

STUDY ON FINANCIAL PERFORMANCE INFLUENCED BY CORPORATE SOCIAL RESPONSIBILITY

Sunil Kumar

Research Scholar

Department of Commerce and
Management

Sunrise University, Alwar, Rajasthan
cs.skmalhotra@gmail.com

Dr. Dilip Kumar Sharma

Research Guide

Department of Commerce and
Management

Sunrise University, Alwar, Rajasthan

ABSTRACT

This research examines the impact of CSR on a company's financial success using data from the largest study ever conducted on corporate reputation in the world—the top most corporations. According to annual reports of businesses from the previous several years, corporate social responsibility is calculated as the total of environmental costs and donations. This study's findings show that CSR has a significant effect on businesses' financial success. Additionally, this study demonstrates that whereas Nestle Indian Ltd. did not demonstrate a significant link, ITC Ltd. did. Therefore, it may be inferred from this article that there may not be a substantial relationship between corporate social responsibility spending and firms' profit after tax.

Keywords: CSR, Financial Performance, Company, ITC, Nestle

INTRODUCTION

Companies all over the world are fighting to adapt to a new role, which is to fulfill the demands of the current technology without jeopardizing the capacity of future generations to meet their own requirements. Organizations are being urged to accept responsibility for how their activities affect society and the environment. Additionally, they must demonstrate how social and environmental concerns are taken into account in business operations and in relationships with stakeholders. A business cannot disregard the issues in the community where it works. Therefore, it is necessary to research how corporate social responsibility affects a company's profitability in India.

According to the idea of "corporate social responsibility," businesses have a duty to consider their "footprint" on the environment as well as the interests of their customers, workers, shareholders, and other groups. Environmental and social responsibility is a topic that is included in many legal and political documents and is becoming more and more important on a global scale. Company executives nowadays have a dynamic challenge while attempting to uphold society ethical norms to conduct ethical business. Whatever the driving forces underlying CSR ideas, they may also be seen as the concept of the "triple bottom line" ("People, Planet, Profit"), which encompasses a wider range of standards for judging the success of a business on its economic, environmental, and social fronts. Corporate governance and business ethics work together to provide a strategy for achieving organizational excellence. There are many different points of view that have been offered to explain the importance or in any other situation of corporate social responsibility (CSR) in business activities. Neoclassical economics argue that businesses should focus their efforts on providing their customers with products and services, while also minimizing costs and maximizing profits. Of course, all of this must be done within the confines of the applicable laws, rules, and regulations. In fact, some proponents of this viewpoint even go so far as to claim that CSR is a financial (price) imposition on the company, in addition to being a

diversion from the primary business of wealth-adventure and therefore aiding in stifling competition.

This paper adds to the previous work of other authors who have discussed issues with corporate social responsibility. It also examines how various factors surrounding corporate social responsibility, how it affects businesses' profitability, and how it will help managers make wise and practical decisions, as well as those of business stakeholders, governments' companies, and some other interested parties. The primary goal of this essay is to investigate how corporate social responsibility affects Indian business profitability.

REVIEW OF LITERATURE

1) Impact of CSR on financial performance of the company

Munaza Kanwal, (2013)

In this analysis, corporate social responsibility (CSR) refers to a company's ongoing commitment to act morally and promote economic growth. They have found in this research that CSR has a beneficial effect on the firm's financial performance. Additionally, it has been shown that companies that do not prioritize CSR initiatives do not fare financially well in comparison to those that do. According to a different research, CSR initiatives that prioritize the needs of the company's suppliers, customers, workers, and investors provide significant financial gains. Additionally, there is a strong correlation between CSR and financial success. Finally, this study concludes that investing in CSR helps to build a favourable perception of the business.

2) Impact of CSR on financial performance of the company between Germany and US

Kolisch, (2015)

This essay examines how CSR and business performance relate. Additionally, it provides details on the various effects of a company's CSR on their financial performance and profitable position in Germany and the United States. The current emphasis is on the overall impact and outcome of CSR on financial performance. It also highlighted the various economic, legal, and cultural environments.

3) The Impact of Corporate Social Responsibility on Firms' Profitability in Nigeria

Babalola, (2012)

This research uses secondary data from ten (10) randomly chosen businesses' annual reports and financial summaries from "1999-2008" to explore the connection between corporate social responsibility and firms' profitability in Nigeria. The research uses ordinary least square to analyze the data it has gathered. The study's findings indicate that the sample companies contributed less than 10% of their yearly earnings to social responsibility. The obtained coefficient of determination illustrates that changes in corporate social responsibility (CSR) in Nigeria are the explanatory variable that account for changes or variations in the performance of the selected firms (PAT), and it suggests that laws and regulations be passed to obligate businesses to be recognized and that sufficient attention be paid to social accounting in terms of social costs and to comply with social responsibility.

