Impact of Corporate Social Responsibility on Profitability in Corporate World in India-An Empirical Study

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Abstract
Corporate Social Responsibility has gained much applaud in the last decade in the corporate world. CSR is a concept which has become dominant in business reporting as per the provisions of Companies Act, 2013. It is no longer acceptable for a corporation to enjoy economic prosperity in isolation from those agents impacted by its actions. International data has shown the significant relation between CSR and profitability of the firms. CSR is considered as a profit motivating decision. This paper tries to test the impact of CSR on profitability, using correlation technique, of 10 companies listed on NSE India. CSR demonstrates the reciprocal activity towards society where it works. The social responsibility discharged by the organization puts the positive impact not only on the goodwill of the firm but on the profitability as well. CSR also gives the competitive advantage to the firms. This fact has been explained in this paper that there is a positive impact of corporate social responsibility on the profitability of the firms.

Key Words: Corporate social responsibility, profitability, India, correlation.

Introduction

Corporate social responsibility (CSR also called corporate conscience, corporate citizenship or responsible business) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with spirit of the law, ethical standards and national or international norms. With some models, a firm's implementation of CSR goes beyond compliance and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law." The aim is to reap long-term profits through favourable public relations, high ethical standards to reduce business and legal risk, and shareholder trust by taking responsibility for corporate actions. CSR strategies encourage the company to make a positive impact on the environment and stakeholders including consumers, employees, investors, communities, and others.

LiteratureReview

Business dictionary defines CSR as "A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs and (3) by earning adequate returns on the employed resources." Lord Holmes and Richard Watts defined CSR as "Corporate Social Responsibility 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"

Why Sustainability Programs are good for Industry Associations?

1. **Help attract and retain members**: Sustainability and CSR programming increases the value and relevance of the association to current and prospective members. It reduces the risk that members will have their CSR and sustainability needs met by other organizations or initiatives.
2. **Enhance innovation in the sector**: Cost-effective pre-competitive CSR and sustainability collaborations can result in industry innovation, enabling the industry to improve its collective CSR impacts while driving business and operational benefits.
3. **Build positive government and NGO relations:** Associations that increase their CSR or sustainability expertise are better positioned to contribute positively to regulatory initiatives by government and other agencies and to engage constructively with NGOs and other stakeholders. Associations with voluntary industry CSR and sustainability standards that exceed compliance requirements are able to forestall government regulation.
4. Help identify industry priorities: Many generic global CSR and sustainability initiatives and standards are now available,

and this in turn can make priority-setting for members difficult. An industry approach can assist member companies to develop an industry-relevant model tailored to the sector's most material risks and opportunities.

5. **Fulfill association goals**: Typically association goals include assisting members to be competitive and profitable. CSR and sustainability is one tool to enhance member profitability and competitiveness.

6. **Build industry reputation and brand**: An association's CSR and sustainability program demonstrates the sector's commitment to sustainable practices and leadership. It can build positive stakeholder relationships with customers, communities, NGOs, suppliers and others. In doing so, it enhances the sector's social license to operate and grow.

7. Enhance employee recruitment and retention: Associations with CSR programs are able to attract and retain the best and brightest employees who prefer to work for organizations aligned with their values.

Objectives

1.To study the relationship between CSR expenditure and profitability.
2.To study the impact of CSR on profitability.
3.Giving recommendations and suggestions to improve profitability.

India is a country of myriad contradictions. On one hand, it has grown to be one of the largest economies in the world, and an increasingly important player in the emerging global order, on the other hand, it is still home to the largest number of people living in absolute poverty (even if the proportion of poor people has decreased) and the largest number of undernourished children. What emerges is a picture of uneven distribution of the benefits of growth which many believe, is the root cause of social unrest. Companies too have been the target of those perturbed by this uneven development and as a result, their contributions to society are under severe scrutiny. With increasing awareness of this gap between the haves and the have-nots, this scrutiny will only increase over time and societal expectations will be on the rise. Many companies have been quick to sense this development, and have responded proactively while others have done so only when pushed. Governments as well as regulators have responded to this unrest and the National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business or the NVGs (accompanied by the Business Responsibility Reports mandated by the SEBI for the top 100 companies) and the CSR clause within the Companies Act, 2013 are two such instances of the steps taken This combination of regulatory as well as societal pressure has meant that companies have to pursue their CSR activities more professionally. This handbook attempts to bring together good practices of companies and grant-making foundations so as to assist companies pursue their CSR activities effectively, while remaining aligned with the requirements of the Companies Act, 2013.

