# A Study on Linkage between Corporate Social Responsibility and Return on Net worth (Ronw) Of Selected Companies: An Empirical Analysis

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***Abstract:*** *The purpose of the present paper is to study the linkage of CSR initiatives taken by the Indian companies and its impact on their RONW. For this purpose, various financial parameters have been used like Return on net worth, profit before tax and earning per share. Researchers have taken a sample of 5 private companies namely Tata Steel Company, RIL, Mahindra & Mahindra, Infosys and Larsen and Toubro to examine the relationship between corporate social responsibility and RONR by considering their financial statement of five years (from March 2010 to March 2014). The logic behind to take such samples is that these are big private key players with respect to Indian business. After getting all the data, an analysis on the relationship between CSR and other financial parameters like EPS, PBT and RONR are tested by Regression analysis and ANOVA. Irrespective of this general outcome, the current study depicts evidence that there is a insignificant relationship between CSR and Return on Net Worth (RONR) in case of these companies.*
***Keywords:*** *Corporate Social Responsibility, RONW, EPS, Financial Performance*

## I. Introduction

In India, CSR is not a new concept now. The concept of business has changed from profit yielding activities to social betterment activities where business is responsible for all the stakeholders rather than shareholders only. Traditionally, CSR has been defined much more in terms of a philanthropic model. As time passed, the concept of CSR has undergone changes tremendously. The paper in basically focused on the CSR activities of these Indian Private Companies and how they are related with profitability and in what extent they are eager to involve in these CSR activities. In modern era of business world, 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. It addresses the legal, ethical, commercial and other expectations that society has for business and making decisions that fairly balance the claims of all key stakeholders. It promotes vision of business accountability to a wide range of stakeholders. CSR is also known as corporate conscience, corporate citizenship, social performance and sustainable responsible business. The term "corporate social responsibility" became popular in the 1960s. India has one of the richest traditions of CSR among other countries. Indian business tycoons are treating CSR as more important segment of their business activity but yet it has to receive widespread recognition. CSR is not a new concept in India. Modern businessmen are more concerned with it than their predecessors. Since their inception, corporate like the Tata Group, the Aditya Birla Group, and Indian Oil Corporation, to name a few, have been involved in serving the community. Through donations and charity events, many other organizations have been doing their part for the society. J.R.D. Tata was the first leading businessman to explicitly recognize that business does not operate in isolation from society. He remarked, "The most significant contribution organized industry can make is by identifying itself with the life and the problems of the people of the community to which it belongs, and by applying its resources, skills and talents to serve and help them."

Profitability is the situation of yielding financial gain that is measured by price to earning ration. It is treated as the test of efficiency because the company or firm who has higher profit is more efficient than the company with lower one. Profit is the yardstick for judging not just the economic, but the managerial efficiency and social objectives also. As Weston and Brigham rightly notes "to the financial management profit is the test of efficiency and a measure of control, to the owners a measure of the worth of their investment, to the creditors the margin of safety, to the government a measure of taxable capacity and a basis of legislative action and to the country profit is an index of economic progress, national income generated and the rise in the standard of living", while profitability is an outcome of profit. In other words, no profit drives towards profitability. Every firm wants to make today better than yesterday and tomorrow better than today. That is why they are engaged in making profits.

## II. Literature Review

Rim Makni and Claude (2008) made a study on the causal relationship between corporate social performance (CSP) and financial performance (FP) by taking the sample of 179 publicly held Canadian firms

and use the measures of CSP provided by Canadian Social Investment database for the years 2004 and 2005. The result found no significant relationship between a composite measure of a firm's CSP and FP, except for market returns. However, using individual measures of CSP, it revealed robust significant negative impact of the environmental dimension of CSP and three measures of FP, namely return on assets, return on equity, and market returns.

McWilliams and Siegel (2001) concluded that neutral relationships between CSR and CFP are outlined by a supply and demand model of CSR. A firm's dependency level of CSR is determined by its size, level of diversification, R&D, etc. The analysis revealed that there is some level of CSR that will maximise profits while satisfying the demand for CSR from multiple stakeholders and the ideal level of CSR can be determined by cost-benefit analysis.

Honghui Chen and Xiayang Wang (2011), corporate social responsibility and corporate financial performance in China: an empirical research from Chinese firms. A theoretical framework was proposed based on the stakeholder theory by defining nine kinds of stakeholders and viewing the companies taking CSR as giving responses to the interest requirement of these stakeholders. The paper used the data collected in 2007 and 2008 from Chinese firms to explore the relationship between CSR and corporate financial performance (CFP) empirically. The results found that companies' social responsibility activity can improve their financial performances of the current year, have significant effects on their financial performances of the next year, and vice versa. The variation of CSR and financial performance can also significantly influence each other.

