

# EFFECT OF CSR ON FINANCIAL PERFORMANCE: A STUDY OF SELECTED FMCG COMPANIES IN INDIA

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## Abstract

Corporate social responsibility, or CSR, is a self-administrative strategy that equips a business to be socially accountable to itself, investors, partners, and the general public. The organisation focuses on three degrees of maintainable advancement: social development, financial growth, and environmental preservation. The review will examine the impact of CSR on the financial performance of selected drug and FMCG (Fast Moving Consumer Goods) industries in India for the pre- and post-CSR eras for the review time period 2008-09 to 2018-19. According to the investigation, businesses are making an effort to donate the recommended 2 percent of annual profit over a three-year period to CSR initiatives. To analyze the data, a matched example t test and correlation strategy has been used.

Corporate Social Responsibility (CSR) is defined as a business strategy or practice that incorporates initiatives that support the livable improvement of the general public by delivering social, environmental, and financial benefits to all partners. The goal of the current review is to determine how CSR spending affects organisations' financial performance and the relationship between the two. 15 companies that make up the NIFTY FMCG record of the Indian National Stock Exchange were considered for the review. For a period of 10 years, the review separates information from the yearly reports of these 15 companies (2008-2017). To assess the impact and test the hypothesis of the focus regarding whether CSR spending has an impact on the performance of businesses and the strength of the relationship between the autonomous variable (corporate social responsibility spending) and the dependent variables, Karl Pearson's Correlation and Ordinary Least Squares (OLS) model of Regression was used (return on resources, return on value and return on capital utilized). Despite the fact that they revealed a very strong positive relationship between the three factors, the discoveries showed no significant negative impact of corporate social responsibility on the profit from resources and return on value.

**Keywords:** *CSR on Financial Performance, FMCG Companies, India, Benefits of CSR.*

## 1. Introduction

Companies all over the world are engaged in a battle to fulfil the current innovation's desires without compromising the ability of the resulting generations to meet their own needs. Organizations are being urged to accept responsibility for the ways in which their operations affect social structures and the natural environment. Additionally, they are expected to advocate for the inclusion of social and environmental issues in business operations and partner interactions. An organisation cannot ignore the problems in the environment in which it operates. Therefore, it is important to focus on how social responsibility affects an organization's profitability in India.

Corporate social responsibility is an administrative concept by which businesses coordinate social and environmental concerns in their business operations and interactions with their partners, according to the United Nations Industrial Development Organization (UNIDO). Because of pressure from their partners, corporate firms and institutions are making an effort to address social, economic, and environmental issues by engaging in what is commonly known as corporate social responsibility (CSR). For any business, corporate social responsibility plays a crucial role. Organizations are finding it more and more difficult to integrate social and environmental concerns into methodology planning.

Any organization's progress depends in large part on the participation of the general public. As a result, no organisation can advance over the long term without fulfilling public responsibility. The purpose of the company is not just to make money; it is also to promote environmental factors by focusing on employee satisfaction and building an administration that will foster interpersonal trust. CSR focuses on the altruism that drives today's corporations. Every choice a financial expert makes and every action he considers has social repercussions. Whether the decision is to diversify, expand, open a new branch, close an existing branch, or replace humans with machines, the general public is impacted in some way. The Companies started to realise that they would need to go beyond profitability and address every issue related to their longevity in the public directly or indirectly. Corporate social responsibility is a strategy that helps an organisation prioritise the environment, its networks, partners, customers, and employees. The general public is served by businesses through corporate social responsibility, and since the Companies Act of 2013, businesses in India have dealt with this issue consistently.

The ability of an organisation to take social responsibility for the growth and improvement of the environment in which it operates is referred to as corporate social responsibility. It describes the purposeful administrations made available to the public by an organisation. The CSR initiatives are viewed as speculation rather than an expense or cost because they highlight the relationship between a company and its partners, including customers, financial backers, representatives, and the general public. The result is an increase in consumer purchasing behavior and a positive perception of the company's brand among the general public. An organization's ability to take part in environmental protection, charitable endeavors', and neighborhood relations has enabled them to outperform competitors who view corporate social responsibility as a straightforward issue.

