

**FINANCIAL PERFORMANCE AND SOCIAL RESPONSIBILITY:  
INDIAN SCENARIO**

**by**

**Harpreet Singh Bedi**

**(M.Com, PGDBM, UGC-NET)**

**Sr. Lecturer**

**Lovely School of Business**

**Lovely Professional University**

**Punjab, India**

**[Harpreet.bedi\\_lim@yahoo.com](mailto:Harpreet.bedi_lim@yahoo.com)**

# FINANCIAL PERFORMANCE AND SOCIAL RESPONSIBILITY: INDIAN SCENARIO

## Abstract

The form and content of the capitalist world economy is fast evolving and we find capital being increasingly concentrated and centralised as the battle of market competition intensifies. Companies have to keep running just to stay in the same place so intense is the competition. One of the factors that make the critical difference between the companies is the public perception of a business's value systems that are best exhibited by initiatives in discharging its Corporate Social Responsibility (CSR). From a long time several Researchers have reported a positive, negative, and neutral impact of corporate social responsibility (CSR) on financial performance. This inconsistency may be due to flawed empirical analysis. In this paper, we study the relationship between social and financial performance of a company. In present study Top 1000 Indian firms are examined for the financial year 2007-08, which are rated by karmyog (Mumbai base NGO), but for the purpose of research only 37 companies were considered, who spend some amount to fulfil their corporate social responsibilities and then relationship between their financial performance and expenditure on corporate social responsibility is measured by using correlation and regression. The analysis reveals that there is a positive relationship between CSR and financial performance and the descriptive and inferential measures shows that Corporate social expenditure depends upon the financial performance of the Company. But at the same time we also observe that most of the top Indian companies are spending nothing on part of their social responsibilities.

**Key Words:** Corporate, Empirical, Financial Performance, Social Programmes and Unobservable.

# **FINANCIAL PERFORMANCE AND SOCIAL RESPONSIBILITY: INDIAN SCENARIO**

## **INTRODUCTION:**

There is currently a debate on the extent to which company directors and managers should consider social and environmental factors in commercial decision making. An approach to decision making that routinely encompasses these factors may be described as corporate social responsibility.

A view is emerging that corporate social responsibility can contribute to the financial performance of a company. This approach, which has been described as the 'enlightened shareholder approach', suggests that corporate decision-makers must consider a range of social and environmental matters if they are to maximise long-term financial returns.

Social responsibility is an ethical or ideological theory that an entity whether it is a government, corporation, organization or individual has a responsibility to society at large. This responsibility can be "negative", meaning there is exemption from blame or liability, or it can be "positive," meaning there is a responsibility to act beneficently (proactive stance). Businesses can use ethical decision making to secure their businesses by making decisions that allow for government agencies to minimize their involvement with the corporation. Corporate social responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance, is a form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards, and international norms. Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. Essentially, CSR is the deliberate inclusion of public interest into

corporate decision-making, and the honoring of a triple bottom line: People, Planet, Profit.

The practice of CSR is subject to much debate and criticism. Proponents argue that there is a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profits. Critics argue that CSR distracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing; others yet argue that it is an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

### **History of CSR**

The history of CSR is almost as long as that of companies. Concerns about the excesses of the East India Company were commonly expressed in the seventeenth century. There has been a tradition of benevolent capitalism in the UK for over 150 years. Quakers, such as Barclays and Cadbury, as well as socialists, such as Engels and Morris, experimented with socially responsible and values-based forms of business. And Victorian philanthropy could be said to be responsible for considerable portions of the urban landscape of older town centres today. In 1612, English jurist Edward Coke complained that corporations “cannot commit treason, nor be outlawed or excommunicated, for they have no souls.”

The concept of Corporate Social Responsibility (CSR) in its present form originated in 1950's when Bowen, H. wrote a seminal book “The Social Responsibilities of a Businessman” whom Carroll takes to be the father of CSR (Carroll, 1999). Since then the notion of CSR has come to dominate the society-business interface and many theories and approaches have been proposed. Although the concept of CSR has dominated the business-society interface, many other alternative concepts have infiltrated the academic literature to study the same such as Corporate Citizenship, Corporate Governance, Corporate Social Responsiveness, and Corporate Social Performance. Even for CSR, many definitions have also been proposed in order to explain the form and the content. CSR has been a fuzzy one with unclear boundaries and debatable legitimacy (Lantos, 2001, Cramer *et al.*, 2006).

