Impact of Corporate Social Responsibility Spending on the Financial Performance of Indian Firms with Respect to FMCG Industry.

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Abstract: Corporate Social Responsibility (CSR) is defined as a business practice or approach which involves initiatives that contribute to the sustainable development of the society by delivering social, environmental and economic benefits for all stakeholders. The present study is an attempt to ascertain the impact of CSR spending on the firms' financial performance and the relationship shared between the two. For the study, we have taken into consideration 15 companies which form the NIFTY FMCG index of the National Stock Exchange in India. The study extracts data from the annual reports of these 15 companies for a period of 10 years (2008-2017). Karl Pearson's Correlation and Ordinary Least Squares (OLS) model of Regression was used to assess the impact and test the hypothesis of the study as to whether there is an impact of CSR spending on the performance of firms and the extent of the relationship between the independent variable (corporate social responsibility spending) and the dependent variables (return on assets, return on equity and return on capital employed). The findings showed no significant impact of corporate social responsibility on the return on assets and return on equity even though they showed a significant positive relationship between the three variables. The study thus, found no significant impact of corporate social responsibility on the financial performance of firms in this sector.

Keywords: Corporate Social Responsibility, Firm's Financial Performance, FMCG Sector, Correlation, Regression.

1. INTRODUCTION

Corporate Social Responsibility defines the ability of a company to be socially responsible for the growth and development of the environment in which it operates. It defines the voluntary services given by a company to the society. The CSR activities are treated as an investment not as a cost or expense where it shows the relationship between corporation and the stakeholders such as the customers, investors, employees and society as a whole. The effect is the increased in purchasing behaviour and good brand image the company will have in the society. The ability of a company to engage in environmental protection, charitable programs and community relations have made them to exhibit sound and increased performance over their competitors that see corporate social responsibility as mere issue. According to the Indian Companies Act, 2013, all the profit making companies having a sizeable business would mandatorily have to spend at least 2% of the average net profits earned by them during three immediately preceding years, on CSR activities. This mandate would apply to all companies which are incorporated in India and follow either or all of the following three conditions:

➢ The firm has a net worth of Rs. 500 crores or more, or
➢ The firm has a turnover of Rs. 1000 crores or more, or
➢ The firm has a net profit of Rs. 5 crore or more during any of the previous three fiscal years.

However, the fact that the relationship between CSR and Corporate Financial Performance has been viewed differently by different scholars all over the world, makes this topic all the way more interesting, as some say the relationship is positive while others justify it to be negative. Thus, finding answers to the questions posed by the previous researches done attracted the interest of the researchers to examine the impact of CSR on the Financial Performance of Firms using the experience of a particular industry. The study thus aims to ascertain the impact of CSR spending on the financial performance of firms and the relationship shared between the two.

2. REVIEW OF LITERATURE

(Fauziah, Yusoff and Adamu, 2016) through their study try to investigate the relationship between Corporate Social Responsibility (CSR) activities and the financial performance of the top hundred (100) public sector companies listed on the Malaysian Stock

Exchange, the Bursa Malaysia. The findings of the study reveal a positive correlation for most of the companies between the independent and dependent variables. Thus, the researchers concluded that all the firms were an active part in the CSR activities and thereby enhancing their financial performance. Further, it also implied that a firm can attain a sound financial position with the help of appropriate CSR practices which eventually would lead to economic development.

(Kiran, Kakakhel and Shaheen, 2015) in their study assess the impact of CSR activities on the financial performance of business entities with respect to their profitability and size. The findings of the study suggest the existence of a positive correlation between both CSR and Net Profit and CSR and Net Profit Margin, whereas a negative correlation existed between CSR and total assets. The regression results reveal that CSR activities have an insignificant impact on the profitability of the firm. This would help corporate managers in accepting their responsibility towards the society in order to enhance their corporate profitability.

(Kamatra and Kartikaningdyah, 2015) conducted a research to determine the effect of CSR on the financial performance when measured with the help of profitability ratios. The study consisted of companies from the mining and basic chemicals industry. The findings of the study depict that CSR has a partially significant impact on financial performance in terms of its ROA & NPM and no impact on the ROE & EPS in all the companies under the study from the mining sector companies and most importantly the industry sectors with listed chemical base in the IDX.

