Impact of CSR Spending on firm's financial performance

Grizel Menezes
grizmenezes298@gmail.com
Christ University, Bangalore, Karnataka

ABSTRACT

This paper examines the impact of CSR spending on the firm's financial performance. The government has made CSR spending mandatory by which the organizations can significant contributions to the benefit of the public. The data for the study was collected for 5 years and the study takes into consideration the top ten companies for CSR spending. In order to find out whether CSR spending has an impact, three variables are taken into consideration such as ROA, EPS, Net Profit. Independent Pooled OLS Regression, Fixed Effect and Random effect method was used. The findings were that the Net profit has a significant relationship with the CSR Spending whereas ROA and EPS have no impact.

Keywords— CSR Spending, Financial Performance, EPS, ROA, Net Profit

1. INTRODUCTION

CSR is becoming progressively imperative in the present situation. Organizations are acknowledging that it is so vital to addressing the issues of the investors. CSR not only just improves the long-haul association with its partners however guarantees the smooth running of its activities.

The government has made CSR spending mandatory in 2013. This act goes about as prevention for organizations which are reluctant to contribute towards CSR exercises. Making it obligatory was likewise a stage towards perceiving the exercises which can be considered as a CSR action. Previously, the organizations use to invest in resources into activities which probably were not much gainful for the general public.

The order has made the organizations increasingly dedicated towards social causes and there is likewise a commitment with the nearby networks which will guarantee comprehensive improvement over the long haul.

Although, the New Act's CSR prerequisites will build the expenses of doing business together in India and add to existing authoritative and reporting burdens.

Importance of conducting CSR activities are many. They are:
- Corporate social responsibility goes far in making a positive word of mouth for the companies in general
- Corporate social duty likewise gives employees a sentiment of unparalleled bliss - CSR exercises reinforce the security among workers. Individuals build up a propensity for cooperating as a solitary unit to help other people. They begin to enjoy working together and furthermore turn out to be great companions in due course of time. They additionally build up a feeling of faithfulness and connection towards their company which is thinking of betterment for the general public.
- Consumers need to work with an organization they can trust. Because of this, it's currently very essential for a business to have a sustainability report and different CSR activities set up. So as to stay aggressive in the present commercial centre, which is just developing increasingly joined with social and natural issues, organizations must practice corporate social duty. Those that don't will be not able to pull in or hold top ability, keep on encountering diminished sales and risk turning into a web sensation for all the wrong reasons through web-based networking media leading to a bad reputation.

2. REVIEW OF LITERATURE

(Shafat Maqbooln, 2017) In their research, they attempt to examine the association between CSR and financial performance in the Indian context through secondary information gathered for 28 Indian commercial banks recorded in Bombay stock trade (BSE), for the time of 10 years (2007– 16). The outcomes show that CSR applies the positive effect on monetary execution of the Indian banks. The finding of this examination gives great knowledge for administration, to incorporate the CSR with a vital plan of the business, and redesign their business rationality from habitual profit-oriented to socially capable approach.

(Supriti Mishra, 2010) in a Questionnaire-based study featured that, organizations which are delicate to necessities of its stakeholders discover positive impression about itself, its qualities, and overall worth. The discoveries of the study featured that CSR-oriented organizations appreciate a higher level of stakeholder's confidence, which is reflected in higher returns, great wages, timely payment, improved status and goodwill.

(Vijay. P and Divya. N, 2014) The researcher has made an endeavour to demonstrate the effect of CSR in pre and post-time of execution of CSR idea in Indian commercial banks. This examination depends on both primary and auxiliary information which are gathered from 135 respondents and the other information from the RBI site and different diaries.

(Sankar, 2014) considered the different research papers identifying with the connection between CSR activities of many organizations and their financial execution. The discoveries of this examination demonstrated a mixed connection between CSR and financial performance. Based on the earlier examination, the researcher presumed that CSR had a positive association with the financial performance of firms.

(Yadav and Gupta, 2015) focused to see the impact of CSR exercises on the financial performance of 5 privately owned businesses in India, for example, Tata Steel, RIL, Mahindra and Mahindra, Infosys and Larsen and Toubro for the year 2010-14. They have taken profit for total assets, benefit before duty and EPS as the financial performance pointers. With the assistance of regression analysis and ANOVA, they brought up that CSR has an unimportant association with return on total assets yet it was a positive association with EPS of these organizations.

