

The Study of Interrelationship between Financial Performance and CSR Expenditure of Power Sector PSUs

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Abstract

This study intends to analyze the trend and pattern of CSR and financial variable and their corresponding relationship in Power sector PSUs for the time period from 2014-15 to 2019-20. The data have been gathered from the annual reports of the companies and the intra-company and intra-sector analysis for determining relationship have been carried out through correlation. It has been found that there has been no consistency in CSR expenditure and financial performance over the years and there is no significant relationship found between CSR expenditure and financial performance in any company except PGCI Ltd. in which positively significant relationship has been found. The study recommends that it is significant to maintain consistency in CSR expenditure and financial performance by adequate functioning and address the needs of the society around rather than emphasizing on compliance of standards.

Keywords: Corporate Social Responsibility, Companies Act, 2013, Power sector companies, CSR Expenditure, Financial Performance, ROCE

Introduction

The notion of corporate social responsibility has been evolving since pre-industrialization period and is emerging and changing its dimensions even today. The origin of social responsibility exercises began as altruism or philanthropy by merchants for the different sections of society. Later, Gandhiji's concept of 'trusteeship' intensified the weight on industrialists to contribute towards the growth of the society. In the early 1970s, corporate social responsibility attained the developing stage when Public sector endeavours rose as a prime spring of advancement. From that point forward, these undertakings are consistently developing in the consolidation of CSR into their strategies. One of the significant sector of PSUs in context of CSR is Power sector due to its fractionally greater revenue generation but also is one of the most polluting sector.

Power sector companies are progressively vitalized to manage the

developing societal difficulties - like shortage of resources, environmental change, contamination, employment, environmental and government associations characterize power organization ecological and social responsibility as the obligation. That intends, that for energy organizations, CSR is a prerequisite. A company working in the energy area ought to comprehend the social, ecological and financial effects in every one of the regions impacted by its actions. Power companies in India have been liable for the financial advancement of the country. Their range has prompted the advancement of the remotest region of the nation, further developing the agriculture and expanding the way of life of individuals. The power companies are likewise answerable for the upliftment of the underprivileged in view of different CSR drives.

This study intends to study the relationship of CSR expenditure and corporate financial performance of the Power sector PSUs.

Review of Literature

Corporate financial performance positively relates to corporate social performance under slack resource and good management theory (Fauzi and Idris, 2009). In alignment, there has been a stronger influence of negative screens on financial performance as compared to qualitative issue areas has been derived from the results. Further, CSP-CFP relationship found to be positive in context of every variable except ROE (Callen and Thomas, 2009). In the same way, there has been a positive and significant relationship between stock returns and CSP. The notion behind that exists in the form that those companies adopt CSR, have been perceived positively by market and stakeholders. (Karagiorgos, 2010). Further, the relationship between CFP and CSR in context of stakeholder-weighted index found to be positive and significant except the parameters namely contribution to society and consumer protection. While on the other hand, equal-weighted index has not been found significantly related with any parameter of CFP except with ROA. It has been remarked that companies putting stakeholders at priority enjoys the privilege of having boosted financial performance on one hand while on other companies having good financial performance can lead to good spending on CSR activities

