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# CSR and performance of listed companies in kerala: An empirical analysis

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**Abstract**--Companies protecting the interest of stakeholders in social performance and there is compulsion on these companies to report their social responsible activities and practices for getting the support from the public. Some organizations in Kerala published the report on their social activities in their websites also. These type of initiatives will boost the performance of companies in the market. This study focused studying the association between CSR and performance of Kerala based companies. Here, multiple regression and correlation approach has been used to know the relationship between financial performance and CSR initiatives of the companies in Kerala. Results of this study shows that there is association between CSR and Sales of Kerala companies and financial progressive companies are willing to invest in CSR also. So it is concluded that more companies will come forward for CSR initiatives in Kerala.

**Keywords**---Stake Holders, Corporate social responsibility, Financial performance.

**Introduction**

Corporate social responsibility is a broad business concept and it describes to carry out the business in an ethical way. So this will improve the business processes in social, economic and environmental development by considering human rights. Main aim of each business is to earn profit by doing their business but looking on the welfare of the society as well. It is very essential to know the CSR spending, initiatives and publicity effect on the financial performance of the company in a favorable way or not. There are studies which shown the relation

between the corporate social responsibility and the financial performance of the firms. Also the studies proven the association of the variables CSR and the firm performance. Each company do differently for implementation of CSR depending on different aspects. Majority of the studies scrutinized the straight relation between the corporate social responsibility on firm's financial performance, but this direct relationship look like to be unauthentic and inaccurate. Therefore, the main perseverance of this study isto examine the relationship between corporate social responsibility and financial performance of listed companies in Kerala. Data collection done from the listed companies from Kerala in BSE. For studying the relationship of the variables statistical analysis such as correlation and regression analysis has been used and applied hypotheses testing also. From the analysis of the Results indicate that there is association between corporate social responsibility and financial performance. The study accomplishes that corporate social responsibility significantly affects the firm's financial performance by developing a positive image among the stakeholders and decreasing overall costs. This study will help management of organizations to apprehend the importance of corporate social responsibility.

Corporate social responsibility crafting image in the mind of customers, suppliers etc as good. Stakeholders who are the dependent parties will think that when company is doing its social responsibility, firm will do ethical activities with them. Therefore their trust will boost towards the company. Stakeholders trust the organization as well and it cause the company's success and profitability in a positive manner. Therefore corporate social responsibility has positive impact on the financial performance ofan organization. But some organizations are not giving much importance to the CSR activities and noticed that their financial performance is not good compared to the organizations who are doing responsibly performing social activities. On the other hand, performing social activities which incur high cost will reduce the firm's profit. Corporate social responsibility of an organization is an important factor nowadays because there is a bad image is created in the minds of the customers if they are not considering the influence of its operations on environment or society. Organizations are performing the CSR related activities in the name of donations, activities for the welfare of its employees and society etc. These types of contribution by the organizations leads to the creation of goodimage in the consumer's mind and protect the firm from decrease in sales. Firm performs its CSR toward lenders by paying back their loan and towards stakeholders by giving equal portion of their share from company's profit. By taking such actions, more creditors and investors will attract towards organizations and continue to contribute their money in the firm; therefore firm's financial condition will improve.

There are other benefits of corporate social responsibility also. If company treats its community tells about how the company treats its employees. People are often more productive and satisfied at work. Consumers evaluate the public image when determining to

buy the products from market. CSR progresses customers' attitude towards the company. If a customer loves the company, he or she will buy extra products or services and will beless prepared to change to added company. If the company dedicated to ethical practices, news will extent and more people will

perceive the brand, which creates an increased brand awareness. There are different CSR activities carried out by the company such as Swachh Bharath Abhiyaan, Clean Ganga project, Rural digital physical infrastructure, Farm to Food Products Value Chain, Social and Farm Forestry, Tree to Textbook Value Chain, Integrated Watershed Development, Dairy Development, Women's Empowerment Programme, Supplementary Education Programme, Covid 19 support activities, environmental sustainable activities, Green Centre, Renewable Energy. This study also focused on the important CSR initiatives of Kerala companies enhanced the net profit of the company and drive the value of business also.

