



RESEARCH ARTICLE

AN EMPIRICAL STUDY ON IMPACT OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES ON INDIAN MANUFACTURING COMPANY'S PERFORMANCE

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ABSTRACT

Corporate social responsibility being a talk of the era has drastically changed the way of functioning and dealing of business by company. Every company is enforced by the law to include CSR activity in their schedule of conducting business. Company aligns their corporate responsibility with the brand of the business and tends to give back to the society for the services received. The study focuses on the impact of such activities and its value creation to the company. From the study it is clear that CSR activity adds value to the company in terms of customer loyalty and also has an impact on the company financial performance in the long run.

INTRODUCTION

In today's world, businesses are an important part of the society indulging to its ever growing demands. Business has certain expectations from the society and depends on it for its functioning. Similarly, the society expects certain social obligation to improve its standards and to enhance the welfare of the community. This situation leads to the introduction of the term Corporate Social Responsibility which is emerging from years to years. Corporate Social Responsibility (CSR) refers to the actions that corporate are obliged to take to improve the welfare of the society. Adolfe Berle defined Social Responsibility as "the management responsiveness to public consensus." According to Keith Davis, Social responsibility refers to "the business man decisions and actions taken for reason at least partially beyond the firm's direct economic or technical interest." Corporate social responsibility helps business to create a positive image and eliminate the negative impact on the society. The main purpose of social responsibility is to set a high standard of living retaining the profitability of the firm for its stakeholders both within and outside the corporation. The activity of social responsibility involves contribution of a portion of the profitability for the act. Therefore, it is mostly adopted by large corporation to protect the society as a whole along with their own interest. For the company, corporate social responsibility is an extra role apart from their normal course of business. But business houses act responsibly to the obligation due to the impact on their business. CSR helps company to create a brand image and thus act as a strategy for gaining competitive advantage over its competitors.

Literature review

Corporate Social Responsibility can increase the goodwill of business. It helps to enhance the operation of the company which leads to success of the business.

Baker in the article "Corporate Social Responsibility" explains that 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. Okwemba, Chitiavi, Egessa and Musiega in their paper "Effect of Corporate Social Responsibility on Organisation Performance" clearly mention that to retain its customers; the company should focus more on their ethics of how they treat their employees, customers and other stakeholder. They also indicate that businesses should prioritize CSR activities in their institution and ensure enough resources and personnel are set aside to fund the CSR activities. Holmes and Watts in their paper "Corporate social responsibility and its impact on firm's performance" emphasizes that corporate social responsibility is considered as a long term promise to act as economic development and to improve the living standard of the societies. Company should focus on improving their activities which will help in enhancing the future of the company as well as the society in general. Gautum and Singh mention in their paper "Corporate social responsibility practices in India: A study of top 500 companies" determined that CSR is now presented as a comprehensive business strategy, arising mainly from performance consideration and stakeholder pressure. Arevalo and Arvind in their article "Corporate social responsibility practices in India: Approach, drivers and barriers" emphasizes on four commonly known approaches: the ethical, the statist, the liberal, and the stakeholder approach. The study concludes that stakeholder approach is the most favored CSR approach by Indian firms and the moral motive and the profit motive are important drivers for firms to pursue CSR.

Statement of problem: Corporate social responsibility helps to coordinate the working of the society and the business with the different type of activities undertaken by company.

However, Company had to contribute a part of their finance to perform such an activity. A company has to keep aside a portion of their income to contribute towards the environment in which they deal their businesses. Company run their businesses with the input of the environment and society and thus arise the responsibility of the company to give back to the society for the service that they have received. It is examined that CSR has an influence on the success of business. But at the same time CSR also has an impact on the profitability of the business.

Scope of the study: The Scope of the study is restricted only to corporate social activities undertaken by companies in India. This study will help to know about the impact of corporate social responsibility practices on firm's financial performance. There has been a changed in the practices of CSR in the past couple of years. The study aims to analyze and evaluate the value creation of the company in present as in comparison with the previous records.

