ISSN- 2394-5125 VOL 7, ISSUE 02, 2020

IMPACT OF CSR ON FINANCIAL PERFORMANCE

Bhakti Naik
Assistant Professor D Y Patil University's, School of Hospitality and Tourism Studies. Navi Mumbai, Maharashtra

ABSTRACT

When it comes to purchasing goods and services, consumers' preferences are heavily influenced by a company's commitment to social responsibility. Since of this, CSR is becoming more and more important because it allows a firm to distinguish itself from its rivals. CSR is important to all world-class firms, but not all of them are equally effective in putting it into practice. This relationship between corporate social responsibility (CSR) and financial success has been shown in several studies, however the findings are inconsistent owing to various confounding variables. The study begins with the assumption that CSR and FP are unrelated. Based on an evaluation of financial performance measures like ROA and ROE in accounting terms, as well as EPS and stock price data from prior studies on CSR versus non-CSR firms in the sample of 10 companies, we conclude that there is no significant difference in financial performance and shareholder wealth in CSR versus non-CSR firms. According to our findings, there is a strong link between CSR and a company's financial success and the wealth of its shareholders.

Keywords: Corporate, Financial, Performance, Shareholders

INTRODUCTION

The definition of Corporate Social Responsibility (CSR) is an issue that dominates the existing literature. Many authors made an attempt to approach this term with many views. Davis (1973, pp.312-313) defined CSR as "the firm's considerations of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks". The World Business Council for Sustainable Development (1999) suggests that: ''CSR 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''. There is also a disagreement on the definition of CSR among those that face CSR as an ethical attitude and those who argue that it is a firm's strategy (Wan-Jan, 2006). Stainer (2006, pp.253) state0s that "CSR concept is to show that ethical principles, from wherever derived, can improve reasoning and harmonize decisions, especially in complex situations and thus, enhance performance". The unclear state of CSR definition is recognized also by Dahlsrud (2008). It has become a necessity for companies to deal with issues that concern all kinds of stakeholders, either internal or market-related. This need is depicted by Isaksson and Steimle (2009, pp.170), who face CSR as the "company's commitment to behave socially and environmentally responsible while striving for its economic goals". Because of the tight relationship and stakeholders' demands, Lo (2009) refers to the existing hope in modern society that stakeholders will stop forcing managers to lead their firm in long-term social responsibility and try only to achieve low costs in short time periods.

However, a CSR effort should be linked to a company's financial health and results. The relationship between corporate social responsibility (CSR) and economic or financial business performance has therefore been the focus of several research. Numerous scholars have seen CSR and the economy as either competing or complimentary (Godfrey and Hatch,

ISSN- 2394-5125 VOL 7, ISSUE 02, 2020

2007). In Friedman's perspective (1970), a company's main social obligation is to maximise its profits, as long as it doesn't cheat or deceive in the market. However, the company's stakeholders are scrutinising its CSR operations. The market will assess CSR in light of its impact on strategy, cash flow, and reputation. If a company's unpublicized charity donations have little effect on the firm's image, the stock market will not value them highly (Van Dijken, 2007). Instead, implementing CSR may open doors for a business and result in increased value (Cramer, 2003). According to Holmes (1976), executives foresee an increase in reputation and an increase in social community, whereas short-term profitability decreases and conflicts between social and financial aims are likely negative effects.

To date, there are a wide range of viewpoints on what CSR is supposed to do for a company. A prominent economist and debater, Milton Friedman (1970), argued that a company's only social obligation is to fulfil the wishes of its shareholders and to enhance its profits within the bounds of law and business ethics. Firms should not concentrate on corporate social responsibility (CSR) unless it creates value and complies to the desires of the company's shareholders, according to Friedman (1970). According to Cheng et al. (2014), companies with a strong corporate social responsibility (CSR) strategy have greater access to bank financing, which makes it simpler for them to make strategic investments. An further incentive for firms to engage in CSR is because more and more stakeholders are exerting their influence on them (Grafström et al. 2008). Due to the digitization of the world and greater flow and access to information, the conventional division of stakeholders is in need of adjustment.