Legislative Status

The Companies Act, 2013 In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. The new rules, which will be applicable from the the Act lists out a set of activities eligible under CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act. The draft rules (as of September 2013) provide a number of clarifications and while these are awaiting public comment before notification, some highlights are as follows:

• Surplus arising out of CSR activities will have to be reinvested into CSR initiatives, and this will be over and above the 2% figure The company can implement its CSR activities through the following methods: - Directly on its own - Through its own non-profit foundation set- up so as to facilitate this initiative - Through independently registered non-profit organizations that have a record of at least three years in similar such related activities - Collaborating or pooling their resources with other companies

• Only CSR activities undertaken in India will be taken into consideration Activities meant exclusively for employees and their families will not qualify A format for the board report on CSR has been provided which includes amongst others, activity-wise , reasons for spends under 2% of the average net profits of the previous three years and a responsibility statement that the CSR policy, implementation and monitoring process is in compliance with the CSR objectives, in letter and in spirit. This has to be signed by either the CEO, or the MD or a director of the company Governance Clause 135 of the Act lays down the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director. The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The ministry's draft rules, that have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India.

Research Methodology

In this research, the correlation technique has been used to find out the impact of CSR expenditure on the profitability of the companies. We have collected the data of the companies for the year 2014-15 from the annual reports. To establish the relationship, the net profit to revenue from operations ratio and CSR expenditure to total assets ratio have been used.

Hypotheses

H_o: There is no significant relation between CSR expenditure and profitability.

H_1: There is significant relation between CSR expenditure and profitability.

Sample

In this research, sample of 10 companies listed on National Stock Exchange has been taken. The data related to net profits before tax, CSR expenditure, total assets and revenue from operations that has been used in the research, has been extracted from the published annual reports of the companies.

Table 1 : CSR Expenditure of Ten Companies Listed in National Stock Exchange

Name of Company	Total Assets	CSR Expenditure	Revenue from Operations	Net Profit before Tax
		Rs. In Crores		
Reliance Industries	5,04,486	761	3,75,435	31,114
SAIL	1,01,318.89	42.96	45,951.95	2463.97
ITC Ltd.	45990.79	217.41	38,834.81	14,362.05
Maruti Suzuki India	34,478.6	37.25	50,801.40	4976
Hindustan Unilever Ltd	14,430.80	8235	31,972.19	6,319.51
BHEL	70,888.68	102.06	30788.59	2,187.29
Tech Mahindra	19,848.10	58.30	22,621.30	3,618.10
Infosys	27,722	239.54	47,300	16,798
ONGC	3,37682.678	49.523	1,60,889.749	27,370.365
Tata Consultancy services	73,660.88	220	94,648.41	26,298.49

Result & Discussions

As the table shows, there is very low degree of positive correlation between net profits and CSR expenditure. Coefficient of correlation is 0.054. The value of t-test is 1.883 at 5% level of significance. The value of significance is 0.092 which shows that the null hypothesis is accepted and alternative hypothesis is rejected.

Conclusions

On the basis of the result, it is concluded that there is positive correlation between net profits and CSR expenditure but degree of correlation is very low. The result of hypothesis shows that profitability does not depend upon the CSR expenditure. The Indian companies are aware of their social responsibility and spending more for society's welfare. But the impact of this expenditure on profitability is negligible.

Recommendations

1. CSR expenditure is treated as capital investment therefore companies should invest in CSR .
2. Companies should continue to spend on CSR. This will help increase the goodwill and worth of the companies.

3. Corporate social responsibility manages reputation by creating good image in the mind of customers, suppliers etc. Stakeholders will think that when a company is fulfilling its social responsibility then how it is possible that it will do anything bad for them, so their trust will enhance on company.
4. As with the passage of time competition between the firms is increasing and stakeholders can easily switch from one firm to another therefore firms should do more and more to attract stakeholders so that companies financial performance increase. Therefore, firms should spend on performing socially responsible activities.

References

http://dhi.nic.in/writereaddata/

Table Showing Correlation between Net Profit Ratio CSR Ratio

		Net Profit Ratio	CSR Ratio
Net Profit Ratio	Pearson Correlation	1	.054
	Sig. (2-tailed)		.882
	N	10	10
CSR Ratio	Pearson Correlation	.054	1
	Sig. (2-tailed)	.882	
	N	10	10

Source :- Author's Calculation

Table 3 : Paired Sample t-test

Pair 1	Net Profit Ratio – CSR Ratio	
Paired Differences	Mean	12.41490
	Standard Deviation	20.84782
	Std.Error Mean	6.59266
95% confidence intervals of Difference	Lower	-2.49873
	Upper	27.32853
T		1.883
Df		9
Sig. 2-tailed		.092

Source :- Author's Calculation Test

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