Objectives of the research

- To be aware of the concept of Corporate Social Responsibility.
- To identify Corporate Social Responsibility activities undertaken by manufacturing companies.
- To find out the importance of Corporate Social Responsibility on manufacturing Company's financial performance.

MATERIALS AND METHODS

Descriptive Research and Analytical Research are used for the study as it helps fact finding through surveys and enquiries and in analyzing to make critical evaluation of the available data. The survey is conducted with the help of questionnaire relating to CSR practices as the study intends to understand its impact on manufacturing company's performance. For the present research work, the study makes use secondary sources of data. The secondary data is collected from web page, journals, magazines, articles etc.

Sampling size: The sampling size in this research is restricted only to selected manufacturing companies functioning and working in India which have conducted various social activities as part of their business obligation. The selected companies are Tata Chemicals Ltd and Ambuja Cement Ltd. Sample data are collected for the period from 2015 to 2017.

Data collection: The source of data is only secondary data.

Secondary Data:

Secondary data is collected by:

- Various websites and online data
- Referring various articles, reports, journals, magazines on corporate social responsibility.
- Annual reports of companies.

Limitation of the study

- The data used in the research work is limited to the information provided by respondent and the information available on the internet.

- Restricted time limits for collection of data.
- The area of the study was confine only to the manufacturing companies functioning in India.

ANALYSIS

From a study, it was clear that with the Implementation of section 135 of the Indian Companies Act in 2013 indicating mandatory responsibilities of companies towards the environment and its surrounding, companies have adopted CSR as part of their business model. Companies arrange various activities along with their employees in relation to encouraging cleanliness, hygiene, health care, education, supplying basic necessities, etc. It was also studied that companies mostly invest in Non-Profit organization as part of the CSR activity.

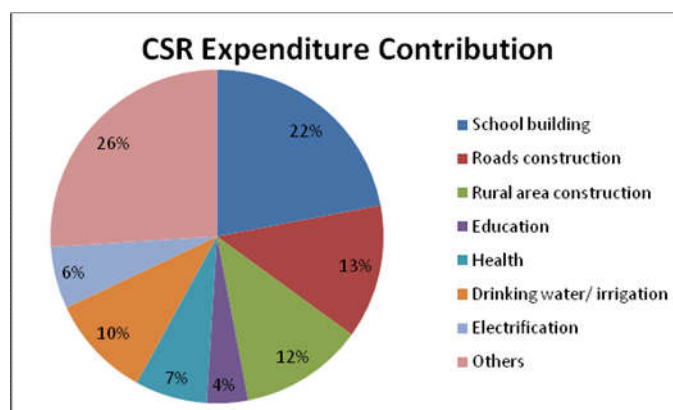


Fig. 1. CSR Contribution made by Companies

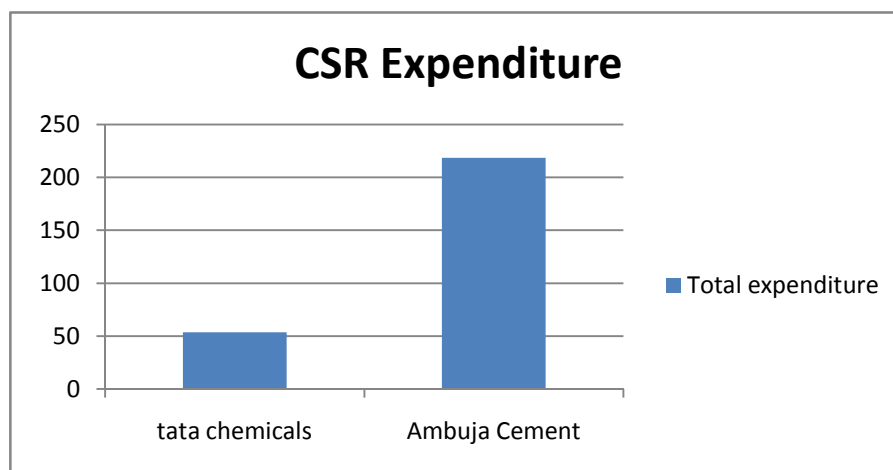
The above Fig. 1. chart reflects the contribution made by companies in India towards the various activities for improving the society. From the chart, it is clear that major contribution to a particular line of activity is made towards building school (anganwadi) in the rural area of India followed by road construction and rural area development programs. There is a 26% contribution towards other activity such donation to NGO's supporting various causes, urban development programs, campaign, natural calamities fund etc. The manufacturing Industries CSR activity focuses on social cost and environmental pollution. CSR activity undertaken by the company has an impact on the performance of the company. To understand this better, two companies are selected in random namely Tata Chemicals Ltd and Ambuja Cement Ltd which is among the popular manufacturing company in India. The Tata chemicals Ltd focused on preserving the ecosystem. One of the well-known program of the company is the "save the whale shark campaign" which started in 2004 to spread awareness of the depletion of the species. Whereas, Ambuja Cement Ltd's Ambuja Cement Foundation works with the NGOs and government towards delivering the need of the people. It functions in 12 states covering more than 22 locations in India.

