CSR and Financial Performance: Evidence from Indian FMCG Companies

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Abstract

Today, the businesses worldwide are looking beyond profitability and coming forward to address critical social and environmental issues. Companies' decisions have to be well-adjusted between corporate sustainability and corporate responsibility in order to ensure their endurance. This paper tries to explore the relationship between CSR and Financial Performance Indicators such as Net profit, ROA, ROE and EPS of 10 FMCG Companies.

Correlation and Regression analysis have been used in this study to find the relationship and the impact on the variables. The results reveal that CSR and Net Profit are highly significant, whereas CSR and Return on Assets are slightly significant and EPS and Return on Equity are negatively correlated with CSR.

Keywords: *Corporate Social Responsibility (CSR), FMCG, Net Profit, Return on Assets, Return on Equity, EPS*

Introduction

A business venture is mainly established to create value by producing goods and services which the society demands. This financial action antagonistically impacts on the earth and society. Natural resources are exhausted, contaminated, biological systems crushed, and nearby towns and networks are uprooted or adversely influenced.

The contemporary thought of Corporate Social Responsibility (CSR) infers that organizations deliberately acclimatize social and ecological worries in their activities and collaboration with their partners. Many shareholders and consumers prefer, particularly in the developed countries, the company they invest in, or buy products

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from, to be transparent and social and environmental friendly. The pressure has been added to this by national and international regulations on sustainable development. The adverse opinion of shareholders and consumers, and changes in law have stimulated the organisations to be more social and environmental friendly.

Corporate Social Responsibility (CSR) has quickly turned into an overall marvel which has been picking up an expanding interest and acknowledgment among the scholarly community, business professionals and the overall population alike amid the previous couple of decades. Firms progressively take part in CSR exercises owing to the pressures for responsible business practices. (Fernandez-Kranz & Santalo, 2010; Matten & Moon, 2008), acts as a motivator for gaining competitive advantages (Siegel & Vitaliano, 2007) and for many more other social and environmental causes (Hawn & Ioannou, 2016).

Corporate Financial Performance (CPF) isn't wrangled in the writing, but there is a conflict with deference of the most ideal approach to gauge CFP (Cochran & Wood, 1984). According to (Orlitzky, et al., 2003) CFP can be understood under three broad subdivisions consisting of market-based (investor returns, reflects the degree of satisfaction of the shareholders), accounting-based (accounting returns, captures an idea of the internal efficiency of the company, as well as, a descriptive outline for its financial performance), and perceptual (survey, provides a subjective estimation of its financial performance) measures. Firm's return on assets (ROA), return on equity (ROE), or earnings per share (EPS) are the some of the accounting-based indicators, which capture a firm's internal efficiency in some way (Cochran & Wood, 1984).

FMCG Sector is one of the four largest sectors in Indian economy. The FMCG sector has changed its techniques and has opted for a more well-planned marketing of the products to infiltrate both the provincial and urban markets. It is expected to grow by US$ 20.6 billion by 2020. Business expects returns for everything that it does. In the case of CSR also researchers tried to connect it with the financial performance of the companies.

Many studies have been conducted to findout the relation between corporate social responsibility and the financial performance of the company. Some of the studies show a positive relation and some shows negative relation. In order to capture corporate financial performance, the researchers have used accounting based measures, to be specific, profitability ratios such as ROE, ROA, EPS and Net Profit.

Literature Review

2.1 Corporate Social Responsibility

In the early 1950s and '60s the literature was not heavily represented in CSR discussion.

Howard Bowen in 1953 argued that since the economic activity of business entity has social impact, social institutions should anticipate the societal interest. According to Bowen (1953), "CSR refers to the commitment of the people engaged in business to practices those polices , to make those decisions or to take after those lines of relations which are enviable in terms of objectives and values of our society."

Frederick, (1960) stated 'Social responsibility refers to the commitment of businessmen to administer the economic activities of the organization in such a way that it meets up the expectation of the people. This in-turn means that utilization of economic means of production is done to enrich the socio-economic welfare. ' (Fredrick, 1960).

In 1960s, Keith Davies argued that CSR alludes to 'the firm's consideration of, and response to, issues beyond the slender economic, technical and legal prerequisites of the firm' (Davies, 1960).

The European Union has recognised the contribution of CSR concept not only to improve the performance of a company but also for the sustainable economic growth of the community. The definition given from the EU (2001) suggests that CSR is "a concept whereby companies amalgamate social and environmental concerns in their business operations and in their relations with their stakeholders on a

deliberate basis". The latter definition makes it clear that CSR is a voluntary concept and hence it is applied by majority of the companies. The foundation of the CSR initiatives in Europe has been traced back to the Lisbon Strategy (2000).

