

COMPARATIVE ANALYSIS OF A COMPANY'S FINANCIAL GROWTH VS IT'S INVOLVEMENT IN CSR ACTIVITIES**Nagendra Asha****Pujara Esha****PanighariSiddharth****SharanApurva****ABSTRACT**

The key objective of the research is to analyze the contribution of companies of various sectors towards CSR activities with respect to the profit earned every year. Also it was verified whether the company's abide by the recent amendment made in the company's act 2013 or not. It says that the company's should mandatorily contribute 2% of their annual profit towards CSR activities. Annual reports of the company were studied during the research which helped us in getting the exact figures for the research. The research has been carried out on secondary data which was available through the reports. Also the study has been limited to companies in India. Secondly, it has highlighted that there are some companies which are not totally successful in contributing towards the CSR activities proportionate to their yearly profits although majority of the companies adhere to the company's act 2013 in terms of mandatory CSR spending. The third finding from this research is that there are few companies which go beyond the minimum limit and contribute in various sectors for the benefit of the society. The benefit of this research is that it helped us in gaining an insight as to how to go about a company's annual report especially its balance sheet and profit and loss account and trace their spending in different dimensions. This research project will provide the reader with data and statistics of various industries regarding the steps taken by them towards CSR activities and the depth of involvement shown by them in the same.

Keywords: CSR, Company's act, Profit, Annual Report, Secondary Data, Spending

INTRODUCTION**OVERVIEW OF RESEARCH**

In the field of corporate social responsibilities there has been exponential growth in last decade. Today CSR has become an important instrument in building up company's reputation in market. The findings suggests that companies with social responsibilities practices have higher valuation

and lower risk .With the arrival of budget on 1st April, 2015 India is the first country to make 2% of their net profit on social development, compulsory.The main objective of this study is to obtain the relation between the increase or decrease in amount of CSR activities with the change in company's growth. This study target companies with different size, sector and regions and analyze their CSR versus growth graph.

OBJECTIVES

1. To study whether Indian companies adheres to company act 2013.
2. To find out whether growth in financial performance of the company is proportional to their spending on CSR activities.

LIMITATIONS

1. The research is confined to only Indian companies.
2. Data is confined to last three years

LITERATURE REVIEW

Munoz, R. M., Pablo, J. d., & Pena, I (2015) in his paper titled Linking corporate social responsibility and financial performance in Spanish firms European Journal Of International Management, 9(3), 368-383 have focused on the effect of CSR activities on company's performance. The researchers from this paper have concluded that CSR improves financial performance and with respect to CSR's intangible components the link is stronger for company's long term performance than for its short term performance.

Lu, W, Wang, W, & Lee, H (2013) in his paper titled, 'The relationship between corporate social responsibility and corporate performance: evidence from the US semiconductor industry', adopts a two-stage approach to explore the relationship between corporate social responsibility (CSR) and semiconductor companies' performance during 2004–2008. The results of this paper reveal that social responsibility investment by US semiconductor firms has positive effects on their performance.

METHODOLOGY

Selection of Topic

The team had shortlisted four topics initially. Pilot study of each of them was done. The team was inclined towards taking up a finance related topic. Also the team members had the curiosity to know if the company's annual profit were benefitting the society or not and whether the companies were abiding by the recent amendment related to CSR activities in the Companies Act 2013. And therefore the topic was taken up by the team.

Sampling Method Used and Size of Sample

The team used the purposive method of sampling, the purpose being finding the company's expenditure on CSR activities. The last three year annual reports of the company's were taken up as it contains the expenditure done by the companies on CSR activities. It also shows the company's net profit and expenditure in a year and thus would help in collection of required data. Size of the sample in this case would be annual report of one particular year of the company.

Pilot Study & Collection Of Data

Initially the team searched for the company's having major contribution in CSR spending/activities. After selecting the companies, team went through their annual reports and analyzed their CSR spending over the years.

Hypothesis

Null Hypothesis (H₀): Increase in revenue of the company will not lead to increase in its contribution to CSR activities.

Alternate Hypothesis (H_a): Increase in revenue of the company will lead to increase in its contribution to CSR activities.