(Fabaca, Calopaa and Sestanj-Perica, 2016) through their study give importance to examining the relationship shared by CSR and financial performance of companies measured through ROA & ROE, which are a part of the official share index of the ZSE, Croatia. The findings on analysis show that there exists no statistically significant correlation between CSR and ROE & ROA of the 10 companies from Croatia which are included in the index, but, the profitability indicators do show significant positive correlation with the individual parameters of CSR.

(Emilsson, Classon and Bredmar, 2012) conducted a study to determine the extent to which Economic Value Added can be used as a method of describing the relationship between CSR and profitability. Further, they also wanted to know how firms react to this relationship and the ability of firms to create a competitive advantage over the others. The findings indicate a slightly positive correlation between CSR and EVA. This is because three out of five companies which were considered for the study show a positive development in their EVA value. The authors also suggest that had all the companies shown significant increase in the EVA value, the results would be more accurate and clear.

3. MATERIALS AND METHODOLOGY

The aim of the project undertaken is to determine the motive behind which firms are adopting Corporate Social Responsibility today and to study whether the financial performance of firms has actually worsened or enhanced after adopting Corporate Social Responsibility practices. This paper contributes in proving that Corporate Social Responsibility has a positive impact on the overall financial performance of the firm. The firms undertaken for the study would be able to assess how effectively their contribution to CSR is helping them improve their profitability. Further, it would enable more and more firms in the FMCG industry to undertake CSR activities due to increased profits.

3.1 Objectives of the Study

➢ To determine whether Corporate Social Responsibility Spending has a significant impact/effect on the Financial Performance of firms.

➢ To ascertain the relationship between Corporate Social Responsibility Spending and the Profitability of firms.

3.2 Hypothesis

Hypothesis 1:

H_0: There is no significant impact of CSR Spending on the Return on Assets.

H_1: There is significant impact of CSR Spending on the Return on Assets.

Hypothesis 2:

H_0: There is no significant impact of CSR Spending on the Return on Equity.

H_1: There is significant impact of CSR Spending on the Return on Equity.

Hypothesis 3:

H_0: There is no significant impact of CSR Spending on the Return on Capital Employed.

H_1: There is significant impact of CSR Spending on the Return on Capital Employed.

3.3 Scope of the Study

The study undertaken will mainly cover the FMCG sector wherein 10 firms have been considered for the purpose of the study as they rank top 10 in this industry. The study will be done taking into consideration a period of 5 years i.e. from 2012-2017 as the trends in the FMCG industry change rapidly.

3.4 Data Collection Methods

Secondary Data:

➢ Coverage**:** The study will mainly cover the FMCG sector wherein 15 firms have been considered for the purpose of the study. These companies are the companies which form a part of the NIFTY FMCG Index. These companies are included in the NIFTY FMCG Index because they fulfill the minimum requirement of having at least 90% trading frequency in the last 6 months.

➢ Data collection**:** The required data will be mainly collected from the secondary sources for all the variables which are return on assets, return on equity, return on capital employed and corporate social responsibility spending/cost. The secondary sources are: annual reports of the firms and CSR reports of the firms.

3.5 Data Analysis

To accomplish the objectives of the study, the following statistical techniques have been used:

➢ Karl Pearson's Correlation analysis has been conducted to find linear positive or negative relationships between the variables.

➢ Linear Regression analysis has been conducted through the Ordinary Least Squares (OLS) model of Regression to determine the strength of the relationship between the variables (dependent and independent).

3.6 Limitations

➢ The study will be based on the results of only 10 companies.

➢ The study is only limited to the scope of the FMCG Industry.

➢ The study is limited to only one country i.e. India.

➢ The study is based only on two dependent variables i.e. the net profit and total assets. It ignores all other important variables that are impacted by the CSR Cost.

4. ANALYSIS AND INTERPRETATION

Table 1: Correlations between CSR Spending and ROA, ROE & ROCE.