## 2. Literature Review

**Chitta Ranjan Sarkar, Kartik Chandra Nandi (2011)**, To estimate the performance from 1999-2000 to 2009-2010, try to conduct an observational investigation of Hindustan Petroleum Corporation Ltd. (HPCL). Simple factual techniques like Mean, Coefficient of Correlation, Growth Rate, and Regression Analysis have been used, and in the appropriate places, measurable tests like the  $t$ -test have also been applied. The investigation of concentrate clearly indicated that the organization's management had focused on increasing profitability while also fulfilling its obligations to the general public.

**Ikharehon, Idialu Julius (2014)** investigated the eighth-side companies in Nigeria that were a part of the C"of association's profitability from 2003 to 2012. The results indicated a poor correlation between CSR and financial success.

**Odetayo, T.A, Adeyemi, A.Z., Sajuyigbe, A.S. (2014)** their analysis was an observational investigation into the CSR and financial success of Nigerian banks. From the annual reports of six specific banks over a period of ten years, data on corporate social responsibility and profit were gathered (2003 - 2012). The factual method of information analysis used was simple regression analysis. According to the regression analysis, there is a strong correlation between Nigerian banks' profitability and their use of CSR.

**Amalendu Bhunia, Lakshmi Das (2015)** examined the impact of corporate area responsibility on the first-quarter profitability of Maharata Companies in India in their review. Their analysis was based on secondary, time-series data gathered from the annual reports of the seven Maharani Central Public Sector Enterprises in India from 2003–2004 to 2012–2013. They discovered that corporate social responsibility has an impact on fir's profitability. The review's findings revealed that while profit after tax has a negative relationship with

corporate social responsibility for BHEL, IOCL, and ONGC, this relationship is strongly correlated for CIL, GAIL, NTPC, and SAIL. Results from observational studies show that corporate social responsibility has a negative impact on the rest of the companies under study as well as Gas Authority of India Ltd.'s profitability.

Investigations into the connection between CSR and financial performance have taken place all over the world, but from an Indian perspective, more experience is needed. Some of the investigations revealed an unfavorable and unbiased relationship between CSP and FP; the results showed that CSR has little impact on an organization's net profit but has no discernible impact on income per offer and return on resources. As opposed to that, The outcome of the OLS regression model shows that CSR has a temporary impact on bank profitability but a significant long-term impact on net profit. The expert suggests that the government and administrative bodies support a CSR system and create the organisations and tools needed to implement it. Additionally, compared to businesses with high friendly responsibility, those with low friendly responsibility have lower ROA and financial exchange returns. According to a couple of scientists, a company's net income and ROCE have a significant impact on CSR spending, but other financial factors like earnings per share, return on equity, and return on resource have less of an impact. In addition, CSR spending has a significant impact on investors' value, a company's worth, and a company's immovability, and it is believed that CSR has no bearing on a company's profitability.

### **3. Benefits of CSR**

- Better Financial Results
- Lower Costs
- Improved reputation and brand image
- Enhanced sales and client retention
- Customer contentment
- Better quality and productivity
- Better ability to recruit and keep employees
- Lessening of regulatory scrutiny
- Brand awareness, visibility, and perception
- a bigger share of the market
- Positive positioning
- Competition in mileage
- More invested parties

- Environmental resiliency

## 4. Role of Indian FMCG Industries

Indian FMCG firms include both domestically based and foreign firms. These businesses are still engaged in the sale of FMCG products, which range from food items like rolls, jams, and organic product juices to personal care products like shampoos, hair oils, body lotions, and cleansers to home and fabric care products like cleansers and clothing cleansers. The main CSR challenges for these businesses include reducing the amount of packaging material used, protecting the environment and providing for the health of direct partners in the assembly regions, reusing waste, and other issues. We try to assess how Indian FMCG companies are doing in the area of Corporate Social Responsibility, or CSR, using Karmayog evaluations and information made available on their websites by these businesses.