The above hypotheses were formed based on the obvious facts that the company might or might not contribute to the CSR activities with the increase of its revenues/profits.

Analysis Of Data

Initially 7-8 companies in India were selected. Then their annual report and their CSR spending for the period of 3 years i.e. from 2012-2015 was checked.

The team would be using the graphs/chart for data analysis. 5 graphs of each company would be plotted.

- 1) Net profit every year for the last 3 years
- 2) Analysing the increase or decrease in the profit
- 3) CSR spending for 3 years
- 4) Growth/Decline in CSR spending for the same span
- 5) Comparison of net profit v/s CSR spending.

The data will be analyzed whether the relation between net profit and CSR spending is positive, negative.

RESULTS & DISCUSSIONS

In this chapter data from various companies annual report has been taken and tabulated. The CSR spending and the Net profit per year has been compared using graphs. Companies from different sectors (IT, Public Sector, Banking etc) have been taken for analysing their contribution. Analysis has been done in order to verify if a company's (Be it in any sector) growth over the years is also reflecting on their CSR contribution or not.

1. Infosys

| Financial Year | Net Profit | CSR Spending |
|----------------|------------|--------------|
| 2012 - 2013 | 9116 | 174 |
| 2013 - 2014 | 10194 | 205 |
| 2014 - 2015 | 12164 | 245 |

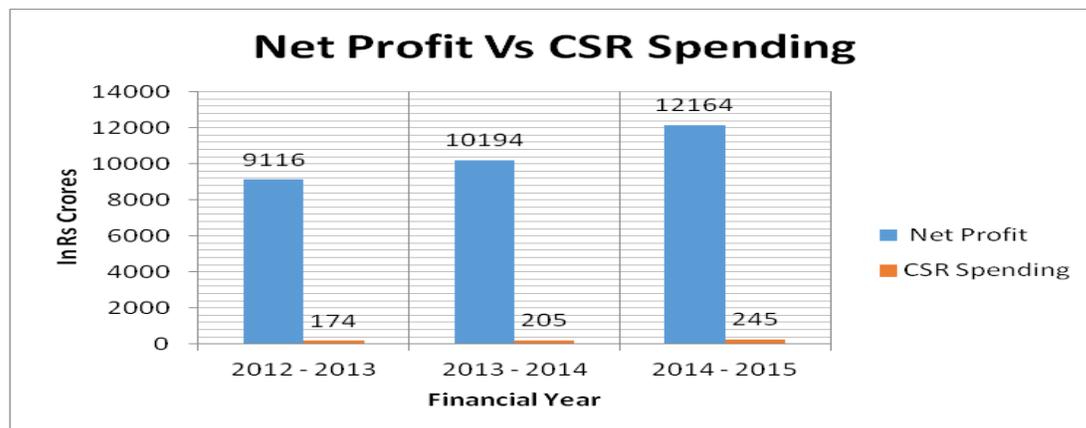


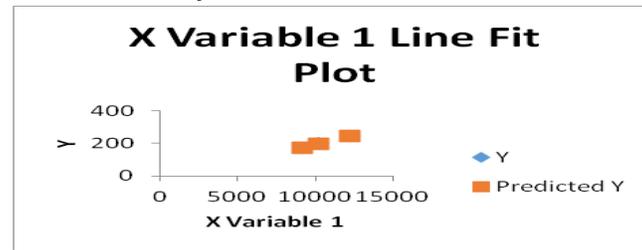
Figure 3: CSR Spending Vs Net Profit (In RsCrores)

Discussion:

Figure 3 shows the comparison of CSR spending with the net profit over the last tree financial years. By analysing this it can be said that the company has been in accordance with the latest amendment in the Companies Act 2013.

Statistical Analysis:

| Regression Statistics | |
|-------------------------|------------|
| Multiple R(Correlation) | 0.99555458 |
| R Square | 0.99112892 |
| Adjusted R Square | 0.98225784 |
| Standard Error | 4.74123563 |
| Observations | 3 |

Hypothesis Testing:

The correlation between Net Profit and CSR contribution is **0.99**. Therefore both the variables are strongly correlated. Hence the above results **reject** the null hypothesis which states that “Increase in revenue of the company will not lead to increase in its contribution to CSR activities”. Hence the alternate hypothesis which states that “Increase in revenue of the company will lead to increase in its contribution to CSR activities” can be **accepted**.

