

Relationship between Corporate Social Responsibility and Financial Performance of RIL

Dr. Shailesh N. Ransariya

Head, Department of Commerce and
Accountancy, S.S.P. Jain Arts
& Commerce College,
Dhrangadhra

Prof. Dr. Sanjay J. Bhayani

Professor, Department of Business
Management, Saurashtra University
Rajkot

Abstract

Ever since the emergence of civilization, social behaviour has become an integral part of human life and activities of mankind. The moral, cultural and social behaviour can help one comprehend the aspect of responsibility he has towards various things. The concept of 'survival of the fittest' in the competitive business environment demands what is now refined and popularly known as social responsibility. In other word the term Corporate Social Responsibility (CSR) is also defined as the Corporate Conscience, Corporate Citizenship, and Social Performance, Sustainable Responsible Business or only Responsible Business. The objective of the present study is to examine the relationship between CSR and financial performance of RIL Ltd. The study period is 2006-07 to 2011-12. The present study is mainly based on the secondary data. For the evaluation of financial performance various ratios have been used and for the testing of hypothesis and relationship between CSR and financial performance the various statistical tools have been used. The result of the present study shows that there is positive correlation between CSR index and financial performance of RIL Ltd. during the study period but is not significant.

Keywords:

Corporate Social Responsibility, Sustainability, Financial Performance

Introduction

Social responsibility is an obligation of business to account for the interests of several groups that constitute society beyond the consideration of profit. It has become an integral part of the wealth-creation process. There is a paradigm shift from economic quality of life to the more general social quality of life. Business is created by society anticipating that it will aid the society and vice a versa. Business enterprise is an economic institution and society provides infrastructure facilities for its smooth functioning. Today, businessmen are aware that society is the biggest force which controls the entire business operations, right from acquisition of land to final produce. They now feel that they cannot operate in societal isolation. Profit still being the major determinant for business houses, it is extremely

difficult to strike a balance between the conflicting needs of business this earning profit and society's need to take care of its many constituents. The success of a business depends on the growth of the society because the goods and services of business are ultimately consumed by the society. So, an organization must initiate steps which will ultimately lead to economic upliftment of the people.

Meaning and Definition of CSR

Corporate social responsibility means social responsibility of corporate sector, which also means response of the corporate sector towards society. Profit making organizations must realize that government alone will not be able to get success in its endeavor to uplift the downtrodden of society. Government needs helping hand of profit making organization. Corporate Social Responsibility means commitments towards society and includes social welfare measures including its policies and practices with respect to such key elements as; health and safety, environmental protection, human rights, human resource management practices, corporate governance, community development, and consumer protection, labour welfare, supplier relations, business ethics, and stakeholder rights.

The World Business Council for Sustainable Development defines Corporate Social Responsibility as, "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."

Kotler, Lee (2005) define corporate social responsibility as, "corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources."

Kenneth Dayton, former chairman of the Dayton-Hudson Corporation, insisted: "we are in business to make maximum profit for our shareholders. We are in business to serve society. Profit is our reward for doing it well. If business does not serve society, society will not long tolerate our profits or even our existence."

CSR & Companies Bill, 2012

CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus CSR is not charity or mere donations. The Companies Bill, 2012 intends to inculcate the philosophy of CSR among Indian companies. The main provisions of Companies Bill, 2012 are:

Provisions are applicable to company having:

- (i) Net worth of Rs. 500 corers or more; or
- (ii) Turnover of Rs. 1000 corers or more; or
- (iii) Net profit of Rs. 5 corers or more

During any financial year

- A CSR committee will have to be formed with at least 3 or more directors, at least one director being an independent director
- At least 2% of average net profits of company made during 3 immediately preceding financial years shall be spend. If such amount is not spend, reason for such failure shall be stated in report of Board of Directors

Note: Calculation of average net profits shall be done as stated in sec 198 of the Act

- Preference for CSR activities shall be given to local areas and areas around where the company operates.

Research Methodology

Introduction

Accounting based market multiples are most commonly applied to corporate valuation. In our research we have explained the relationship between Corporate Social Responsibility and financial performance. The financial performance of RIL Ltd. has been examined through their annual account reports, where information about growth, investments, earnings, costs, etc. are listed. In order to link these data with CSR performance, we have used indexes-ratios based in balance sheets, considering that a company's value resides in its balance sheet.

