International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor 5.564 Volume 6, Issue 01, January 2019
Website- www.aarf.asia, Email : editor@aarf.asia , editoraarf@gmail.com

CSR as a strategic tool: A study of companies in India

Dr Sanjeev K. Sharma,
Professor and Former Director
UIAMS, Panjab University

Dr Priyanka Garg,
Post-Doctoral fellow,
UIAMS, Panjab University

Abstract

CSRis not a new concept for business world as it is as old as business itself. CSR has now become an integral part of company's core business strategy. In today's world, it is being used as a competitive tool for the corporate world. Indian companies have viewed CSR as voluntary exercise till the mandatory guidelines came for CSR spending in Companies Act 2013. The current study focuses on implementation of CSR as a strategic tool. Empirical analysis of BSE SENSEX is conducted after collecting the data from PROWESS and business responsibility reports. Results highlight that 70% of sample companies are spending more than the prescribed amount on CSR. Further, CSR impacts both EPS and EV significantly and positively. Results conclude that CSR can be used as strategic tool to increase both, profitability as well as overall value of the firm.

Key Words: Strategic CSR, Enterprise value, Earnings per share

Introduction

The concept of CSR is not an unfamiliar concept for business world. This concept has not come overnight but with small developments in history. In Indian context, CSR is an under-explored area. The idea of working on social and environmental issues has clicked veryrecently in the minds of Indian corporate houses. Today, many business leaders have realized that CSR could be a viable component of their overall business strategy (Moon, 2002). Indian Government has made it mandatory to spend a portion of firm's profits on CSR for certain companies (Companies Act, 2013). Though, companies were involved in CSR even before the implementation of Companies Act 2013 but serious attention was being paid after the implementation of law.

The growing complexity of economic activity and the impact of these activities have created certain expectations and reactions in society. Incorporation of such expectations (Agle et al., 1999; and Frooman, 1999), has lead to increasing demand for CSR activities. Over time, economical growth causes social and environmental damage. Sustainable development focuses on the interdependence among economic development, society and environment. This is possible by following CSR strategies (Welford, 1993). CSR activities performed for better environmental practices and society are considered as good corporate strategy that should lead to better performance (Lopez et al., 2007), but this might not hold true for every organization. Similarly, a lack of CSR activities is not always negatively related with negative performance.

In last two decades, different researchers have studied the relationship between environmental and economic performance of the firms. These studies have been conducted across the globe. Authors have reported positive, negative and no relation among the variables. The biggest challenge is, therefore, establishing direct causal links between CSR and economic performance of the firm. Generally, companies involved in social development get privilege over other companies and the literature also reveals the same. Expenses done on CSR extra cost for the business and thus reduces profitability in short-run but improve profitability in long-run. It can be said that the impact of CSR on corporate performance is an empirical issue and should be examined properly.

Review of Literature

Rana and Mishra (2010) discussed operational dimensions of CSR by studying five different factors.Data for the study was collected from 100 companies listed on BSE and NSE. Companies were from primary, secondary, tertiary as well as from quaternary sectors. Chi-square analysis was used to find out the final factors for CSR. Results highlighted that CSR policy has not been given much importance by the top management of majority of sample companies. It was also discussed that there are various hurdles in implementing CSR policy but it is beneficiary for companies in the long-run.

Hak, Kovanda and Weinzettel (2012) reviewed different sustainability development indicators developed from practical and academic research. Nine indicators of CSR were studied using ICT. Several keywords were tried through google search and google scholar search. Ranking was finalized based on number of records available. Results concluded that use of resources and use of energy were the most used indicators of CSR among all available indicators.

Verma and Kumar (2014) studied expenditure done by Indian companies on CSR related activities for the period before implementation of mandatory regulations related to CSR. The sample for the study included all the companies in BSE Sensex, i.e., 30 companies for the period of year 2001 to 2012. Overall CSR spending and individual CSR spending yearly were taken as main variables. The result of the study highlighted that CSR spending was very low in non-mandatory phase. Companies did not spend much on environmental related parameters. Authors suggested that if spending on CSR becomes a mandatory regulation, it will not only help companies to grow but it will also impact society's growth in a sustainable way.

