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IMPACT OF CORPORATE SOCIAL RESPONSIBILITY PRACTICE ON RETURN ON EQUITY: A STUDY OF NIFTY COMPANIES

Satinder Singh
Research Scholar, Dept. of Commerce, Punjabi University, Patiala
Email: satindersingh.72666@gmail.com

Abstract

Corporate Social Responsibility is one of the most significant concepts prevailing in corporate world these days. It is like a moral duty. In today's economic and social environment, issues related to social responsibility and sustainability are gaining more and more importance. The relationship between corporate social responsibility and corporate financial performance has caught wide attention of researchers in the last decade. In this paper, attempt has been made to study the relationship of corporate social responsibility and corporate financial performance in Indian manufacturing companies, using a sample of 31 companies from NIFTY. Various tests like regression, correlation, t-test and F-test has been performed using secondary data of the financial year 2014-2015. The study found that there is no significant relationship between Corporate Social Responsibility Initiatives and Corporate Financial Performance of the selected manufacturing companies.
Keywords: Corporate Social Responsibility, Return on Equity, NIFTY Companies

INTRODUCTION

Indian corporations have a long tradition of being engaged in social activities that have gone beyond meeting a company's immediate financial objectives. However, since the late nineties, CSR activities have increasingly come under the scrutiny of policy makers, researchers and corporate stakeholders as governance issues acquired increasing prominence. Over the past few years, as a consequence of rising globalization and pressing ecological issues, the perception of the role of companies has been altered. Corporates consider themselves as a vital part of society and accordingly act in a socially responsible way that go beyond economic performance (KPMG and ASSOCHAM, 2008). As a result of this shift from purely 'profit' to 'profit with social responsibility', many corporate are endorsing the term 'Corporate Social Responsibility (CSR)'. It is essentially a concept whereby companies decide voluntarily to contribute to the society to make it better and environmentally cleaner (European Commission, 2001). The World Business Council for Sustainable Development (1999) suggests that: ''CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large''. A corporation that improves the well-being of employees is not all about being socially responsible, but rather it includes abiding by the law, actions to improve the environment, community, and lives of all the stakeholders of an organization (The Sarbanes-

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Oxley Act of 2002). Over the last few decades, corporate social responsibility (CSR) has continuously grown in importance for business performance at a global level (Carroll and Shabana, 2010). Two major theories were used to describe the relationship between corporate social responsibility and corporate performance. These theories are *Social Exchange Theory (*Cropanzano & Mitchell, 2005) and *Stakeholder Theory* (Jamali, 2008; Kumar & Tiwari, 2011) or *Instrumental Stakeholder Theory* as noted by Gherghina, Vintilă and Dobrescu (2015). Stakeholder theory establishes relationship between relevant stakeholders such as customers, employees, shareholders and the shareholders wealth maximization. Gherghina et al. (2015) explained that the instrumental stakeholder theory describes a positive relationship between corporate social responsibility and firm values. Gherghina et al. (2015) noted that the use of shareholders funds effectively for corporate social responsibility undertakings will improve the value of shareholders. Social responsibility rather seems to have an ambiguous and complex impact on firm performance though no true causality has been proved yet. Where some research argues that investment in social responsibility raises a firm's costs, which makes it less competitive (Friedman, 1970; Brummer, 1991; McWilliams and Siegel, 1997), the others have suggested that by investing in social performance, a firm can achieve competitive advantage by attracting resources and quality employees more easily, differentiating its products and services, reducing its exposure to risk, etc. (Cochran and Wood, 1984; Turban and Greening, 1996; Waddock and Graves, 1997; McWilliams and Siegel, 2001; Godfrey, 2004).

REVIEW OF LITERATURE

The brief reviews of the relevant literature are as under:

Tsoutsoura (2004), in the study, "Corporate Social Responsibility and Financial Performance" on S&P 500 firms from 2000-2004, found that there is a sign of the positive relationship which is statistically significant, supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits.

Flammer (2013), in the study, "Does Corporate Social Responsibility Lead to Superior Financial performance?" found that adopting a CSR-related proposal leads to superior financial performance. The effect is weaker for companies with higher levels of CSR, suggesting that CSR is a resource with decreasing marginal returns. It also found that the effect is stronger for companies operating in industries Performance?" found that adopting a CSR-related proposal leads to superior financial performance. The effect is weaker where institutional norms of CSR are higher.

Aggarwal (2013), found that no significant association between overall sustainability rating and financial performance. However, further analysis reveals that four components of sustainability have significant but varying impact on financial performance.