Interpretation: From the Table 1, it is clear that the total expenditure of three years of Ambuja cement Ltd is more than that of Tata Chemicals Ltd. And the standard Deviation and variances is also higher in the case of Ambuja Cement Ltd. The above given graph1 shows the total CSR expenditures of the two companies where in the expenditure made by Ambuja Cement is approximately 3 times more than Tata Chemicals. This could be due to the reason that Ambuja Cement contribute

Table 1. Showing CSR expenditure of selected companies from 2015-2017

Years	Tata chemicals Ltd		Ambuja Cement Ltd	
	Tata chemicals Ltd	% increase/decrease in each year	Ambuja Cement Ltd	% increase/decrease in each year
2014-2015	10.2	-	40.98	-
2015-2016	13.97	36.96%	59.37	44.88%
2016-2017	15	10.09%	58.79	-1.42%
Total	39.17	-	159.14	-
Average	13.05667	-	53.04667	-
Standard deviation	2.526981	-	10.45406	-
Variance	6.385633	-	109.2874	-

Source: Annual Report of the selected companies.



Graph1. Showing the Total CSR expenditure of selected companies from 2015-2017

heavy amount towards promoting educations among children, women, elderly and differently abled. The company also focuses on promoting gender equality and women empowerment. It can also be noted that the CSR expenditure of Tata Chemicals Ltd shows an increasing trend whereas in the case of Ambuja Cement, The CSR expenditure increases in the FY 2016 from 2015 but there shows a decreasing trend in FY 2017. The % increase/decrease in the CSR expenses each year as shown in Table 1 is calculated by taking FY 2015 as the base year. This is to understand the percentage to which the expenses have increase from the previous year. It could be studied that there is a massive increase in the % of expenses from 2015 to 2016 in both the cases. However, the % to which the CSR expenditure increase slower down in the case Tata Chemicals and there is a decrease in the expenditure made in 2017 by 1.42% in the case of Ambuja Cement Ltd.

Interpretation: The above Table 2 contains the total expenditure made by the selected company in three years period. From the table, it is clear that the total expenditure of Ambuja Cement is more, contributing about 0.56% of the total expenditure towards CSR activity during the period 2015-2017 which shows a higher range as compared to a total of 0.17% contribution made by Tata Chemicals. The average expenditure of three years of Ambuja Cement is higher than Tata Chemicals. There is a decrease in percentage in the expenditure made by Tata chemical from year to year whereas there shows an increase in the expenditure in the case of Ambuja Cement even though it increase by only 2% in the year 2017. The graph 2 shows the total cost of the selected company from 2015 to 2017.

Interpretation: The data in Table 3 shows the profit made by the selected companies from 2015 to 2017. However the variance of Tata chemicals is more which indicate the consistency in making profits from year to year. The profit of both the companies increases from one year to another year.