The World Economic Forum's Global Corporate Citizenship CSR Framework highlights the following:

1. Delegate power
2. Describe the impact on your organisation.
3. Start moving
4. Be honest in your approach.

Many businesses in India are currently participating in CSR initiatives. These businesses are taking care of business in the areas of Environment, Health Care, Education, Community Government Assistance, Women's Strengthening, and Girl Child Care, especially for FMCG companies where the significant test is reduction of bundling materials. Hindustan Unilever is one company that started reducing CO<sub>2</sub>. Although these companies' websites provide information about their CSR initiatives, it is discovered that they are not consistently updated. Karmayog Rating is used to assess their CSR performance. The rating provides a thorough explanation. The method used to determine the rating is also looked at.

## 5. Research Methodology:

The main goal of this investigation is to ascertain whether a company will engage in CSR activities and strategies and what this use will entail for a business substance's profitability. Each substance has a duty to fulfill CSR because it is encouraged by law. Therefore, it is crucial to investigate how the use will be used effectively and actually. The goal of the task is to determine the rationale behind which companies practice

corporate social responsibility at the moment and to focus on whether these companies' financial performance has actually declined or improved as a result of these practices.

- **Sampling unit and sample size:** In order to compare the financial performance of selected areas in India before and after CSR implementation, examples of 10 companies from each area (a total of 20 companies) were taken from the companies listed on the BSE and NSE. The review's scope is limited to evaluating the companies' CSR efforts as well as their impact on financial performance during the pre- and post-periods (2009–14 post-period and 2014–19 pre-period).
- **Data source and type:** The review is based on secondary sources from 20 Indian companies listed on NSE and BSE in the areas of fast-moving consumer goods (FMCG) and pharmaceuticals.

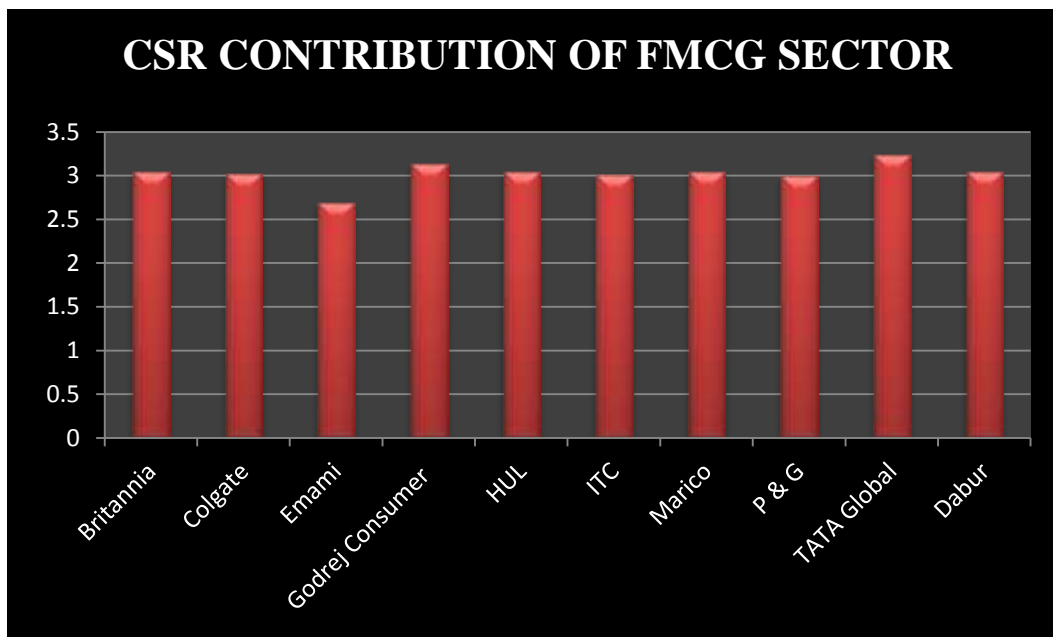
**Table: 1.** displaying financial performance over an average of ten years from 2009 to 19 and CSR spending over an average of five years from 2015 to 19