4) How can CSR affect company performance? A qualitative study of CSR and its effects

Johan Classon, (2006)

Through the linkages in the CSR-Performance Chain, CSR may affect how customers see a product or service offering and ultimately have an impact on how well a firm performs. Furthermore, we discovered that in order for businesses to prevent boycotts, which have a

detrimental impact on business performance, their CSR levels must be at or above consumers' baselines (i.e., the lowest acceptable level).

5) Communicating about corporate social responsibility: A comparative study of CSR reporting in Australia and Slovenia

Bartlett, (2006)

This essay compares and contrasts Slovenia's and Australia's approaches to dealing with CSR reporting concerns. Reporting is seen as a crucial communication channel or instrument that provides improved stakeholder involvement and increased company transparency. Guidelines for CSR and reporting requirements in the two nations are given in this article. Although both nations' reporting standards are very comparable, the article shows that there are differences because of national cultures. Reporting is influenced by factors related to products, management, and finances in Australia, while employees in Slovenia shape it. As a result, it's critical to boost reporting incentives.

6) The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice

M. Shabana, (2010)

This essay discusses the reasons for and against the corporate community's acceptance of CSR. Since CSR is a significant investment for commercial organizations, their main worry is whether they would benefit from it or not. In essence, it speaks to how CSR initiatives, regulations, and practices benefit them. Since CSR is a relatively new idea, the article first gives some historical context. It also offers a number of reasons in favor of and against the idea of CSR, since it is a crucial issue as to whether a corporate corporation has any obligations to society other from optimizing its own financial well-being and profit margins. The purpose is to define and summarize what a business case is, as well as to discuss a few theories, studies, and practical applications that will help this notion grow.

RESEARCH DESIGN

Problem Statement: The primary goal of this study is to determine if a company should spend money on CSR initiatives and how doing so will influence the company's bottom line. Every organization has a duty to practice CSR in accordance with legal requirements. Therefore, it's crucial to analyze how the money will be spent in order to do so effectively and efficiently. Because a corporate company was created in a society, it has obligations to that society in addition to its financial obligations.

Scope Of Study – The main goal of this research is to comprehend how CSR affects a company's profitability. The following research goals have been determined to be of utmost significance in achieving the aforementioned goal.

- Review the corporate social performance of the company.
- Evaluate the relationship between CSR and profitability through the research.
- Explore how CSR influence a firm's profitability in general.

DATA ANALYSIS AND INTERPRETATION

Table1: CSR expenditure and profit after tax of ITC Ltd for a period of 9 years i.e. 2009-2017

YEAR	CSR EXPENDITURE	PROFIT AFTER TAX
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2009	0	3988.04
2010	0	4914.14
2011	0	5048.92
2012	0	6162.37
2013	0	7418.39
2014	0	8785.21
2015	214.06	9607.73
2016	247.5	9328.37
2017	275.96	10200.9

This proves that there is a substantial association between CSR spending and PAT at 0.05 or 5%. To assess how corporate social responsibility spending affected ITC Ltd's profitability, the results showed that (Beta= 0.5199, p0.05)

Table2: CSR expenditure and profit after tax of Nestle India Ltd for a period of 9 years

YEAR	CSR EXPENDITURE	PROFIT AFTER TAX
2009	0	7728.3
2010	0	9169.8
2011	0	11451.1
2012	0	13879.24
2013	0	10679.3
2014	0	11171.3
2015	85.1	11846.9
2016	206	5632.7
2017	314	9265.4

The data on Nestle India Ltd.'s CSR spending and Profit after Tax (PAT) for the years 2009–2017 were ran using SPSS 16 to create the following table. Table 2 presents the results. The outcome indicates either a strong link or a lack of relationship between the two investigated variables.

This proves that there is no discernible connection between CSR spending and PAT. Despite further increases in CSR spending, profits did not rise in 2016. This demonstrates that there is no correlation between CSR spending and PAT, however the decline in profit for the year 2016 despite an increase in spending may be attributable to a number of other factors. One of the causes is the manufacture and use of Maggie (a Nestle product) are now prohibited. Therefore, it is challenging to draw the conclusion that there is no correlation between CSR spending and PAT given that the 2016 profit decline was brought on by an unforeseen and unavoidable factor.

FINDINGS AND SUGGESTIONS

ITC Ltd. and Nestle India Ltd. both operate in the same sector, however ITC Ltd.'s results demonstrate a strong correlation between CSR spending and profit after taxes, but Nestle India Ltd.'s results don't. This cannot serve as definitive proof that there is no relationship between the two factors since Nestle India Ltd. encountered an unforeseen and unavoidable circumstance, namely the Maggi ban.

Therefore, it is advised to include more FMCG businesses in the testing to provide an accurate result.

CONCLUSION

Every business must spend money on CSR because it owes more to society than simply maximizing its own profits. The two firms examined had different relationships. ITC Ltd. demonstrated a substantial relationship, but Nestle India Ltd. did not. Therefore, it may be inferred from this article that there may not be a substantial relationship between corporate social responsibility spending and firms' profit after tax.

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