LITERATURE REVIEW

Samira Islam Resmi (2018) These days, CSR activities are a foregone conclusion for most businesses. In order to help the community or fulfil their responsibilities to society, a large number of well-known companies engage in CSR operations. CSR has been adopted by many businesses, however the study attempted to determine whether or not it has a positive impact on the financial success of a company. Using a sample of four well-known agribusiness companies for a period of three years, from 2015 to 2017, the study's primary goal is to shed light on the influence of CSR on financial performance (FP) in Bangladeshi agribusiness businesses. Researchers used a relational approach to their study. Secondary sources were used to get the information. The data and outcomes were analysed using regression and correlation. According to the research, financial success is strongly influenced by return on equity (ROE) and net income (NI) for companies who engage in CSR, but not by return on assets (ROA) or profits per share (EPS). Researchers in this hypothetical field may want to keep a few of these suggestions in mind. In light of the results, this research concludes that the CSR phenomenon is a vital growth factor and FP-enhancing tool in Bangladesh's agribusiness industry. While many CSR studies are focused on well-established corporations and countries, the findings of this study have important ramifications for policymakers and financial sector governance because they add significantly to the body of knowledge while also providing important implications for developing nations.

MARLY MENTOR (2016) Over the years, corporations have taken the lead in demonstrating their socially responsible nature. In the past, firms have put a lot of effort into boosting their profits. There have been various disputes over the merits of corporate social responsibility (CSR). Being socially responsible is becoming more and more important to the success of businesses. This study investigates previous studies on the connection between socially responsible business practises and financial results. This correlation is then examined using a reputable source of data on the performance of corporations in the area of corporate social

ISSN- 2394-5125 VOL 7, ISSUE 02, 2020

responsibility. Accounting and market-based measures of financial success are examined separately in this research. Most of the S&P 500 companies are included in the dataset, which spans from 2005 to 2014. We build an empirical model based on findings from the work of Capon, Farley, and Hoenig (1990). Cross-sector/panel data time-series regressions are used to examine the linkages. The findings show that CSR and financial success are linked in a beneficial way. There is a negative correlation between CSR and market-based measures of financial success. Although CSR has a favourable impact on profitability, our research shows that it has an adverse effect on stock returns in the long run. It's possible that socially responsible equities demand a lower rate of return than their conventional counterparts. Because investors are more ready to invest in CSR equities, these companies are likely to have lower future stock returns. The findings are in line with previous research and lend credence to the hypothesis.

Mubeen Mujahid (2014) The primary goal of our study is to examine the link between corporate social responsibility and shareholder wealth and company financial performance. An independent variable and a dependent variable are used in our study to determine the influence that CSR has on shareholders' wealth and a company's financial performance. It was our goal to see whether there was a good or negative correlation between social responsibility and the financial success of a company. Based on an evaluation of financial performance measures like ROA and ROE in accounting terms, as well as EPS and stock price data from prior studies on CSR versus non-CSR firms in the sample of 10 companies, we conclude that there is no significant difference in financial performance and shareholder wealth in CSR versus non-CSR firms. According to our findings, there is a strong link between CSR and a company's financial success and the wealth of its shareholders.

Robert Fabac (2016) Companies that are featured in the Zagreb Stock Exchange's official share index will be examined in this research study for their association between corporate social responsibility (CSR) and financial performance (FP). Shares of 10 Croatian firms are included in the CROBEX10® index. When it comes to purchasing goods and services, consumers' preferences are heavily influenced by a company's commitment to social responsibility. Since of this, CSR is becoming more and more important because it allows a firm to distinguish itself from its rivals. CSR is important to all world-class firms, but not all of them are equally effective in putting it into practise. This relationship between corporate social responsibility (CSR) and financial success has been shown in several studies, however the findings are inconsistent owing to various confounding variables. The research begins with the assumption that CSR and FP have no connection for businesses in the CROBEX10® index. In this work, the document analysis approach is used to identify common indicators, such as financial performance measures (such as ROA and ROE). Content analysis is used to measure CSR indicator levels. There is a correlation between corporate social responsibility (CSR) and financial success, which may be studied using descriptive statistics, basic regression analysis, or factor analysis.

Relationship between CSR and Financial performance

There has been a growing interest in the notions of corporate social responsibility (CSR) and its probable relation to financial success since the 1970s. CSR can be seen from two different perspectives, according to Alexander and Buchholz (1978). The first is that a socially aware management has the ability to run a superior company, which is likely to result in better financial results, and the second is that increased CSR expenditures can put the company at a disadvantage in the market place. According to their findings, Alexander and Buchholz (1978) relied on a reputation index to measure CSR performance, but Cochran and Wood

ISSN- 2394-5125 VOL 7, ISSUE 02, 2020

(1984) found that this technique was flawed since it was subjective and did not accurately reflect how well a firm was doing in this area. Following then, academics debated the numerous techniques used by researchers to measure CSR success and financial performance, without even now achieving an agreement, which has delayed the generalisation of findings (Martinez-Ferrero & Valeriano, 2015). Many factors exist and the researcher's decision on which variables to include might have a significant impact on the study's final findings, making this a challenging position for researchers (McGuire et al., 1988).