Taneja (2016) investigated CSR spending of 55 BSE listed companies for 2 years, i.e., 2013-14 and 2014-15. Author collected the data from business responsibility reports and annual reportsof respective companies. Results of the study revealed that companies have not fulfilled the criteria of spending on CSR as per regulatory requirements of Companies Act, 2013; Section 135. Majority of the companies have not spent 2% ofprofit after tax (PAT) on CSR but companies have started taking initiativeon CSR.

Kapoor and Dhamija (2017) examined CSR spending done by Indian companies after the implementation of Companies Act 2013. Eleven categories of different activities were mentioned as per Schedule VII Act of Companies Act 2013. Moreover, 7 activities were also categorized which do not come under CSR.Data was collected for S&P BSE 500 index companies for the year 2014-15. Content analysis was used to retrieve data from annual reports. Due to unavailability of data, final sample consisted of 374 companies. Results revealed that 74% of the mandated amount has been actually spent on CSR. Further, it was observed that MNCs have spent more amount than PSUs and private sector companies. No provision of penalty and no tax deduction on CSR expenditure were labeled as barrier for CSR spending.

Pillai (2017) pointed out that business is integral part of social eco-system. The study was carried out to discuss policies related to CSR in India particularly Companies Act 2013. One of the major finding of the study is that after Companies Act 2013, CSR spending is directly aligned with company's performance.

Nyeadi, Ibrahim and Sare (2018) analysed the companies in South Africa for impact of CSR performed on their financial performance. Data for the study was collected from Johannesburg Stock Exchange for the period 2011-2013. The final sample consists of 56 South African listed firms.ROA and Tobin's Q were used to measure the financial performance. Panel correlated standard errors is used to determine the effect of CSR on financial performance. The results stated that CSR is having positive impact on financial performance of sample firms. Further, governance performance is found to have positive impact on financial performance whereas social and environmental factors do not show any impact on CSR.

Kooskora, Juottonen and Cundiff (2019) determined the impact of CSR on financial performance. The study was carried out on 30 firms operational in Finland. CSR and Financial data was gathered for the years 2013-2016. Financial performance was measured using established models, i.e., ROA and EPS. CSRHub ratewas used for measuring CSR data. The results highlighted that CSR has impact on financial performance when accounting based measure (ROA) was used as financial indicator while results were insignificant when market based measure (EPS) was used.

Maqbool and Zamir (2019) examined CSR disclosures of Indian firms with reference to companies Act 2013. Content analysis was used for data collection from annual reports and other published reports on the website of selected companies for the year 2016-17. Results revealed that fair business practices and community development were given more importance as compared to environmental, human, and customer related activities. Further, companies from mining and mineral were foundto be more involved in CSR activities rather than other sectors.

Objectives of the Study

The core objective of the present study is to investigate the strategic role of CSR for BSE SENSEX companies. In specific, the objectives of the study are as follows:

1. To measure CSR expenditure of BSE SENSEX companies.
2. To check whether companies are spending on CSR according to the parameters defined in Companies Act 2013.
3. To ascertain the strategic role of CSR for companies in India.

Research Methodology

Following research methodology has been used for the current research:

Scope of the study

The scope of the present study is limited to companies included in BSE SENSEX. The present study is dedicated to financial year 2017-18.

Sample Selection

Final sample of the study is BSE SENSEX. The above mentioned index includes top 30 companies listed on Bombay Stock Exchange. Sample companies consists of 7 Banks, 3 financing companies, 3 companies from computer software, 1 telecom company, 5 automobile companies, and 11 manufacturing companies, i.e., Paint and varnishes; Cosmetics, toiletries, soaps & detergents; Tobacco products; Industrial construction; Conventional electricity; Crude oil & natural gas; Electricity transmission; Refinery; Drugs & pharmaceuticals; Steel; Other non-ferrous metals & metal products.