(Choi et al., 2010). The socially responsible companies yielded higher level of performance financially and non-financially and enjoys more confidence of stakeholders (Mishra and Suar, 2010). Moreover, in the same context, the relatedness of CSR activities and the success of the organization has been confirmed. It has been recommended to communicate about CSR to its stakeholders through correct networks regularly and integrate CSR implementation in their report to build reputation and uniqueness to ensure enhanced sustainable development (Valmohammadi, 2011). CSR in current period leads to better CFP and also result in enhanced CFP in next period. The same thing applies when taken from CFP perspective. Further, the variations between CSR and CFP has been found to be correlated significantly and positively and the control variables like industry background, nature of property right and phase of life cycle pose no influence on CSR and CFP (Chen and Wang, 2011). Moreover, there has been a positive and significant relationship found between CSR and every variable considered for financial performance and shareholders' wealth. All the CSR firms taken as a sample outpaces the Non CSR firms in context of the financial performance and the shareholders' wealth (Mujahid and Abdullah, 2014). In contrast, there has been mixed results with a positive but an insignificant association of CSR with ROA and ROS while a negative relationship with ROE. The study concluded with the notion that stating any causal relation between CSR and corporate financial performance is out of the question (Nigro et al., 2015). Corporate social responsibility towards shareholders, government and suppliers boost profitability while towards employees discourages the profitability and responsibility towards creditors creates no difference in profitability (Jiang et al., 2016). There has been a positive association of Employee oriented CSR, Environment oriented CSR, Society oriented CSR and Market oriented CSR with the performance of the firm. It has been concluded that CSR has a positive impact on the financial performance of most of the industries but not for all of them. The different type of practices influences the results of industries in a diversified manner (Feng et al., 2017). Further, irrespective of any CSR measure, whether it is CSR depth in terms of sentences or pages or CSR breadth,

there has been a negative association found between corporate social responsibility disclosures and firms' financial performance (Selcuk and Kiyamaz, 2017). CSR positively affects both profitability and stock market returns and thus increasing stakeholder's faith leading to create competitive advantage for the firm (Maqbool and Zameer, 2018). CSR boost up the financial performance of the firm by continuously indulging in socially responsible activities resulting in enhanced reputation of the firm (Hou, 2019). CSR status has been found to be significantly related to financial performance which depicts that CSR depends on the performance of the firms (Sen and Mallick, 2021).

Research Gap

On the grounds of the above literature, it has been observed that there have been several studies carried out to determine the relationship of CSR and financial performance. However, till date CSR has been taken as a qualitative aspect, though this study measures CSR in terms of its expenditure which means quantitatively. Moreover, no study has been observed to be carried out on Indian companies while carrying out the literature review. Thus, in order to fill in the research gap, this study has been intended to be carried out by covering the Indian public sector companies for latest time frame prevailed.

Research Methodology

The study has been intended to present the trend and pattern of financial and CSR performance of PSUs of power sector and to examine the relationship between corporate social responsibility and corporate financial performance of PSUs of power sector. For achieving the aforesaid objective, following hypotheses have been formed:

H01: There is no significant relationship between the CSR expenditure and ROCE on the of selected Power sector PSUs individually.

H02: There is no significant relationship between the CSR expenditure and ROCE of the Power sector.

For the analysis of above mentioned hypotheses, correlation analysis on the sampled Power sector companies viz., NHPC Ltd., NTPC Ltd., PGCIL Ltd., REC Ltd. and SJVN Ltd. has been carried out by taking the aggregate CSR expenditure of each company and ROCE to represent the financial performance of the companies for the time period of six years from 2014-15 to 2019-20. The data for the same have been collected from the annual reports of the companies and National CSR portal.

Data Analysis and Interpretation

CSR expenditure of Power Sector PSUs for the years from 2014-15 to 2019-20 is as follows:

Table 1: CSR Expenditure of Power Sector PSUs from 2014-15 to 2019-20

(in Crores)

Company/Year	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
NHPC Ltd.	52.24	72.67	75.82	38.55	17.58	126.44
NTPC Ltd.	205.18	491.8	277.81	241.54	285.46	304.92
PGCIL Ltd.	115.78	47.38	147.28	157.99	195.51	346.21
REC Ltd.	46.04	128.2	69.8	49.45	103.39	258.4
SJVN Ltd.	24.83	28.88	37.16	38.76	40.25	35.43

Observations:

All the companies have recorded an overall increase in CSR expenditure from 2014-15 to 2019-20 with a volatile trend over the years. The CSR expenditure of NHPC Ltd. has been increased by 142.04% in aggregate of six years with the volatility across the time period of the study, with an increase by 39.11%, 4.33% and 619.23% in 2015-16, 2016-

