

LINK BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE

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Abstract—In recent years it has been mandatory for all the firms to invest in CSR activities. The aim of this study is to analyze the relationship between change in CSR activities and financial performance. The findings provide that there is a positive relationship between CSR and financial performance. The paper is examined using Regression and correlation analysis with a sample of thirty manufacturing companies. Researchers from the previous studies has explained there is a significant changes in financial performance

Key words:- Corporate social responsibility, corporate financial performance, profits, regression.

INTRODUCTION

In previous years we have noticed there is a significant increase in society's overall focus upon the issues concerning sustainable development (Preston and O'Ban-non, 1997; Simpson and Kohers, 2002; Griffin and Mohan, 1997). CSR (Corporate Social Responsibility) is an initiative taken by the organizations for company's effect on environment and social wellbeing. This paper aims at analyzing relationship between corporate social responsibility and Corporate Financial Performance (CFP).

Friedman (1962) stated that if the corporates are using the funds other than maximization of profit, it will be stated as theft. There had been growing pressure on social and government organizations to take up social and welfare projects. Corporates are investing in social projects to develop reputation in the market and to compete with global firms. Organizations are disbursing money for enhancing CSR activities to attract investors and other stakeholders like employees, customers, government, suppliers, distributors etc... CSR and CFP are two sides of the same coin with equal importance. Better the financial execution of an organization, higher would be the

capacity to spend in CSR activities. Malaysian Public listed companies have to implement CSR activities to support the government and attract foreign direct investment in the capital market by promoting CSR activities. Thus CSR activities may be used as company's strategy to attract investors and improve the financial performance of the company and hence the investment decisions regarding CSR activities should be analyzed and evaluated. (McWilliams and Siegel, 2001).

According to Kotler and Lee, (2005) the benefits of CSR points out the following:

- Will increase sales and market share
- Strengthens emblem positioning,
- Enhance corporate image and clout
- Increase the capacity to attract employees
- Decrease operating fees and increase enchantment to investors

II LITERATURE REVIEW

In the last previous years the researchers are mainly concentrated widely on CSP and CFP relationship and the issues related to sustainable development (Preston and O'Ban-non, 1997; Simpson and Kohers, 2002; Griffin and Mohan, 1997). From the studies conducted approximately the advantages of CSR it turned into clear that the main factors approximately CSR were: increases income and market percentage, strengthens logo positioning, enhances corporate photograph and clout, will increase the ability to attract personnel, decreases operating costs and will increase attraction to traders. Researchers conducted infinite practical studies still the CSR and CFP relationship is uncertain (Alexander and Buchholz, 1982; Aupperle et al.1985; Ullman 1985)

Ruf, Murlidhar, Brown, Jenny, Paul (2001)[1] implemented an online questionnaire survey and mailed to 400 social investors to evaluate the relative importance of dimensions that is employees, consumers, environment, community,

and society as a whole using Analytic Hierarchy Process. Kinder, Lydenburg and Domini Inc. (KLD) social database was the source for evaluating the eight dimensions. KLD database provide more than 650 firms ratings and firms including S&P 500. Return on equity, Return on sales and growth in sales were the variables used to measure the financial performance of the firm. The researcher had taken four year financial data to investigate. The control variables were Industry type and size of the firm. The mechanism used by the researcher to evaluate the financial performance for separate years was Regression analysis. The research suggests that the change in return on sales and growth in sales has a significant positive relationship on change in CSP. The researcher adopted macro approach in examining the relationship between CSP and CFP performance. As stated in stakeholder theory the firm that enhance their CSR activities would perform better than their competitors with respect to certain financial performance. This study proves that there is a causal relationship between changes in CSP lead to improvements in financial performance.

Presently, CSR has come out as an inevitable priority for the business leaders in every country (Porter and Kramer, 2006, p, 78). CSR needs monetary support without having clear evidence for the companies, CSR may not continue to develop as CSR programs are very costly and must compete with the companies with limited financial resources (Wang et.al.2008b). Weisheng Lu, K.W. Chau, Hongdi Wang, Wei Pan (2014)[2] conducted a content analysis by selecting more than 84 articles. The articles falling into CSP-CFP relations were coded an effective value for example 1- positive relationship, -1 for negative relationship. Five studies were examined with sample size of 234, 68, 87, 157 and 230 and therefore for investigating CSP disclosure and market based CFP is 776.

