



## The implication of corporate social responsible (CSR) practices in automobile companies

Sheetal

Assistant Professor, Department of Community College of Skill Development, J.C. Bose University of Science and Technology, YMCA, Faridabad, Haryana, India

### Abstract

Corporate Social Responsibility refers any action taken by business enterprises for the safety and security of stakeholders' as well as for society. The main focus of this study is to which extent financial performance of business enterprises influenced by corporate social responsibility. In this study we will analyse the point in favour of Corporate Social Responsibility and in against of Corporate Social Responsibility. This study will also emphasized on the activities comes under the corporate social responsibility. To investigate the correlation between social activities and financial performance net profit after tax has been taken into consideration. Present study conducted on automobile company which are registered under Nifty Fifty Index and data has been collected from 2015 to 2018. Simple bi-variate technique has been used to analyse the data. Result of this study revealed strong and positive correlation between CSR expenditure and net profit after tax.

**Keywords:** Corporate social responsibility (CSR), corporate financial performance (CFP), profit after tax, nifty fifty indexed automobile companies

### Introduction

Corporate Social responsibility (CSR) means "the initiatives or companies' efforts taken by the business organization for the benefits and development of society as well as all the stakeholders and those efforts which go beyond what required for the business purpose or by any other legal regulation". Votaw, 1973 defined CSR as all liabilities and obligations of a business which is associated with its stakeholders. CSR exhibit the responsibility of a business enterprises towards the society where a business enterprises operate their business, procure all the required resources to the enterprises for the efficient and successful working. It is the responsibility of any business enterprises to take the effective measure for the boost and growth of the society. In spite of this, CSR is the process through which any business enterprise can establish a strong relationship with all related stakeholders and can make good image in the society. Thus we cannot use CSR as only a charity, in fact it is a technique of managing a business enterprises in a reputed manner and also attract the other parties towards the business enterprises. An effective and socially responsible enterprises don't restrict themselves only doing those activities which are helpful in boosting the net profit or net worth of the business enterprises but these business enterprises also include in CSR activities which helps in incorporate the economic, environmental and social objectives with the companies' objectives, operations and growth. Wu & Shen (2013) [10] described that the CSR decision may enhance the micro (employment of qualitative employees, satisfied customers, better financial returns etc.) and macro performances (improve reputation and environmental & social values) of the organization and may build the strong business relations with the government and society. Some study depict the opposite result of CSR and showed the negative impact of CSR and argued that social projects enhance the cost of the business enterprises and decrement in share prices after the negative profit due to the increment cost and discharging in corporate social responsibility

(Porter and Kramer, 2006) [6]. It is demanding to decide that whether the impact of CSR on the financial performance is favourable or unfavourable and the management decision of the business enterprises also committed towards the corporate social responsible activities which is basically depends on the benefits occur from this involvement as well as strength of financial resources to invest in CSR activities. The different view-point regarding the positive and negative implications of CSR on the financial performance forced to study the impact of expenditure on CSR activities on the financial performance of the organizations working in automobile sector and which are also registered in Nifty Fifty index. The main objective of this study is to contribute in verifying the relationship between involvement in CSR practices and financial performance and also examine the fact whether the involvement in CSR activities enhance the financial performance of the organizations.

### Review of literature

Shuo Wang, Wei Huang, Yuhui Gao, Sean Ansett & Shiyong Xu (2015) investigate the effect of social responsible leaders on corporate financial performance (CFP) moderating by the effect on corporate social performance (CSP). The main focus of this study was on the react how organisational behaviour and employee indulge in corporate social activities influenced by socially responsible leader and impact of corporate social performance on corporate financial performance. In this study researcher explained the two dimensions of behavioural approach of social responsible leader which have impact on those firms mainly engaged in corporate social activities. Out of two dimensions first one is normative stakeholder approach in which social responsible leader can become successful when he/she match the requirements of stakeholders and work as a honest person and second one is economic/ strategic approach in which the main focus of leader is on tracking the productivity and maximization of profit. The conclusion of this study was that social responsible leader associates

positively with Corporate Social Performance as well as corporate financial performance but there is no correlation between social responsible leader and corporate financial performance moderating by corporate social performance and overall study found a positive influence of social responsible leader on corporate financial performance.

**Haifa Chtourou & Mohamed Triki (2017)** [1] examine the effect of commitment in CSR on the financial performance of Tunisian companies measured by the financial ratios. The authors categorized the CSR commitment in three category i.e.