Importantly, the approach to CSR has also changed from Agency theory to Stakeholder theory. The concept of CSR has a normative altruistic basis and the strongest indication comes from the terminology itself used to describe the concept (Corporate Social Responsibility) but current trends from both academia and industry strongly indicate a shift in paradigm from normative altruistic bias of CSR to positivist strategic orientation to CSR.

From the 1950's to the present the concept of CSR has gained considerable acceptance and the meaning has been broadened to include additional components.

### **CSR IN INDIA**

CSR is not a new concept in India. However what is new is the shift in focus from making profits to meeting societal challenges. Giving a universal definition of CSR is quite difficult, as there is no universally accepted definition of corporate social responsibility, it is usually described in terms of a company considering, managing and balancing the economic, social and environmental impacts of its activities . CSR measure the impact of a company's actions on society. It requires a manager to consider his acts in terms of a whole social system, and holds him responsible for the effects of his acts anywhere in that system.

The European Commission's definition of CSR is:

"A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

The online encyclopedia, Wikipedia (2007) has one of the best definitions of CSR. It states that it "is a concept that organizations, especially (but not only) corporations, have an obligation to consider the interests of customers, employees, shareholders, communities, and ecological considerations in all aspects of their operations."

Long referred to as a companies soul food, corporate social responsibility is finally being taken seriously by Indian tech companies as they embark upon a gamut of philanthropic activities . Through Infosys foundation and other initiatives, Narayan Murthy chairman

and Chief Mentor of Infosys have always been on the forefront of philanthropic activities as a part of CSR.

Mr. Narayan Murthy firmly underlines the significance of CSR “For benefits of globalization and technology to reach to the poor, the private sector, philanthropic institutes and individuals should cooperate and establish partnership with Government institutes. This would lift millions of our people out poverty, provide them with opportunities and make them participating in the process and progress of globalisation.

The sad part is that CSR still has not taken of in India according to a recent survey by Mumbai based online organisation Kramayog. The edition of the research revealed that nearly half of the top companies do nothing in way of CSR. For the Indian Company whatever the CSR activities are happening are centred on education, rural upliftment and helping the physically challenged.

### **OBJECTIVE OF THE STUDY**

In this paper we have examined the relation between corporate social responsibility (CSR) and financial performance. And compare the dependency of corporate social expenditure on financial performance.

### **HYPOTHESIS**

**H1**-CSE and FP (Financial Performance) is an independent from each other and CSE does not depends upon FP.

### **RESEARCH DESIGN**

The study is descriptive in nature because the study is a comparative analysis of expected with actual expenditure incurred and an attempt has been made to explore the relation between CSR expenditure and financial performance. Top 1000 firms are examined for the financial year 2007-08, which are rated by karmyog (Non- Government Organization), but for the purpose of research only 37 companies were considered and then relationship between their financial performance and expenditure on corporate social responsibility is measured. Data has been analysed by using correlation and regression.

## **Results and Analysis**

It is being observed under various studies that there is a positive relationship between financial Performance and Social expenditure. To validate the same has been applied on financial performance (FP) i.e, NPAT and Corporate social expenditure (CSE). By applying the Pearson correlation at 0.01 level , the correlation coefficient for the same is 0.974 which rejects the Hypothesis-I.

**Table-1 Expenditure by Indian Companies on CSR**

<b>S. No</b>	<b>Company</b>	<b>Segment</b>	<b>NPAT (Rs in Crore) (2007-08)</b>	<b>CSR Exp (Rs in Crore) 2007-08</b>
1	Aarti Industries	Pharmaceuticals	40.8	0.3
2	ACC Ltd	Cement	1427.3	12.2
3	Andhra Bank	Banking	579.6	7.6
4	Ashapura Minechem	Mining	161.6	5.0
5	Ballarpur Industries	Paper	303.5	3.7
6	Bongaigaon Refinery & Petrochemicals Ltd (Now Merged with IOC)	Oil and Gas	294.30	1.3
7	Edelwiess Capital	Financial Services	292.6	4.5
8	Gail	Oil and Gas	2761.16	26
9	GMR Infra	Construction	262.6	3.5
10	GTL	Telecommunicati ons	154.15	1.3
11	Gujrat Flourochemicals	Oil and Gas	349.88	0.6
12	Hindustan Copper	Metal	267.40	1.3
13	HDFC	Financial	2369.01	5.4

