International Journal of Applied Research 2017; 3(1): 38-41

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2017; 3(1): 38-41
www.allresearchjournal.com
Received: 08-11-2016
Accepted: 09-12-2016

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Impact of corporate social responsibility on firm's financial performance with a special reference of RIL

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Abstract
From the last decade corporate firms are more interested with social responsibility which is popularly known as Corporate Social Responsibility (CSR). To perform the CSR firms have to incur some expenses which may impact on firm's profitability. In India there was no legal obligation to perform CSR before 2014. Reliance Industries Ltd. (RIM) was the highest CSR contributor in India in 2013 – 2014 financial year as per Ministry of Corporate Affairs. The main objectives of the study are to know the relationship among CSR, firm's profitability, shareholders' value, firm's value and the impact of CSR on firm's profitability. I used correlation to know the nature of relationship among the variables and regression to measure the impact of CSR on firm's profitability. The study showed that there was no significant positive relationship among the variables and the CSR has no impact on firm's profitability.

Keywords: Corporate social responsibility (CSR), Firm's profitability, shareholders' value, firm's value

1. Introduction

The whole world is facing and fighting with the global problems such as climate change, natural disasters, poverty, human rights violations, and legal non-compliance etc. Corporate society is one of the major participants to reduce these global problems because they are the one of the main causes of global problems. Mr. Sha Zukang, Secretary-General of Rio+2014, underlined the role of the private sector in providing employment and livelihood opportunities, as well as in better managing the planet's natural resources. Corporate firms of institutions are trying to meet social, economic and environmental problems with performing social responsibilities popularly known as Corporate Social Responsibility (CSR) voluntarily or legally due to pressure from its stakeholders. The concept of CSR is not new in India. The practice of CSR principles by the firms have been from ancient stage. Before 2013, in India, there was no law regarding the compulsory CSR performance of a firm. But from 1st April, 2014 it is mandatory for companies with a net worth of more than Rs 500 crore, or turnover of Rs 1,000 crore, to adopt a CSR policy due to implementation of Companies Act 2013. According to this Act, companies with a minimum net worth of Rs 500 crore, turnover of Rs 1000 crore or net profit of Rs 5 crore or more are required to spend at least two percent of their three-year average annual net profit on social welfare initiatives. Some researchers suggested that the CSR cost is the burden on the management of the firm because it increased the total cost of the firm. On the other hand, some stated that CSR will increase the firm's brand value, popularity and therefore increased the firm's profitability. There were a number of researches have been carried out on CSR and firm's profitability to know whether CSR leads to superior firm performance or not. The results showed that relationship between CSR and firm profitability may be negative, neutral or positive. Therefore further research is needed in this context to provide research evidence. The current study has mainly focused on the impact of CSR expenditure on the level of profitability of Reliance Industries Limited (RIL) the highest contributor of CSR expenditure among Indian listed companies in the year 2014.

2. Literature Review

There is no universal accepted definition of CSR because of several authors, institutions and scholar defined the CSR in different ways in different times.

According to Heald (1957)[1], CSR is recognition on the part of management of an obligation to the society it serves not only for maximum economic performance but for humane and constructive social policies as well.
According to Archie B. Carroll (1979), the social responsibility is a set of economic, legal, ethical and discretionary expectations of society towards the business organization's activities.
In 2001, The World Business Council for Sustainable Development (WBCSD) defines CSR as ''the commitment of business to contribute to sustainable economic development, working with employees, their families and the local communities''
Commission of European Communities (2006) defined CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.
According to Infosys founder, Narayan Murthy, "social responsibility is to create maximum shareholders value working under the circumstances, where it is fair to all its stakeholders, workers, consumers, the community, government and the environment."
Johansson *et al* (2015) [6] stated on their thesis paper that there was no significant relationship between CSR and financial performance observed during their study period.
Mujahid M & Abdullah A (2014) [1] conducted a research to find out the impact of CSR on shareholders wealth and firms financial performance. They were taken 10 CSR performing firms and 10 non performing CSR firms and simply compare with them. They considered CSR is an independent variable and ROA and ROE considered as the dependent variables to measure the firms profitability and EPS was another dependent variable to measure shareholders wealth. The results showed that there is a significant positive relationship between CSR and firms financial performance and shareholders wealth.
Trang & Yekini (2014) conducted a study on 20 Vietnamese companies for 3 years to know the relationship between CSR and Firms' financial performance. The result showed that there was a significant positive relationship between CSR and Firms Financial Performance.
Tuhin (2014) [5] studied on 10 listed banks in Bangladesh to measure the impact of CSR and the level of their profitability. On the basis of Regression analysis the result showed that there was a significant positive association between corporate social responsibility expenditure and profitability of the sample listed banks.
Cochet & Vo (2012) [2] studied to know the impact of a CSR tool on the adopting small and medium enterprises. They found that impacts were mainly at the strategic level, addressing social and economic aspects, but the implementation remained very difficult for them.
McWilliams & Siegel (2000) [4] conducted a research to know the impact of CSR on firm's financial performance. The result showed that there was neutral impact of CSR on firm's financial performance.
McGuire *et al* (1988) [3] tried to analyses the relationships between perceptions of firms' corporate social responsibility and measures of their financial performance. The result showed that firms low in social responsibility also experience lower ROA and stock-market returns than do firms high in social responsibility.