| Sl.  | Companies Name    | NPM |      | ROA |      | ROE |      | ROCE |      | ROS |      | CSR  |  |
|--|-------------------|-----|------|-----|------|-----|------|------|------|-----|------|------|--|
|  |                   | Pre | Post | Pre | Post | Pre | Post | Pre  | Post | Pre | Post | Post |  |
| <b>I. Fast Moving Consumer Goods (FMCG) Sector</b> |                   |     |      |     |      |     |      |      |      |     |      |      |  |
| 1.   | Britannia         | 5   | 11   | 21  | 33   | 54  | 46   | 36   | 47   | 6   | 15   | 17   |  |
| 2.   | Colgate           | 18  | 16   | 50  | 38   | 205 | 45   | 88   | 36   | 32  | 33   | 17   |  |
| 3.   | Emami             | 18  | 16   | 31  | 16   | 44  | 33   | 20   | 32   | 18  | 17   | 8    |  |
| 4.   | Godrej Consumer   | 15  | 14   | 22  | 36   | 34  | 22   | 18   | 14   | 17  | 18   | 19   |  |
| 5.   | HUL               | 14  | 15   | 35  | 40   | 79  | 66   | 57   | 66   | 14  | 18   | 529  |  |
| 6.   | ITC               | 35  | 34   | 30  | 17   | 23  | 32   | 38   | 38   | 22  | 46   | 376  |  |
| 7.   | Marico            | 8   | 14   | 14  | 32   | 40  | 43   | 32   | 43   | 13  | 18   | 15   |  |
| 8.   | P & G             | 16  | 17   | 19  | 52   | 37  | 64   | 37   | 52   | 18  | 32   | 11   |  |
| 9.   | TATA Global       | 7   | 6    | 5   | 4    | 9   | 4    | 6    | 4    | 8   | 8    | 7    |  |
| 10.  | Dabur             | 14  | 17   | 18  | 18   | 52  | 36   | 42   | 39   | 17  | 30   | 32   |  |
| <b>II. Pharmaceutical Sector</b>                   |                   |     |      |     |      |     |      |      |      |     |      |      |  |
| 11.  | Ajanta Pharma     | 15  | 36   | 47  | 6    | 33  | 54   | 46   | 5    | 11  | 21   | 8    |  |
| 12.  | Aurobindo         | 33  | 88   | 36  | 32   | 38  | 205  | 45   | 18   | 16  | 50   | 46   |  |
| 13.  | Biocon ltd        | 17  | 20   | 32  | 18   | 16  | 44   | 33   | 18   | 16  | 31   | 9    |  |
| 14.  | Cadila Healthcare | 18  | 18   | 14  | 17   | 36  | 34   | 22   | 15   | 14  | 22   | 330  |  |
| 15.  | Cipla             | 18  | 57   | 66  | 14   | 40  | 79   | 66   | 14   | 15  | 35   | 35   |  |
| 16.  | Dr Reddy          | 46  | 38   | 38  | 22   | 17  | 23   | 32   | 35   | 34  | 30   | 43   |  |
| 17.  | Glen mark pharma  | 18  | 32   | 43  | 13   | 32  | 40   | 43   | 8    | 14  | 14   | 285  |  |
| 18.  | IPCA laboratories | 32  | 37   | 52  | 18   | 52  | 37   | 64   | 16   | 17  | 19   | 8    |  |
| 19.  | Natco pharma      | 8   | 6    | 4   | 8    | 4   | 9    | 4    | 7    | 6   | 5    | 7    |  |

|     |                |    |    |    |    |    |    |    |    |    |    |    |
|-----|----------------|----|----|----|----|----|----|----|----|----|----|----|
| 20. | Torrent pharma | 30 | 17 | 39 | 42 | 36 | 17 | 18 | 18 | 52 | 20 | 32 |
|-----|----------------|----|----|----|----|----|----|----|----|----|----|----|