1. CSR philanthropic which focus only on charitable activities,
2. Integrated CSR that focuses on doing existing business operations in more responsible manner
3. Innovative CSR that focuses on development of new operating model and processes that solve the social and environmental problems.

The present study only approves the partial significant impact of CSR on financial performance in form of positive effect of CSR philanthropic on better financial performance.

**Aliyu Baba Usman & Noor Afza Binti Amran (2015)** [3] Analyse the relationship between various measurements of Corporate Social Responsibility disclosures and CFP of Nigerian listed companies with the help of content analysis of Corporate Social Responsibility. Researcher used financial data of 68 listed companies of Nigerian stock exchange. To reach the conclusion researchers used the hierarchical regression analysis and found positive relation between disclosure of various measurements of Corporate Social Responsibility and CFP. Researchers found corporate social responsibility like community involvement disclosure, product and customers disclosures, and human resource development disclosure boost the CFP but also found the negative correlation between the environmental disclosure and CFP. The final conclusion of this study was that management of the business enterprises should use the corporate social responsibility policies in such a manner that enhance the social and economic performance of enterprises and also boost the financial performance of the company.

**Lucely Vargas (2016)** [7] explained that any business enterprises which works with ethics and norms from a sense of social responsibility, achieve the competitive advantages also helps in boosting the financial performance in long run. Researcher investigate the influence of CSR on CFP of the General insurance company. In this study researcher analyse the price of share before and after the implication of CSR commitment with the help of event study. Researcher found in this study was the increment and decrement in share value after the implication of the CSR commitment but the change was not very significant.

**Bilal Fayiz Omar & Nidal Omar Zallom (2015)** [2] examine the relationship between four different measurement of Corporate Social Responsibility i.e. environmental, community, human resources and product on the market value of 26 Jordanian firms from three different industry i.e. chemical, food & beverages and pharmaceutical & medical industry listed on American stock exchange. Researcher used multiple regression analysis to reveal the effect of corporate social

responsibility on market value of the firm from 2006-2010 and to check the precise effect of corporate social responsibility author also used other two dimensions i.e. size and leverage of the firms. The results revealed that

- The environmental, community and product activities diminish the market value but human resources activities had no significant impact on market value of the firms belong to food & beverage industry,
- The community activities had negative effect on market value of the firms belong to pharmaceutical & medical industry but other dimensions had no impact on market value and all the four dimensions had no significant impact on the market value of the firms belong to the chemical industry.

### Research Methodology

To investigate the relationship of CSR with financial performance, secondary data collection method of expenditure on corporate social responsibility and financial performance estimated by the indicator of profit collected from prowess IQ. Following regression model has been used to test the hypothesis.

$$\text{Corporate financial performance (CFP)} = B_0 + B_1 \text{Corporate Social Performance (CSP)} + E$$

Where,

CFP= Profit after tax;

B<sub>0</sub>= constant estimated;

B<sub>1</sub>= slope of change in profit after tax due to the change in expenditure incurred on corporate social responsible activities;

CSP= Expenditure incurred on corporate social responsible activities;

E= error term

The main purpose of this study is to investigate the relationship between the corporate social responsibility and financial performance of business enterprises. To attain these objectives six automobile company has been considered i.e. "Maruti Suzuki India Ltd., Mahindra & Mahindra Ltd., Bajaj Auto Ltd., Eicher Motor Ltd., Hero Motor Corp Ltd. and Tata Motors Ltd.". Data from 2015 to 2018 are taken into consideration.

### Hypothesis development

**H<sub>0</sub>:** There is no significant relationship between the amount spent on CSR activities and the profit after tax

**H<sub>1</sub>:** There is significant relationship between amount spent on CSR activities and profit after tax

### Results & Interpretation

In this section we will conclude our result in which we will check the influence of CSR on financial performance by using the bi-variate model and also examine the effect of CSR expenditure on financial performance by using profit after tax.

The table 1 of ANOVA reveal the F value=27.845 and also the p value =0.000 (p<0.05) and this p value determines the significance of correctly estimated regression model. . It means that independent variable i.e. CSR expenditure has a significant impact on dependent variable i.e. profit after tax. Result show that null hypothesis should be rejected means CSR have no significantly correlated with financial performance.

