

## IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF THE COMPANY

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### INTRODUCTION

There has always been a debate on the magnitude to which company directors and managers should consider social and environmental factors in commercial decision making. An approach to decision making that routinely encompasses these factors may be described as corporate social responsibility.

Decision makers have started to believe and consider that expenditure on corporate social responsibility can contribute to the financial performance of a company. This approach, which has been described as the 'enlightened shareholder approach', suggests that corporate decision-makers must consider a range of social and environmental matters if they are to maximize long-term financial returns.

Social responsibility is an ethical or ideological theory that an entity whether it is a government, corporation, organization or individual has a responsibility to society at large.

Businesses can evade government agencies involvement with the corporation by ethical decision making. Corporate social responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance, is a form of corporate self-regulation integrated into a business model.

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Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international norms. Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. Essentially, CSR is the deliberate inclusion of public interest in corporate decision-making, and the honoring of a triple bottom line: People, Planet, and Profit.

### **VOLUNTARY GUIDELINES ON CSR**

CSR policy should be framed with the participation of various level executives and approved by the Board. Core Elements of CSR policy should cover the following:

- **Care for all Stakeholders:**

This includes shareholders, consumers, employees, consumers, community, and inter-business establishments. Shareholders want a fair return or dividend on the capital invested and also they expect corporations to develop healthy cooperative business relationship between different businesses. Employees expect a promotion of spirit of cooperative endeavour between employees and employers through participation in decision making and in improving production and administration. Consumers expect goods must meet the requirement of different classes, their tastes and purchasing power. Community expect a support to educational, charitable and other programmes for the benefit of the commodity.

- **Ethical Functioning:**

When we stress that corporations should abide by rules and regulations, it implies that they should observe them not only in letters, but also in spirit. They should abide by the law of the land in every respect, comply with the rules and regulations imposed on them by SEBI, stock exchanges, Department of Company affairs, pay taxes in full and on time and protect the fair name of the country if they are engaged in external trade. They should not engage in unfair business practices.

- **Respect for Workers' Rights and Welfare:**

Business should provide working environment which is safe, hygienic and humane holding the dignity of employees. To develop and adopt a progressive labour policy based on recognition of genuine trade union right; to create a sense of belonging-ness; to provide time-to-time training opportunities, to recognize the labourers as a “human being” and respect his dignity, and to preserve his or her individual liberty. No child and forced labour employment.

- **Respect of Human Rights:**

Companies should respect human rights for all and avoid complicity with human rights abuses by them or third party.

- **Respect of Environment:**

Companies should have a moral responsibility to restore the ecological balance. They should take timely actions to prevent pollution; recycle, manage and reduce waste, manage natural resources in a sustainable manner and ensure optimal use of resources like land and water. Companies should opt for Green methods of production and efficient use of renewable resources.

- **Activities for social and Inclusive Development:**

Depending upon the kind of the sector the company is operating, they should take the initiatives accordingly. The firms should generally opt the vicinity of their business premises. These could include: vocational training, health, adult literacy, providing livelihood, etc.

## **CSR IN INDIA**

CSR is not a new concept in India. However what is new is the shift in focus from making profits to meeting societal challenges. Giving a universal definition of CSR is quite difficult, as there is no universally accepted definition of corporate social responsibility, it is usually described in terms of a company considering, managing and balancing the economic, social and environmental impacts of its activities . CSR measure the impact of a company’s actions on society. It requires a manager to consider his acts in terms of a whole social system, and holds him responsible for the effects of his acts anywhere in that system.

The European Commission's definition of CSR is:

Mr. Narayan Murthy firmly underlines the significance of CSR “For benefits of globalization and technology to reach to the poor, the private sector, philanthropic institutes and individuals should cooperate and establish partnership with Government institute.

## **THE RESEARCH**

### **OBJECTIVE OF THE STUDY**

In this paper we have examined the relation between corporate social responsibility (CSR) and financial performance. And compare the impact of corporate social expenditure on financial performance.

### **HYPOTHESIS**

**H0**-CSE and FP (Financial Performance) are independent of each other & FP does not depend upon CSE

### **RESEARCH DESIGN AND METHODOLOGY**

This study is a quantitative research which has been done on Indian companies to present the Indian scenario of CSE. The study also is a comparative analysis of expected with actual expenditure incurred and an attempt has been made to explore the relation between CSR expenditure and financial performance. 30-40 firms are examined for the financial year 2006-07(in appendix), 2008-09, 2009-10 which are rated by karmyog (Non-Government Organization), and then relationship between their financial performance and expenditure on corporate social responsibility is measured. Data has been analyzed by using CORELATION

### **SCOPE OF THE STUDY**

The study has been performed over 30-40 companies by taking their financial figures for the years 2006-10. This is done because 40 companies is good number to give us a diverse sample for aggregative findings and the study period is above mentioned as that is latest period for which accurate and reasonable data is available.