**Table: 2.** demonstrating the FMCG industry's five-year CSR contribution for the years 2015–19

| SL. No. | Name of The Companies | Average of Five Years |                  |         |
|---------|-----------------------|-----------------------|------------------|---------|
|         |                       | Prescribe CSR(Rs.)    | Actual CSR (Rs.) | CSR (%) |
| 1.      | Britannia             | 14.60                 | 17.20            | 3.05    |
| 2.      | Colgate               | 14.60                 | 16.73            | 3.03    |
| 3.      | Emami                 | 9.63                  | 9.45             | 2.69    |
| 4.      | Godrej Consumer       | 15.47                 | 16.48            | 3.14    |
| 5.      | HUL                   | 522.15                | 319.33           | 3.05    |
| 6.      | ITC                   | 355.48                | 376.08           | 3.02    |
| 7.      | Marico                | 14.56                 | 14.68            | 3.05    |
| 8.      | P & G                 | 11.15                 | 11.15            | 3       |
| 9.      | TATA Global           | 6.56                  | 7.28             | 3.24    |
| 10.     | Dabur                 | 30.13                 | 30.63            | 3.05    |

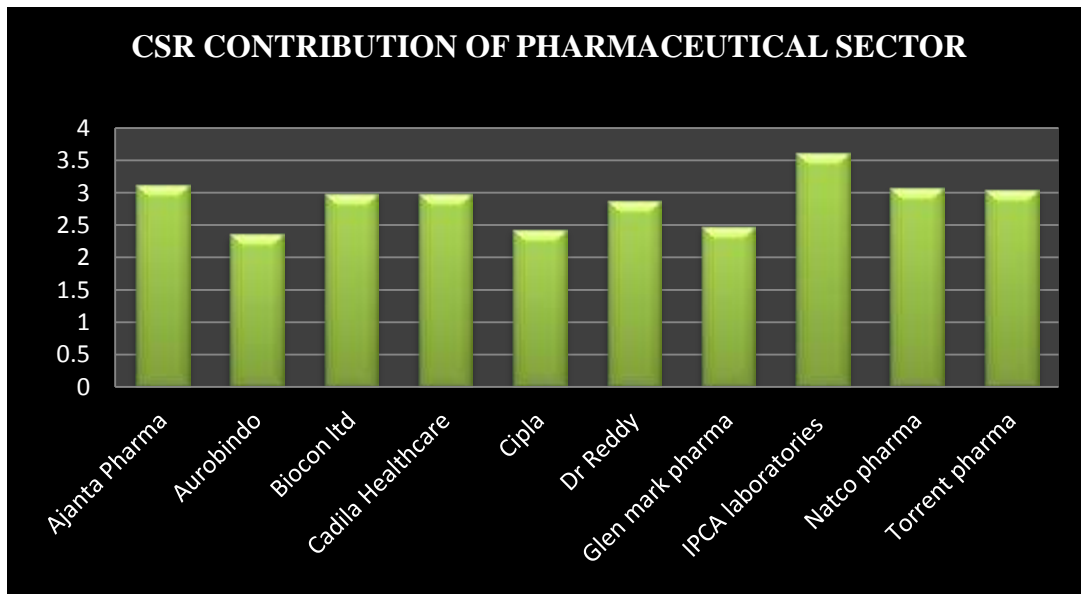


**Figure: 1.** displaying the (%) of FMCG that has a CSR component for the years 2015 to 19

The CSR contribution of the FMCG sector is shown in the above line diagram. With the exception of Emami (2.69%), it was discovered that all other businesses are complying with the Companies Act of 2013, and TATA Worldwide Refreshments (3.24%) is the largest contributor to CSR in the FMCG sector for the years 2015–19.