**Table 1: ANOVA**

Model	Sum of Square	df	Mean Square	F	Sig.
Regression	9789598839.852	1	9789598839.852	27.845	.000 <sup>b</sup>
Residual	7383088033.786	21	351575620.656		
Total	17172686873.637	22			

a. Dependent Variable: Profit after tax in Million of Rs

b. Predictors: (Constant), amount spent on CSR activities in Millions of Rs

Table 2 of Model summary reveal the conclusion of regression model which present the r value = 0.755 it reveal that profit after tax have a strong relationship with CSR expenditure. And this relationship show that if organisation increase their CSR expenditure then profit would be definitely increase and it will boost the financial performance of the company.

Table 2 also presents the R<sup>2</sup>= .570 and Adjusted R<sup>2</sup>= .550 which shows that 55% variations in financial performance (profit after tax) are explained by the change in expenditure incurred on CSR activities and 45% of variation are unexplained by this model. It means the 45% variation in financial performance may be due to the other factors like research & development expense, dividend policy, management decision making skills etc which are not estimated by the present study.

**Table 2: Model Summary<sup>b</sup>**

Model	r	r Square	Adjusted r Square	Std. Error of Estimate	Durbin-Watson
1	.755 <sup>a</sup>	.570	.550	18750.34988	1.495

a. Predictors: (Constant), amount spent on CSR activities in Million of Rs

b. Dependent Variable: Profit after tax in Million of Rs

**Table 3: Residuals Statistics<sup>a</sup>**

	Minimum	Maximum	Mean	Std. deviation	N
Predicted value	-6648.7588	67100.0547	27106.3522	21094.59090	23
Residual	-9552.1406	30505.15820	.00000	18319.24973	23
Std. predicted value	-1.600	1.896	.000	1.000	23
Std. residual value	-2.643	1.627	.000	.977	23

a. Dependent Variable: Profit after tax in Million of Rs

**Conclusion**

The main purpose of this study is to examine to which extent financial performance of business enterprises influenced by CSR. To attain this purpose estimated CSR expenditure and financial performance has evaluated by using the net profit after tax. Finding of this study reveal that CSR activities has a strong relation with profit after tax. This study also reveal a positive relationship between CSR and financial performance as claimed by other studies. The practical implication of this study is that manager should use CSR activities in their business operation because it will helpful in boosting the financial performance and enhance the goodwill of the business enterprises.

**References**

1. Chtourou H, Triki M. Commitment in corporate social responsibility and financial performance: a study in the Tunisian context. *Social Responsibility Journal*,2017:13(2):370-389. <https://doi.org/10.1108/srj-05-2016-0079>

2. Omar BF, Zallom NO. Corporate social responsibility and market value: evidence from Jordan. *Journal of Financial Reporting and Accounting*,2016:14(1):2-29. <https://doi.org/10.1108/jfra-11-2014-0084>

3. Usman AB, Amran NAB. Corporate social responsibility practice and corporate financial performance: evidence from Nigeria companies. *Social Responsibility Journal*,2015:11(4):749-763. <https://doi.org/10.1108/srj-04-2014-0050>

4. Lin CH, Yang HL, Andliou DY. The impact of corporate social responsibility on financial performance: evidence from business in Taiwan”. *Technology in Society*,2009:32:56-63.

5. Orlitzky M, Schmidt FL, Rynes SL. Corporate social and financial performance: a meta-analysis”. *Organization Studies*,2003:24(3):403-441.

6. Porter ME, Kramer MR. Strategy and society: the link between competitive advantage and corporate social responsibility”. *Harvard Business Review*,2006:84(12):78-92.

7. Vargas L. Corporate Responsibility and Stakeholding Developments in Corporate Governance and Responsibility. *Corporate Governance and Responsibility*,2016:10:165-177.

8. Votaw D. *The Corporate Dilemma:Traditional Values Versus Contemporary Problems* (D. Votaw & S. P. Sethi, Eds.). Prentice Hall, 2000.

9. Walsh JP, Margolis J. *People and Profits? The Search for a Link Between a Company’s Social and Financial Performance*. Lawrence Erlbaum Associates, 2000.

10. Wu MW, Shen CH. Corporate social responsibility in the banking industry: Motives and financial performance. *Journal of Banking & Finance*,2013:37(9):3529–3547. <https://doi.org/10.1016/j.jbankfin.2013.04.023>