Harpreet Singh Bedi (2012), made a study on Financial Performance and Social Responsibility: Indian Scenario. For the purpose of research, 37 companies were taken as sample size. Regression analysis was used to test the hypothesis. The result revealed that there is positive relationship between CSR and financial performance. 26 out of 37 companies spent lesser amount on social projects 11 companies spent more than their estimated budget of CSR.

Mishra and Suar (2010) investigated whether CSR towards primary stakeholders affected the Financial Performance (FP) and the Non-Financial Performance (NFP) of Indian firms. The study used data on CSR and NFP that was collected from 150 senior level Indian managers through a questionnaire survey where as financial data of firms was collected from secondary sources. A questionnaire was made consisting stakeholder groups – employees, investors, customers, community, natural environment and suppliers. A composite measure of CSR was obtained by aggregating the six dimensions. The result revealed that stock-listed firms show responsible business practices and better financial performance than the non- listed firms.

### III.    Overview Of CSR Activities In RIL,TSC And M&M

**RIL**'s contribution to the community are in areas of health, education, infrastructure development (drinking water, improving village infrastructure, construction of schools etc.), environment (effluent treatment, tree plantation, treatment of hazardous waste), relief and assistance in the event of a natural disaster, and miscellaneous activities such as contribution to other social development organisations etc. RIL's CSR teams across its manufacturing divisions interact with the neighbouring community on regular basis.RIL plays a pivotal role in supporting Government's initiative towards education of girl child. In Gujarat, under the project "Kanya Kelvani", RIL's Dahej Manufacturing Division has extended financial assistance towards education of girl child in the state.RIL has developed Community Medical Centres near most of its manufacturing divisions to provide comprehensive health services covering preventive, promotive and curative health care services to the community from neighbouring villages.

**Tata Steel**, for the last 100 years has been committed to the social upliftment and development of the state of Jharkhand. It has been working towards improving the quality of life of the communities it operates in. Social development and welfare of communities of Jharkhand has been internalized by the Company since its inception and has been followed since then, making Tata Steel a leader in the area of social commitment..The wealth generated by Jamsetji Tata and his sons in half a century of industrial pioneering formed but a minute fraction of the amount by which they enriched the nation. The whole of that wealth is held in trust for the people and used exclusively for their benefit. The cycle is thus complete: what came from the people has gone back to the people many times over. For Jamsetji Tata, the progress of enterprise, welfare of people and the health of the enterprise were inextricably linked. Wealth and the generation of wealth have never "been ends in themselves, but a means to an end, for the increased prosperity of India," The Times of India said in 1912 of the Tatas. Successive generations of Tata Group leaders have always held the belief that no success in material terms is worthwhile unless it serves the interest of the nation and is achieved by fair and honest means.

**The M & M** defines CSR as making socially responsible products, engaging in socially responsible employee relations and making a commitment to the community around it. At the Mahindra Group, CSR is not just a duty; it is a way of life. In 2005, the Group celebrated its 60th anniversary by renewing its commitment to

CSR. It pledged to dedicate mandatory amount on a continuous basis towards societal benefits. A unique kind of ESOPs was launched to enable Mahindra employees to involve themselves in socially responsible activites of their choice. The group also announced a special gift to provide free cochlear implants to 60 profoundly hearing-impaired, under – privileged children.

**Infosys:** The distribution of wealth is an important as it is legal and ethical creation. Infosys employees actively participate in the welfare of the local community. The employee organize and contribute to welfare programs, especially for underprivileged children. It spends more CSR spending in healthcare, education and literacy training for the development and community welfare.

**Larsen and Toubro**: L&T believes that the true and full measure of growth, success and profress lies beyond balance sheets or any economic indices. It is best reflected in the difference that business and industry make to the lives of people. Through its social investments, it addresses the needs of communities residing in the vicinity of its facilities, taking sustainable initiatives in the areas of health, education, environment conservation, infrastructure and community development.

## Research Objectives
❖ To examine the relationship between CSR and Return on Net Worth.
❖ To determine the significance of CSR and Financial Performance.
❖ To understand the dependency of CSR expenditure on profitability.