**Table: 3.** demonstrating the pharmaceutical industry's five-year contribution to CSR for the years 2015–19

| SL. No. | Name of The Companies | Average Of Five Year |                  |         |
|---------|-----------------------|----------------------|------------------|---------|
|         |                       | Prescribe CSR(Rs.)   | Actual CSR (Rs.) | CSR (%) |
| 1.      | Ajanta Pharma Ltd     | 9.03                 | 3.44             | 3.13    |
| 2.      | Aurobindo Pharma ltd  | 22.46                | 32.15            | 2.37    |
| 3.      | Biocon ltd            | 9.37                 | 9.4              | 3.00    |
| 4.      | Cadila Healthcare     | 318.65               | 318.7            | 3       |
| 5.      | Cipla                 | 22.54                | 34.65            | 2.44    |
| 6.      | Dr Reddy              | 46.20                | 43.3             | 2.89    |
| 7.      | Glen mark pharma      | 134.76               | 283.3            | 2.48    |
| 8.      | IPCA laboratories     | 8.04                 | 7.72             | 3.63    |
| 9.      | Natco pharma          | 6.27                 | 6.63             | 3.08    |
| 10.     | Torrent pharma        | 33.21                | 33.63            | 3.06    |



**Figure: 2.** displaying the pharmaceutical industry's (percent) contribution to CSR for the years 2015–19

The above line graph illustrates how the drug industry has contributed to CSR. According to research, Aurobindo drugs (2.37%) and IPCA research centers (3.63%) contribute the least to CSR initiatives. Likewise, a significant portion of businesses are making the recommended level of 2 % contribution to CSR initiatives for the years 2015 to 2019.

## 6. Results

- Research shows that TATA Worldwide Refreshments (3.24 percent) contributes more to CSR initiatives than other businesses that chose to focus on the FMCG sector.



- According to research, IPCA Labs (3.63 percent) contributes more to CSR initiatives than other businesses that focus on the pharmaceutical industry.
- The FMCG sector's outcome demonstrated that, in addition to Return on Value for the review period 2009–19, financial performance has increased since CSR became mandatory under the 2013 Companies Act.
- It has been discovered that CSR and various financial factors have a strong pre- and post-CSR period correlation in the FMCG sector.
- In the pharmaceutical industry, it has been found that there is little correlation between CSR and various financial factors prior to and following CSR.
- The impact on the pharmaceutical industry demonstrated that there is little to no difference between the pre- and post-CSR periods for CSR and every single financial variable.

## 7. Conclusion

Companies are being urged to take greater responsibility for long-term upkeep. Businesses are under pressure to provide more profit for investors, more appeal to representatives, a more moral way of dealing with the government, more candor with consumers, and defensive strategies for the local community on issues like consumer protection, common freedoms, wellbeing and security, corporate administration, and so forth. It was noted that a significant number of the selected companies are making efforts to meet the recommended CSR in accordance with the organization's demonstration from 2013, in which IPCA labs is the most notable contributor from the pharmaceutical area and TATA worldwide drinks from the FMCG area towards CSR activities for the period 2015–19. The results showed that, with the exception of return on value, financial performance improved after CSR became mandatory in all selected companies. If the FMCG sector should arise, it has been found that CSR and financial performance are exceptionally linked and exhibit stark differences between the pre- and post-CSR periods. However, the results from the drug sector revealed that there was little correlation between CSR and financial performance and that there were no significant differences between the pre- and post-CSR periods.

Discussing the scope of CSR initiatives, the role of CSR in environmental management, and determining how broadly FMCG companies engage in CSR initiatives to protect the environment were all important parts of this exploration project. According to Elizabeth Pinchot's words, "At this point, morality is not an extravagance. It is essential to the success of any project ". The FMCG industry is under increasing pressure to pass the CSR test.

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