In the context of corporate social responsibility, the study of social performance is commonly referred to. Responsible and irresponsible social behaviours combine to make up corporate social performance. Firms are rewarded for good CSR performance and punished for bad, according to previous research. As a result, companies are held accountable for any CSR transgressions and must pay a price for them (Wang and Sarkis 2017). "It is usual for enterprises to demonstrate both good and negative signs of CSP," according to Oikonomou et al. (2014). The literature on the relationship between financial success and social duty and irresponsibility is mostly unsolved. As a result, academics have lately started to examine the influence of CSP on business performance by integrating the CSI. According to the vast majority of research, CSR has an impact on the value of a firm, whereas CSI has an impact on its value (Gregory-Smith et al. 2014). According to Fatemi et al. (2018), excellent ESG procedures raise the value of a business, whereas poor practises diminish it. There's also evidence to suggest that disclosing this kind of information damages the company's reputation due to the muddle it creates when excellent and poor practises are discussed together. Researchers Jo and Na (2012) discovered that adopting socially responsible practises reduces the risk faced by US enterprises operating in contentious fields. There was a statistically significant difference between corporations in non-controversial sectors and those in problematic ones when it came to the impact of risk reduction via CSR efforts. Harjoto and Laksmana (2018) discovered that CSP assessed by an overall score from the KLD agency is related with deviations from the ideal risk level. According to them, corporate social responsibility (CSR) functions as a means of limiting risk taking and reducing risk avoidance. According to their findings, departures from optimum risk-taking are adversely associated with CSR strengths whereas positive associations might be seen between CSR concerns and those deviations. Because organisations with a high strength score spend a considerable percentage of their resources to CSR initiatives, these findings were explained by the fact that less resources were available for risk-taking activities by the authors.

RESEARCH METHODOLOGY

Secondary data from the Futurescape Report 2017 ranks India's Top 10 firms for Sustainability and CSR in 2014-17. A sample of ten top-performing CSR firms from India's Top 100 enterprises for sustainability and CSR was selected to examine the influence of CSR on financial performance. (Futurescape, as cited) The research relies only on secondary data sources. From 2014 to 2017, annual reports, sustainability and CSR reports of the companies, directors' reports, notes to accounts, schedules of accounts, and auditors' reports were retrieved from the Companies' official websites and from Moneycontrol.com. A simple regression model using CSR as a dependent variable and PBT, ROCE, ROE, and ROA as independent variables is used to examine the influence of CSR on the financial performance of India's top 10 sustainable and CSR enterprises. For the current research, the confidence levels were set at 90%, 95%, and 100% to ensure an accurate result was obtained using SPSS version 20.

ISSN- 2394-5125 VOL 7, ISSUE 02, 2020

DATA ANALYSIS

Following the release of the Folksam Index of Corporate Social Responsibility, the research focuses only on the impact on the stock price of this particular release on CSR involvement (Folksam CSR Ranking Report). An evaluation and analysis of Swedish listed firms' public reports based on CSR policies and actions has been published annually or semi-annually since 2006. Firms' CSR efforts are evaluated using the UN Global Compact criteria and OECD guidelines for multinational companies to see whether or not they meet the standards of the UN and OECD. Folksam's CSR Report, as a result, gives a score to each CSR component and details the company's overall CSR activities. Because of this, this study's report release is an ideal time for its publication.

An event study will be done to examine the influence of Folksam's CSR ranking publication on the stock value of companies, which is defined as the release of the CSR ranking report. Three groups of firms are included in this research: the top 31 companies with the highest overall rating, the 31 companies with the lowest ranking, and lastly the companies that do not get a ranking. According to the ratings each corporation earns in the areas of human rights and environmental stewardship, a list is compiled. A similar study method will be utilised to investigate each of the sub-hypotheses, except that it will be confined to 2006 and 2013. Pre-crisis, crisis, and post-crisis years are all included in this sub-hypothesis. According to the third and fourth sub-hypotheses, only enterprises with a high level of operational risk and substantial size are examined in 2013.