Data collection for the Study

The data for the present research has been collected from secondary sources, mainly, PROWESS and annual/sustainability reports. Financial data for the study is collected from PROWESS database and data related to CSR is collected fromdifferent reports of the companies, i.e., annual and sustainability reports.

Key Variables

Different variables have been defined differently in past studies. As per the context and objectivity of the study, key variables for the present study are defined as follows:

CSR (Corporate Social Responsibility): Authors have defined CSR in many contexts, i.e., spending on society, environment or employee welfare, etc. The current study considers CSR as the cumulative amount spent on all the above mentioned activities. SoCSR has been calculated as the actual amount spent on CSR by the respective company. The similar methodology has been used by Taneja (2014).

EPS (Earnings per Share): EPS is market based measure of profitability. EPSis defined as ratio of difference between net income and dividends on preferred stock to average outstanding shares. The same has been used by previous studies (Saxena and Kohli, 2012) as well.

EV (Enterprise Value):EV is an economic measure of market value of a business. Siew*et al.* (2013) calculated enterprise value as "market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents". The present study uses the similar formulation.

AGE: Age of the company is defined as total number of years since its incorporation(Cochran and Wood, 1984; Saxena and Kohli, 2012).Age is a crucial factor in determining profitability and CSR because ability to spend on CSR increases with age of company.

SIZE: Size of the company is the natural logarithm of book value of total assets and has been considered to control for the size effect (Clarkson et al., 2008; Makni et al., 2009). Waddock and Graves, (1997) concluded that smaller CSR activities were performed less by smaller companies as compared to larger companies**.**

INDUS (Industry): Type of industry is considered as an important control variable for CSR and financial performance because different industry sectors are regulated by different rules. Gao et al. (2005) pointed out with the change in industry type, growth factor, employability, and societal risk varies.

Tools for the study

Correlation and Regression analysis have been used to analyse the data for current study. Correlation analysis was applied to check whether variables of the study are correlated to each other. Regression analysis was applied to check the impact of CSR on EPS and EV respectively. The data has been analysed using SPSS 16.0.

Findings of the Study

First objective of the study is to measure CSR expenditure of BSE SENSEX companies. CSR expenditure of selected companies is presented in Table -1. Reliance Industries Ltd. with spending of 7450.4 million is on the top regarding amount spent on CSR activities followed by Oil & Natural Gas Corporation Ltd. (5034.4 million) and Tata Consultancy Services Ltd. (4000million).

Table-1: CSR expenditure of BSE SENSEX companies

Company Name	Amount spent on CSR	Company Name	Amount spent on CSR
Asian Paints Ltd.	465.1	Kotak Mahindra Bank Ltd.	264
Axis Bank Ltd.	1337.7	Larsen & Toubro Ltd.	1009.2
Bajaj Auto Ltd.	1005.1	Mahindra & Mahindra Ltd.	819.7
Bajaj Finance Ltd.	395.6	Maruti Suzuki India Ltd.	1250.8
Bharti Airtel Ltd.	278	N T P C Ltd.	2415.4
Coal India Ltd.	243.1	**Oil & Natural Gas Corpn. Ltd.**	**5034.4**
H C L Technologies Ltd.	912.2	Power Grid Corpn. Of India Ltd.	1579.9
H D F C Bank Ltd.	3740	**Reliance Industries Ltd.**	**7450.4**
Hero Motocorp Ltd.	826	State Bank Of India	1129.6
Hindustan Unilever Ltd.	1122	Sun Pharmaceutical Inds. Ltd.	27
Housing Development Finance Corpn. Ltd.	1613.8	**Tata Consultancy Services Ltd.**	**4000**
I C I C I Bank Ltd.	1703.8	Tata Motors Ltd.	214.4
I T C Ltd.	2909.8	Tata Steel Ltd.	2316.2
Indusind Bank Ltd.	204.7	Vedanta Ltd.	451.9
Infosys Ltd.	3126	Yes Bank Ltd.	452.1