(Das and Bhunia, 2015) inspected the impact of CSR on financial performance indicators of sixteen Nabaratna organizations in India for the time of 2010-14. To lead the examination, the researchers embraced correlation and linear regression. The relationship result demonstrated that all the financial performance markers, i.e. liquidity, financial leverage, fund size, company's size, net revenue and ROS had an insignificant positive association with CSR yet just ROA was negatively identified with CSR. The multiple regression result uncovered that CSR influenced the fund size and firms' size however profitability measures of these organizations were not affected by CSR. The authors inferred that CSR did not have any impact on budgetary financial performance with the exception of fund size and association's size.

(Munaza Kanwal, Farida Khanam, Shagufta Nasreen, Shahid Hameed, 2013) The authors have attempted to investigate the connection between CSR &FP by taking the information from 15 organizations recorded on Karachi stock trade, utilizing correlation analysis which is utilized to discover the circumstances and logical results of the relationship. The investigation result demonstrates that there is an extensive positive connection between the CSR and Financial execution of the firm, and firms spending on CSR not just advantages from continuous long-haul maintainable advancement yet in addition to improved FP.

(Padma Misra, 2009) the author estimated the dimension of CSR in Indian corporate division by examining four measurements to be specific - Operational, Economic, Environmental and Social. 27 enterprises, partook in the review. Chi-square investigation was done to evaluate the level of distinction between the expected and observed frequencies. The paper was concluded with the outcomes - The outcome on CSR for the total sample was measurably huge. Ecological and Social measurements were additionally observed to be huge. While chi-square for Operational and Economic components of CSR was not noteworthy.

(Resmi, Begum, Hassan, 2018), the paper concentrated on the impact of CSR exercises on Agribusiness industry's in financial performance at a particular time for a time of three years from 2015 - 2017. The organizations were chosen depending on their predictable appearance in the highest rundown of best 100 performing organizations in Bangladesh. Purposive sampling technique is utilized. The methods used to examine the objectives incorporate correlation; multiple regression to follow causal connections between several elements. The discoveries introduced uncovered that ROE and overall gain has a noteworthy effect on financial performance supporting those organizations that do Corporate Social Responsibility while; return on assets (ROA) and profit per share (EPS) has no critical effect on financial performance.

3. RESEARCH DESIGN
3.1 Objectives of the study
- To know the relationship between corporate social responsibility and financial performance of companies.
- To study the impact CSR has on the financial performance of the companies

3.2 The scope of study
Embracing CSR standards includes costs and these expenses may be short-term in nature or continuous outflows. The expenses may include the buy of environmentally friendly equipment, execution of stricter quality controls or commitment to a community cause. Since being socially capable includes costs, it ought to create benefits also keeping in mind the end goal to be a tenable business practice. An organization can't proceed with an arrangement that continually produces negative money streams. The investors contribute their cash in an enterprise, expecting the highest possible risk balanced return. So, being socially mindful ought to have benefits in order to be sustainable. Therefore, there is a need to conduct a study on whether the CSR impacts the firm positively or not.

3.3 Limitations of the Study:
- The study does not consider non-financial parameters like employee satisfaction, customer satisfaction, shareholders views
- The study does not consider other factors such as firm size, firm age, firm leverage and market value
- The study has only taken the first top ten companies for the study and has not considered the rest of the companies.

3.4 Data Collection Methods
The study collected is based on secondary sources of data. The data has been collected from the Prowess CMI Database. The time period of the data is from 2013-2014, 2014-2015, 2015-2016, 2016-2017. That is 5 years.