Vicente Lima Criso'stomo (2011) conducted a content analysis to obtain data from two various sources one related to CSR and another that dispense financial data. The aim of the paper was to evaluate firm performance and CSR by considering financial performance. To examine

the performance between CSR index and financial data regression check was conducted. They took 78 non-financial companies data from 2001-2006. The econometric model has provided outcomes that revealed there is a negative relationship between CSR and firm value in Brazil. The negative effect in turn influenced by social action toward employees and environmental action. The study didn't identify any significant relationship between the CSR and accounting performance. This means that in Brazil the value for CSR is decreasing and firms don't have the relation with accounting performance.

Rupal Tyagi (2013) conducted a study which addresses the issue related to CFP and CSR performance in the firm. The observations were taken from National stock exchange (NSE) as well as Environment social governance (ESG) India 500 index. The dependent variable and independent variable along with control variables used in the study is CFP and CSP. The study utilizes Return on equity, Return on assets, and Return on capital employed, and earning per share for 6 years. Risk, Market capitalization, Industry and Size were the control variable. The technique used to analyze the CSP and CFP relationship was Feasible Generalized Least square Regression method. The researcher indicates if there would be any relationship in CSP and CFP in long run it would be negative.

Supriti Mishra (2010) examined whether CSR towards primary stakeholders influences financial and non-financial performance in Indian firms. The data regarding CSR and non-financial performance were collected through questionnaire and spread among the Indian managers including CEOs. For assessing CSR the questionnaire was developed with respect to six stakeholder group's suppliers, customers, community, investors, natural environment and employees. The researcher used Pearson correlation to study the variables and result indicates that more the favorable aggregate CSR towards the stakeholders, higher the ROA and non-financial performance. A favorable CSR also boost the financial and non-financial performance of the firm. The result also gives the insight that listed stock exchange has better CSR and financial performance but neither the firm size nor the

ownership has influenced CSR, FP, and NFP. An increase in CSR activities may arise due to two reasons: Firstly, the company has increased sales or the margin has increased. Secondly, CSR brought down cost advantage which results in tax exemptions and reduced cost of capital. A favorable aggregate CSR towards stakeholders will result in efficiency gain and cost advantage which will ultimately result in favorable firm performance. The limitations of the study were data regarding CSR and NFP is perceptual in nature.

Namita Rajput (2012) had examined to understand study on Linking CSR with financial performance. The data is collected regarding CSR indexes were collected from (www.karamyog.org) and data regarding financial performance were taken from annual reports of the companies. For analysis, the data regarding sales and profit margin of top 500 companies were taken for two years. Ordinary Least Squares Regression method and Correlation analysis is performed on data in SPSS tool. The Correlation results explain that there is positive relationship between CSR and other variables. The study also implies that increase in the CSR expenditure will result in increase in profits and sales for the next year.

Belaïd Rettab (2009) conducted a survey among 280 firms in Dubai and examined the link between CSR activities and firm performance. The questionnaire was sent through emails, fax and personal interviews. For measuring the financial performance the firm used Likert scale. The four elements that were used to measure financial performance were ROA, ROI, sales growth and profit growth compared to competitors. The researcher performed multiple regression and correlation analysis to examine the data. The most important finding in the study is there is a positive association between CSR and financial performance. It also found that more the involvement in CSR activities the employee commitment to the firm also enhance. The limitation of the study is the data collected is perceptual. Secondly the study is based on a particular country so the problem is while generalizing the results to other economies.

III RESEARCH OBJECTIVE

The main objective of the study was to analyze the link between CSR performance and financial performance and the factors that influence it. Existing literature review reveals the impact of CSR performance and financial performance.

IV RESEARCH METHODOLOGY

The study is based on secondary data analysis. The data were collected from Prowess CMIE database. Prowess is a database containing more than 27000 companies' financial data including listed and non-listed companies in NSE and BSE. Criteria used for selecting the sample were non-financial companies with largest market capitalization. As per the prowess database (Prowess 2005) there were 38000 companies' non-financial companies representing 18 categories of manufacturing industries. Out of this 30 companies were selected on basis of market capitalization and randomly chosen manufacturing categories

V DATA INTERPRETATION AND ANALYSIS

Before analyzing the results regression, correlation analysis is conducted to see the interrelation between the variables like sales, ROA, ROCE, and EPS.