17 and 2019-20 respectively while a decrease by 49.16% and 54.4% in 2017-18 and 2018-19 respectively. NTPC Ltd. reflected a significant increase by 139.69% in 2015-16 in CSR expenditure while a decline in 2016-17 and 2017-18 by 43.52% and 13.06% respectively. While, 2018-19 and 2019-20 experienced an increment by 18.18% and 6.82% respectively. The CSR expenditure of PGCIL Ltd. has

recorded an increase in all the years except in 2015-16 which is declined by 59.08%. REC Ltd. too reflected a volatile trend with a great increase in 2015-16, 2018-19 and 2019-20 by 178.45%, 109.08% and 149.93% respectively while a slight decline in 2016-17 and 2017-18 by 45.55%

and 29.15% respectively. Similarly, SJVN Ltd. recorded an increase in all the years except 2019-20 with a slight decrease by 11.98%.

Return on Capital Employed of Power Sector PSUs for the years from 2014-15 to 2019-20 is as follows:

Table 2: Return on Capital Employed of Power Sector PSUs from 2014-15 to 2019-20 (in %)

Company/Year	2014-15	2015-16		2016-17	2017-18	2018-19	2019-20
NHPC Ltd.	8.23	8.6		10.2	8.67	9.13	7.22
NTPC Ltd.	8.36	7.73		8.36	7.47	7.35	8.45
PGCI Ltd.	8.01	8.73		9.78	10.04	10.53	15.13
REC Ltd.	13.35	13.7		12.81	10.7	6.8	5.1
SJVN Ltd.	16.37	13.63		13.21	12.4	14.79	15.53

Observations:

All the companies reflected a volatile trend except PGCI Ltd. which has reflected an increasing trend in Return on Capital Employed over the sampled time period. There has been an overall decrease in the Return on Capital Employed in NHPC Ltd., REC Ltd. and SJVN Ltd. with 12.27%, 61.80% and 5.13% respectively while an overall increase in NTPC Ltd. and PGCI Ltd. with 1.08% and 88.89% respectively. The ROCE of NHPC Ltd. has been appreciated by 4.5% and 18.60% in 2015-16 and 2016-17 respectively, while took a slight downfall by 15% in 2017-18, then again increased by 5.30% in 2018-19 and again decreased by 20.92% in 2019-20. While, NTPC Ltd. saw a downfall in 2015-16, 2017-18 and 2018-19 by 7.54%, 10.65% and 1.61% respectively and an increase in 2016-17 and 2019-20 by 8.15% and 14.97% respectively. However, PGCI Ltd. has reflected an increase in every year from 2014-15 to 2019-20. Further, REC Ltd. has shown decrease in every year except 2015-16 in which it has been increased by 2.62%. The ROCE of SJVN Ltd. has been decreased in 2015-16, 2016-17 and 2017-18 while inclined by 19.27% and 5.00% in 2018-19 and 2019-20 respectively.

Interrelationship of CSR expenditure and ROCE of Power Sector PSUs for the years from 2014-15 to 2019-20 is as follows:

Table 3: Correlation Analysis of CSR expenditure and ROCE of Power Sector Companies

Company	r	p-value
SJVN Ltd	-0.511	0.301
REC Ltd	-0.692	0.128
PGCI Ltd	0.946	0.004
NTPC Ltd	-0.206	0.695
NHPC Ltd	-0.747	0.088

From table 3, it is clear that there is a negative correlation between CSR expenditures and ROCE of the power sector companies except PGCI Ltd. But since p-values of all the companies are more than 0.05, therefore null hypothesis is accepted and there is no significant relationship between CSR expenditure and ROCE of SJVN Ltd, REC Ltd, NTPC Ltd and NHPC Ltd at 5% level of significance.

While there is strong positive correlation between CSR expenditure and ROCE of PGCI Ltd, and since p-value is 0.004, which is less than 0.05, therefore null hypothesis is rejected at 5% level of significance. This implies there is significant relationship between CSR expenditure and ROCE of PGCI Ltd at 5% level of significance.