2. State Bank Of India

| Financial Year | Net Profit | CSR Spending |
|----------------|------------|--------------|
| 2012 - 2013 | 14104 | 211.56 |
| 2013 - 2014 | 10891 | 149.2 |
| 2014 - 2015 | 13101 | 115.8 |

Table 6:CSR Spending Vs Net Profit (In RsCrores)

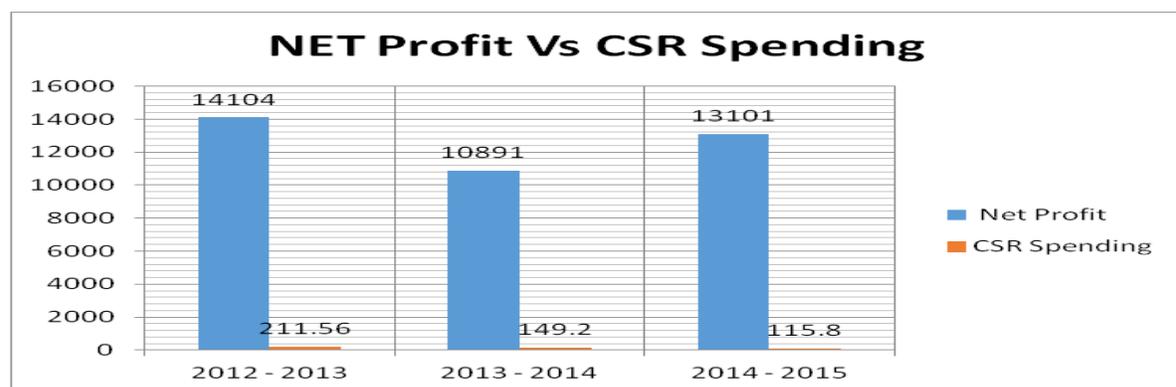


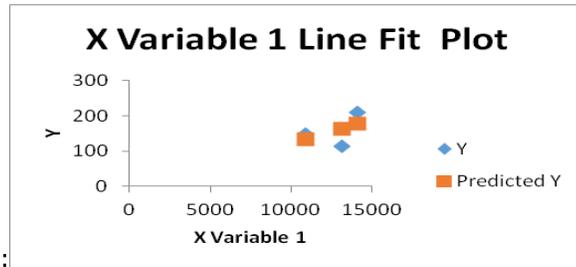
Figure 7:CSR Spending Vs Net Profit (In RsCrores)

Discussion:

Figure 6 shows the comparison of CSR spending with the net profit over the last three financial years. By analysing this it can be said that the company has been contributing around 1.5% of its

net profit towards CSR activities which is slightly deviating from the mandatory 2% as per the company’s act 2013.

| <u>Regression Statistics</u> | |
|------------------------------|--------------|
| Multiple R(Correlation) | 0.464331625 |
| R Square | 0.215603858 |
| Adjusted R Square | -0.568792284 |
| Standard Error | 60.87766936 |
| Observations | 3 |



Hypothesis Testing:

The correlation between Net profit and CSR contribution is **0.464**. Hence the two variables are weakly related. Hence the above results **reject** the null hypothesis which states that “Increase in revenue of the company will not lead to increase in its contribution to CSR activities”. Hence the alternate hypothesis which states that “Increase in revenue of the company will lead to increase in its contribution to CSR activities” can be **accepted**.