Statement of Problem

This is the question why there is a need for a Corporate Social Responsibility in today's era? If the company is running in well manner, what suddenly happened that the corporate entity feel the need of Corporate Social Responsibility. The answer is hidden itself in the contribution of the society towards the building of image and the reputation of the business organization. The current need, emergence of Corporate Social Responsibility and the status of Corporate Social Responsibility are the answers of these questions. This research work seeks to contribute to the existing body of work in this area by examining the relationship between corporate social responsibility and financial performance of RIL Ltd.

Review of Literature

Khan and Atkinson (1987) conducted a comparative study

on the managerial attitudes to social responsibility in India and Britain. The study shows that most of the Indian executives agreed CSR as relevant to business and felt that business has responsibilities not only to the shareholders and employees but also to customers, suppliers, society and to the state.

According to Griffin and Mahon (1997) pioneering empiricists who explored the corporate social and financial performance link were often interested in a single dimension of social performance, such as environmental pollution. Further, Griffin and Mahon summarized the findings of the numerous articles they reviewed and concluded that no definitive consensus exists on the empirical corporate social and financial performance link, and that while a substantial number of studies found a negative relationship some of the studies have been inconclusive because they found both positive and negative relationships. However, most of the investigations found a positive link.

Centre for social markets (2003) conducted a study in which it was found that social responsibility is seen to be an important business issue within the sample firms, irrespective of firm size, age, sector, location, primary purpose or legal status.

A study on iron ore mining industry in Goa shows that many large mining companies have their own initiatives towards environmental and social development. However, a structured CSR policy and planning is missing especially among the small and medium players in the industry (*Conway, 2003*).

Venu Srinivasan (2007) highlighted that Corporate Social Responsibility is more than philanthropy and must not mean “giving and receiving”. An effective CSR initiative must engage the less privileged on a partnership basis. CSR means sustainable development of the community by being partners in their progress. The government has been evolving a large number of welfare schemes for the people but experience shows that in most cases the benefits do not reach the most deserving. Industries have expertise in man management, financial management and business planning. They can easily provide the missing ingredients of leadership and organization and establish the “last mile connectivity” to reach the benefits to the deserving people. Therefore the focus of CSR could be “unlocking” the last mile connectivity. Industry must be a catalyst for social development. They must provide the leadership, know-how, training, etc.

Jorge A. Arevalo (2011) investigate the approach, drivers and barriers for implementing CSR practices in Indian firms. The study finds that CSR approach that is most favored by Indian firms is the stakeholders approach and the moral motive followed by profit motive is important driver

for Indian firms to pursue CSR. The findings indicate that the obstacles in the way of implementing CSR are lack of resources followed by implementation related difficulties.

Shruti Gupta (2011) empirically examined CSR perception comparatively between Consumers in India and USA. Findings revealed that a substantial part of US consumers were unaware of CSR initiative companies. It was concluded that both the countries have a positive level of CSR practices incorporated in their business firms.

Nagib Salem Bayoud (2012) made an exploratory study to examine the relationship between Corporate Social Responsibility Disclosure (CSR D) and employee commitment in the selected business firms of Libya. The study concluded that the majority of employees interviewed were of the opinion that as CSR D related to employee and employee activities increase employee commitment towards their company also increase.

Dr. Satish Kumar (2012) explored CSR initiatives by 30 BSE listed Companies. The study concluded that CSR initiatives of the companies under study are independent of the level of revenue, type of ownership and the type of public and private sector.

Objectives of The Study

The objectives of the present study are as follows:

1. To determine the parameters of CSR and calculate CSR score of RIL Ltd.
2. To evaluate the financial performance of RIL Ltd.
3. To examine the relationship between CSR and financial performance of RIL Ltd.

Period of The Study

For the present study, the period of the study is 2006-07 to 2011-12.

Data Collection

The present study is mainly based on the secondary data and data is collected from the statement of accounts and annual reports of RIL Ltd. for various years, www.bseindia.com and Capitaline data base website.

Scope of The Study

Scope of the study is limited to study the relationship between corporate social responsibility and financial performance. The scope of this research has encompassed the practice of corporate social responsibility and its impacts.

Significance of The Study

Corporate social responsibility is not a new issue. The social responsibility of business was not widely considered to be a

significant problem from Adam Smith's time to the Great Depression. But since the 1930s, and increasingly since the 1960s, social responsibility has become an important issue not only for business but in the theory and practice of law, politics and economics.