3. Objective of the Study
The main objectives of the study are:
1. To find the relationship between CSR and firm's profitability
2. To find the relationship between CSR and firm's value
3. To find the relationship between CSR and shareholders' value
4. To know the impact of CSR on firm's profitability

Hypotheses
H1: CSR has significant relation on the firm's profitability
H2: CSR has significant relation on firm's value
H3: CSR has significant relation on shareholders' value
H4: CSR has significant impact on firm's profitability

4. Research Methodology
To fulfill my objective I have considered Corporate Social Responsibility (CSR), Net profit (NP), and Return on Assets (ROA) to measure firm's profitability, Earning per Share (EPS) to measure shareholders' value, Market Value of Share (MVS) to measure firm's value. To know the relationship among the selected variables I have applied Pearson's Simple Correlation Coefficient with CSR and the above taken variables. Linear Regression was used to know the impact of CSR on firm's profitability.

5. Data Collection
In this study secondary yearly data relating to NP, CSR, ROA, EPS, MVS have been selected from the period April 20010 to March 2016 of Reliance Industries Ltd., the top most performer of CSR expenses during the year 2014 from the Annual Report of their web site.

6. Results and Analysis

Table 1: Correlations among NP, CSR, ROA, EPS, MVS

		CSR	NP	ROA	EPS	MVS
CSR	Pearson Correlation	1	.683	.783	.699	.717
	Sig. (2-tailed)		.204	.117	.189	.173
	N	5	5	5	5	5
NP	Pearson Correlation	.683	1	.981**	1.000**	.764
	Sig. (2-tailed)	.204		.003	.000	.133
	N	5	5	5	5	5
ROA	Pearson Correlation	.783	.981**	1	.984**	.828
	Sig. (2-tailed)	.117	.003		.002	.083
	N	5	5	5	5	5
EPS	Pearson Correlation	.699	1.000**	.984**	1	.763
	Sig. (2-tailed)	.189	.000	.002		.134
	N	5	5	5	5	5
MVS	Pearson Correlation	.717	.764	.828	.763	1
	Sig. (2-tailed)	.173	.133	.083	.134	
	N	5	5	5	5	5
**. Correlation is significant at the 0.01 level (2-tailed).						

[1] Cited in Rahman s. Evaluation of definition: Ten Dimensions of Corporate Social Responsibility. World Review of Business Research vol.1. No. 1 2011 at page no. 167

From the above table 1 we can see that the correlation between CSR and NP is 0.683, CSR and ROA is 0.783, CSR and EPS is 0.699, CSR and MVS is 0.717 i.e. all are moderately high positive correlation but none of those are statistically significant during the study period. That means the growth of financial performance, firm's value and shareholders' value were not for the contribution of CSR expenditure but it may be for the efficiency of the management.
To confirm my prediction I have considered the Debtors Turnover Ratio (DTR) and Inventory Turnover Ratio (ITR) as management efficiency ratio and correlated with them to NP. The result was at table-2. From the table 2 we can see that the correlation of firm's NP and DTR (0.883) & NP and ITR (-0.909) were highly positive and negative significant at 5% level respectively during the study period. Therefore, the null hypothesis were accepted regarding relationship with CSR and firm's profitability, CSR and shareholders' value & CSR and firm's value.