From table 3, it is clear that there is a negative correlation between CSR expenditures and ROCE of the power sector companies except PGC Ltd. But since p-values of all the companies are more than 0.05, therefore null hypothesis is accepted and there is no significant relationship between CSR expenditure and ROCE of SJVN Ltd, REC Ltd, NTPC Ltd and NHPC Ltd at 5% level of significance.

While there is strong positive correlation between CSR expenditure and ROCE of PGC Ltd, and since p-value is 0.004, which is less than 0.05, therefore null hypothesis is rejected at 5% level of significance. This implies there is significant relationship between CSR expenditure and ROCE of PGC Ltd at 5% level of significance.

Table 4: Correlation Analysis of CSR expenditure and ROCE of Power Sector

	r	p-value
Power Sector	-0.134	0.800

Table 4 shows there is weak negative correlation between CSR expenditure and ROC of Power Sector, which is also not significant because value is greater than 0.05, therefore at 5% level of significance null hypothesis is accepted. There is no significance relationship between CSR expenditure and ROC for power sector at 5% level of significance.

Findings and Suggestions

On the basis of the analysis, various observations and results have been obtained pertaining to the financial and CSR performance and their relationship in the power sector PSUs and the sector as a whole. It has been found that there has been a volatility in the trend of CSR expenditure in the sampled companies with an overall increase in expenditure in an aggregate span of six years. Similarly, ROCE has also been found to be volatile in all the companies except PGC Ltd. in which there has been an increasing trend over the years. NTPC Ltd. and PGC Ltd. have recorded an overall increase in the time period of six years while there has been an overall decrease in ROCE in NHPC Ltd., REC Ltd. and SJVN Ltd. In context of their interrelationship, there has been no correlation found between CSR expenditure and financial performance of any company of Power Sector except PGC Ltd., in which there has been a significant and a strong positive correlation found between CSR

expenditure and financial performance. However, there has been a weak negative correlation between CSR expenditure and financial performance of the power sector in aggregate.

On the grounds of above observations and findings, it has been suggested to maintain consistency in carrying out CSR expenditure to ensure efficient comparability and measurement and to enhance it proportionately with the profits over the years. Moreover, ROCE is a crucial component of the financial performance of any company, thus it is significant that it would result in increment over the years rather than decline. In alignment, the companies are required to function in such a manner that would lead to increase in ROCE over the period of time. Furthermore, it is required by the companies to address the prevailing needs of the society it interact with rather than solely emphasized on the compliance of the derived standards. The long term local, regional and global considerations are also necessary to looked upon in order to execute CSR in companies with a sheer involvement of multiple stakeholders to ensure heterogeneity in implementation of CSR.

Conclusion and Future Scope of the Study

Corporate Social Responsibility has become an integral part of the business functioning and public sector undertakings being organizations of national importance are required to pay appropriate attention to address the aspect of CSR. The financial performance of any company somehow gets affected by how it gets perceived by the society it operates in. However, the results of the study when carried out on Power sector PSUs, have depicted it otherwise. There has been no significant relationship found between CSR expenditure and financial performance represented by ROCE of the Power sector PSUs. Moreover, there has been an inconsistency observed in spending towards CSR over the years. It is important to recognize the relevance of CSR in business functioning and maintain consistency in CSR and financial performance to ensure its measurability and comparability over the years. Also, the public companies being organizations of relevance are required to pay adequate heed towards corporate social responsibility and financial performance in order to sustain the needs of the society they operate in.

This study has been confined to one sector and single type of companies. Thus, further study can be carried out by taking other sectors of public companies and the other type of companies such as private companies, banking companies, financial institutions etc. into consideration. Moreover, the sample size can be increased within same sector to generate more generalized results. Further, there are several other significant variables for financial performance exist that can be considered for future study.

formance exist that can be considered for future study.

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