### **Review of Literature**

**Maqbool & Zameer (2017)** used profitability measure as ROE, ROA, and NP while SR and PE as market return gauges. CSR information about the activities carried out by the 28 Indian commercial banks listed in Bombay stock exchange. The data collected for a period of 10 years taken in to consideration for the analysis. Panel regression model confirms the relationship between the profitability due to CSR and CSR – stock market return. Study identified the CSR activities towards the employees, community, diverse and environment. CSR Activities to the various stakeholders' build effectiveness as well as cost reduction and the employees compensate for their satisfaction through their productivity gain. Investors lend capital at less expensive rate for gratified community reduces the advertising cost, ecological stewardship prompts favourable situations, and better suppliers reduce quality certification costs. CSR will benefit the in triple bottom line benefits to people, planet and profit. **Rodriguez (2015)** studied that there is bidirectional association found between the CSR and the financial performance after the study. The greater financial strength is an indication of the improved social behaviour index. Corporate governance can be achieved through the implementation of the CSR that will generate the result;

**Roger & Chen (2016)** discussed stakeholders and investors are facing an increase demand on CSR. The question discussed in this study is that the extend at which the investment in CSR creating firm value. Study conducted in listed Taiwanese firms from 2010 to 2012 and reveals that there a non-linear relationship is exist between the CSR and firm value. The companies show a reluctance to invest in CSR because they have to pay the opportunity cost the relationship between the CSR and company value can be identified with the help of social impact premise and shift of focus premise. Whenever the investment in CSR reaches a convinced level, the public would begin to recognize with this firm and CSR shocks to commendably increase firm value. **Retab (2008)** discussed the link between the CSR and organizational performance. Organizational performance includes financial performance, employee commitment and corporate reputation by controlling the variables firm age, firm size and sector of activity. Firm performance variables are associated with the CSR. There is a positive relation among the CSR activities and the organisational performance.

**Vázquez & Hernandez (2014)** stated that there is a cause-effect relationship is with CSR and the performance of the organization. For that, the scale developed for the CSR with

socio-economic and environmental concerns by considering the CSR indicators. Primary data collected from the managers of the 67 medium and big firms in a special region of Europe stated that CSR is the best action for achieving regional competitive success. The CSR scales allow identifying the role of performance of the firm in achieving success in a regional context. CSR is also creating the firm performance through its actions of economic social and environmental dimensions. **Bhunja & Das (2015)** studied the impact of the corporate social responsibility on firm's performance. They studied the annual report of the seven Maharatna companies in India for the period 2004-2013. The empirical study using correlation, regression and multiple regression analysis used to find the relation between the CSR and financial performance. The variables used in this study were CSR spent, profit after tax and earnings per share. The result signpost that the positive relation exist only in the firm Gas Authority of India LTD. The rest of the companies profitability independent of the corporate social responsibility.

**Chen and Hung (2013)** developed a measurement with the help of 6 domains of corporate social responsibility and the 4 indicators for each dimension. By assigning 0 or 1 to these indicators if it matched in the data available from the annual reports of the Taiwan Stock Exchange listed companies in 2010 and 2011. CSR efficiency is calculated with the CSR demand and the supply curve. It was found that the low corporate value firms with CSR behaviour doesn't influence corporate value and reduce the stock return due to the inefficiency of solving externality problems. **Forgione & Migliardo(2020)** studied the impact of the firm competition and their CSR investment. The pressure form the market caused the investment in CSR related activities. Lerner index and the system GMM regression analysis was used to verify the impact. CSR commitment is measured using the scores of the Environment, social and corporate governance (ESG Score) of the 130 banks from the OECD countries. It is evident that the banks should invest in corporate responsible activities due to their market competition. It was clear that from the study that the dominant banks should incorporate the stakeholder's preference in the social responsible activity.

**Ahamed et al (2014)** found the positive relation between the corporate social responsibility and corporate financial performance. The study conducted in Malaysian firms listed in Bursa Malaysia for the period from 2007 to 2011. Regression analysis used to find the relationship of CSR activities through workplace, community, environment while accounting based measure such as Return on Asset (ROA) and Return on Equity (ROE) is taken for study the corporate financial performance. Firm size and the firm revenue is taken as the control variable. From this study, it is clear that the firm focus on the high financial performance and corporate reputation must follow the best CSR practices.

