

DOES THE CORPORATE SOCIAL RESPONSIBILITY AFFECT THE FINANCIAL PERFORMANCE OF MANUFACTURING AND SERVICE INDUSTRY IN INDIA?

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ABSTRACT

Corporate Social Responsibility is the commitment for the equitable and sustainable development of the community. In the growth of society, Corporate Social Responsibility (CSR) has had a huge influence and builds a healthy bond and a strong relationship. The company's mainly focus on the three level of sustainable development—Environmental Preservation, Financial growth, and Social Development. The present study objective is to examine the impact of CSR on financial performance of selected manufacturing and service sector companies in India. The study also revealed the relationship between CSR score with ROE, ROA, and ROCE. The study considered financial data of the Indian manufacturing and service industry for the year 2008 to 2017. Correlation technique had been used to examine the relationship of CSR score and the financial parameters. The result the result shows that ROE, ROA, and ROCE have a negative correlation with CSR Score of Manufacturing Sector Companies. Whereas, ROE has positive correlation with CSR Score of Service Sector Companies together with ROA and ROCE have a strong a positive correlation with CSR Score of Service Sector Companies. Hence, this result suggests that there is no significant association between CSR Score and Financial Performance of Manufacturing Sector Companies.

Keywords: Corporate Social Responsibility (CSR), Financial Performance, ROE, ROA, ROCE.

INTRODUCTION

The term Corporate Social Responsibility (CSR) is also termed as Corporate Citizenship, Corporate Social Opportunity, Responsible Business, and Corporate Responsibility. It has a potential to make positive contributions to the development of society and businesses. Corporate Social Responsibility (CSR) and corporate financial performance under good management theory by integrating concept of strategic management including economy, social, and environment (Khan, 2009; Sharma, 2020). However, CSR is becoming important for increasing business and corporate houses are realizing that as business organization, cannot be successful unless we protecting and promoting all stakeholders interest.

In the United States CSR reporting is presently voluntary in the U.S., a legal framework for it does not currently exist and the sustainability reporting on CSR is not required, although many voluntary efforts are made by the companies and the industries, and the local governments to evaluate environment, social, and government issues (Sharma, 2017). The European countries favoured the traditional production and promotional oriented activities (Forte, 2013). Whereas, in

the United Kingdom CSR has gained prominence through improving the health of customers and communities, protecting the environment and leading the development of sustainable products etc. With regard to China, New generation of Chinese entrepreneurs are more involved in community development and business organizations are playing a crucial role towards sustainable model of development. In Australia, increasing numbers of companies have policies and programs that purport to reflect their commitment to the community, society and the environment (Anderson & Landau, 2000).

In India is being a growing economy among the top countries in Asia; there are lots of new opportunities for business to increase their goodwill. At the same time, the Indian business also faces the biggest social issues like poverty, inequality, population growth, environmental degradation etc. Therefore, in order to develop an environment of genuine partnership between the business and society, it is very important for the Indian companies to be transparent in declaring their CSR activities. In recent years, the concept of Corporate Social Responsibility is receiving magnificent attention from businesspersons and research scholars in different parts of the world. Financial Performance is the main element for-profit corporation. The Corporate Social Responsibility (CSR) has gained much attention from the large multinational companies. An increasing number of studies have been devoted to examining “the relationship between CSR and Financial Performance”. Many different research studies have reached divergent results that this link is positive, negative and neutral.

LITERATURE REVIEW

There are many of the research studies were conducted on the Corporate Social Responsibility and financial performance. Maqbool & Zameer (2018) focused on the the relationship between Corporate Social Responsibility and financial performance of Indian banks and found that CSR exerts positive impact on financial performance of Indian banks (Maqbool & Zameer, 2018). Similarly, the research were conducted on impact of CSR on the manufacturing industries on financial performance (Krishana, 2018), the study concluded that CSR spent contribution to the environment is in such a way that the during the operational stage in a way or other it effects the environment so due to this the CSR spent in manufacturing in higher when compared to service. On the other hand, the study conducted in Bangladesh, has thrown light on the impact of CSR on financial performance of Agribusiness of Bangladesh. The finding have concluded that ROE and net income has significant impact on financial performance favouring those firms that do Corporate Social Responsibility whereas; ROA & earning per share has no significant impact on financial performance (Islam, Begum & Hassan, 2018) in their paper focused to determine the effect of Corporate Social Responsibility on financial performance in TWC. For this researcher has obtained data from financial statements, websites, publications and annual reports. It was found that there is a positive relationship between CSR and CFP at TWC. It concluded that CSR is important for improving financial performance firm (Shimin, 2017) in their paper “A Comparative Study of CSR Practices of Selected Banks in India” has highlighted the CSR practices followed by SBI and ICICI banks in India. Along with it, it was found that the percentage of net profit contributed towards CSR activities and whether the banks have met the mandatory requirement of 2% of profit on CSR. Ramana & Reddy (2017) in their paper on “Corporate Social Responsibility of Indian IT Companies- A Study on CSR Activities of Select Companies” has studied ten IT companies and has focused on the actual theoretical framework of CSR activities happening in the select companies. It noticed that all the companies selected gave priority to the introduction of a variety of environmental activities and gave the least