Kanwal, et al. (2013) in their study found that there is positive relationship between CSR and firms FP, this positive relation on the basis of Pakistan's firms data showing the positive social corporate behavior of Pakistani firms towards society. The result indicates that CSR has a positive impact with each variable of firm's financial performance. All three hypothesis used in this study are accepted. From H1 it is concluded that a significant positive relationship exists between CSR and firm's financial performance. H2 & H3 is also accepted as significant positive impact is found between CSR and net profit or total assets.

Noor, *et al.* (2013) found that firms were responding positively to the requirements and in fact there was a direct relationship between board characteristics and organizations performance.

Chetty, et al. (2014) found that study using regression analysis, the various industries provide mixed results between CSR and CFP for firms over the long term. Based on these results, study also found that CSR activities lead to no significant differences in financial performance.

Malik and Nadeem (2014) in their study found that there is positive but insignificant relationship between Corporate Social Responsibility and the Financial Performance. This positive relationship between Corporate Social Responsibility and the Financial Performance reveals social behavior of Pakistani banks.

Rahmawati (2014) examined that the study aimed to obtain empirical evidence about the effect of real manipulation practices on Corporate Social Responsibility (CSR), and further examined the impact of real manipulation on relationship between CSR and the financial performance of companies in the future. 27 companies listed on Indonesian Stock Exchange during the years 2006-2008 were selected as sample for this study. The study provided empirical evidence that companies engaged in the practice of real manipulation had no influence on CSR activities. The results showed that the higher level of real manipulation on operation cash flow leads to negative effect on the relationship between CSR and financial performance.

El-Chaarani (2014) found that a positive impact of insider ownership concentration on the return of Lebanese banks indicating the more shares held by insiders, the better the performance.

Cornett, et.al (2014), in a study, "Corporate Social Responsibility and its Impact on Financial Performance: Investigation of U.S. Commercial Banks", found that the largest banks appear to be rewarded for their social responsibility, as both size adjusted ROA and ROE are positively and significantly related to CSR scores.

Mohan, *et al.* (2015) the study has revealed that size of board, remuneration to directors and composition of independent directors in the board fail to cast any sort of impact on the financial performance of firms listed in the Bombay Stock Exchange. However, the two corporate governance variables of board ownership and duality are exerting significant impact on financial performance. Presence of promoters in the board has exerted a significant positive impact on financial performance.

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Haider, *et al.* (2015) found strong positive relationship in large board size and firm financial performance in developing countries like Pakistan. The existing studies suggest positive and significant relationship; some suggested positive but insignificant relationship; while some studies suggest no significant association between corporate governance and corporate financial performance. Thus, existing literature provides mixed and indecisive results and hence, further empirical examination is required to be done in this context to arrive at conclusive results.

OBJECTIVE OF THE STUDY

The present paper aims to study relationship between corporate social responsibility and Return on equity of selected companies of NIFTY index of NSE.

HYPOTHESIS OF THE STUDY

To validate the objective following hypothesis has been formulated:

***H_0A*:** There is no significance relationship between Community related initiative and attributes of ROE of selected companies.

***H_1A*:** There is a significance relationship between Community related initiative and attributes of ROE of selected companies.

H_0B: There is no significance relationship between Employees related initiative and attributes of ROE of selected companies.

H_1B: There is a significance relationship between Employees related initiative and attributes of ROE of selected companies.

H_0C: There is no significance relationship between Environment related initiative and attributes of ROE of selected companies.

H_1C: There is a significance relationship between Environment related initiative and attributes of ROE of selected companies.

H_0D: There is no significance relationship between Governance related initiative and attributes of ROE of selected companies.

H_1D: There is a significance relationship between Governance related initiative and attributes of ROE of selected companies.

RESEARCH METHODOLOGY

For present study, exploratory research design is used. The sample comprises of 31 manufacturing companies from NIFTY Index for the year 2014-2015, with availability of required financial data like return on equity and CSR ratings data from csrhub.com website. Statistical techniques, like multiple regression, correlation, t-test and F-test were applied, using SPSS software of data analysis.

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Table 1: List of the Sample comprised companies

S.N	Company	Industry
1	ACC cement	CEMENT
2	Ambuja Cements Ltd.	
3	UltraTech Cement Ltd.	
4	Grasim Industries Ltd.	
5	Cipla Ltd.	PHARMACEUTICALS
6	Dr. Reddy's Laboratories Ltd.	
7	Lupin Ltd.	
8	Sun Pharmaceutical Industries Ltd.	
9	I T C Ltd.	CIGARETTES
10	Coal India Ltd.	METAL
11	Hindalco Industries Ltd.	
12	Vedanta Ltd.	
13	Tata Steel Ltd.	
14	Asian Paints Ltd.	CONSUMER GOODS
15	Hindustan Unilever.	
16	Larsen & Toubro Ltd.	CONSTRUCTION
17	BHEL Ltd.	INDUSTRIAL MANUFACTURING
18	Bharat Petroleum Corporation Ltd.	ENERGY
19	NTPC Ltd.	
20	Oil & Natural Gas Corporation Ltd.	
21	Tata Power Co. Ltd.	
22	GAIL (India) Ltd.	
23	Power Grid Corporation of India Ltd.	
24	Reliance Industries Ltd.	
25	Cairn India	
26	Bosch Ltd.	AUTOMOBILES
27	Bajaj Auto Ltd.	
28	Hero MotoCorp Ltd.	
29	mahindra & Mahindra	
30	Maruti Suzuki India Ltd.	
31	Tata Motors Ltd.	