This study is significant in the followings ways:

- It has analyzed the practice of corporate social responsibility and tried to discover its real essence.
- It has examined the relationship between corporate social responsibility and corporate financial performance.
- The study has also revealed the perception of the beneficiaries of the corporate social responsibility of company towards the company.

Hypothesis of The Study

The hypothesis of the research has been formulated as under:

H₀: There is no significant correlation between CSR index and financial performance of RIL Ltd. during.

H₁: There is significant correlation between CSR index and financial performance of RIL Ltd. during.

Tools of Analysis

For the data analysis Means, Standard Deviations, correlation analysis and student t test has been applied. Here in this study the ratios like Return on Capital Employed, Return on Net Worth, Profit before tax and Profit after tax have been used to examine the relationship between corporate social responsibility and financial performance. For the testing of hypothesis the student t test has been applied with following formula:

$$t = \frac{r}{\sqrt{1-r^2}} \times \sqrt{n-2}$$

Here, it is based on (n-2) degree of freedom. If the calculated value of t exceeds the table value of t (n-2), we can say that the value of r is significant. And the calculated value of t is

less than the table value of t (n-2), we can say that the value of r is not significant. The researcher has selected 24 parameters of CSR as shown in table no.1 under:

Table No. 1

Employee welfare	Social & Culture Exp.	Research & Development
Income generation Programme	Environment	Reserve for S.C./S.T. candidates
Employee Retire Benefit	Taxation	Medical Health Care
Employee Education	Industrial Relation	Agriculture Programme
Employee Health	Woman Empowerment	Water & Sanitation
Employee Training Exp.	Sport Expenses	Rural Development
Employee Insurance Exp.	Gratuity Schemes	Provident Fund
Job Security	Community Development	Pollution Control

Analysis and Interpretation

Following parameters have been selected to find out relationship between CSR score and financial performance:

1. CSR Score & Return on Capital Employed (ROCE)

2. CSR Score & Return on Net Worth (RONW)

3. CSR Score & Earning Per Share (EPS)

4. CSR Score & Operating Profit Ratio (OPR)

5. CSR Score & Net Profit Ratio (NPR)

CSR Score & Return on Capital Employed (ROCE)

Table No. 2

Year	% of CSR Score	% of ROCE
2007-08	87.50	18.66
2008-09	87.50	13.21
2009-10	83.33	11.89
2010-11	79.17	13.63
2011-12	83.33	12.77
Mean	84.166	14.032
S.D	3.485	2.666
max	87.50	18.66
Min	79.17	11.89

The above table no. 2 shows the % of CSR score and % of ROCE of RIL Ltd. during the study period. It also indicates the mean, S.D., Max value and Min value of both. The % of CSR score shows the mixed trend during the study period. The % of ROCE also shows the mixed trend during the study period. The Max value of CSR score is 87.50 in the year in the year 2007-09 and 2008-09 and the Min value is 79.17 in

the year 2010-11. The Max value of ROCE is 18.66 % in the year 2007-08 and the Min value is 11.89 % in the year 2009-10.

Correlation Analysis & Hypothesis Testing

The correlation between % of CSR score and % of ROCE is as under:

Table No. 3

	% of CSR Score	% of ROCE
% of CSR Score	1	
% of ROCE	0.4720	1

The correlation between % of CSR score and % of ROCE is 0.4720. It shows that there is positive correlation between % of CSR and % of ROCE during the study period of RIL Ltd. H_0 : There is no significant correlation between CSR index and ROCE of RIL Ltd. during the study period.

H_0 : There is no significant correlation between CSR index and ROCE of RIL Ltd. during the study period.

H_1 : There is significant correlation between CSR index and ROCE of RIL Ltd. during the study period.

d.f.

= $n - 2$

= $5 - 2$

= 3

t_c = 0.9262

t_i = 3.182 (at 5% level of significant for two tailed test)

Result: The calculated value of 't' is less than the table value of 't'. So, H_0 is accepted and H_1 is rejected i.e. there is no significant correlation between CSR index and ROCE during the study period in RIL Ltd.