Table 2: Correlations among NP, CSR, DTR and ITR

		NP	CSR	DTR	ITR
NP	Pearson Correlation	1	.683	.883*	-.909*
	Sig. (2-tailed)		.204	.047	.033
	N	5	5	5	5
CSR	Pearson Correlation	.683	1	.944*	-.371
	Sig. (2-tailed)	.204		.016	.539
	N	5	5	5	5
DTR	Pearson Correlation	.883*	.944*	1	-.656
	Sig. (2-tailed)	.047	.016		.229
	N	5	5	5	5
ITR	Pearson Correlation	-.909*	-.371	-.656	1
	Sig. (2-tailed)	.033	.539	.229	
	N	5	5	5	5
*. Correlation is significant at the 0.05 level (2-tailed).					

Now to test my last hypothesis i.e. whether CSR has an impact of firm's profitability or not, we have used simple regression analysis.

Table 3: Regression [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.998[a]	.996	.986	363.07797	2.274
a. Predictors: (Constant), DTR, ITR, CSR					
b. Dependent Variable: NP					

In the above table 3 the R Square value for the model is extremely high (0.998) which means that the model is good fitted or 99.8% of variation in dependent variable (NP) is caused by Independent variables (DTR, ITR, and CSR). Hence it is the positive sign for the model. But when we look into the ANOVA table 4 the joint significant value is 0.076 which was more than 5% significant level. It implies that the independent variables do not significantly affect on NP.

Table 4: Anova [b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.701E7	3	1.234E7	93.591	.076[a]
	Residual	131825.613	1	131825.613		
	Total	3.714E7	4			
a. Predictors: (Constant), DTR, ITR, CSR						
b. Dependent Variable: NP						

After the rejection the above regression method with enter model, I considered the stepwise regression method to know the less impact variable. At first method the software excluded the ITR because of low probability to predict the firm's future NP. Then we considered only NP as dependent variable and DTR and CSR as independent variables. The results were as under:

Table 5: Regression Model Summary [c] under stepwise method

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.883[a]	.779	.706	1652.38047
2	.992[b]	.985	.970	532.03162
a. Predictors: (Constant), DTR				
b. Predictors: (Constant), DTR, CSR				
c. Dependent Variable: NP				

Table 6: Anova [c]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.895E7	1	2.895E7	10.604	.047[a]
	Residual	8191083.701	3	2730361.234		
	Total	3.714E7	4			
2	Regression	3.658E7	2	1.829E7	64.614	.015[b]
	Residual	566115.280	2	283057.640		
	Total	3.714E7	4			
a. Predictors: (Constant), DTR						
b. Predictors: (Constant), DTR, CSR						
c. Dependent Variable: NP						

Table 7: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15061.541	2505.734		6.011	.009
	DTR	192.782	59.200	.883	3.256	.047
2	(Constant)	13583.638	855.569		15.877	.004
	DTR	474.649	57.556	2.174	8.247	.014
	CSR	-18.192	3.505	-1.368	-5.190	.035
a. Dependent Variable: NP						

Table 8: Excluded Variables[b]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	CSR	-1.368[a]	-5.190	.035	-.965	.110
a. Predictors in the Model: (Constant), DTR						
b. Dependent Variable: NP						

From the regression model 1 in above table 5, it was clear that the DTR itself was the around 78% predictor of firm's future profit during our study period. The joint significant value of the model was 0.047 was significant at 5% level. The second model with DTR and CSR was higher significant value but the software excluded the CSR variable due to less impact on firm's profitability. That implies that the CSR has a little positive impact on firm's profitability which was not statistically significant during my study period.

7. Conclusion

The study showed that the CSR has positive relationship among firm's profitability, shareholders' value and firm's value but none of these was statistically significant during my study period. The increasing trend of Net Profit of RIL during my study period was due to the management efficiency not due to the effect. So it may be conclude that CSR has no impact on firm's profitability. The positive relation between CSR and firm's Net Profit because of CSR expenditure as a percentage of profit.

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