2.2 CSR and Financial Performance Indicators

The concept of CSR has been understood and studied by different people in different ways. CSR enhances corporate image and hence improves financial performance, which drives companies to engage in CSR (George, Hugh and Jonathan 1998). Marquez and Fombrum (2005) concluded that early efforts to assess the extent to which some companies are socially responsible and others are not, have given way to more persistent analysis of the business performance associated with specific production activities, service sectors and management practices Marquez and Fombrum, (2005). McWilliams & Siegel, (2000) stated that a ample of pragmatic studies showed that CSR and CFP can yield positive, negative or even neutral relationship.

If CSR has a positive effect on CFP, it is also likely that socially responsible investments have a positive effect on shareholder value, (Moser & Martin, 2012), which means that CSR is also favourable for the shareholders. Nigel (2003) states that if company's reputation is affected by CSR then there are chances that it will affect the financial performance also.

Among 52 studies conducted using meta-analysis, Orlitzky et al (2003) found that the Corporate Social Performance (CSP) is positively correlated with Corporate Financial Performance (CFP). This is because of the fact that, CSP increases managerial competencies', Eom and Nam, (2017) analyzed the correlation between CSR activities, the cost of equity, and corporate value, but 'the results failed to show any significant relation between the incorporation of the Socially Responsible Investment (SRI) index, where CSR, activities of companies and the cost of equity capital were used as the proxy variable.'

The variables considered for Financial Performance in the study by

Kamatra & Kartikaningdyah, (2015) include Total Assets, Net Profits, Return on Assets, Return on Equity, Earnings Per Share, etc. CSR has been considered as an independent variable and the financial variables such as Net profit (NP), Earnings per Share (EPS), Return on Assets (ROA) and Total Assets have been considered as dependent variables (Bhunia & Das, 2015) (Kanwal, Khanam, Nasreen, & Hameed, 2013).

2.3 Objectives

1. To know the CSR expenditure incurred by the selected FMCG companies in relation to the mandatory requirement

2. To understand the impact of CSR on various Financial performance indicators

Net Profit 2.4 Research Model H_1
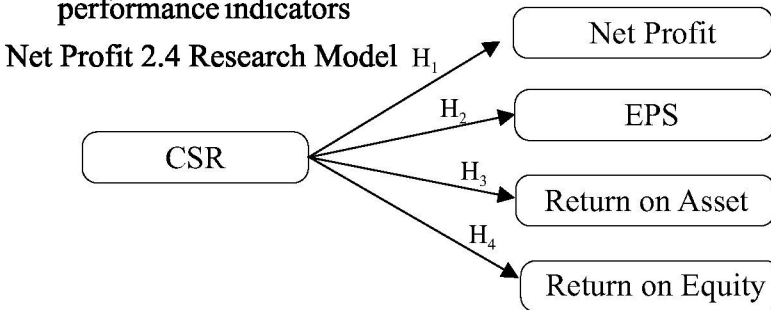
2.5 Research Hypothesis

Sen & Bhattacharya, (2001) highlighted the different measures of financial performance examined by prior research which include market-based measures (e.g., market return, price/earnings ratio, and market value to book value), accounting-based measures (e.g., return on assets, return on equity, and earnings per share), market-based measures of risk (e.g., current ratio, debt to equity ratio, interest coverage, Altman's Z-score, and market beta), or combinations thereof.

The present study is conducted considering accounting based measures which include return on assets, return on equity, net profit and earnings per share

H1: There is positive and significant relationship between CSR and Net Profit

H2: There is positive and significant relationship between CSR and EPS

H3: There is positive and significant relationship between CSR and Return on Assets

H4: There is positive and significant relationship between CSR and Return on Equity

Return on Asset

The efficiency of management in using its assets to generate earnings can be understood by ROA. It shows the relation between profitability and total assets.

ROA = Net Income/Total Assets

Earnings per Share

The portion of profit given to each outstanding share is EPS. It is a sign of company's profitability.

EPS = Total Earnings Available For Shareholders/ Number of Shares

Return on Equity

It measures a firm's efficiency at generating profits from every rupee of net assets (assets minus liabilities), and shows how well a company uses its investment to generate earnings growth. It measures the rate of return on ownership interest (shareholders' equity) of common stock owners.

ROE = Net Income /Total Equity

Net Profit

Net profit means revenues minus all expenses. Net profit of the organization is shown after deducting the interest expenses and taxes on the profit.