El Ghoul, Guedhami, Kwok & Mishra provide a last and distinct CSR advantage relating to a company's worth and risk (2011). CSR-engaged firms are expected to have lower equity costs than those with a history of poor CSR participation, according to the authors. Investor confidence in companies that do not practise CSR, or only do so in a limited way, is lower, and the perceived risk of investing in such companies is greater. Both information asymmetry and investor preferences imply that disclosing CSR-related activities would disseminate a favourable image of the firm and hence attract more investors as possible explanations for this phenomenon. More investors are inclined to invest in firms that participate in CSR than those that don't, according to the findings of the research (ibid). Thus, CSR involvement 17 results in reduced capital expenditures, which in turn decreases financing costs and increases the value of businesses.

There are two columns in the R2 table (the "R Square" column): ROE and CSR. ROE is the dependent variable and CSR is the independent variable. If the CSR data changes, then R2 indicates that the ROE has also changed. Model fit is 29.9% accurate, according to the corrected R-squared of 0.299. The Agribusiness industry's ROE fluctuates by 36.3% for every.363 unit change in CSR activity.

Table 1: Model Summary for ROE & CSR.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.602[a]	.363	.299	2.23027

This relationship between CSR and ROE may be shown in Table 2. (.038). This indicates that the regression model accurately predicts the result of the variable, CSR, as far as its influence on ROE is concerned; the value is less than 0.05 In this case, it is possible to accept hypotheses 1 and 2.

Table 2. ANOVA for ROE & CSR.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.306	1	28.306	5.691	.038[b]
	Residual	49.741	10	4.974		
	Total	78.047	11			

Only 7% of the 122 reports met the HKEX Index criterion, with 60% failing to meet the conventional pass level of 60 points. Report pages can't show quality, but they may show how the report score is doing, as a thorough report needs room for a qualified and quantifiable index. There are 11 basic disclosures and 32 critical performance indices in each report, although only 35 percent of the reports are more than 30 pages long.

Table 3, 4, 5, and 6 present the baseline regression's findings, which include the OLS result in column 1, the fixed effect result in column 2, the industrial variable result in column 3, and the OLS result in column 4 for the 26 companies that had fully disclosed the four environmental metrics previously discussed.

Table 3 Relation between ROA and CSR performance

VARIABLES	(1) OLS	(2) Fixed Effects	(3) Fixed Effects	(4) Full Data
Report Score	0.000702***	0.000608*	0.000629	0.00115***
	(0.000260)	(0.000346)	(0.000720)	(0.000376)
Pharmacy*Report Score			0.000210	
			(0.000844)	
Finance*Report Score			-0.00102	
			(0.00116)	
Greenhouse Gas Emission Density				0.00211*
				(0.00112)
Energy Use Density				2.56e-05
				(1.54e-05)
Electricity Use Density				-1.69e-06*
				(8.66e-07)
Water Use Density				2.92e-05
				(2.69e-05)
Constant	0.00928	0.0144	0.0256	-0.0432*
	(0.0149)	(0.0191)	(0.0221)	(0.0222)
Observations	124	124	124	26
R-squared	0.056	0.048	0.072	0.636
Number of ID		62	62	
Company FE		YES	YES	
Year FE		YES	YES	

ROA is a measure of how much profit a firm may earn from its assets... When a corporation is better at reporting on its CSR practises, it is able to generate more profit from its assets. After correcting for unobservable firm-level variability, every point increase in CSR score may result in a 0.000608 rise in ROA. There is no statistically significant difference in ROA between firms in the pharmaceutical, financial, and insurance sectors when it comes to increasing their CSR scores; nevertheless, the pharmaceutical companies may produce more profit from their assets when they raise their CSR ratings. A CSR score of 0.00115, which has a positive influence on ROA for the 26 fully stated firms, outperforms the whole group. Other environmental factors, other than power usage, might have a detrimental impact on ROA.