preference to areas of community development. The paper proposed that businesses should undertake more community building programs where they can contribute to enhancing the place in which they work. (Ranjan & Tiwary, 2017) in their paper on “A Comparative Study of CSR in Selected Indian Public & Private Sector Organizations in Globalization Period: A Research Finding” paper has thrown light on the important activities as well as impact of CSR and conducted in the ten reputed private and public sector organization in the country. The paper “Casual linkage between Corporate Social Responsibility and profitability: A case study of TATA Group” has undertaken a study to untangle the relationship between CSR and profitability of the TATA Group, Singh (2017). For this researcher has followed Vector Error Correlation Model (VECM) approach and Granger causality test to determine casual linkage between CSR and profitability co integration test. (Bafna, 2017) in her paper “A study on the impact of CSR on Financial Performance of companies in India” paper has focused on the impact of CSR on the financial performance of companies. For this Correlation and regression and analysis have used by researcher to find the relationship. The findings have revealed that CSR has a positive significant influence on Net Profit of the company. (Yadav & Singh, 2016) in their paper “Impact of Corporate Social Responsibility on Financial Performance of Indian Commercial Banks – An Analysis” has undertaken a study to find impact of CSR on financial performance and trends of CSR spends of selected banks. It has concluded that impact of CSR on overall banking performance is significantly positive but individually it’s different. (Ibrahim & bambale, 2016) in their paper “The Effect of Corporate Social Responsibility on Firms Financial Performance in Kano Metropolis: A Conceptual Model” paper has thrown light on the impact of CSR on Banks’ financial performance. For this, researcher has used secondary and primary data to measure variable of the study including Corporate Social Responsibility and financial performance.

Objectives of the Study

Almost all the study have been carried out various sectors of CRS practices but only few of them focused on disclosures of CSR in manufacturing sectors. The present study attempt is to determine the relationship between CSR and Financial Performance parameters of selected manufacturing and service sector in India. To make this research more effective and reliable, the following objectives are designed by the researcher are as under:

- To analyze the disclosure practices of CSR in selected service sector and manufacturing companies.
- To examine the sector-wise performance of selected companies with specific financial parameters.
- To document the relationship between CSR Score and financial parameters like ROE, ROA, and ROCE.

RESEARCH METHODOLOGY

The study purpose is to know the Impact of Corporate Social Responsibility on Financial Performance in India and to determine the relationship between CSR and Financial Performance of the selected sampled units. For the study total 10 companies has been selected. It included service sector and manufacturing sectors industries. The names of companies are Mahindra & Mahindra Ltd, Tata Motors Ltd, JSW Steel Ltd, Tata Steel Ltd, Maruti Suzuki Ltd, Infosys Ltd, Wipro Ltd, HDFC Bank, Tata Consultancy Service Ltd and Axis Bank. The study considered following dependent and Independent variables used for the study:

(A) Dependent Variables

- Return on Equity (ROE)
- Return on Assets (ROA)

- Return on Capital Employed (ROCE)
- Return on Long-term Fund (ROLF)

(B) Independent variable

- Corporate Social Responsibility (CSR)

The study analyzed the both type of reports of last 10 years to collect the data to find out the impact of CSR concept. Annual reports and sustainability reports of the concerned years are studied by the researcher to analyze the parameter of CSR of the particular company. The individual websites of the companies are used by the researcher to obtain the selected financial parameters like ROE, ROA & ROCE

Data Collection

For the study secondary data has been considered it includes annual reports and sustainability reports of both selected manufacturing and service sector companies. Further, the researcher was analyzed the both type of reports of last 10 years to collect the data to find out the impact of CSR concept. Annual reports and sustainability reports of the concerned years are studied by the researcher to analyze the parameter of CSR of the particular company. The data has examined for the last 10 financial years that is from 2007-08 to 2016-17.

Testing of Hypothesis

H01 There is no significant impact of CSR on financial performance in selected companies in India.

The correlation analysis was applied in order to test the first hypothesis H01 “There is no significant association between CSR score and financial performance of manufacturing sector companies in India” of this study. The hypothesis concerned about the association between CSR Score and financial performance using financial parameters like ROE, ROA & ROCE of manufacturing sector companies. The correlation analysis is used to examine the correlation between dependent and independent variables which are: Financial Parameters and CSR Score. The correlation analysis of CSR Score and financial parameters of selected Manufacturing Sector Companies

		MCSR	ROE	ROA	ROCE
MCSR	Pearson Correlation	1	-0.396	-0.6	-0.405
	Sig. (2-tailed)		0.51	0.285	0.499
	N	5	5	5	5
ROE	Pearson Correlation	-0.396	1	.940*	.978**
	Sig. (2-tailed)	0.51		0.018	0.004
	N	5	5	5	5
ROA	Pearson Correlation	-0.6	.940*	1	0.877
	Sig. (2-tailed)	0.285	0.018		0.051
	N	5	5	5	5
ROCE	Pearson Correlation	-0.405	.978**	0.877	1