		Services		
14	Indian Hotels	Hotels	431.88	1.0
15	Infosys	Software	4659	20.0
16	Jain Irrigation	Polymers and Plastic	134.94	4.2
17	Jubliant Organosys	Pharmaceuticals	389.9	5.0
18	Kansai Nerolac Paints Ltd	Chemicals	117.03	0.5
19	L & T	Heavy Engg	2257.8	26
20	Madras Cement	Cement	1408.29	1.7
21	M & M F S	Financial Services	181.13	0.8
22	Mahindra and Mahindra	Automobiles	1846.7	11
23	Mahindra Life Space Developers Ltd	Construction	68.94	0.7
24	Mahindra Uqine steel Company.	Iron and Steel	29.49	0.2
25	MRPL	Oil and Gas	1272.23	1.5
26	MMTC	Trading	200.46	0.7
27	Nagarujna Construction	Cnstruction	168.86	1.6
28	National Aluminium Company	Metals	1631.52	23.8
29	Navneet Publications	Publications	54.2	3.5
30	OCL India Ltd	Cement	113.8	0.3
31	ONGC	Oil and Gas	20211.12	120
32	Praj Industries Ltd	Engineering	153.54	3.0
33	Ramco Industries Ltd	Cement	29.6	0.4
34	Sun TV	Entertainment	311.87	2.0

35	Tamil Naidu News Prints	Paper	112.83	1.0
36	Tech Mahindra	Software	769.5	3.0
37	Union Bank of India	Banking	1387.03	14.0

Source: <http://karmyog.com>

### Correlation

		VAR00001	VAR00002
VAR00001 (NPAT)	Pearson Correlation	1.000	.974
	Sig. (2-tailed)	.	.000
	N	37	37
VAR00002 (CSR Exp.)	Pearson Correlation	.974	1.000
	Sig. (2-tailed)	.000	.
	N	37	37

\*\* Correlation is significant at the 0.01 level (2-tailed)

### Descriptive Statistics

	Mean	Std. Deviation	N
VAR00002	8.610	20.202	37
VAR00001	1275.825	3350.262	37

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.119	.822		1.362	.182
	VAR00001	5.872E-03	.000	.974	25.312	.000

\*\* Dependent Variable: VAR00002

Model	R Square Change	F Change	df1	Df2	Sig. F Change
1	.948	640.701	1	35	.000

\*\* Predictors: (Constant), VAR00001

Here an attempt has been made to find the dependency level of CSE on its annual profits (NPAT). For this purpose CSE has been taken as dependent variable on FP as an

Independent variable. After applying the regression model, the R-square stands at 0.948 which shows a high dependency of social expenditure on financial performance .

**Table-II CSR and Indian Corporates**

S.NO	Companies	Segment	Recommended Expenditure.	Actual Amount Spent (Rs in Crores)	Amount spent in the Area.
1	Aarti Industries	Pharmaceuticals	1.9	0.3	Education, Health Care.
2	ACC Ltd	Cement	19.3	12.2	Community welfare, Health care, Education
3	Andhra Bank	Banking	8.6	7.6	Rural development, Education, Training
4	Ashapura Minechem	Mining	3.0	5.0	Education, health care, donations
5	Ballarpur Industries	Paper	2.1	3.7	Community welfare, Livelihood, Education, Health, Environment & Women
6	<u>Bongaigaon Refinery &amp; Petrochemicals Ltd</u>	Oil and Gas	1.8	1.3	Community welfare, Education
7	Edelwiess Capital	Financial Services	2.2	4.5	Children, donations, education.
8	Gail	Oil and Gas	36	26	Environment, Education, Community welfare
9	GMR Infra	Construction	0.4	3.5	Education, Health care, community welfare, Self help groups
10	GTL	Telecommunication	2.8	1.3	Education, Physically Challenged, Children.
11	Gujrat	Oil and Gas	1.4	0.6	Community welfare,