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VARIABLE DESCRIPTION AND DATA COLLECTION TOOLS

Financial performance attributes used in the study is Return on Equity (ROE %). CSR initiatives of the selected manufacturing companies is defined by the four variables constituting Community related initiatives (COM), Employees related initiatives (EMP), Environment related initiative (ENV) and Governance related initiatives (GOV). Secondary data have been used for study. Therefore, data collected from the various articles, research paper and websites like moneycontrol.com and csrhub.com.

RESEARCH MODEL

The present study is conducted to examine the relationship of CSR rating of firm, its performance along community related, employees related, environment related and governance related (independent variable- COM, EMP, ENV, GOV) on the Return on Equity of the companies. The following four equation has been formulated for analysis:

$$\text{ROE} = a + b^1.GOV + b^2.EMP + b^3.ENV + b^4.COM$$

RESULTS AND DISCUSSIONS

The descriptive statistics for variables used in this study have been shown in Table 2 as under.

Table 2: Descriptive Statistics

Variable	N	Mean	S. Deviation
ROE (%)	31	18.01	25.10
COM	31	56.84	4.44
EMP	31	65.90	4.64
ENV	31	60.97	6.38
GOV	31	49.93	5.62

Source: http://www.moneycontrol.com/financials/ratios (2014-15) & csrhub.com

Table 2 shows the descriptive statistics of CSR variables (i.e COM, EMP, ENV, GOV) and dependent variables (ie ROE). It is observed that the mean value of the GOV rating is least in CSR variables which are 49.93 with EMP recording the highest mean value of 65.90 with the standard deviation of 5.62 and 4.64 respectively. Mean value of the CSR variables of sampled companies is around 50% which shows that companies are not too good at their CSR initiatives so they need to restructure their CSR activities.

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Table 3: Summarized results of model

Particulars	ROE
R	.659
R^2	.434
Adjusted R^2	.351
F	5.186
Significance of F	.003
St. Beta Coefficient for COM (b1)	4.508
St. Beta Coefficient for EMP (b2)	-3.989
St. Beta Coefficient for ENV (b3)	-.550
St. Beta Coefficient for GOV (b4)	.608
p-value for COM	.042
p-value for EMP	.096
p-value for ENV	.759
p-value for GOV	.700

* Significant at 5 percent level of Significance

Above table shows the result of various statistical techniques applied on the data under study which includes t-test, f-test, correlation and regression analysis. It's also observed from the table, that ROE has some correlation with the CSR variables which means that the change in ROE is explained by independent variables. Also in the above table, the significance of F is less than .05 which states that the model is a good fit. Beside this, beta coefficient of EMP and ENV have negative, whereas GOV and COM have positive relationship with the ROE.

FINDINGS

- Community related initiatives have significant positive relationship with ROE of selected companies because value of $p<.05$, hence the null hypothesis ***H_0A is rejected*** .
- Employees related initiatives have insignificant negative relationship with ROE of selected companies because value of $p>.05$, hence the null hypothesis ***H_0B is accepted.***
- Environment related initiatives have insignificant negative relationship ROE of selected companies because value of $p>.05$, therefore the null hypothesis ***H_0C is accepted.***
- Governance related initiatives have insignificant positive relationship with ROE of selected companies because value of $p>.05$, hence the null hypothesis ***H_0D is accepted.***

CONCLUSION

The study found that some of the components, like Governance and Community initiatives, have positive relationship while others, like Environment and Employees related initiatives, have negative relationship with ROE. The results of the present study are in conformance with the existing research results of Chetty, et al. (2014), which also gave the mixed results of association between CSR and Corporate financial performance. The study also states that the relationship between CSR initiatives and financial performance is insignificant which was stated earlier in the study of Malik and Nadeem (2014).

RECOMMENDATIONS

Based on the findings of the study made above, it's argued that the companies need to spend in CSR initiatives so as to improve the society, environment and economy, which in turn will improve the positive image of the corporation in the market and will lead to good financial results. The spending in the CSR related activities should not be restricted to the statutory requirements but instead should go beyond the statute because it is ultimately going to give positive returns to the company either directly or in an indirect way.

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