Nevertheless, the total percentage increase of profit of Tata Chemicals is more in comparison to Ambuja Cement. There is an increase from 15.35% to 39.36% in the case of Ambuja Cement but the % of increasing rate of the profit tends to be lower in the case of Tata Chemicals during 2016-2017. Graph 3 Represent the total profit made by the selected companies during 2015 to 2017.

FINDING AND SUGGESTION

Finding: Even though the expenditure towards CSR and overall expenditure of Ambuja Cement is more, the total profit tends to be higher. This could be a result of the impact of CSR activities on the company. CSR helps company in extending a good relationship with its internal and external stakeholders. CSR can be one of the many factors that contribute towards the profitability of the company. This could be true in the case of Ambuja Cement as the profitability of the company is higher as compared to Tata Chemicals with lower expenditure on CSR. Hence, it can be concluded that CSR activities of the company has a positive impact on the performance of the company.

General Finding

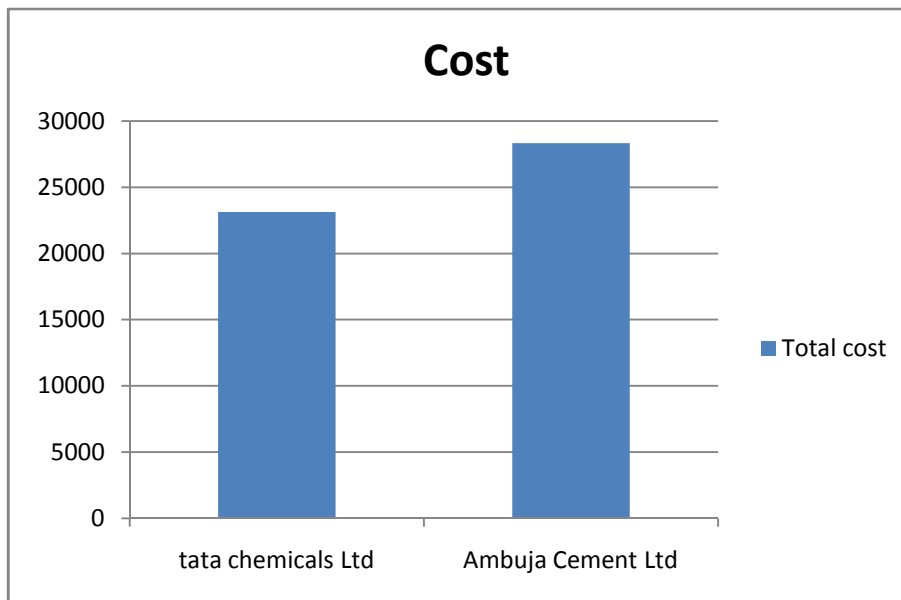
- From a source, it is learnt that since the application of compulsory implementation of CSR in 2014, a total of Rs.50000 crores is invested in corporate social responsibility by the company in India.
- There is also an expectation of increment in the CSR compliance in 2019-2020 by 1% as compared to the present year.
- Companies are to contribute 2% of their three years annual profit on CSR activities if they fall under the set criteria. The condition being that the company should at least have a net profit of Rs.5 crores or a turnover of Rs.1000 crores.

Table 2. Showing the Total Expenditure of the selected companies from 2015-2017

In crores

Years	Tata Chemicals Ltd	% increase/decrease in each year	Ambuja Cement Ltd	% increase/decrease in each year
2014-2015	9422.72	-	8647.38	-
2015-2016	7866.75	-16.51%	9731.58	12.54%
2016-2017	5853.81	-21.36%	9954.84	2.58%
Total	23143.28	-	28333.8	-
Average	7714.426667	-	9444.6	-
Standard deviation	1789.324299	-	699.3790483	-
Variance	3201681.445	-	489131.0532	-

