International Journal of Modern Agriculture, Volume 9, No.3, 2020
ISSN: 2305-7246

Effect of CSR Contribution on Financial Performance: A Study on Automobile Companies of India

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Abstract

The recent studies carried out by researchers on the effect of CSR on financial performances failed to bring concurrent result. However, strong evidences (theoretical and empirical) are emanating from studies with regard to the symbiotic relationship between CSR and financial performance. Consequently, this research has intended to observe the effect of CSR contribution on the financial efficiency of selected automobile companies in India by using secondary data spreading from 2014-15 to 2017-18. The research comprises four financial performance measures, comprising Net Profit Margin, Return on Equity, Return on Total Assets, in addition to Return on Investment as dependent variables, while CSR contribution as control variable. To study the objectives and explore the hypothesis various techniques like Descriptive statistics, Correlation analysis and Regression analysis have been employed..

Key words: CSR contribution, Financial Performance, Profitability Ratios, Automobile Companies, Correlation, Regression

Introduction

Corporate Social Responsibility (CSR) is a dynamic concept used in many context conferring different meanings. This is partly because of the different philosophical underpinnings and ever expanding scope of its operations. In simple terms, it is a responsibility of corporate sector towards the society and ecology. Historical growth of the concept CSR reveals that it has passed through phases of philanthropy (religious concern), ethics (philosophical concern), strategy (profit maximization) and legal prescriptions. In India, it is deep rooted in the customs and traditions of the society. However, with passage of the new Companies Act, 2013, now it is compulsory for companies (net worth of Rs. 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore) to devote2% of profit on CSR. There are specified activities to be carried out under CSR mentioned in Schedule VII of the 2013 Act. The CSR rules came into effective from 1st April 2014 and all the companies in India followed the CSR spending arduously. This led to generate renewed interest among the researchers to ascertain the impact of CSR on financial performance. The CSR activities of automobile sector is drawing attention of the researchers as India has become fourth largest auto market and seventh largest manufacturer of commercial vehicles in 2018. The sector has tremendous potential to grow exponentially.

The growth of the sector is partially due to presence of growing middle class and youth, who made the two wheelers segment as the most dominant segments in the auto market. The presence of large untapped rural areas is another existing potential market for auto sector to grow in India. Of late India has become a prominent auto exporter. Automobile exports grew 14.50 per cent during FY19. It is expected to grow at a CAGR of 3.05 per cent during 2016-2026. Realising the expected growth of this industry, Government of India (GoI) is revising the policy pertaining to this sector. Now it has allowed 100 per cent Foreign Direct Investment (FDI) under the automatic route. Promoting electric vehicle segment in the automobile sector, GoI announced to provide additional income tax deduction of Rs 1.5 lakh in the Union Budget 2019-20. Last decade witnessed heavy investment in this sector including FDI worth US$ 23.89 billion (Department for Promotion of Industry as well as Internal Trade 2020).Indian automotive industry (including component manufacturing) is predicted to spread Rs 16.16-18.18 trillion (US$ 251.4-282.8 billion) in 2026. The growing importance of automobile industry in India justifies our selection of the sector to study the effect of CSR on the financial performance.

Overview of the literature

There are abundant of literature on importance of CSR in general and CSR activities of companies in particular. Effect of CSR on communities and environment is also studied by many scholars. However less attention is provided to study CSR and financial performances. Of late, there is a renewed interest among scholars to ascertain the association among CSR and financial performance. To Weber, the association among CSR and financial performance is not only significant in business and management area, but also is in the interest of investors (Weber, 2008). There exists both qualitative and quantitive studies on the said topic. The qualitative studies approached the topic from theoretical perspective. The quantitive studies approached the topic from various independent and dependent variables perspective and establish correlation between them. The empirical studies carried out by researchers provide mixed result about the relationship between CSR and financial performance.