**Yadav & Guptha (2015)** Proposed this study to answer the research question whether the CSR spending influences the company's return on net worth. Study took 5 Navrathna companies and their financial statement of five years (from March 2010 to March 2014) was taken for the analysis. Secondary data from the annual report such as CSRSpending amount, Earnings per share, profit after tax

and return on Net worth was taken for the analysis. Regression analysis and the Anova helped to define the relationship between the CSR spending and financial performance of the selected companies. The study concluded as there is no significant relationship between CSR and RONW but spending in CSR influences

positively to the EPS of company not to the RONR. Because CSR could influence customers through they grab their market and become more competent.

### **Research methodology**

Sales and profit figures of listed companies in Kerala was taken for last 3 years 2017-18 to 2018-20. The CSR rating for these years was taken from Karmayog and CSR website ([www.csr.gov.in](http://www.csr.gov.in), [www.karmayog.org](http://www.karmayog.org)). Regression analysis and correlation analysis used through SPSS tool. The data of these Kerala companies from all sectors evaluated to see the impact of CSR on financial performance of the company if there exists a relation- ship between CSR activities and financial performance. Karmayog, CSR website provides CSR rating for companies. Hypothesis testing done with the help of correlation analysis.

### **Objectives of the study**

1. To examine the association between CSR and financial performance of Listed concerns from Kerala
2. To decide the spending on CSR activities touches the financial performance
3. To know and check organizations with good financial enactment spend more on CSR or not.

**3.1. Testable hypothesis.** Four hypotheses have been framed. They have been stated in null form.

*H1: There is no substantial association between Corporate Social Responsibility in the current year and earnings in the subsequent year. It is grounded on the assumption that firms invest in CSR activities have a better appearance in public will have ability to attract capital.*

*H2: There is no substantial association between earnings in the current year and CSR in the following year. This assumption is based on the reasoning that strong financial companies will invest in rural growth and other social reasons.*

*H3: There is no important association between CSR in the current year and sales income in the following year.*

*H4: There is no important association between CSR in the current year and income in the subsequent year.*

### 3.2 Research Models

This study used four models – two with CSR expenditure as independent variable and sales and profit as dependent variables correspondingly and two models with CSR expenditure as dependent variable and sales and profit as independent variables respectively.

$$\text{Model 1 - } S = \beta_0 + \beta_1 \text{ CSR}_{t-1} + \varepsilon_i$$

$$\text{Model 2 - } P = \beta_0 + \beta_1 \text{ CSR}_{t-1} + \varepsilon_i$$

$$\text{Model 3 - } \text{CSR} = \beta_0 + \beta_1 S_{t-1} + \varepsilon_i$$

$$\text{Model 4 - } \text{CSR} = \beta_0 + \beta_1 P_{t-1} + \varepsilon_i$$

In First Model, the dependent variable,  $S$ , mentions to sales in the current year and CSR expenditure in the previous year has been taken as independent variable  $\beta$  is the coefficient of the independent variables;  $\varepsilon$  represents the error term;  $i$  and  $t$  are firm and time identifiers.

In Second model, the dependent variable,  $P$ , denotes to profit for the current year and CSR expenditure in the previous year is taken as the independent variable.

In Third model and fourth model, CSR expenditure in the current year has been taken as reliant variable and with sales income and incomes for the previous year taken as independent variables correspondingly.

### 1. Analysis and Interpretation of Results

Outcomes of correlation exploration and Regression need been shown in the table.

Table 1.1. Correlation Diagram Matrix for Listed companies in Kerala

Name of Company	Correlation Between Current year CSR Expenditure on subsequent sales	Correlation Between Current year CSR Expenditure on subsequent Profit	Correlation Between current year sales on subsequent CSR expenditure	Correlation Between current year profit on subsequent year CSR expenditure
Muthoot Finance	Positive	Positive	Positive	Positive
Manappuram	Positive	Positive	Positive	Positive
Appolo Tyres	Negative	Positive	Negative	Positive
KSE	Positive	positive	Positive	Negative

Muthoot capital	Positive	Positive	Positive	Positive
V guard	Positive	Positive	Positive	Positive
Geojit	Positive	Positive	Positive	Negative
Kitex	Negative	Negative	Negative	Positive
SIB	Negative	Negative	Negative	Negative
Federal Bank	Positive	Positive	Positive	Negative