1. Research Methodology

On the basis of their sales, profit, assets and market capitalisation, ten FMCG companies have been considered for the present study. The companies selected for the study are: Godrej Consumer Products Ltd,

GlaxoSmithKline Consumer Healthcare, Marico Ltd, ITC, Hindustan Unilever Limited, Colgate Palmolive (India) Ltd., Emami, Dabur, Britannia and Nestle India.

Research Instrument used for financial performance testing is the correlation and regression analysis. It is used to find the cause and effect relationship between CSR and its impact on financial performance of the firm. The data regarding net profit total equity, total assets, EPS and amount spent on CSR activities have been collected from annual reports for the years 2013 to 2017 to find out the relationship between them.

Results and Discussion

4.1 CSR and Financial Parameters Descriptive Statistics

Table No. 1: Descriptive Statistics

(Figures in Crores)

	N	Mean	Minimum	Maximum	Std. Dev.
CSR Spending	40	40.9304	2.89	275.96	275.96
Net Profit	40	1.900	327.67	10200.90	10200.90
EPS	40	32.1792	3.85	127.07	127.07
Return on Assets	40	.2096	.09	.36	.36
Return on Equity	40	.04	1.18	.3965	.27217

Source: Compiled from different sources.

The descriptive statistics were employed to identify the average or mean values of the study variables. The above Table shows that average CSR spending of the selected FMCG companies is 40.9304 crores, where the minimum CSR spending is 2.89 crores and the maximum is 275.96 crores.

4.2 Correlation Matrix

A Pearson product-moment correlation was conducted to examine the relationship between CSR spending, Net profit, EPS, Return on Assets and Return on Equity. CSR and Net Profit have statistically significant linear relationship ($p < .001$). The direction of the relationship is positive (i.e., CSR and Net Profit are positively

correlated), meaning that these variables tend to increase together (i.e., higher CSR expenditure is associated with higher Net profit). We can attribute reason for the positive correlation is that the CSR budget is calculated based on the Net profit. The reason for the positive co-relation can be attributed to the calculation of CSR budget on the basis of net profit.

CSR and Return on Assets are positively correlated but with weak relationship, wherein $r = .102$.

CSR in relation to EPS and Return on Equity are negatively correlated, with no significant relationship.

Net profit and Return on Equity have negative linear relationship with moderate correlation ($p < .005$), similar is the relationship of Return on Equity with Return on Assets

Table No. 2: Pearson Product Moment Correlation

	CSR	Net Profit	EPS	Return on Assets	Return on Equity
CSR	1	.961**	-.239	.102	-.281
Net Profit	.961**	1	-.246	.141	-.318*
EPS	-.239	-.246	1	-.184	.025
Return on Assets	.102	.141	-.184	1	-.334*
Return on Equity	-.281	-.318*	.025	-.334*	1

Source: Compiled from different sources.

4.3 Corporate Social Responsibility and Net profit (Regression Analysis)

Table No. 3: Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.961[a]	.924	.922	805.60005

Source: Compiled

a. Predictors: (Constant), CSR spending

This Table provides the R and R^2 values. The R value represents the simple correlation and is 0.961 (the **"R"** Column), which indicates a

high degree of correlation. The R^2 value (the **"R Square"** column) indicates as to what an extent the total variation in the dependent variable, Net profit, can be explained by the independent variable, CSR spending. In this case, 92.4 percent can be explained, which is very large.

Table No. 4: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.839E8	1	2.839E8	437.477	.000a
Residual	2.336E7	36	648991.444		
Total	3.073E8	37			

Source: Compiled

This Table indicates that the regression model predicts the dependent variable significantly well. Here, *p* value which is less than 0.05, indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

  a. Predicators: (Constant) CSR Spending
  b. Dependent Variable: Net Profit

Table No. 5: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t Value	Sig.
	B	Std. Error	Beta		
(Constant)	256.841	154.390	.961	1.664	.105
CSR Spending	41.466	1.983		20.916	.000

Source: Compiled

The **Coefficients** Table provides the necessary information to predict Net Profit from CSR Expenditure, as well as determine whether income contributes statistically significantly to the model (by looking at the **"Sig."** column). Furthermore, we can use the values in the **"B"** column under the **"Unstandardized Coefficients"** column, as shown below:

Net Profit = 256.841 + 41.466(CSR)

4.4 Corporate Social Responsibility and EPS

Table No. 6: Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.239a	.057	.032	30.09584

Source: Compiled

a. Predictors: (Constant), CSR Spending

Table No. 7: ANOVA

Model	Sum of Squares	df	Mean Square	F Value	Sig.
Regression	2026.374	1	2026.374	2.237	.143a
Residual	33513.112	37	905.760		
Total	35539.486	38			