One strand of studies concludes that there is strong positive association between CSR and financial performance of a company (Oeyono, Samy & Bampton, 2011; Bafna 2017; Abilasha. A. and Tyagi M. 2019). On the similar line Bird, et.al. (2007) concluded that noteworthy investments on extensive spectrum of CSR activities are rewarded in the market place. Herremans, et. al. (1993) observed that good CSR reputation and higher reported profitability are strongly related. Yadav R. (2016) in his study in India found out that CSR has a positive impact on financial performance of private sector banks. Siddiq (2014) in his study also revealed a positive impact of CSR on financial performance.

There are studies which deny any significant relationship between CSR and financial performance (Aupperle, et. al. 1985; Zeribi-Benslimane, O. and Boussoura, E., 2007). Guidry & Patten (2010) examined the announcement of a sustainability report and its impact on financial performance measuring the stock price. They could not find any significant effect of CSR on financial performance of companies. However, there are few studies which revealed negative impact of CSR on financial performance of a company (Servaes & Tamayo, 2013). Literature review reveals that the different studies have produced conflicting results with regard to the association between CSR and financial performance. In order to ascertain the relationship, a modest attempt is made here to study the relationship in auto sector in India.

It is observed that the association between CSR activities and financial performance has been measured in several ways by the researchers using different variables. Pava & Krausz (1996) categorized financial variables for accounting-based measures, market-based measures, measures of risk, in addition to other firm precise features. However, researchers mostly used accounting-based and market-based measures.

Objectives of the study

The objectives of the study are

To acquire data on the CSR contribution of automobile companies in India from 2014-15 to 2018-19.

To measure the effect of CSR contribution on financial performance of automobile companies in India from 2014-15 to 2018-19

Hypothesis of the study

Keeping the objectives in view, the hypothesis framed for the study is

H_0: There is no significant association between CSR contribution and financial performance of Automobile Companies in India.

Methodology of the Study

In this study the effect of CSR contribution on the financial efficiency of automobile companies', the companies have been selected on the basis of their consistency in making their presence felt as well as continuously achieving profit in the automobile industry in India for entire study period from 2014-15 to 2017-18. The sample automobile companies considered for the study are Ashok Leyland, Bajaj Auto, Hero Motocorp, JBM Auto and Mahindra and Mahindra.

This study has taken into consideration the available data from secondary sources. The data have been retrieved from published financial statements as well as financial reports of sample automobile companies from the websites from 2014-15 to 2017-18. Besides, some data have been collected from official website of Government of India, Money Control and other sources.

The study has considered four financial efficiency measures, comprising Net Profit Margin (NPM), Return on Equity (ROE), Return on Total Assets (ROTA), in addition to Return on Investment (ROI) as dependent variables, while CSR contribution as control variable.

The association of the planned study have been examined by means of the Statistical Package for Social Sciences (SPSS) in addition to MS excel 2010.To study the objectives and explore the hypothesis different tools like Descriptive statistics, Correlation analysis and Regression analysis have been employed.

Analysis of CSR contribution

The table-1 shows the CSR contributions of sample automobile companies consider for the study period from 2014-15 to 2017. It can witnessed that all of the sample companies except Ashok Leyland could able to maintain the endorsed 2% of their average net profit in the direction of CSR contributions during the financial year 2014-15 to 2017-18 which is the result of New Companies Act, 2013. However Hero Motocorp, JBM Auto as well as Mahindra and Mahindra automobile companies have contributed maximum towards CSR activities of2.01 average percentages from their profit. Whereas Ashok Leyland has contributed minimum towards CSR activities of 1.90 average percentages from the profit for the year 2014-15 to 2017-18.

Table I. CSR contribution of selected automobile companies in India

(Rs. In Corers)

