure and profit after tax for the period of 2008-2017. An extensive literature viewed to grasp the concept of CSR and the relationship between CSR and the performance of the companies. Data relating to cost/investment/expenditure on corporate social responsibility and profitability was used to construct ordinary least square (OLS) model of regression to which was analyzed using SPSS 16. to assess the impact as well as test the hypothesis of the study; if there is relationship and the extent of the relationship if any between the independent variable (corporate social responsibility expenditure) and the dependent variable (profit after Tax).

**Hypothesis -**

$H_0$  – There is no significant relation between CSR expenditure and profit after tax of a company

$H_1$  – There is a significant relation between CSR expenditure and profit after tax of a company

**Expected Outcome** – This study is carried out to establish a significant relationship between CSR expenditure and profit after tax of companies.

**Data Analysis Tools** –This study compares the relation of CSR expenditure and profit after tax of two companies i.e. ITC Ltd and Nestle India Ltd. SPSS software is used to obtain output of the data and find out whether any relation exist between the independent variable and dependent variable. The method utilized to arrive at the output for this research is correlation.

**Limitation of Research** – As the subject is very vast the present paper will be subjected to the following limitations:

- The research paper is subjected to only few successful companies like ITC Ltd and Nestle India Ltd as studying the observance of CSR by all the Indian companies would be beyond the researcher's capacity.
- Non availability all company's data.
- Limitation of time availability.

## DATA ANALYSIS AND INTERPRETATION

Table1: CSR expenditure and profit after tax of ITC Ltd for a period of 9 years i.e. 2009-2017

YEAR	CSR EXPENDITURE	PROFIT AFTER TAX
2009	0	3988.04
2010	0	4914.14
2011	0	5048.92
2012	0	6162.37
2013	0	7418.39
2014	0	8785.21
2015	214.06	9607.73
2016	247.5	9328.37
2017	275.96	10200.9

Source: (Annual reports 2009-20017)

Using SPSS 16 to run the above table, the data on CSR expenditure and Profit after Tax (PAT) of ITC Ltd for the period of 2009-2017. The output is presented in table 2. From the output the result shows high association or relationship between the two variables under examination.

Table2: Output of table1 (correlation)

Correlations			
		VAR00001	VAR00002
VAR00001	Pearson Correlation	1	.790 <sup>*</sup>
	Sig. (2-tailed)		.011
	N	9	9
VAR00002	Pearson Correlation	.790 <sup>*</sup>	1
	Sig. (2-tailed)	.011	
	N	9	9

\*. Correlation is significant at the 0.05 level (2-tailed).

a. VAR00001: (Independent) – CSR

b. VAR00002:(Dependent Variable) – PAT

This establishes that relationship between CSR expenditure and PAT is significant at 0.05 or 5%. To evaluate the impact of corporate social responsibility expenditure on profitability in ITC Ltd revealed (Beta= 0.5199,  $p < 0.05$ )

Table3: CSR expenditure and profit after tax of Nestle India Ltd for a period of 9 years

YEAR	CSR EXPENDITURE	PROFIT AFTER TAX
2009	0	7728.3
2010	0	9169.8
2011	0	11451.1
2012	0	13879.24
2013	0	10679.3
2014	0	11171.3
2015	85.1	11846.9
2016	206	5632.7
2017	314	9265.4

Source: (Nestle Annual reports (2009-2017))

Using SPSS 16 to run the above table, the data on CSR expenditure and Profit after Tax (PAT) of Nestle India Ltd for the period of 2009-2017. The output is presented in table 2. From the output the result shows high association or no relationship between the two variables under examination.

Table4: Output of table1 (correlation)

		VAR00001	VAR00002
VAR00001	Pearson Correlation	1	-.232
	Sig. (2-tailed)		.518
	N	10	10
VAR00002	Pearson Correlation	-.232	1
	Sig. (2-tailed)	.518	
	N	10	10

### Correlations

a. VAR00001: (Independent) – CSR

b. VAR00002:(Dependent Variable) – PAT

This establishes that there is no significant relationship between CSR expenditure and PAT. The expenditure on CSR kept on increasing but the profit did not increase for 2016. This proves that there is no relation between CSR expenditure and PAT, but this decrease in profit despite of increase in expenditure for the year 2016 can be due to various other reasons. One of the reasons includes the ban which was introduced on the production and consumption of Maggie (Nestle product). Hence it is difficult to conclude that there exist no relation between CSR expenditure and PAT as this decrease in profit (2016) was due to an unexpected and unavoidable reason.

## FINDINGS AND SUGGESTIONS

Both the companies i.e. ITC Ltd and Nestle India Ltd belong to the same industry yet the outcome for ITC Ltd. shows a significant relationship between CSR expenditure and profit after tax whereas for Nestle India Ltd the outcome is not the same. This cannot be a conclusive evidence to prove that there is no correlation between the two variables because Nestle India Ltd faced an unexpected and unavoidable situation i.e. ban on Maggi.

Thus, it is suggested to include more FMCG companies for testing and arriving at an outcome which is accurate.

## **CONCLUSION**

CSR is an essential expenditure for every company as a company owes to the society more than just profit-maximization of its own. There was difference in relationship in the two companies tested. ITC Ltd showed a significance relation whereas Nestle India Ltd did not show a significant relation. Hence, through this paper it can be concluded that a significant relation may not be determined between CSR expenditure and profit after tax of companies.

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