Source: Compiled

a. Predictors: (Constant), CSR Spending
b. Dependent Variable: EPS

Table No. 8: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t Value	Sig.
	B	Std. Error	Beta		
(Constant)	36.741	5.691	-.239	6.456	.000
CSR Spending	-.111	.074		-1.496	.143

Source: Compiled

a. Dependent Variable: EPS

As per above Table No. 6, R=0.239 and R^2 is just 5.7 percent, indicating that only 5.7 percent of the variations in the EPS are explained by CSR (Table No. 6). The model is statistically not fit for the data as the significance value is greater than 0.05 (Table 7). CSR is negatively related to EPS as the coefficient for the CSR variable is negative (-.111) (Table 8).

4.5 Corporate Social Responsibility and Return on Assets

Table No. 9: Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.102a	.010	-.016	.07051

Source: Compiled

a. Predictors: (Constant), CSR spending

Table No. 10: ANOVA

Model	Sum of Squares	df	Mean Square	F Value	Sig.
Regression	.002	1	.002	.385	.538a
Residual	.184	37	.005		
Total	.186	38			

Source: Compiled

a. Predictors: (Constant), CSR Spending
b. Dependent Variable: Return on Assets

Table No. 11: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t Value	Sig.
	B	Std. Error	Beta		
(Constant)	.205	.013	.102	15.404	.000
CSR Spending	.000	.000		.621	.538

Source: Compiled

a.   Dependent Variable: Return on Assets

The regression tool applied to CSR and Return on assets indicates that the value of $R^2 = 0.010$ as per the Table No. 9 it can be inferred that 1 percent of the variations in the Return on Assets are explained by the CSR. The model is statistically not fit for the data as the significance value is greater than 0.05 (Table No. 10)

4.6 Corporate Social Responsibility and Return on Equity

Table No. 12: Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.281a	.079	.054	.26762

Source: Compiled

a. Predictors: (Constant), CSR spending

Table No. 13: ANOVA

Model	Sum of Squares	df	Mean Square	F Value	Sig.
Regression	.227	1	.227	3.175	.083a
Residual	2.650	37	0.072		
Total	2.877	38			

Source: Compiled

a. Predictors: (Constant), CSR Spending
b. Dependent Variable: Return on Equity

Table No. 14: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t Value	Sig.
	B	Std. Error	Beta		
(Constant)	.447	.051	-.281	8.837	.000
CSR Spending	-.001	.001		-1.782	.083

Source: Compiled

$R^2 = 0.079$ as per Table No. 12 it can be inferred that 7 percent of the variations in the Return on Equity are explained by the CSR. The model is statistically does not fit for the data as the significance value is greater than 0.05 (Table No. 13). CSR negatively impacts Return on Equity as the co-efficient is negative as seen from the Table No. 14.

5. Recommendations and Suggestions

The aim of the study was to test if there is a significant relation between financial performance indicators and the Corporate Social Responsibility. It is understood from the study that among the hypotheses framed, (H₁) CSR and Net Profit have strong positive co-

relation, (H₃) CSR and ROA are positively correlated but the relationship is weak, (H₂) and(H₄) CSR – EPS and ROE are negatively correlated.

Besides financial implications, CSR can build a good relationship with the stake holders by being socially responsible. They can also improve customer loyalty and reduce the impact of negative publicity.

Strategic implementation of CSR should be systematically planned. Dispersion of CSR amount should be done taking into consideration the sales generated from the zones or state. CSR practices adopted by the companies should be informed or educated to its customer, to maintain the better relationship.

Limitations of the study

The present study has certain limitations. Although the present study takes four years data into account, it is important to incorporate a longer period in order to validate the relationship between CSR and Financial performance indicators. With regard to further research more sophisticated statistical tool could be used for the better validation of the hypothesis. Control variables can also be taken into consideration .Comparative study between industries can be done to study the difference in the impact of CSR.

5.1 Conclusion

A number of theories and methodologies have been employed to study the impact of CSR on financial performance. The purpose of this study is to extend prior empirical studies by a different point of view incorporating the extent of CSR in relation to the firm's financial performance. The study observes the relationship between corporate social responsibility and financial performance of companies. Variables considered as the financial performance indicators are Net profits, Earnings per share, Return on Assets and Return on Equity. A correlation and regression analysis between the variables is done. CSR had a significant positive influence on the Net profits of the company. Though CSR and ROA share a positive relationship but is very feeble. Further no significant influence was

also observed on EPS and ROE. Thus, from the results, it can be concluded that CSR does have a positive impact on the Net profits and ROA of the company because of which the companies tend to spend over the required limit for CSR.

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