Similarly, ROA, ROE, EPS, and SPCR all indicate distinct elements of a company's financial success, and CSR performance likewise effects these measures in different ways. ROA and ROE illustrate profitability, whereas EPS and SPCR represent investors' returns. The more CSR points a company has, the more profitable it becomes, according to the results of the

ISSN- 2394-5125 VOL 7, ISSUE 02, 2020

whole dataset. Increasing ROA and ROE by 0.0608 and 0.172 percent, respectively, when the fixed impact is controlled, is a considerable benefit of increasing CSR score. We may infer that a higher score on the HKEX guideline for CSR reflects a company's commitment to environmental principles as well as its corporate governance insofar as employment practises, bribery, business ethics, and customer service are concerned. A company's ability to turn a profit is largely dependent on its ability to run smoothly. As a consequence, the conclusion is logical. CSR performance, on the other hand, seems to have little impact on the stock market. EPS improves by 0.00928 for each increase in CSR ratings, which suggests that an improvement on the CSR report may enhance the financial health of the company. Unexpectedly, a company's stock price will suffer greatly during the year due to a rise in CSR performance. It's conceivable that too many other variables, such as macroeconomic developments, consumer confidence, and hopes for the future, are influencing stock price movements. The Hang Seng Index, a measure of Hong Kong's stock market performance, revealed that the stock price in Hong Kong climbed in both 2017 and 2018, however the changing ratio of the stock price in 2017 is larger than that in 2018. While profit motivations drive investors, other financial performance criteria may be more essential in predicting a company's future, particularly since CSR reporting was only adopted in HKEX.

Conclusion

All of the given hypotheses were accepted in which CSR has a beneficial influence on the overall financial performance of chosen organisations, such as PBT, ROC, ROA, and ROE; nevertheless, the impact of CSR on each of these financial performance measures is unique. Due to the fact that improved financial results are a direct result of increased CSR contributions. In addition, the findings reveal that corporations' CSR contributions are on the rise. For 2014-17, Ambuja Cement contributed an average of 3.94 crores, demonstrating that CSR is being effectively implemented as a result of the New Companies Act, 2013, which also shows that all selected companies are meeting at least a 2 percent requirement prescribed under Section 135 of the New Companies Act, 2013. There is a discrepancy between the requirements and the practises that are actually implemented, according to the research. In light of these findings, it is recommended that corporations devote more resources to CSR efforts, which have a major influence on both financial and non-financial success. SEBI should also take strong measures to improve the practise of disclosing CSR information. To summarise, all publicly traded firms must comply with Section 135 of the Companies Act, 2013, which mandates that they disclose all necessary elements of the Act. When a company's CSR efforts have a direct impact on its bottom line, they are strategic. There is a clear link between CSR and the financial success of Agribusiness businesses in 2015-2017, according to this study. Companies and practitioners may use this data to better understand the link between corporate social responsibility (CSR) and financial success in the agribusiness industry. This study's findings, which show a consistent and statistically significant link between corporate social responsibility (CSR) and financial success, may help Agribusiness executives understand the potential returns on their CSR initiatives in terms of ROE, ROA, EPS, and net income. For more than just advancing our understanding of the world, this research has the potential to benefit a wide range of stakeholders.

References

1. Blasi, Silvia, Massimiliano Caporin, and Fulvio Fontini. 2018. A Multidimensional Analysis of the Relationship Between Corporate Social Responsibility and Firms' Economic Performance. Ecological Economics 147: 218–29.

2. Abrigo, Michael RM, and Inessa Love. 2016. Estimation of panel vector autoregression in Stata. Stata Journal 16: 778–804.

3. Dang, Chongyu, Zhichuan Frank Li, and Chen Yang. 2018. Measuring firm size in empirical corporate finance. Journal of Banking & Finance 86: 159–76.

4. Harjoto, Maretno, and IndrariniLaksmana. 2018. The impact of corporate social responsibility on risk taking and firm value. Journal of Business Ethics 151: 353–73.

5. Jo, Hoje, and Maretno A. Harjoto. 2012. The causal effect of corporate governance on corporate social responsibility. Journal of Business Ethics 106: 53–72.

6. Aarti Sharma, B. V. (2016). An Analytical study on CSR Expenditure of BSE ListedCompanies in India. International Journal of Human Resource & Industrial Research, 3(5), 64-78.

7. Mandal, B. N. (2012). Corporate Social Responsibility in India. Global Vision Publishing House.

8. Truptha, S. (2016). Impact of CSR on OrganisationalPerformance : A study on Information Technology Companies in Karnataka. University of Mysore, Mysore.

9. Richa Gautam, A. s. (2010, January). Corporate Social Responsibility Practices in India: A Study of Top 500 Companies. Global Business and Management Research: An international journal, 2, 41-56.

10. Maunaza Kanwal, F. K. (2013). Impact of CSR on the firm's Financial performance. IOSR Journal of Business and Management, 14(5) 67-74.