Sl. No.	Companies	Year	CSR CONTRIBUTION			Percentage Average
			CSR Spent	Average Profit	Percentage Contribution	
1	Ashok Leyland	2014-15	1.77	86.00	2.06	1.90
		2015-16	3.69	170.04	2.17	
		2016-17	8.34	407.38	2.05	
		2017-18	15.67	1182.96	1.32	
2	Bajaj Auto	2014-15	86.33	4316.50	2.00	2.00
		2015-16	86.46	4323.05	2.00	
		2016-17	94.91	4745.42	2.00	
		2017-18	100.51	4991.41	2.01	
3	Hero Motocorp	2014-15	44.04	2202.00	2.00	2.01
		2015-16	58.18	2909.05	2.00	
		2016-17	70.62	3530.79	2.00	
		2017-18	84.34	4129.91	2.04	
4	JBM Auto	2014-15	0.45	22.60	1.99	2.01
		2015-16	0.63	31.52	2.00	
		2016-17	0.58	28.93	2.00	
		2017-18	0.72	35.19	2.05	
5	Mahindra and Mahindra	2014-15	83.03	4151.74	2.00	2.01
		2015-16	85.90	4247.45	2.02	
		2016-17	83.30	4165.21	2.00	
		2017-18	81.98	4063.55	2.02	

Source: Annual Reports of the companies

Analysis of correlation of CSR spent and financial performance ratio

Correlation analysis which furnishes the relationship among CSR spent and financial performance ratios of sample banking companies have explained in Table-II.

Table II. Correlation matrix of CSR contribution and financial performance ratio

Particulars	**CSR contribution**	**NPM**	**ROI**	**ROE**	**ROTA**
CSR contribution	1.00				
NPM	0.55	1.00			
ROI	0.29	0.56	1.00		
ROE	0.34	0.61	0.81	1.00	
ROTA	0.79	0.66	0.38	0.27	1.00

The table-II reveals that CSR contributions of sample automobile companies are positively correlated to all financial performance ratios i.e. NPM. ROI, ROE and ROTA. The correlation coefficient value of CSR contribution and financial ratios are 0.55, 0.29, 0.34 and 0.79 for NPM, ROI, ROE and ROTA respectively for the study period from 2014-15 to 2017-18. The CSR contribution is highly correlated to ROTA whereas it is lesser correlated to ROI.

Regression analysis of net profit margin and CSR contribution

Table-III displays the regression analysis in view of NPM as dependent variable with CSR contribution as independent variables.

Table III. Regression results for net profit margin as dependent variable

Model Summary	Multiple R	R Square	Adjusted R Square	Standard Error
	0.55	0.30	0.26	4.50
Goodness of Fit – ANOVA	SS	MS	F	Significance F
	146.34	146.34	7.23	0.02
Regression Coefficients				
Particulars	Coefficients	Standard Error	t Stat	P-value
Intercept	4.12	1.74	2.37	0.03
CSR Spent	0.07	0.03	2.69	0.02

The R Square 0.30 designate that there is low deviation of 30% in NPM as expressed by means of the CSR contribution exist in the model. The ANOVA analysis displays that there is a statistically significant relationship as the F value is7.23 in addition to a P-value < 0.05. CSR contribution has a positive coefficient (0.07) as well as P value of 0.02 (<5%) indicates that there is a positive as well as statistically significant association between NPM and CSR contribution at 5% levels of sample automobile companies for the study period. Therefore, the null hypothesis (there is no significant association between CSR contribution and financial performance) is rejected.

Regression analysis return on equity and CSR contribution

Table-III displays the regression analysis in view of ROE as dependent variable with CSR contribution as independent variables.

Table IV. Regression results for return on equity as dependent variable

Model Summary	Multiple R	R Square	Adjusted R Square	Standard Error
	0.34	0.11	0.06	8.68
Goodness of Fit – ANOVA	SS	MS	F	Significance F
	163.97	163.97	2.18	0.16
Regression Coefficients				
	Coefficients	Standard Error	t Stat	P-value
Intercept	17.55	3.36	5.23	0.00
CSR Spent	0.08	0.05	1.48	0.16

The R Square 0.11 designate that there is low deviation of 11% in ROE as framed by means of the CSR contribution exist in the model. The ANOVA analysis displays that there is a statistically insignificant relationship as the F value of 2.18 as well as a P-value > 0.05. CSR contribution has a positive coefficient (0.08) in addition to P value of 0.16 (>5%) indicates that there is a positive but statistically insignificant association between ROE and CSR contribution at 5% levels of sample automobile companies for the study period. Therefore, the null hypothesis (there is no significant association between CSR contribution and financial performance) is accepted.