	Flourochemicals				Education, Livelihood
12	Hindustan Copper	Metal	3.6	1.3	Community welfare
13	HDFC	Financial Services	16	5.4	Education, Health care, Community welfare
14	Indian Hotels	Hotels	3.6	1.0	Community welfare, poverty eradication
15	Infosys	Software	30	20	Education, Children, community welfare
16	Jain Irrigation	Polymers and Plastic	3.2	4.2	Rural development, community welfare, education, environment
17	Jubliant Organosys	Pharmaceuticals	4.0	5.0	Community welfare, Environment, Education, Health care
18	Kansai Nerolac Paints Ltd	Chemicals	2.6	0.5	Environment, Health care, Community welfare, Education
19	L & T	Heavy Engg	50	26	Environment, Education, Health care, Community welfare
20	Madras Cement	Cement	4.0	1.7	Health care, Donations
21	M & M F S	Financial Services	2.4	0.8	Community welfare
22	Mahindra and Mahindra	Automobiles	23	11	Education, Environment, Girl Child, Poverty eradication
23	Mhaindra Life Space Developers Ltd	Construction	0.3	0.7	Education, Environment, Girl Child, Poverty eradication
24	Mahindra Uqine steel	Iron and Steel	1.8	0.2	Community welfare

	Company.				
25	MRPL	Oil and Gas	65	1.5	Women Empowerment, Environment
26	MMTC	Trading	52.4	0.7	Environment, Disaster relief, Health care
27	Nagarujna Construction	Construction	7.0	1.6	Community welfare, Health care
28	National Aluminium Company	Metals	11.0	23.8	Community welfare, Health care, Disaster relief
29	Navneet Publications	Publications	0.8	3.5	Donations
30	OCL India Ltd	Cement	1.8	0.3	Education, Health care, Sports, Donations
31	ONGC	Oil and Gas	120	120	Community welfare, Education, Health care, Environment
32	Praj Industries Ltd	Engineering	1.4	3.0	Community welfare, Poverty Eradication, Education
33	Ramco Industries Ltd	Cement	0.7	0.4	Environment, Donations
34	Sun TV	Entertainment.	1.7	2.0	Donation
35	Tamil Naidu News Prints	Paper	1.9	1.0	Education, Community, Health care, Sports
36	Tech Mahindra	Software	7.2	3.0	Girl Child, Education, Livelihood
37	Union Bank of India	Banking	19.0	14.0	Rural development
			513.9	318.6	

Source: <http://karmyog.com>

Recommended Expenditure is .02% of sale

For 37 Companies the recommended expenditure is 0.02% of the total sales and it comes to 513.9 crores but they have spent 318.6 Crores for this purpose which is 61% of the recommended expenditure. If we exclude one company ONGC from the sample, the percentage adjusts at 38%. Moreover, the spending on Social programmes is very less. Few companies in India are publishing their CSR report, even these all are descriptive in nature and having no specific information as far as social projects of companies are concerned.

### **Conclusion:-**

The analysis reveals that there is a positive relationship between CSR and financial performance and the descriptive and inferential measures shows that Corporate social expenditure depends upon the financial performance of the Company. But at the same time we can conclude that most of the top Indian companies are spending nothing on part of their social responsibilities. 26 Out of 37 companies spent lesser amount on social projects than recommended one and 11 companies spent more than the recommended budget . As far as incorporation of the concept in Indian context is concerned, we cant ignore Corporate social projects undertaken by Indian corporate like TATA, Reliance, Birla, BHEL, SAIL, NTPC and ONGC. But at the same time almost all the Indian companies are not providing detailed information about their spending upon the social projects rather we are following the descriptive measures for reporting and just specifying in the report, the area where company is having its projects. No specific annual spending, budgets and details of social projects are disclosed by companies

By promoting and partaking in environmental conservation, the company profits in the long run. Corporations have realized conserving the environment is a vital aspect of the well-being of a company in the long run. If all resources are used up and destroyed, future success is not feasible. The company should focus on improving ways to better the manufacturing process of the goods so as to reduce air pollution as much as possible. It should also play an active role in the community and sponsor projects for the betterment of society and those less fortunate.

