A Study of the Impact of Capital Social Responsibility Expenditure on Financial Performance of Automobile firms in India

Suchita Shukla
Assistant Professor, STEP-HBTI, Kanpur

Abstract
The capitalist world economy is evolving very fast and it can be seen that capital is being increasingly concentrated and centralized as the battle of competition intensifies. Companies just keep running to maintain the same place in the market so intense is the competition. One major factor that makes a critical difference amongst the companies is the public perception of a business's value systems that are best exhibited by initiative taken in discharging its Corporate Social Responsibility (CSR). In this paper, the impact of a company and CSR expenditure is studied on its financial performance. For the study 5 year data (i.e. 2013 to 2017) of 15 Automobile and allied Indian companies which are listed in BSE 30 and are involved in fulfilling their corporate social responsibilities is taken and the impact CSR expenditure on financial performance is examined by using regression analysis. The parameter to measure financial performance ROA and Market Capitalization is taken. The analysis reveals that there is a positive relationship between CSR and financial performance.

Keywords: CSR; Market Capitalization; Return on Equity; Automobile sector

Introduction

The concept Corporate Social Responsibility (CSR), originally referred to as Social Responsibility (SR), was discussed as early as in the 1930's (Carroll, 1999). However, Carroll (1999) states, "it was not until the publication of Bowen's *Social Responsibilities of the Businessman* in 1953 that the concept became popularized and discussed in similar terminology as it is done today". How companies define, understand and organize its CSR activities differs, but a common practice is to utilize the Triple Bottom Line (TBL) framework (Shnayder et al., 2015). TBL refers to three different entities, planet, people and profit. It is also sometimes referred to as the 3P's. Planet attributes to how the company takes its responsibility towards environmental parameters, People refers to how companies carries out its business with regard to the affected labor force, and Profit refers to how the company's economically generates benefits to society (Shnayder et al., 2015). The TBL concept was established in the mid-1990s by economist John Elkington and has since been a commonly used term in the field of CSR and sustainable development.

Since the past decades, companies CSR activities have increased as also the stakeholders' and their various demands. In order to evaluate the potential financial benefits for firms undertaking such activities, there have been numerous of studies trying to find the relationship between CSR and financial performance. Present paper is also an attempt in that direction, and in this study an attempt will be made to find out the relationship between CSRE and financial performance of the firm.

Literature Review

Esra Nemli et al (2011) found out the relationship between Corporate Reputation and Corporate Financial Performance in Turkey for the period 2000-2010. The corporate reputation ranking from Capital Magazines Turkey's list used as proxy for Corporate Reputation. ROE, ROA and Market to Book value was used as financial performance measures and they concluded that there is casual relationship between Corporate Reputation and Corporate Financial performance and Corporate Reputation does not have an impact on performance measured by ROE, but ROE does improves corporate reputation.

Sumanta Dutta et al. (2011) analysed CSR activities of Indian companies by comparing with TBL reporting with GRI and Karmayog ratings and concluded that 128 companies scored 0 level, 147 companies at level 1, 146 companies at level 2, 66 companies at level 3, 13 companies at level 4 and No company was found to be under the level 5 and concluded that there is considerable improvement in the status level 0 from 2007 to 2009.
Dr. R.S. Ramesh et al (2012) examined the ITC-e-CHOUPAL model, Hyundai Motors 'Go Green" project and Tata Motors Train the drivers scheme as case study and compared the CSR initiatives and measured the social performance of the selected companies through the rating levels of Indian Companies for the period of four years

from 2007 to 2010 which measured by KARMAYOG, an NGO, who measures the CSR activities of Indian companies and ranking by Five Levels (0 to 5).The authors also confirmed that, most Indian companies feel that CSR was only possible if profitability was considerably high and concluded that there is a need today for Indian companies to re-examine their CSR interventions and find out their effectiveness through “think globally and act locally”

Iqbal et al (2012) analysed the connectivity of CSR with financial performance, market value of share and financial leverage of 156 listed companies on Karachi Stock Exchange for the entire period of 2010-11. They used descriptive statistics, correlation and regression to conduct the study and found that CSR negatively affected the market value of companies.