Source: Researchers' own compilation

Second objective of the study is to check whether companies are spending on CSR as per parameters defined in Companies Act 2013. Table -2 presents the prescribed and actual CSR spending done by selected sample companies. Column-1 of the table presents the name of company. Column-2 shows the amount to be spent by respective companies which iscalculated on the basis of 2% spending clause of Companies Act 2013. Column-3 of the table presents the actual amount spent by the respective companies.

Results show that 7 companies out of 30 are spending less than prescribed amount; 2 companies, namely, Hero Motocorp Ltd. and Hindustan Unilever Ltd., are spending the same amount on CSR as prescribed by the Companies Act 2013; and 21 companies are spending more than prescribed amount on CSR. It can be clearly seen from the stated results that Indian companies are showing interest in CSR as 70% companies are spending more than required amount on CSR.

Table-2: CSR expenditure as per Companies Act 2013

Company Name	**CSR expenditure to be incurred**	**Amount spent on CSR**
Asian Paints Ltd.	464.3	**465.1**
Axis Bank Ltd.	1868.2	1337.7
Bajaj Auto Ltd.	998.3	**1005.1**
Bajaj Finance Ltd.	394	**395.6**
Bharti Airtel Ltd.	2146.3	278
Coal India Ltd.	78.8	**243.1**
H C L Technologies Ltd.	1343.3	912.2
H D F C Bank Ltd.	3650	**3740**
Hero Motocorp Ltd.	**826**	**826**
Hindustan Unilever Ltd.	**1122**	**1122**
Housing Development Finance Corpn. Ltd.	1596.9	**1613.8**
I C I C I Bank Ltd.	1702	**1703.8**
I T C Ltd.	2904.7	**2909.8**
Indusind Bank Ltd.	701.7	204.7
Infosys Ltd.	3102.5	**3126**
Kotak Mahindra Bank Ltd.	739.7	264
Larsen & Toubro Ltd.	972.9	**1009.2**
Mahindra & Mahindra Ltd.	812.7	**819.7**
Maruti Suzuki India Ltd.	1208.3	**1250.8**
N T P C Ltd.	2207.5	**2415.4**
Oil & Natural Gas Corpn. Ltd.	4870.4	**5034.4**
Power Grid Corpn. Of India Ltd.	1579.4	**1579.9**
Reliance Industries Ltd.	7030.8	**7450.4**
State Bank Of India	382.5564	**1129.6**
Sun Pharmaceutical Inds. Ltd.	-	**27**
Tata Consultancy Services Ltd.	4970	4000
Tata Motors Ltd.	-	**214.4**
Tata Steel Ltd.	856.2	**2316.2**
Vedanta Ltd.	94.2	**451.9**
Yes Bank Ltd.	772.2	452.1

Source: Researchers' own compilation

Third objective of the study is tofind out the strategic role of CSR for companies in India.Correlation analysis is used to find out the relationship among key variables of the study. Table 3 represents the results of correlation analysis. The statistics depicts that there is a strong relationship of CSR with enterprise value (EV) at one percent significant level while

CSR shows weak relationship with Earnings per share (EPS) at ten percent significant level. CSR is significantly positive for size of the company (SIZE) at five percent level whereas insignificant for age of the company (AGE) and industry type (INDUS). Size of the company is positively significant for all the variables except type of industry. Age is significantly positive with EPS and type of industry while others are insignificant.