CSR Score & Return on Net worth (RONW)

Table No. 4

Year	% of CSR Score	% of RONW
2007-08	87.50	21.64
2008-09	87.50	15.69
2009-10	83.33	13.37
2010-11	79.17	14.78
2011-12	83.33	12.97
Mean	84.166	15.69
S.D	3.485	3.501
max	87.50	21.64
Min	79.17	12.97

The above table no. 4 shows the % of CSR score and % of ROCE of RIL Ltd. during the study period. It also indicates the mean, S.D., Max value and Min value of both. The % of CSR score shows the mixed trend during the study period. The % of RONW also shows the mixed trend during the study period. The Max value of CSR score is 87.50 in the

year in the year 2007-09 and 2008-09 and the Min value is 79.17 in the year 2010-11. The Max value of RONW is 21.64 % in the year 2007-08 and the Min value is 12.97 % in the year 2011-12.

Correlation Analysis & Hypothesis Testing

Table No. 5

	% of CSR Score	% of RONW
% of CSR Score	1	
% of RONW	0.5860	1

The correlation between % of CSR score and % of ROCE is 0.5860. It shows that there is positive correlation between % of CSR and % of RONW during the study period of RIL Ltd.

H_0 : There is no significant correlation between CSR index and RONW of RIL Ltd. during the study period.

H_1 : There is significant correlation between CSR index and RONW of RIL Ltd. during the study period.

d.f. = $n-2$

$$= 5-2$$

$$= 3$$

$$t_c = 1.253$$

$$t_i = 3.182 \text{ (at 5\% level of significant for two tailed test)}$$

Result: The calculated value of 't' is less than the table value of 't'. So, H_0 is accepted and H_1 is rejected i.e. there is no significant correlation between CSR index and RONW during the study period in RIL Ltd.

CSR Score & Earning Per Share (EPS)

Table No. 6

Year	% of CSR Score	EPS
2007-08	87.50	131.97
2008-09	87.50	95.24
2009-10	83.33	48.59
2010-11	79.17	60.08
2011-12	83.33	60.01
Mean	84.166	79.178
S.D	3.485	34.325
max	87.50	131.97
Min	79.17	48.59

The above table no. 6 indicates the % of CSR score and % of PBT of RIL Ltd. during the study period. It also shows the mean, S.D., Max value and Min value of both. The % of CSR score shows the mixed trend during the study period. The % of EPS also shows the mixed trend during the study period. The Max value of CSR score is 87.50 in the year 2007-09 and 2008-09 and the Min value is 69.57 in the year 2010-11.

The Max value of EPS is 131.97 in the year 2007-08 and the Min value is 48.59 in the year 2009-10. The S.D. of CSR score is 3.485 and of EPS is 34.325; it shows that there is a huge difference in S.D. of CSR score and EPS of RIL Ltd. during the study period.

Correlation Analysis & Hypothesis Testing

Table No. 7

	% of CSR Score	EPS
% of CSR Score	1	
EPS	0.766	1

The correlation between % of CSR score and % of EPS is 0.766. It shows that there is perfect positive correlation between % of CSR and % of EPS of RIL Ltd. during the study period.

H_0 : There is no significant correlation between CSR index and EPS of RIL Ltd. during the study period.

H_1 : There is significant correlation between CSR index and EPS of RIL Ltd. during the study period.

d.f. = $n - 2$

= $5 - 2$

= 3

t_c = 2.064

t_t = 3.182 (at 5% level of significant for two tailed test)

Result: The calculated value of 't' is less than the table value of 't'. So, H_0 is accepted and H_1 is rejected i.e. there is no significant correlation between CSR index and EPS during the study period in RIL Ltd.

CSR Score & Operating Profit Ratio (OPR)

Table No. 8

Year	% of CSR Score	% of OPR
2007-08	87.50	16.76
2008-09	87.50	17.01
2009-10	83.33	15.60
2010-11	79.17	15.24
2011-12	83.33	10.25
Mean	84.166	14.972
S.D	3.485	2.745
max	87.50	17.01
Min	79.17	10.25

The above table no. 8 indicates the % of CSR score and % of OPR of RIL Ltd. during the study period. It also shows the mean, S.D., Max value and Min value of both. The % of CSR score shows the mixed trend during the study period. The % of OPR also shows the mixed trend during the study period. The Max value of CSR score is 87.50 in the year 2007-09

and 2008-09 and the Min value is 69.57 in the year 2010-11. The Max value of OPR is 17.01 in the year 2008-09 and the Min value is 10.25 in the year 2011-12. The S.D. of CSR score is 3.485 and of OPR is 2.745; it shows that there is not huge difference in S.D. of CSR score and OPR of RIL Ltd. during the study period.