Table 1.1 shows that spending on CSR in previous year outcomes an upsurge in average sales and average earnings in the next year, the firms having greater average sales and average profits in the current year spend more on CSR activities in the subsequent year also for most of the listed companies in Kerala. CSR expenditure in the current year is positively correlated with subsequent year sales for 7 listed companies (Muthoot finance, Manappuram finance, KSE, Muthoot capital, V guard, Geojit, Federal bank) in kerala. CSR expenditure in the current year is positively correlated with subsequent year profit for 8

listed companies (Muthoot finance, Manappuram finance, KSE, Appolo tyres , KSE, V guard, Geojit, Federal bank) in Kerala. Sales in the current year is positively correlated with subsequent year CSR expenditure for 7 listed companies (Muthoot finance, Manappuram finance, KSE, Muthoot capital, V guard, Geojit, Federal bank) in Kerala. Profit in the current year is positively correlated with subsequent year CSR expenditure for 6 listed companies (Muthoot finance, Manappuram finance, Appolo tyres, Muthoot capital, V guard, Kitex ) in Kerala. So correlation matrix of individual listed companies in Kerala shows that growth companies shows an increase in sales and profit and they spend more money on CSR to protect the stakeholders of the business. More spending made by companies on CSR increasing the sales and profit in the subsequent years due to the brand image or market image created by them.

**Table 1.2.**

**Correlation Matrix between CSR expenditure and Subsequent year Net profit, Sales**

Variables	CSR expenditure	Subsequent year Net Profit	Subsequent year Net sales
CSR expenditure	1.00		
Subsequent year Net Profit	.359 (.120)	1.00	

Subsequent year Net sales	.778 (.000)	.124 (.602)	1.00
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**Table 1.3**  
**Correlation Matrix between Subsequent year CSR expenditure and current year Netprofit, Sales**

Variables	Subsequent year CSR expenditure	Current year Net Profit	Current year Net sales
CSR expenditure	1.00		
Current year Net Profit	.520 (.019)	1.00	
Current year Net sales	.760 (.000)	.116 (.626)	1.00

From the correlation analysis, it was found that CSR expenditure and subsequent years net sales have significant and positive correlation. It means that companies spend more amount on CSR will have brand image among the public and customers of the company in the market. This pushed up the sales of the Listed companies in Kerala. It is also found that net sales and profit of these companies are positively correlated to the Subsequent years CSR expenditure. So profit making growing companies in Kerala are ready to spend more on CSR activities.

**Table 1.4**  
**Regression Analysis**

Regression Model	Dependent Variable	P value	Adjusted R <sup>2</sup>	Independent Variable
Model 1	Sales	.000	.554	Subsequent Year CSR expenditure
Model 2	Profit	.019	.230	Subsequent year CSR expenditure
Model 3	CSR expenditure	.000	.584	Subsequent Year Sales

Model 4	CSR expenditure	.121	.081	Subsequent Year Profit
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Explanatory power was explained by the adjusted  $R^2$  and it indicates the percentage change in the dependent variable by self-determining variables of the model. The beta figures specify the power of relationship. The P-value specifies statistical significance of the upshots. In the above table, a P-value of 0 displays that the consequences are significant in 3 models (Model 1, Model 2 and Model 3). Thus, in all three cases, we discard the hypothesis and the model exposed that the firms having better sales and profits employ more on CSR activities and the spending on CSR in current year results an upsurge in sales in the next year. But Model 4 states that expenditure on CSR in current year does not influence on the profit for the companies in the next year.

### 1. Summary and conclusions

This study tested the association amongst the corporate social responsibility (CSR) of listed firms in Kerala and the financial show of these companies. CSR Expenditures of the organization has been taken as a display of CSR and profits and transactions taken as financial performance displays the thing. Four theories were ready to ascertain the results of the study. Regression study was done by taking sales as the dependent variable and subsequent year CSR expenditure as independent variable in first hypothesis. Earnings were taken as dependent variable and subsequent year CSR expenditure as independent variable in second hypothesis. CSR expenditure is dependent variable and subsequent year sales as independent variable in third hypothesis. CSR expenditure is dependent variable and subsequent year profit as independent variable in fourth hypothesis. By taking 3 years data from 2017-18 to 2019-20, the results show that CSR expenditure by listed companies from Kerala results more sales in the subsequent year due to the brand image built by them and spend more on CSR activities. It was also found that increase in sales and profit of these companies result more spending on CSR activities. But the CSR expenditures in the current year results an increase in average sales in the next year. Increase in CSR expenditure does not have any impact on the profit made by the companies in the subsequent year.

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