Source: Annual report of the companies

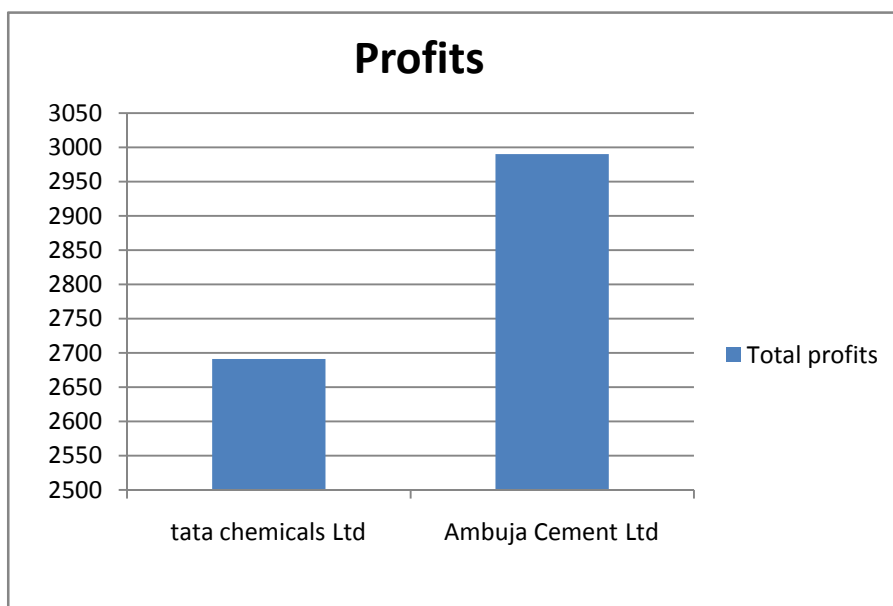


Graph 2. Showing the Total Expenditure of the selected companies from 2015-2017

Table 3. Showing the Profit of the selected companies from 2015-2017

Years	Tata Chemicals Ltd	% increase/decrease in each year	Ambuja Cement Ltd	% increase/decrease in each year
2014-2015	638	-	808	-
2015-2016	932	46.08%	932	15.35%
2016-2017	1121	29.62%	1250	39.36%
Total	2691	-	2990	-
Average	897	-	996.666667	-
Standard deviation	243.3947411	-	227.9853796	-
Variance	59241	-	51977.33333	-

Source: Annual report of the companies



Graph 3. showing the total profit of the selected company from 2015 to 2017

- Presently in India upon implementation of CSR by companies as part of their business model and companies' value, there signifies an increase in the firm's performance financially as well as economically.
- It also indicates that the firms receive more in term of return than what they have actually invested in CSR activities.
- Social responsibility results in creation of good reputation of the company in public. And hence leads to increase in customer loyalty, trust of stakeholders, more investor etc.
- CSR also helps company to attract stakeholder as investor generally wants to invest in company with a positive image and reputation.

Suggestions

- It can be suggested that companies should implement CSR activities in their ordinary course of business as there are multiple gain from just one investment (synergy approach).
- CSR can act as a public relation programs through which they can connect with the society in which they deal their business. Therefore such activity are to be highly encourage.
- More involvement of stakeholder in the CSR activity could help company to induce more investor to the business.
- CSR reflects the success of an organization as the responsibility falls on company which falls as per the profitability. Thus, this may help to induce more customers to the company. Therefore, company should conduct various CSR programs.
- Small companies should also participate in such CSR activity. This may help to create a positive image of the company.

Direction for future research: As a result of the finding from the study, it is recommended that future researcher in the field may take into account conducting more empirical quantitative research work like surveys and modeling, considering more company for better comparison etc.

Conclusion

Corporate Social Responsibility is considered to be one of the important obligations of the companies towards the society. With the increase in competition in the market, there tends to an increase in the contribution made by the parties. Similarly, in the past couple of years there shows a growth in the investment made by the companies in India towards CSR activities. This may be due to value creation of the company from such activities, as it is said that CSR helps companies to gain customer loyalty, stakeholder interest etc. It can be considered that the activity of CSR has a positive impact on firm's well-being. Nevertheless, there is requirement for more companies to join in this movement to enhance the purpose of corporate responsibility and the society.

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