3. Wipro

| Financial Year | Net Profit | CSR Spending |
|----------------|------------|--------------|
| 2012 - 2013 | 5650 | 16 |
| 2013 - 2014 | 7415 | 88 |
| 2014 - 2015 | 8205 | 139 |

Table 9:CSR Spending Vs Net Profit (In RsCrores)

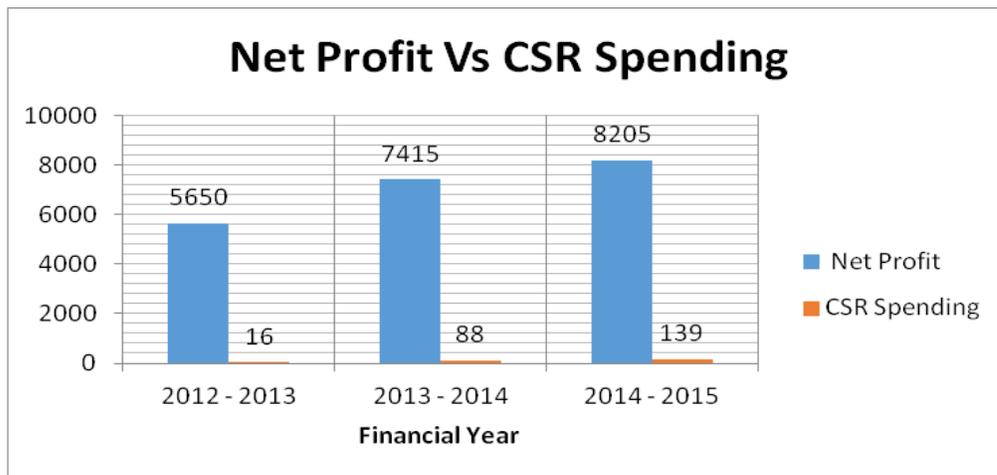


Figure 11:CSR Spending Vs Net Profit (In RsCrores)

Discussion:

Table no 7 and 8 above shows the net profit and CSR spending of Wipro Ltd over the last three years. Figure 9 shows the comparison of CSR spending with the net profit over the last three financial years. The company's contribution during the financial year 2012-2013 has been very low (0.2%) and is totally deviating from the new amendment in the 2013 Company's Act. However in the subsequent financial years there has been a significant increase in the CSR spending (1.2% in 2013-2014 and 1.8% in 2014-2015) although it is still not in accordance with the Company's Act. The company has maintained a proportionate increase in the CSR spending with the increase in its profit

CONCLUSIONS AND RECOMMENDATIONS

From April 1, 2014, every company, private limited or public limited, which is having either net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, compiled to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities. The CSR activities should not be undertaken in the normal course of business and should be with respect to any of the activities mentioned in Schedule VII of the 2013 Act. Contribution to any of the political party is not considered to be a CSR activity. Moreover, only activities in India would be considered for computing CSR expenditure.

The conclusion of the entire research is given as aligned with the objective.

The first objective was to study whether growth in financial performance is proportional to spending on CSR. Here we have considered companies from various sectors such as banking, IT, Public sectors etc. By analysing it can be said that the in Infosys and Wipro (IT sector) there has been a proportionate increase in the CSR spending with the increase in profit over the years. In SBI (Banking sector) there is negative growth for graph of net profit versus CSR activities. Gradually the CSR spending of the company decreases with the increase in net profit (2014-2015). Moreover the other two companies NTPC and ONGC (public sector) also shows the increase in CSR spending along with the increase in net profit.

The second objective was where company was adhering to Company Act 2013 in relation to CSR Spending. Here Infosys is adhering to Company Act 2013 because it's CSR spending for 2014-2015 approximately around 2%. For SBI it is not adhering to Company Act as its CSR Spending is 1.5%. Again for Wipro it is not adhering to the act as its spending on CSR activities is 1.8%

Then spending of NTPC on CSR activities is again 1.92% of its NET profit so it slightly deviates from following the Company Act 2013. Next is ONGC whose CSR spending for the year 2014-2015 is 2.1% of net profit so it follows the company Act 2013

RECOMMENDATIONS

It can be recommended that companies should contribute towards CSR activities out of their annual profits. Apart from being a noble deed it also helps gaining goodwill from the society which could further attract stakeholders/customers increasing their revenues and profits. It could. The firms

should contribute across various CSR activities addressing all the issues of the society as well as the environment. They should also carry out awareness drives to make the general public aware of the issues and motivate them to aid them in their CSR activities. The research would benefit companies and MBA aspirants who wish to study about the contribution of various companies across different CSR activity

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