## QUANTITATIVE ANALYSIS

### COMPARISON BETWEEN PROFITS AND CSR EXPENDITURE

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	PBT06_07 & PBT08_09	27	.411	.033
Pair 2	PBT06_07 & PBT09_10	29	.359	.056
Pair 3	PBT08_09 & PBT09_10	27	.571	.002

### FINDINGS AND INTERPRETATION:

- Pair 1: There is a positive statistically significant correlation (since  $p=0.033 < 0.05$ ) amounting to .411 between profit before tax of year 2007-08 and profit before tax of year 2008-09.
- Pair 2: There is a positive correlation amounting to 0.359 between profit before tax of year 2007-08 and profit before tax of year 2009-10. This correlation is though not significant since  $p=0.056 > 0.05$ .
- Pair 3: There is a positive statistically significant correlation (since  $p=0.002 < 0.05$ ) amounting to 0.571 between profit before tax of year 2008-09 and profit before tax of year 2009-10

### CONCLUSION

The qualitative analysis reveals that there is a positive relationship lack of CSR activity or ignorance of social responsibility by the company and losses but still does not concrete a positive relation between CSR and financial performance in short term but argues existence of a positive relationship in the long term. On the other hand the Quantitative analysis emphasis a strong positive and direct relationship between the companies CSE and its financial profits which strengthens further with time and long term profits grow even better.

- The Correlation and Regression analysis for all the year how a positive relation between expenditure on CSR and Profits of the company which is extremely strong.

Also it is very evident from this research that a company earns a lot of value in the eyes of

present customers and earns a lot of prospective customers and good reputation and goodwill for all their endeavors by the smallest of CSR.

The company should focus on improving ways to better the manufacturing process of the goods so as to reduce air pollution as much as possible. It should also play an active role in the community and sponsor projects for the betterment of society and those less fortunate.

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## APPENDIX-1

**Table-1 Expenditure by Indian Companies on CSR**

S. No	Company	Segment	NPBT (Rs in Crore)	CSR Exp (Rs in Crore)
1	Aarti Industries	Pharmaceuticals	40.8	0.3
2	ACC Ltd	Cement	1427.3	12.2
3	Andhra Bank	Banking	579.6	7.6

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4	Ashapura Minechem	Mining	161.6	5.0
5	Ballarpur Industries	Paper	303.5	3.7
6	Bongaigaon Refinery & Petrochemicals Ltd (Now Merged with	Oil and Gas	294.30	1.3
7	Edelwiess Capital	Financial	292.6	4.5
8	Gail	Oil and Gas	2761.16	26
9	GMR Infra	Construction	262.6	3.5
10	GTL	Telecommunicati	154.15	1.3
11	Gujrat Flourochemicals	Oil and Gas	349.88	0.6
12	Hindustan Copper	Metal	267.40	1.3
13	HDFC	Financial	2369.01	5.4

		Services		
14	Indian Hotels	Hotels	431.88	1.0
15	Infosys	Software	4659	20.0
16	Jain Irrigation	Polymers and	134.94	4.2
17	Jubliant Organosys	Pharmaceuticals	389.9	5.0
18	Kansai Nerolac Paints	Chemicals	117.03	0.5
19	L & T	Heavy Engg	2257.8	26
20	Madras Cement	Cement	1408.29	1.7
21	M & M F S	Financial	181.13	0.8
22	Mahindra and	Automobiles	1846.7	11
23	Mahindra Life Space	Construction	68.94	0.7
24	Mahindra Uqine steel	Iron and Steel	29.49	0.2
25	MRPL	Oil and Gas	1272.23	1.5
26	MMTC	Trading	200.46	0.7
27	Nagarujna Construction	Cnstruction	168.86	1.6
28	National Aluminium	Metals	1631.52	23.8
29	Navneet Publications	Publications	54.2	3.5
30	OCL India Ltd	Cement	113.8	0.3
31	ONGC	Oil and Gas	120	120
32	Praj Industries Ltd	Engineering	159.54	3.0
33	Ramco Industries Ltd	Cement	29.6	0.4



34	Sun TV	Entertainment	311.87	2.0
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35	Tamil Naidu News	Paper	112.83	1.0
36	Tech Mahindra	Software	769.5	3.0
37	Union Bank of India	Banking	1387.03	14.0