Correlation Analysis & Hypothesis Testing

Table No. 9

	% of CSR Score	% of OPR
% of CSR Score	1	
% of OPR	0.3879	1

The correlation between % of CSR score and % of OPR is 0.3879. It shows that there is positive correlation between % of CSR and % of OPR of RIL Ltd. during the study period.

H_0 : There is no significant correlation between CSR index and OPR of RIL Ltd. during the study period.

H_1 : There is significant correlation between CSR index and OPR of RIL Ltd. during the study period.

d.f. = $n-2$

$$= 5-2$$

$$= 3$$

$$t_c = 0.7289$$

$$t_t = 3.182 \text{ (at 5\% level of significant for two tailed test)}$$

Result: The calculated value of 't' is less than the table value of 't'. So, H_0 is accepted and H_1 is rejected i.e. there is no significant correlation between CSR index and OPR during the study period in RIL Ltd.

CSR Score & Net Profit Ratio (NPR)

Table No. 10

Year	% of CSR Score	% of NPR
2007-08	87.50	14.45
2008-09	87.50	10.65
2009-10	83.33	8.35
2010-11	79.17	8.08
2011-12	83.33	5.99
Mean	84.166	9.504
S.D	3.485	3.220
max	87.50	14.45
Min	79.17	5.99

The above table no. 10 indicates the % of CSR score and % of NPR of RIL Ltd. during the study period. It also shows the mean, S.D., Max value and Min value of both. The % of CSR score shows the mixed trend during the study period. The % of NPR shows the decreasing trend during the study period. The Max value of CSR score is 87.50 in the year 2007-09

and 2008-09 and the Min value is 69.57 in the year 2010-11. The Max value of NPR is 14.45 in the year 2007-08 and the Min value is 5.99 in the year 2011-12. The S.D. of CSR score is 3.485 and of NPR is 3.220; it shows that there is not huge difference in S.D. of CSR score and NPR of RIL Ltd. during the study period.

Correlation Analysis & Hypothesis Testing

Table No. 11

	% of CSR Score	% of NPR
% of CSR Score	1	
% of NPR	0.698	1

The correlation between % of CSR score and % of NPR is 0.8892. It shows that there is positive correlation between % of CSR and % of NPR of RIL Ltd. during the study period.

H_0 : There is no significant correlation between CSR index and NPR of RIL Ltd. during the study period.

H_1 : There is significant correlation between CSR index and NPR of RIL Ltd. during the study period.

d.f. = $n - 2$

= $5 - 2$

= 3

t_c = 1.688

t_t = 3.182 (at 5% level of significant for two tailed test)

Result: The calculated value of 't' is less than the table value of 't'. So, H_0 is accepted and H_1 is rejected i.e. there is no significant correlation between CSR index and NPR during the study period in RIL Ltd.

Findings of The Study

The main findings of the study are:

1. The CSR index of RIL Ltd. shows mixed trend during the study period.
2. There is not significant correlation between CSR index and ROCE of RIL Ltd. during the study period.
3. There is not significant correlation between CSR index and RONW of RIL Ltd. during the study period.
4. There is not significant correlation between CSR index and EPS of RIL Ltd. during the study period.
5. There is not significant correlation between CSR index and OPR of RIL Ltd. during the study period.
6. There is not significant correlation between CSR index and NPR of RIL Ltd. during the study period.

Limitations of The Study

The study suffers from certain limitations as follows:

1. Study solely depends on the published financial data, so it is subject to all limitations that are inherent in the condensed published financial statements.
2. The different views have been applied in the calculation of different ratios.
3. The present study is largely based on ratio analysis. It has its own limitations.
4. The study is limited to five years only.

Conclusion

Corporate Social Responsibility is now accepted as a means to achieve sustainable development of an organization. Hence, it needs to be accepted as an organizational objective. The Companies Bill, 2012 will make Indian companies to consciously work towards that objective, as it requires a prescribed class of companies to spend a portion of their profits on CSR activities. Businesses can no longer limit themselves to using resources to engage in activities that increase their profits. They have to be socially responsible corporate citizens and also contribute to the social good. CSR is about integrating economic, environmental and social objectives with a company's operations and growth. Many consider CSR philanthropy, but that is a limited definition. An organization can accomplish sustainable development if CSR becomes an

integral part of its business process.

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