## REFERENCES:

- ADL, Arthur D Little Limited 2003, *The Business Case for Corporate Responsibility*, December, Cambridge.
- Aupperle, K, Carroll, A and Hatfield, J 1985, 'An empirical examination of the relationship between corporate social responsibility and profitability', *The Academy of Management Journal*, vol 28, no. 2, June, pp 446-63.
- Bagnoli, M. and S. Watts. 2003. "Selling to Socially Responsible Consumers: Competition and the Private Provision of Public Goods," *Journal of Economics and Management Strategy*, 12:419-445.
- Ball, E., Fare, R., Grosskopf, S. and O. Zaim. 2005. "Accounting for Externalities in the Measurement of Productivity Growth: The Malmquist Cost Productivity Measure," *Structural Change and Economic Dynamics*, 16(3): 374-394.
- Baron, D. 2001. "Private politics, corporate social responsibility and integrated strategy," *Journal of Economics and Management Strategy*, 10:7-45.
- Bauer, P.W. 1990. "Decomposing TFP Growth in the Presence of Cost Inefficiency, Nonconstant Returns to Scale, and Technological Progress," *Journal of Productivity Analysis*, 1:287-301.
- Blackburn, V, Doran, M and Shrader, C 1994, 'Investigating the Dimensions of Social Responsibility and the Consequences for Corporate Financial Performance', *Journal of Managerial Issues*, vol 6, no. 2, pp 195-218.
- Bodie, Z, Kane, A and Marcus, A 2002, *Investments*, 5th Edition, McGraw-Hill Companies, New York.
- CAMAC, Corporations and Markets Advisory Committee 2006, *The Social Responsibility of Companies*, December, Sydney.
- Commission of the European Communities (2001). Green Paper for Promotion of European Framework for CSR.  
(<http://www.btplc.com/societyandenvironment/reports/greenpaperonCSR.pdf>).
- Diltz, J.D., 1995, The private cost of socially responsible investing, *Applied Financial Economics*, 5, 69-77

- Gasparski, W.W. and Ryan, L.V. (Eds) (1996), *Human Action in Business: Praxiological and Ethical Dimensions*, Transaction Publishers, New Brunswick, NJ and London
- Griffin, Jennifer J., and John F. Mahon 1997 'The corporate social performance and corporate financial performance debate: Twenty-five years of incomparable research'. *Business & Society* 36: 5–31.
- Hillman, A. and G. Keim, 2001, Shareholder value, stakeholder management, and social issues: what's the bottom line? *Strategic Management Journal*, 22, 125-139. <http://www.indiannngos.com/corporate/about-csr.htm> (Sept., 2007).
- Husted, Brian W. 2000 'A contingency theory of corporate social performance'. *Business & Society* 39: 24–48
- Margolis, J. D., and J. P. Walsh 2001 *People and profits? The search for a link between a company's social and financial performance*. Mahwah, NJ: Erlbaum.
- McGuire, J, Sundgren, A and Schneeweis, T 1988, 'Corporate social responsibility and firm financial performance', *The Academy of Management Journal*, vol 31, no. 4, pp 854-72.
- McWilliams, A and Siegel, D 2000, 'Research notes and communications. Corporate social responsibility and financial performance: correla
- Orlitzky, M, Schmidt, F & Rynes, S 2003, 'Corporate social and financial performance: A meta analysis', *Organization Studies*, vol 24, no. 3, pp 403-11.
- Pava, Moses L., and Joshua Krausz 1995 *Corporate responsibility and financial performance: The paradox of social cost*. Westport, CT: Quorum.
- Rey, M and Nguyen, T 2005, *Financial payback from environmental & social factors*, AMP Capital Investors, April, Sydney.
- Rowley, Timothy J., and Shawn Berman 2000 'A brand new brand of corporate social performance'. *Business & Society* 39: 397–418.

- Shinde, S (2005). Social responsibility corporate style (<http://www.expresscomputeronline.com/20050502/technologylike01.shtml>).
- Statman, M., 2000, Socially responsible mutual funds, *Financial Analysts Journal*, 56, 30-38.
- Ullmann, Arie 1985 'Data in search of a theory: A critical examination of the relationship among social performance, social disclosure, and economic performance'. *Academy of Management Review* 10: 540–577.
- Verschoor, C. and E. Murphy, 2002, The financial performance of large US firms and those with global prominence: how do the best corporate citizens rate? *Business and Society Review*, 107, 371-380.
- Waddock, S. and S. Graves, 1997, The corporate social performance-financial performance link, *Strategic Management Journal*, 18, 303-319
- Wartick, Stephen L. 1988 'How issues management contributes to corporate performance'. *Business Forum* 13: 16–22.
- Wood, D.J. (1991). Corporate social performance revisited, *Academy of Management Review*, 16 : 691 – 718.
- Wood, D.J. and Jones, R.E. (1995), "Stakeholder mismatching: a theoretical problem in empirical research on corporate social performance", *International Journal of Organizational Analysis*, Vol. 3 No. 3, pp. 229-67
- Wood, Donna J. 1991a 'Corporate social performance revisited'. *Academy of Management Review* 16: 691–718.
- Wood, Donna J. 1991b 'Social issues in management: Theory and research in corporate social performance'. *Journal of Management* 17: 383–406.