Regression analysis return on total assets and CSR contribution

Table-III displays the regression analysis in view of ROTA as dependent variable with CSR contribution as independent variables.

Table V. Regression results for return on total assets as dependent variable

Model Summary	Multiple R	R Square	Adjusted R Square	Standard Error
	0.79	0.62	0.60	158.73
Goodness of Fit – ANOVA	SS	MS	F	Significance F
	705754.20	705754.20	28.01	0.00
	Coefficients	Standard Error	t Stat	P-value
Regression Coefficients				
Intercept	64.04	61.40	1.04	0.31
CSR Spent	5.02	0.95	5.29	0.00

The R Square 0.62 designate that there is high deviation 62% in ROTA is formulated by means of the CSR contribution exists in the model. The ANOVA analysis displays that there is a statistically significant relationship as the F value of 28.01 as well as a P-value < 0.05.

CSR contribution has a positive coefficient (5.02) in addition to P value of 0.00 (<5%) indicates that there is a positive and statistically significant association between ROTA and CSR contribution at 5% levels of sample automobile companies for the study period. Therefore, the null hypothesis (there is no significant association between CSR contribution and financial performance) is rejected.

Regression analysis return on investment and CSR contribution

Table-III displays the regression analysis in view of ROI as dependent variable with CSR contribution as independent variables.

Table VI. Regression results for return on investment as dependent variable

Model Summary	Multiple R	R Square	Adjusted R Square	Standard Error
	0.29	0.09	0.03	16.61
Goodness of Fit – ANOVA	SS	MS	F	Significance F
	445.54	445.54	1.62	0.22
Regression Coefficients				
	Coefficients	Standard Error	t Stat	P-value
Intercept	20.97	6.42	3.26	0.00
CSR Spent	0.13	0.10	1.27	0.22

The R Square 0.09 designate that there is very low deviation9% in ROI is formulated by the CSR contribution exists in the model. The ANOVA analysis displays that there is a statistically insignificant relationship as the F value of 1.62 as well as a P-value >0.05. CSR contribution has a positive coefficient (0.13) in addition to P value of 0.22 (>5%) indicates that there is a positive but statistically insignificant association between ROI and CSR contribution at 5% levels. Therefore, the null hypothesis (there is no significant association between CSR contribution and financial performance) is accepted.

Conclusion

This study is to realize the effect of CSR contribution on financial performance of automobile companies in India from 2014-15 to 2018-19.The sample automobile companies considered for the study are Ashok Leyland, Bajaj Auto, Hero Motocorp, JBM Auto and Mahindra and Mahindra. The research comprises four financial efficiency measures, comprising Net Profit Margin (NPM), Return on Equity (ROE), Return on Total Assets (ROTA), in addition to Return on Investment (ROI) as dependent variables, while CSR contribution as control variable. To study the objectives and explore the hypothesis various statistical techniques like Descriptive statistics, Correlation analysis and Regression study have been employed. It has been observed that except Ashok Leyland all sampled companies considered for the study could able to maintain the endorsed 2% of their average net profit towards CSR contributions for the financial year 2014-15 to 2017-18. The correlation analysis reveals that CSR contributions of sample automobile companies are positively correlated to all financial efficiency ratios and CSR contribution is highly correlated to ROTA whereas it is lesser correlated to ROI. From the regression analysis it is ascertained that NPM and ROTA have positive and statistically significant association with CSR contribution at 5% levels of sample automobile companies for the study period. Therefore, our null hypothesis (there is no significant association between CSR contribution and financial performance) is rejected in the case of NPM and ROTA. On the other hand regression analysis suggests that ROE and ROI have positive but statistically insignificant relationship with CSR contribution at 5% levels of sample automobile companies for the study period. Consequently our null hypothesis (there is no significant association between CSR contribution and financial performance) is accepted in the case of ROE and ROI. Thus effect of CSR contribution on NPM and ROTA is significant whereas effect of CSR contribution on ROE and ROI is insignificant for automobile companies in India

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