## Hypothesis
**H1:** There is positive relationship between CSR and Earning per share.
**H2:** Firms with higher CSR spending action will exhibit higher return on net worth.

## Research Design
The study is based on the secondary data collected from the websites of Tata Steel Company, RIL, Mahindra & Mahindra, Infosys and Larsen and Toubro for the year of 2010 to 2014. Various financial parameters like earning per share, return on net worth, CSR spending and profit before tax have been taken to measure the CSR in current study.

**Table 1**

| Name | Year | EPS | CSR Spending (in millions) | PBT (In Millions) | RONW (%) |
|------|------|-----|----------------------------|-------------------|----------|
| Tata Steel Company | March 2010 | 56.37 | 368.32 | 18,416 | 13.45 |
| | March 2011 | 71.58 | 1824.48 | 91,224 | 14.68 |
| | March 2012 | 68.95 | 1098.24 | 54,912 | 12.72 |
| | March 2013 | 52.13 | 651.38 | 32,569 | 9.17 |
| | March 2014 | 66.02 | 1349.96 | 67,498 | 10.48 |
| RIL | March 2010 | 49.64 | 393.31 | 19665.72 | 11.35 |
| | March 2011 | 61.97 | 491.69 | 24584.81 | 12.60 |
| | March 2012 | 61.26 | 486.52 | 24326 | 12.18 |
| | March 2013 | 65.05 | 525.68 | 26284 | 12.50 |
| | March 2014 | 68.02 | 556.36 | 27818 | 10.97 |
| Mahindra & Mahindra Co. | March 2010 | 36.89 | 55.48 | 2774.26 | 26.74 |
| | March 2011 | 43.36 | 70.39 | 3519.61 | 25.81 |
| | March 2012 | 46.89 | 72.12 | 3605.89 | 23.65 |
| | March 2013 | 54.61 | 88.94 | 4447.09 | 22.87 |
| | March 2014 | 61.02 | 87.34 | 4369.43 | 22.38 |
| Infosys Company | March 2010 | 101.13 | 150.4 | 7520 | 26.8 |
| | March 2011 | 112.22 | 176.42 | 8821 | 26.15 |
| | March 2012 | 147.50 | 231.6 | 11580 | 26.42 |
| | March 2013 | 158.75 | 247.14 | 12357 | 24.81 |
| | March 2014 | 178 | 280.04 | 14002 | 23.92 |
| Larson&Toubro Ltd. | March 2010 | 90.37 | 149.57 | 7478.68 | 26.44 |
| | March 2011 | 73.05 | 136.01 | 6800.71 | 17.78 |
| | March 2012 | 76.46 | 139.47 | 6973.51 | 15.97 |
| | March 2013 | 85.14 | 152.75 | 7637.92 | 15.37 |
| | March 2014 | 52.37 | 149.65 | 7482.98 | 12.99 |

## IV.    Research Methodology
As it is clear from the research design that secondary data has been the chief source of information for the study. Data relating to PBT/CSR Spending/RONW were used to assess the relationship between CSR and RONW. Researchers employed Descriptive Statistics, ANOVA and Regression analysis at alpha level 1% using SPSS 16 Software to test the hypothesis.

**Analysis and Interpretation**

**Table 2**

| Descriptive Statistics | | | | | | | |
|---|---|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std. Deviation | Skewness | |
| | Statistic | Statistic | Statistic | Statistic | Statistic | Statistic | Std. Error |
| CSR | 25 | 55.48 | 1824.48 | 397.33 | 436.42270 | 2.101 | .464 |
| PBT | 25 | 2774.26 | 91224.00 | 19867 | 21821.02391 | 2.101 | .464 |
| EPS | 25 | 36.89 | 178.00 | 77.5500 | 36.31188 | 1.626 | .464 |
| RONW | 25 | 9.17 | 26.80 | 18.3280 | 6.43612 | .133 | .464 |
| Valid N (listwise) | 25 | | | | | | |

In the selected companies, the mean EPS is 77.55. Infosys achieved higher EPS (139.52 millions) than the mean score of EPS. The mean score of CSR is 397.33 millions. With respect to CSR, RIL achieved higher score than Mean CSR score. When it comes talking about, profit before tax (PBT), the mean score of is 19867 millions. Tata Steel Company and RIL achieved greater than average level of PB. The average score of RONW is 18.32%. Tata Steel Company, Mahindra & Mahindra and Infosys achieved higher level than the mean level. Considering all the conditions, it has been observed that Tata Steel Company and RIL achieved more score than the mean level.