NAME OF THE COMPANY	RETURN ON ASSETS &CSR	RETURN ON EQUITY & CSR	RETURN ON CAPITAL EMPLOYED & CSR
Britannia Industries Limited	0.725405	0.30857	0.475517
Colgate- Palmolive (India) Limited	-0.6662	-0.98804	-0.99009
Dabur India Limited	-0.60958	-0.83683	-0.78075
Emami Limited	0.220106	0.163063	0.23244
Glaxosmithklien Consumer Healthcare Limited	-0.23529	-0.32104	-0.43923
Godrej Consumer Products Limited	-0.75167	-0.5266	-0.6664
Godrej Industries Limited	-0.58526	-0.46944	-0.55041

Hindustan Unilever Limited	0.456655	-0.26164	-0.5313
ITC Limited	0.311543	-0.13046	-0.05617
Jubilant Foodworks Limited	-0.28137	-0.86913	-0.31788
Marico Limited	0.510524	-0.71025	-0.38964
Procter and Gamble Hygiene and Health Care Limited	0.523774	0.619516	0.633543
Tata Global Beverages Limited	0.039233	-0.12029	-0.00471
United Breweries Limited	0.609282	-0.06007	0.633308
United Spirits Limited	0.155424	0.330649	0.223861

Table 2: Output of Linear Regression Analysis using OLS Model in EViews.

NAME OF THE COMPANY	DEPENDENT VARIABLE	COEFFICIENT	R-SQUARE	P-VALUE
Britannia Industries Limited	**ROA**	1.012402	0.526213	0.0176
	ROE	0.618919	0.095215	0.3857
	ROCE	1.319460	0.226116	0.1648
Colgate- Palmolive (India) Limited	**ROA**	-0.892934	0.443825	0.0354
	ROE	-7.123566	0.976215	0.0000
	ROCE	-6.354661	0.980268	0.0000
Dabur India Limited	**ROA**	-0.298688	0.371589	0.0613
	ROE	-1.716828	0.700290	0.0025
	ROCE	-1.517205	0.609574	0.0077
Emami Limited	**ROA**	0.580471	0.048447	0.5412
	ROE	0.483838	0.026589	0.6526
	ROCE	0.743624	0.054028	0.5181
Glaxosmithklien Consumer Healthcare Limited	**ROA**	-0.062717	0.055362	0.5129
	ROE	-0.276470	0.103068	0.3657
	ROCE	-0.357808	0.192920	0.2041
Godrej Consumer Products Limited	**ROA**	-0.616289	0.565008	0.0122
	ROE	-2.469126	0.277304	0.1179
	ROCE	-1.342216	0.444093	0.0354
Godrej Industries Limited	**ROA**	-2.575323	0.342528	0.0755
	ROE	-4.811277	0.220373	0.1711
	ROCE	-4.231020	0.302948	0.0992
Hindustan Unilever Limited	**ROA**	0.064633	0.208534	0.1846
	ROE	-0.259831	0.068455	0.4653
	ROCE	-0.643282	0.282281	0.1140
ITC Limited	**ROA**	0.006986	0.097059	0.3809
	ROE	-0.005656	0.017020	0.7194

	ROCE	-0.002367	0.003155	0.8775
Jubilant Foodworks Limited	**ROA**	-1.765705	0.079167	0.4310
	ROE	-9.202017	0.755394	0.0011
	ROCE	-3.016038	0.101047	0.3707
Marico Limited	**ROA**	0.319466	0.260635	0.1316
	ROE	-1.605118	0.504454	0.0214
	ROCE	-0.520356	0.151819	0.2657
Procter and Gamble Hygiene and Health Care Limited	**ROA**	1.198481	0.274340	0.1202
	ROE	3.813869	0.383800	0.0561
	ROCE	3.856174	0.401377	0.0492
Tata Global Beverages Limited	**ROA**	0.086766	0.001539	0.9143
	ROE	-0.400931	0.014470	0.7406
	ROCE	-0.013673	0.000022	0.9897
United Breweries Limited	**ROA**	0.336073	0.371225	0.0615
	ROE	-0.077488	0.003608	0.8691
	ROCE	0.668331	0.401079	0.0493
United Spirits Limited	**ROA**	1.236897	0.024157	0.6681
	ROE	8.249791	0.109329	0.3507
	ROCE	3.773212	0.050114	0.5341

5. SUMMARY OF FINDINGS

The findings of the Pearson's correlation and OLS model of regression analysis are:

➤ Britannia Industries Ltd. has positive correlation between CSR Spending and ROA, ROE & ROCE, but CSR Spending has significant impact on ROA but not on ROE & ROCE.