CORRELATION

	<i>Net sales</i>	<i>ROA%</i>	<i>ROCE%</i>	<i>EPS</i>	<i>CSR SPEN T</i>
Net sales	1				
ROA%	-0.0821	1			
ROCE %	-0.14458	0.871508	1		
EPS	0.128747	0.017469	0.099393	1	
CSR SPENT	0.946145	-0.06845	-0.12914	0.250721	1

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LINEAR REGRESSION

	SALES	ROA%	ROCE%	EPS	CSR SPENT
Sales	1				
ROA%	-0.22175	1			
ROCE%	-0.25224	0.897818	1		
EPS	0.107841	0.036137	0.1315	1	
CSR SPENT	0.868158	-0.12557	-0.17101	0.154526	1

	NET SALES	ROA	ROCE	EPS	CSR SPENT
Net Sales	1				
ROA%	-0.10485	1			
ROCE%	-0.10125	0.777498	1		
EPS	0.18451	0.523461	0.334934	1	
CSR SPENT	0.987651	-0.12482	-0.12384	0.174805	1

The data is taken for three years 2015, 2016 and 2017. In the analysis conducted, for the year 2015, there exists a strong positive correlation of around 0.94 between sales and CSR amount being spent. It indicates that there is a strong relation between these two variables. There is also strong association between ROA and ROCE. For the year 2016 again a strong positive correlation exists between sales and CSR (0.86) same applies for the year 2017 there is a strong positive correlation between CSR and Sales (0.98). Over the three years taken there is a consistent strong relation between these two variables.

REGRESSION

From the years 2015-2017 for regression analysis CSR is taken as a dependent variable and ROA, ROCE and EPS is taken as independent variable. From the analysis it is identified that change in CSR is significantly dependent upon change in sales. But this is not surprising since the Companies Act 2013 mandates that companies with sales beyond specific thresholds must allocate funds to CSR. Multiple regressions are conducted taking all three variables (ROA, ROCE and EPS as independent). sss

YEAR	R SQUARE	P-VALUE
2015	0.895	0.0002
2016	0.753	0.014
2017	0.97	0.00000002

Sales are identified as a significant variable contributed to CSR activities. In the year 2015 89.5% change in CSR is contributed by sales alone same applies for the subsequent years with the R square values of .75 and .97. In all the above three years p value is less than .05 it means that the null hypothesis is rejected. So as a conclusion CSR change is mostly affected by independent variable sales.

YEAR	VARIABLE	P VALUE	R-SQUARED	CO-EFFICIENT
	Return on assets	0.67		2.795768975
2015	Sales	0.00001	0.91	0.000320089
	Return on capital employed	0.66		-4.274669912
	EPS	0.03		7.119178248
	Return on assets	0.51		
2016	Sales	0.00003	0.76	
	Return on capital employed	0.68		
	EPS	0.516		
	Return on assets	0.51		-0.48837
2017	Sales	0.00003	0.97	1.342337
	Return on capital employed	0.68		-1.72896
	EPS	0.516		0.219966

In the multiple regressions conducted taking all three variables as independent the overall R-square values for three years are (0.91,0.76, and 0.97). It indicates that all the three variables have a significant impact on CSR over three years. The point of interest in these results is that ROA, ROCE and EPS are all not significantly associated with CSR. This would indicate that firm value is not affected CSR. This could be the result of the time period of this study i.e. after the Companies Act 2013 has made it compulsory for firms to spend on CSR. This mandatory spend is possibly treated as a business expenditure now and so does not demonstrate a significant link with financial performance

CONCLUSION AND LIMITATION

This study analyzes the link between CSR and financial performance. The findings of this study are limited to a particular time period. For the last three years it is found that there is no link between ROA, ROCE and EPS. The first limitation this study is sample size is 30 with highest market capitalization. Secondly, the data is secondary and only manufacturing companies are considered.

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