Nkomani (2013) studied the impact of CSR on CFP of the top 100 listed companies in Johannesburg Stock Exchange (JSE) in South Africa for the period of 2002-11. The author used ANOVA and Kruskal-Wallis test to study a sample of 68 companies and divided these companies according to the companies included in Johannesburg Stock Exchange (JSE) socially responsible investment index (SRII) and the companies not included in Johannesburg Stock Exchange (JSE) socially responsible investment index (SRII). The author concluded that the companies, not included in SRII, had better financial performance than the companies included in SRII.

Mujahid and Abdullah (2014) examined the dependency of CSR on firm’s financial performance and shareholders’ wealth in Pakistan. They selected 10 firms which were highly rated as CSR firms and 10 non-CSR firms to see the difference in their financial performances and shareholders wealth as well. They used ROE and ROA ratios as a measure of profitability and as stock price & EPS as representatives of shareholders’ wealth. They concluded that there was a significant positive relationship between CSR and financial performance and shareholders’ wealth.

Siddiq and Javed (2014) studied the effect of CSR on the organizational performance of six companies, listed in Pakistani Index. They used CSR as an independent variable and as dependent variable ROA and total turnover as indicators of organizational performance was used. The study used descriptive statistics, Pearson’s correlation and regression for analyzing the data (both primary and secondary). The correlation result showed that both CSR and organizational performance were positively correlated whereas regression result depicted that Perceived CSR had an insignificant positive relationship with organizational performance but perceived stakeholders relationship affected the organizational performance negatively as well as insignificantly.

Valmohammadi (2014) investigated the influence of seven dimensions of CSR (such as organizational governance, human rights, labour practices, the environment, fair operating practices, consumer issues and community involvement and development) on organizational performance in Iran. The author used a sample of 207 Iranian manufacturing and service firms and used structural equation model in the study and concluded that a significant positive relationship between CSR and organizational performance of these companies.

Subramanium et al (2014) found the relationship between CSR reporting with liquidity position of 194 Malaysian Public listed companies for the year 2009. They used content analysis to develop CSR index and multiple regression analysis to see the relationship among CSR index, management and institutional ownership, corporate governance mechanisms and the liquidity of equity shares of these companies. The result showed a positive relationship between CSR reporting and liquidity of equity shares which means that if the companies adopted greater level of CSR disclosure the higher will be the liquidity in terms of price impact.

Akinmulegun S. Ojo (2012) examined the effect of financial leverage (measured by Debt-Equity ratio) on Earnings per Share (EPS) and Net Assets per Share (NAPS). He used panel data on effect of leverage on performance indicators of some corporate firms in Nigeria during 1993 and 2005 and employed econometric technique of Vector Auto Regression (VAR) on the variables and found that leverage shock on EPS indirectly affect the NAPS. Leverage therefore significantly affects Corporate Performance.

Objectives of the Study

The study has been carried out with the aim of analyzing the CSR with Financial performances of the selected companies in the various sectors. The aim of the study has been carried out with the following specific objectives:

1. To examine the relationship between the CSR and ROA
2. To examine the relationship between the CSR and Market Capitalization

Research Methodology

This study this exploratory in nature and secondary data is mainly used to find out the relationship between corporate social responsibility expenditure of 15 automobile and allied Indian companies selected through convenience sampling method. A research period of 5 years i.e. 2013 to 2017 is taken up for the study. Secondary data is collected from money control website and other published and non published data available. As a measure of financial performance Return on Asset (ROA) and Market Capitalization (MCAP) is taken. To find the relationship of CSRE with ROA and Market capitalization Regression analysis was used. CSRE was taken as independent variable and ROA and Market Capitalization is taken up as dependent variable, and interpretations and conclusions drawn. Two hypothesis will be tested with the help of regression analysis, these are:

1. H0: CSR has no significant impact on ROA
2. H0: CSR has no significant impact on Market Capitalization

Data Analysis & Interpretations

H0: CSR has no significant impact on ROA

H1: CSR has significant impact on ROA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	10.476	1.176		8.906	.000
	CSRE	.075	.036	.238	2.091	.040

a. Dependent Variable: ROA

As seen above p-value is 0.040 i.e. less than 0.05 and therefore it can be said that b coefficient is statistically significant as its p-value is smaller than 0.05. It can be said that we reject the null hypothesis that CSR has no significant impact on ROA and accept the alternate hypothesis that CSR has significant impact on ROA.