3.5 A sample of Study
The sampling method used is convenience sampling. For analysing the impact of Corporate Social Responsibility on Firm's financial performance a sample of top 10 Listed Companies for sustainability and CSR funding in India has been taken from the population on the basis of net worth. They are: ACC Ltd, Bharat Petroleum Corporation Ltd, Dr Reddy's Laboratories, ITC Ltd, JSW Steel, Reliance Industries, Shree Cement Ltd, Tata Steel Ltd, Wipro Ltd, Ultra Tech Ltd

3.5 Variables for the study
There are four variables considered for the study:
Independent Variable - Corporate Social Responsibility
Dependent Variable – Net profit, Earnings per share, Return on Assets

3.6 Hypothesis
- **H1**: There is a significant relationship between corporate social responsibility and the net profits of companies.
- **H2**: There is a significant relationship between corporate social responsibility and Earnings per share of companies.
- **H3**: There is a significant relationship between corporate social responsibility and Return on Assets of companies.

3.7 Research Method
- Independently Pooled OLS Regression Model
- Fixed Effect Model
- Random Effect Model

These three methods are used to find the kind of relationship that CSR implies on the firm's financial performance. CSR is the independent variable and Return on Assets, Earnings per share and Net Profit are the dependent variables.

4. ANALYSIS AND INTERPRETATION
4.1 Results of panel regression with EPS as dependent variable

Table 1: The results of panel regression with EPS as dependent variable

Variables	Model 1 Pooled OLS regression	Model 2 Fixed Effect	Model 3 Random Effect	Specification Test (Hausman Test)
C	0.0007	0.0005	0.0008	M= 1.500708
CSR Spending	0.3701	0.2089	0.3759	P = 0.2206

Pooled OLS Regression
- The statistical significance in this table is 0.3701 which is greater than 0.05, 0.01, 0.10 which indicates that, overall, the regression model is a not good fit for this data.
- Therefore, the null hypothesis is accepted. It indicates that there is no significant relationship between EPS and the CSR Spending between the firms.

Fixed and Random Effect
In order to find out the best fit of the model between Fixed and Random Effect Model, Correlated Random Effect Hausman Test is conducted.
H0: Random effect Model is appropriate
H1: Fixed Effect Model is appropriate
- In Random effect Model, the p-value is 0.3759 which is greater than 0.05, 0.01, 0.10 which means that the null hypothesis is accepted.
- Hence there is no significant relationship between EPS and the CSR Spending between the firms.

4.2 Results of panel regression with ROA as dependent variable

Table 2: The results of panel regression with ROA as dependent variable

Variables	Model 1 Pooled OLS regression	Model 2 Fixed Effect	Model 3 Random Effect	Specification Test (Hausman Test)
C	0.0000	0.0000	0.0000	2.207215
CSR Spending	0.0948	0.3224	0.1043	0.1374

Pooled OLS Regression
- The statistical significance in this table is 0.0948 which is greater than 0.05 (0.0948>0.05) which indicates that, overall, the regression model is a not good fit for this data.
- The statistical significance in this table is 0.0948 which is greater than 0.01 (0.0948>0.01) which indicates that, overall, the regression model is a not good fit for this data.

- Therefore, the null hypothesis is accepted. It indicates that there is no significant relationship between ROA and the CSR Spending between the firms at 1% and 5%.
- The statistical significance in this table is 0.0948 which is less than 0.10 (0.0948<0.10) which indicates that, overall, the regression model is a good fit for this data.
- Therefore, the null hypothesis is rejected. It indicates that there is a significant relationship between ROA and the CSR Spending between the firms at 10%.

Fixed and Random Effect Model
In order to find out the best fit of the model, Correlated Random Effect Hausman Test is conducted.
- The probability value here is 0.2206 which is greater than 5%, hence we accept the null hypothesis, i.e. Random Effect Model is the best fit.
- In Random effect Model, the p-value is 0.1043 which is greater than 0.05, 0.01, 0.10 which means that the null hypothesis is accepted.
- Hence there is no significant relationship between Return on Assets and the CSR Spending between the firms.