Table 3: Correlation Matrix for Key Variables

Variables	CSR	EPS	EV	AGE	SIZE	INDUS
CSR	1.000					
EPS	0.103*	1.000				
EV	0.634***	0.014	1.000			
AGE	0.093	0.143*	0.066	1.000		
SIZE	0.431**	0.235*	0.564***	0.201	1.000	
INDUS	0.178	0.219	0.110	0.364**	0.535***	1.000

Further, to examine the relationship between CSR and Enterprise value/Earnings per share, multiple regression analysis employing the following regression equations, has been invoked:

$EPS= \beta_0+ \beta_1\ CSR + \beta_2 AGE + \beta_3 SIZE + \beta_4\ INDUS + \varepsilon$

$EV= \beta_0+ \beta_1\ CSR + \beta_2 AGE + \beta_3 SIZE + \beta_4\ INDUS + \varepsilon$

where,

EV, EPS = **Dependent Variables**

CSR = **Explanatory Variable**

AGE, SIZE, INDUS = **Control Variables**

ε = **residual term**

Table 4shows results of regression analysis taking company performance as the dependent variable and CSR as an explanatory variable. It is very clear that the intercept (β = 82.686; $p < 0.10$) is significantly positive at ten percent level for impact of CSR on EPS. The results reported a significant coefficient for ***CSR*** as well as for ***AGE*** and ***SIZE. INDUS*** wasfound to be insignificant. *R*-square is 0.147 and *F*-statistics for the model of regression used for the study is significant at ten percent level of significance which indicates the fitness of model. Results reveal that financial performance is affected by CSR performance positively but weakly. Similar results were reported by Samy et al. (2010) and Garg (2016).

Table 4: Regression Results for impact of CSR on Company Performance

Explanatory Variables	Model 1	Model 2
	EPS	EV
Intercept	82.686*	11.569***
CSR	0.027*	0.122**
AGE	7.945*	0.024
SIZE	16.133*	0.182**
INDUS	6.305	0.028
R^2	0.147	0.510
Adj. R^2	0.011	0.431
***F*- statistic**	1.080*	6.495***

Dependent variable is EPS for Model 1 and EV for Model 2.
*** indicates level of significance at 1 percent. The test of significance is two-tailed.
** indicates level of significance at 5 percent. The test of significance is two-tailed.
* indicates level of significance at 10 percent. The test of significance is two-tailed.
Results are obtained by using SPSS 16.0.

The intercept(β = 11.569; p < 0.01) is highly significant at one percent level for the impact of CSR on enterprise value. ***CSR*** (β_1 = 0.122, p< 0.05) has a positive and significant coefficient which indicates thatCSR performance impacts value of the firm positively. ***SIZE*** is also significantly positive at five percent level while ***AGE*** and ***INDUS*** are insignificant. *R*-square is 0.510 and *F*-statistics for the regression model is significant at one percent level of significance which indicates the fitness of model.

CONCLUSION

The study aims to find out the strategic role CSR for companies in India. Companies included in BSE SENSEX are considered as the sample for the study. Data was collected from PROWESS and annual reports/business responsibility reports of the sample companies. Results reveal that 70% of the sample companies are spending more than prescribed amount of CSR. Further, it is noted that CSR impacts EPS and EV positively and significantly. This shows that spending on CSR can be used as a strategic tool to increase profitability and overall value of the firm.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Limitations of this study can be drawn from the nature of the sample, data collection methodology, data examined, etc.In the present study, the size of the sample is relatively small. It is always better to have a larger sample to generalize results. Another limitation concerning the data is the relative short time period.So, researchers should take care of other considerations of the studywhile generalizing the findings. More variables could be taken into account.

REFERENCES

Clarkson, P. M., Li, Y., Richardson, G. D., & Vasvari, F. P. (2008). Revisiting the relation between environmental performance and environmental disclosure: An empirical analysis. *Accounting, Organizations and Society*, *33*(4-5), 303-327.

Cochran, P. L., & Wood, R. A. (1984). Corporate social responsibility and financial performance. *Academy of Management*, *27*(1), 42-56.