H0: CSR has no significant impact on Market Capitalization

H1: CSR has significant impact on Market Capitalization

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	16427.538	5067.080		3.242	.002
	CSRE	1056.109	154.150	.626	6.851	.000

a. Dependent Variable: MCAP

As seen above the significance value is 0.000, which is less than 0.05, therefore we reject the null hypothesis i.e. CSR has no significant impact on Market Capitalization and accept the alternate hypothesis that CSR has significant impact on Market Capitalization.

Conclusion

From the study it can be concluded that corporate social responsibility has a positive impact on financial performance for the sample of selected automobile and allied companies. One way of looking at things is that by

spending on CSR companies earn public trust and therefore positive public perception which has in turn positive impact on its market share and consumer loyalty. Therefore being a win-win situation for all the stakeholders.
The practical implication of this research consists of an outlining of the nature of the relationship between CSR and financial performance in Indian automobile and allied companies during 2013-2017. This information can further companies and practitioners understanding the CSR and financial performance relationship in the context of publicly traded Automobile and allied companies. As the result indicates that there is statistical significance regarding the relationship, investments in CSR and ROA and MCAP. This in turn could positively influence the extent to which companies choose to invest in such activities if these financial measures are considered important. However, it should also be noted that this research only examines the relationship between these two financial variables and CSRE and that the time span examined is also limited to 5 years.

References

1. Akinmulegun Sunday Ojo . Akinmulegun Sunday Ojo, The effect of financial leverage on Corporate Performance of some se3lected companies in Nigeria, Journal of Canadian Social Sciences . 2012; 8 (1):84 -9 .
2. Carroll, A.B. (1999) ‘Corporate Social Responsibility: Evolution of a Definitional Construct’, Business & Society, Vol. 38, Issue 3, pp. 268-295
3. Chih Hung Chen. The Major Components of CSR. Journal of Global Responsibility, 2011; 2(1):85 -99 .
4. Dr. Ramesh RS, Prof. Punitha Goel. Study and Measurement of CSR - An Indian Perspective. International Journal of Multidisciplinary Research, Zenith Research Publications. 2012; 2 : 6 .
5. Sumanta Dutta, Prof. Uttam Kumar Dutta , Prof. Saja Das. Triple Bottom Line Reporting: An Innovative Accounting Initiative . International Journal for Business, Strategy and Management. 2011; 1 (1): 1 -13.
6. Tobias Gosling , Chris Vocht . Social Role Conceptions and CSR Policy Success Springer of Business Ethics, 2007; 74:363 -372.
7. Esra Nemli et al. 71. Esra Nemli Caliskan, Basak Turan Iake and Yusuf Aythrk, 'Corporate Reputation and Financial Performance: Evidence from Turkey . Research Journal of International Studies, 2011, 18.
8. Elkington, John (1998). Cannibals with Forks: The Triple Bottom Line of 21st Century Business. Gabriola Island, BC ; Stony Creek, CT : New Society Publishers, c1998.
9. Cochran PL, Wood RA. Corporate Social Responsibility and Financial Performance. Academy of Management Journal. 1984; 27(1):42 -56.
10. Richa Gautam , Anju Singh . CSR Practices in India: A study of top 500 Companies. Global Business and Management Research; An International Journal, 2010; 2(1):4.
11. Babalola, Yisau Abiodun. The impact of CSR on Firm's Profitability in Nigeria. European Journal of Economics, Finance and Administrative Sciences, 2012, 45.
12. Jorge Arevalo A, Deepa Aravind . Corporate Social Responsibility practices in India, Approach, Drivers and Barriers, 2011 ; 11:399 -414.
13. Dr. Ashish Mathur. Perepectives of Small and Medium enterprises for the CSR in Jodhpur . International Journal of Research in IT, Management and Engineering, 1: 2 .
14. Saeed Khan. Corporate Social Performance of Indian FMCG Companies . Issue in Social and Environmental Accounting . 2010; 3 :2.
15. Handbook on Corporate Social Responsibility in India, pwc & CII, 2015.
16. Shnayder, L., Van Rijnsoever, F. & Hekkert (2015) ‘Putting Your Money Where Your Mouth Is: Why Sustainability Reporting Based on the Triple Bottom Line Can Be Misleading’ PLoS ONE, Vol. 10, Issue 3, pp. 1-23