**Table 3**

| Regression result on the impact of CSR on EPS | | | | | | | R | R Square | Adjusted R Square |
|---|---|---|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. | | | |
| 1 | Regression | 290.640 | 1 | 290.640 | .213 | .649[a] | 0.096 | 0.009 | -0.34 |
| | Residual | 31354.623 | 23 | 1363.244 | | | | | |
| | Total | 31645.263 | 24 | | | | | | |
| a. Predictors: (Constant), CSR | | | | | | | | | |
| b. Dependent Variable: EPS | | | | | | | | | |

To test the H1, Table3 has been taken care. The regression of EPS on CSR score output yields an Adjusted R Square =-0.34, R Square = 0.009, R =0.096, F =.213, P = 0.649 and Df = 24. The result represents like P>0.01 level hence H1 (There is positive relationship between CSR and Earning per share) is accepted. It means that when firms increase CSR spending, their EPS also increases. It is also indicating that corporate social responsibility is an important tool in achieving effective financial performance in these five companies (Tata Steel Company, RIL, Mahindra & Mahindra, Infosys and Larsen and Toubro Ltd.). It shows that R Square is 0.009 which accounted for about 0.9% variation in the EPS.

**Table 4**

| Correlations | | CSR | EPS | PBT | RONW |
|---|---|---|---|---|---|
| CSR | Pearson Correlation | 1 | -.096 | 1.000[**] | -.556[**] |
| | Sig. (1-tailed) | | .324 | .000 | .002 |
| | N | 25 | 25 | 25 | 25 |
| EPS | Pearson Correlation | -.096 | 1 | -.096 | .435[*] |
| | Sig. (1-tailed) | .324 | | .324 | .015 |
| | N | 25 | 25 | 25 | 25 |
| PBT | Pearson Correlation | 1.000[**] | -.096 | 1 | -.556[**] |
| | Sig. (1-tailed) | .000 | .324 | | .002 |
| | N | 25 | 25 | 25 | 25 |
| RONW | Pearson Correlation | -.556[**] | .435[*] | -.556[**] | 1 |
| | Sig. (1-tailed) | .002 | .015 | .002 | |
| | N | 25 | 25 | 25 | 25 |
| **. Correlation is significant at the 0.01 level (1-tailed). | | | | | |

**Table 5**

| Model | | Sum of Squares | df | Mean Square | F | Sig. | R | R Square | Adjusted R Square |
|---|---|---|---|---|---|---|---|---|---|
| ANOVA[b] | | | | | | | | | |
| 1 | Regression | 307.472 | 1 | 307.472 | 10.298 | .004[a] | 0.556 | 0.309 | 0.279 |
| | Residual | 686.695 | 23 | 29.856 | | | | | |
| | Total | 994.168 | 24 | | | | | | |
| a. Predictors: (Constant), CSR | | | | | | | | | |
| b. Dependent Variable: RONW | | | | | | | | | |

Table5 has been emphasized to test H2. The above mentioned regression results an adjusted R Square = 0.279, R Square = 0.309, R = 0.556, F =10.298, df = 24. According to the Table5, P value (0.004)<0.01(Alpha) which represents H2 (Firms with higher CSR spending action will exhibit higher return on net worth) is rejected. It means spending societal activities does not lead to increase return on net worth irrespective of Tata Steel Company, RIL, Mahindra & Mahindra, Infosys and Larsen and Toubro Ltd.

## V.    Conclusion

Based on the analysis and interpretation in this study designed the research to answer the question of whether CSR spending influences company's RONW in above selected companies or not. The study concludes that there is a insignificant relationship between CSR and RONR where as there is positive relationship between CSR and EPS in selected companies. It means spending in CSR influences positively to the EPS of company not to the RONR. Increasing CSR spending leads to increasing earning per share. CSR helps to innovate in order to satisfy consumers, grab market opportunity and differentiate themselves from others to become more competent in selected companies. Some limitations of the study and suggestions on how to overcome them are elaborated in the following arguments. The first limitation is the inconsistency of results obtained using various financial parameters. This problem can be solved by future research paying more attention to the selection of measures for the firms' financial parameters to measure the profitability used in the study of CSR. Secondly, the sample size in this study, taken from the five Indian companies that doesn't reflect the overall private sectors. Lastly, given that this study has considered the evaluation for only five years these findings should be interpreted with caution. Future research in this area must consider it necessary to extend the number of periods studied to evaluate recent legal requirements as well.

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