Companies Act (2013). *Ministry of Corporate Affairs*. Retrieved from http://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf

Gao, S. S., Heravi, S., & Xiao, J. Z. (2005). Determinants of corporate social and environmental reporting in Hong Kong: A research note. *Accounting Forum*, *29*(2), 233-242.

Garg, P. (2016). CSR and corporate performance: Evidence from India. *Decision*, *43*(4), 333-349.

Hak, T., Kovanda, J., & Weinzettel, J. (2012). A method to assess the relevance of sustainability indicators: Application to the indicator set of the Czech Republic's Sustainable Development Strategy. *Ecological Indicators*, *17*(1), 46-57.

Kapoor, G. K., & Dhamija, S. (2017). Mandatory CSR Spending – Indian Experience. *Emerging Economy Studies*, *3*(1), 98-112.

Kooskora, M., Juottonen, M., & Cundiff, K. (2019). The Relationship Between Corporate Social Responsibility and FinancialPerformance (A Case Studyfrom Finland): How Businesses and Organizations Can Operate in a Sustainable and Socially Responsible Way. Social Responsibility and Sustainability: How Businesses and Organizations

Can Operate in a Sustainable and Socially Responsible Way, Editors Filho, W. L., 471-491.

Makni, R., Francoeur, C., & Bellavance, F. (2009). Causality between corporate social performance and financial performance: Evidence from Canadian firms. *Journal of Business Ethics, 89*(3), 409-422.

Maqbool, S., & Zamir, M. N. (2019).Corporate Social Responsibility Reporting in India: A Study ofSENSEX Companies. 10.1177/0258042X19832122

Nyeadi, J. D., Ibrahim, M., & Sare, A. S. (2018). Corporate social responsibility and financial performance nexus: Empiricalevidence from South African listed firms. *Journal of Global Responsibility, 9*(3), 301-328.

Pillai, K. R. (2017). Corporate Social Responsibility in India: A Journey from Corporate Philanthropy to Governance Mandate. *Indian Journal of Corporate Governance, 10*(2), 176-184.

Rana, S., & Misra, P. (2010). Operational Dimension of CSR: An Empirical assessment of BSE and NSElisted companies. *VISION-The Journal of Business Perspective, 14*(1/2), 57-66.

Samy, M., Odemilin, G., & Bampton, R. (2010). Corporate social responsibility: A strategy for sustainable business success. An analysis of 20 selected British companies. *Corporate Governance*, *10*(2), 203-217.

Saxena, M., & Kohli, A. S. (2012). Impact of corporate social responsibility on corporate sustainability: A study of the Indian banking industry. *The IUP Journal of Corporate Governance, 11*(4), 39-54.

Siew, R. Y. J., Balatbat, M. C. A., & Carmichael, D. G. (2013). The relationship between sustainability practices and financial performance of construction companies. *Smart and Sustainable Built Environment, 2*(1), 6-27.

Singh, R.K., Murty, H.R., Gupta, S.K., & Dikshit, A.K. (2007). Development of composite sustainability performance index for steel industry. *Ecological Indicators*, *7*(3), 565-588.

Taneja, S. D. (2016). A Study on Embracing CSR Mandate byBSE Listed Companies in India. *Advances in Economics and Business Management (AEBM), 3*(5), 551-556.

Verma, A., & Kumar, C.V.R.S.V. (2014). An Analysis of CSR Expenditure by Indian Companies. *Indian Journal of Corporate Governance, 7*(2), 82-94.

Waddock, S. A., & Graves,S. M. (1997). The Corporate Social Performance-Financial Performance Link.*Strategic Management Journal, 18*(4), 303–319.

Werther, W. B. & Chandler, D. (2005). Strategic corporate social responsibility as aglobal brand insurance. *Business Horizons, 48*(4), 317-324.

Zenisek, T. J. (1979). Corporate social responsibility: A conceptualization based on organizational literature. *Academy of Management Review*, *4*(3), 359-368.