	Sig. (2-tailed)	0.499	0.004	0.051	
	N	5	5	5	5

In this analysis, CSR Score is considered as independent variable whereas financial parameters like ROE, ROA, and ROCE are dependent variables. The result shows that ROE, ROA, and ROCE have a negative correlation with CSR Score of Manufacturing Sector Companies. A value of -0.396, -0.600 and -0.405 is seen between the two variables which signify a negative correlation. Hence, this result suggests that there is no significant association between CSR Score and Financial Performance of Manufacturing Sector Companies.

H02 "There is no significant association between CSR score and financial performance of service sector companies in India"

The correlation analysis was applied in order to test the second hypothesis. The hypothesis concerned about the association between CSR Score and financial performance using financial parameters like ROE, ROA & ROCE of service sector companies. The correlation analysis is used to examine the correlation between dependent and independent variables which are: Financial Parameters and CSR Score.

		SCSR	ROE	ROA	ROCE
SCSR	Pearson Correlation	1	.890*	.951*	.938*
	Sig. (2-tailed)		0.043	0.013	0.018
ROE	Pearson Correlation	.890*	1	.940*	.976**
	Sig. (2-tailed)	0.043		0.017	0.004
ROA	Pearson Correlation	.951*	.940*	1	.992**
	Sig. (2-tailed)	0.013	0.017		0.001
ROCE	Pearson Correlation	.938*	.976**	.992**	1
	Sig. (2-tailed)	0.018	0.004	0.001	

In this analysis, CSR Score is considered as independent variable whereas financial parameters like ROE, ROA and ROCE are dependent variables. The result shows that ROE has positive correlation with CSR Score of Service Sector Companies together with ROA and ROCE have a strong positive correlation with CSR Score of Service Sector Companies. A value of 0.890, 0.951 and 0.938 is seen between the two variables which signify a positive correlation. Hence, this result suggests that there is significant association between CSR Score and Financial Performance of Service Sector Companies.

Findings

- The CSR Score and financial performance (ROE, ROA, & ROCE) of manufacturing sector companies, H01 (Null Hypothesis) is accepted. It means correlation between CSR Score & financial performance does not exist. That means the use of CSR by selected companies decrease the financial performance.

- The CSR Score and financial performance (ROE, ROA, & ROCE) of service sector companies, H02 (Null Hypothesis) is rejected. It means correlation between CSR Score & financial performance exists. That means the use of CSR by selected companies increase the financial performance.
- The association does not exist between CSR Score and Financial Performance (ROE, ROA, & ROCE) of Manufacturing Sector Company means as the efforts of CSR of companies decrease the financial performance of companies. On the other hand, the association exist between CSR Score and Financial Performance (ROE, ROA, & ROCE) of Service Sector Company means as the efforts of CSR of companies increase the financial performance of companies.
- The correlation does not exist between CSR Score and ROE of the Manufacturing Sector Company means as an increase in CSR Score in does not increase of the companies ROE. On the other hand, the correlation exists between CSR Score and ROE of the Service Sector Company means as an increase in CSR Score in increase of the companies ROE.

Recommendations

- It is identified that most of the selected companies are focusing on CSR initiatives considering employee's benefits and social issues so that all those companies are expected to adopt CSR activities relating to government campaigns known as Prime Minister's National Relief Fund & Clean Indian Mission.
- It is identified that the majority of the selected companies are avoided payroll giving program in CSR activities so that all those companies are expected to aware their employees to contribute in payroll giving program.
- It is identified that CSR constantly evolving in business standards after it as mandatory. So that companies should be set up a CSR committee at the board level.
- The companies even if their profit level has low may spend not less than 2% of the profit on CSR activities. As per companies act 2013, clause 135, companies are specified to spend 2% of their average net profit over the preceding three financial years on CSR activities.

CONCLUSION

Companies are being stimulated to be more responsible and sustainable. Companies are under pressures to deliver more return for shareholders, more facility for employees, more ethical with government, more transparency with consumer and protective policy for the community on the solution for prevalent issues such as corporate governance, health & safety, human rights, environmental protection, consumer protection, and others. In this analysis, CSR Score is considered as independent variable whereas financial parameters like ROE, ROA and ROCE are dependent variables. The result shows that ROE has positive correlation with CSR Score of Service Sector Companies together with ROA and ROCE have a strong a positive correlation with CSR Score of Service Sector Companies. Whereas, there is no correlation exist between CSR Score and ROE of the Manufacturing Sector Company means as an increase in CSR Score in does not increase of the companies ROE. On the other hand, the correlation exists between CSR Score and ROE of the Service Sector Company means as an increase in CSR Score in increase of the companies ROE.

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