➤ Colgate- Palmolive (India) Ltd. has negative correlation between CSR Spending and ROA, ROE & ROCE and shows that CSR Spending has significant impact on each of them.

➤ Dabur India Ltd. observes negative correlation between CSR Spending and ROA, ROE & ROCE and shows that CSR Spending has significant impact on ROE & ROCE but not on ROA.

➤ Emami Ltd. has positive correlation between CSR Spending and ROA, ROE & ROCE and shows that CSR Spending does not have significant impact on each of them.

➤ Glaxosmithklien Consumer Healthcare Ltd. has negative correlation between CSR Spending and ROA, ROE & ROCE, but CSR Spending doesn't have significant impact on each of them.

➤ Godrej Consumer Products Ltd. has negative correlation between CSR Spending and ROA, ROE & ROCE, but CSR Spending has significant impact on ROA & ROCE and not on ROE.

➤ Godrej Industries Ltd. observes negative correlation between CSR Spending and ROA, ROE & ROCE and shows that CSR Spending does not have significant impact on each of them.

➤ Hindustan Unilever Ltd. sees CSR Spending is positively correlated with ROA and negatively with ROE & ROCE, but CSR Spending doesn't have significant impact on each of them.

➤ ITC Ltd. shows that CSR Spending is positively correlated with ROA, but negatively correlated with both ROE & ROCE, but CSR Spending doesn't have significant impact on each of them.

➤ Jubilant Foodworks Ltd. has negative correlation between CSR Spending and ROA, ROE & ROCE, but CSR Spending has significant impact on ROE and not ROE & ROCE.

➤ Marico Ltd. shows that CSR Spending is positively correlated with ROA and negatively with ROE & ROCE, but CSR Spending has significant impact on ROE and not ROE & ROCE.

➤ Procter and Gamble Hygiene and Healthcare Ltd. has positive correlation between CSR Spending and ROA, ROE & ROCE, but CSR Spending has significant impact on ROCE and not ROA & ROE.

➤ Tata Global Beverages Ltd. shows that CSR Spending is positively correlated with ROA, but negatively with ROE & ROCE, but CSR Spending doesn't have significant impact on them.

➤ United Breweries Ltd. shows that CSR Spending is positively correlated with ROA & ROCE, but not with ROE, but CSR Spending has significant impact on ROCE and not ROA & ROE.

➢ United Spirits Ltd. has positive correlation between CSR Spending and ROA, ROE & ROCE and shows that CSR Spending does not have significant impact on each of them.

6. CONCLUSION

The present study was undertaken with the objective of filling the gap in the existing research by empirically investigating the impact of Corporate Social Responsibility Spending on the firms' financial performance in India with respect to the FMCG sector. For empirical analysis, data was collected from annual reports of companies under the study, for a ten year period ranging from 2008-2017. In this study, correlation and regression models were used to perform the analysis. The results on the basis of the findings show that there exists a positive correlation between CSR Spending and ROA, ROE & ROCE. The regression analysis indicates an insignificant impact of CSR Spending on Financial Performance of the firms in the FMCG sector in India. The study concludes that companies in emerging economies have not been using CSR spending in strategic planning which would help them in reducing promotion costs. But, organisations in the developed countries showcase themselves as socially and environmentally responsible firms, thereby enjoying positive financial performance. Thus, managers should use CSR spending for strategic planning for reducing promotion costs and to create brand loyalty for their products. Owing to the limitations posed by the study, future studies should take into consideration data for a longer period so as to get valid and accurate measurement results. The study was restricted to only one sector, so future research is recommended to be conducted to determine the effect of CSR on the financial performance of the telecommunication industry, insurance companies, hospitals, and many other untapped industries. Specific CSR determinants should be studied on and researchers must focus on connecting CSR with the value of firms especially in emerging economies.

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