4.3 Results of panel regression with Net profit as a dependent variable

Table 3: The results of panel regression with Net profit as a dependent variable

Variables	Model 1 Pooled OLS regression	Model 2 Fixed Effect	Model 3 Random Effect	Specification Test (Hausman Test)
C	0.0152	0.0000	0.0092	0.511054
CSR Spending	0.9106	0.0880	0.0918	0.4747

Pooled OLS Regression
- The statistical significance in this table is 0.9106 which is greater than 0.05 (0.9106>0.05) which indicates that, overall, the regression model is a not good fit for this data.
- The statistical significance in this table is 0.9106 which is greater than 0.01 (0.9106>0.01) which indicates that, overall, the regression model is a not good fit for this data.
- Therefore, the null hypothesis is accepted. It indicates that there is no significant relationship between Net Profit and the CSR Spending between the firms at 1% and 5%.
- The statistical significance in this table is 0.9106 which is less than 0.10 (0.9106>0.10) which indicates that, overall, the regression model is a good fit for this data.
- Therefore, the null hypothesis is rejected. It indicates that there is a significant relationship between Net Profit and the CSR Spending between the firms at 10%.

Fixed and Random Effect Model
In order to find out the best fit of the model, Correlated Random Effect Hausman Test is conducted.
- The probability value here is 0.4747 which is greater than 5%, hence we accept the null hypothesis, i.e. Random Effect Model is the best fit.
- In Random effect Model, the p-value is 0.0918 which is greater than 0.05 which means that the null hypothesis is accepted.
- The p-value is 0.0918 which is greater than 0.01 which means that the null hypothesis is accepted.
- Hence there is no significant relationship between Net Profit and the CSR Spending between the firms at 5% and 1%.
- The p-value is 0.0918 which is less than 0.10 which means that the null hypothesis is rejected.
- Hence there is a significant relationship between Net Profit and the CSR Spending between the firms at 10%.

5. SUMMARY OF FINDINGS
- Since pooled method does not make any distinction between the time period and the cross sections and mostly not appropriate for the analysis. It does not consider the uniqueness between the variables. So, Pooled OLS Regression is not considered to be a good predictor. So fixed and random effect models are considered. By performing the Hausman Test, it was found out that Random effect Model is the best fit. Although the fixed effect model gives the best estimates, the individual parameters are not considered. Random effect model considers individual specific effects.
- In the first measure, Corporate social responsibility spending is compared with the Earnings per share wherein the result showed no relationship between these two variables at all the levels
- In the second measure, corporate social responsibility spending is compared with the return on assets wherein the result showed no relationship between these two variables at all the levels
- In the third measure, corporate social responsibility spending is compared with the net profits of the companies wherein the result showed a significant relationship between these two variables at a 10% level of significance.
- So, the findings presented revealed that the variables taken – Earnings per share and Return on Assets have no significant impact on the corporate social responsibility spending of the firm.
- Whereas, Net profits have an impact and show a positive relationship with the corporate social responsibility spending of the firm.

6. RECOMMENDATIONS AND SUGGESTIONS
- Significant research has been done on the financial performance of the ten companies whereas in order to establish a definite and a significant relationship larger sample must be taken for a study.

- The companies taken for the study do not belong to a particular industry or a sector. They are based on the rankings and only the top ten companies are considered. Industry-wise analysis can be done in order to give an overview of which sector affects the CSR spending the most
- The data is collected only for 5 years. Data can be collected for a huge span of time for getting the appropriate results and to make an in-depth analysis
- Since CSR Spending produce idealistic yield and have a positive effect on the profitability of the firm, there is a need to include CSR among the strategic policies of the business for its long-run success
- The study only uses three performance measures such as Net profits, EPS and ROA whereas there are other performance indicators such as the Market value of the firm, Return on Equity, Return on Investments, Price to Book value ratio, P/E ratio which can determine a different result.
- Non-Financial parameters can be taken into consideration to find out the views on CSR spending and how it impacts the overall performance of the firm
- The study will help in building a proficient method to build the firm's performance by incorporating CSR exercises in the business which will help in making a positive corporate picture and depict themselves as a mindful and responsible firm towards the societal prosperity and environmental concerns than just a profit-making entity.

7. CONCLUSION
The study examined the relationship between CSR spending and the financial performance of the firm. By using the panel data analysis, random effects model was found to be a good fit wherein the results showed that only Net profits of the firm have a significant impact on CSR spending. The other two variables – EPS and ROA had no impact on CSR spending.

This study can help the investors in making speculation about their investment decisions as the study reveals that the CSR spending disclosures have a positive association with the firm's profitability. The research is aimed to help the students and the scholastics to have a better comprehension of the components that decide the firm's performance and provide significant information in CSR.

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