An analysis of Linkages between social practices and financial performance of the Indian Companies

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Abstract: Hundreds of research have looked into and quantified financial rewards associated to social performance, with mixed results. In addition to the findings of these research, we discovered a lot of innovation in the integration and adaption of financial analysis methods and models to the study of statistical correlations in this body of literature. This study aimed to find empirical evidence of linkages social practices on the financial performance of Indian companies, listed on the NSE. A sample size of 80 Indian companies, listed on NSE stock exchange was investigated in order to test whether there is any statistically significant and positive nexus between corporate social practices and financial performance of the selected companies. An important contribution is the use of descriptive statistics formed by four components of corporate Social practices: Human rights, Product responsibility, Workforce and Community and financial performance of the companies using SPSS Software. The results showed that the higher level of real manipulation on leads to Significant mixed effect on the relationship between CSP components and financial performance.

Keywords: Financial, Human rights, Product responsibility, Workforce and Community

INTRODUCTION

Social performance is the business commitment to creating and fairly distributing value among its stakeholders in and around its area of influence, also mitigate societal problems. The challenge is to maintain stability between economic growth and facilitating quality life for society so that they live with morality, thereby establishing a license to operate. In India, this has been mandated under Schedule VII, Section 135 of Companies Act, 2013 and The Companies CSR Policy Rules, 2014 by Ministry of Corporate Affairs (MCA), which direct businesses to ensure spending 2% of their net profits on Corporate Social Responsibility (CSR).it is very important to maintain a balance between the financial benefits to the organization, public welfare and the preservation of the environment (Lu et al., 2019;

Park et al., 2014).Exploring the stakeholder's theory, study stated that the company's success depends on the management relationships with the stakeholders (Benlemlih, 2019).The most of previous studies on Corporate social responsibility highlight its impact on profitability.An important contribution is the use of descriptive statistics formed by four components of corporate Social practices: Human rights, Product responsibility, Workforce and Community and financial performance of the companies

1. Theoretical framework

It is necessary both to define precisely what is meant by corporate social responsibility and to study its impact on the financial performance of the company.

Corporate social responsibility: Definition

Definition Given by:	CSR Definition
Kotler and Lee, 2007	A company's commitment to increase the well-being of
	Society through independent business practices and by usage
	Of company resources
Hediger, 2010	Programmes in which companies not only seek to increase
	profits but also contribute to the well-being of stakeholders.
Fontaine,2013	A continuing commitment by businesses to behave
	Appropriately &responsible and to help to develop the
	economic level of people and lives of workers as well as society.
European Commission, 2014	The company's responsibility for its impact on the environment and society

3.Literature Review

Study	Objective	Context	Conclusion
Zhou et al. (2015)	To investigate the impact of CSR on financial performance in China's context	China	They has a positive relation with firm FP
Nobanee and Ellili (2016)	examine disclosures of corporate sustainability in United Arab Emirates banks	United Arab	find that conventional banks disclose more sustainability information than Islamic banks
Adewale&Rahmon (2014)	examine the Nigerian banking sector	Nigeria	find CSR has a positive impact on the FP of firms in the banking sector.
Kim and Oh,2019	Explores the relationship between corporate social responsibility (C.S.R.) and financial performance of Indian firms	India	at lower level, a negative relationship between C.S.R. and Tobin's Q weakens in group affiliate firms.
Torugsa et al. (2012)	To study the effect of CSR on FP in small and medium-sized enterprises in the Australian manufacturing industry	Australia	They find CSR has a positive impact on FP and firm size has a significantly positive effect on FP.
Rahmawati et al. 2020	To examined the impact of real manipulation on relationship between CSR and the financial performance of companies in the future.	Indonesia	The results showed that the higher level of real manipulation on operation cash flow leads to negative effect on the relationship between CSR and financial performance.
Sekhun and Kathuria, 2019	To find the effect of CSR on (FP) financial performance in the Indian context.	India	The study finds that the impact of CSR on financial performance may be neutral (with ROA and NPM) or negative (with ROE).

4. **Objectives of the Study:**
   - To evaluate the relationship between Corporate Social Performance (CSP) and financial performance of 80 companies, listed on NSE.
   - To analysis the impact of CSP on the performance of the companies.
   - To access the impact of four components of corporate social practices - Human rights, Product responsibility, Workforce and Community and financial performance

5. **Hypothesis:**

Based on the above objectives and literature review, following hypothesis have been formulated:

1. Null Hypothesis (H_0): There is no impact of corporate governance on the financial performance of the companies.

   2. Alternative Hypothesis (H_1): Corporate governance has significant impact on the financial performance of the companies.

6. Methodology:

The research work is of descriptive nature, completely based on secondary data collected from the several sources such as moneycontrol.com, valuesearchonline.com, and website of the respective companies. Our main objective is to analyze the impact of corporate governance on the financial performance of the listed companies. For this, we conducted various statistical tests such as regression analysis, multiple regression, Pearson correlation, t-test, f-test and ANOVA using SPSS software.

6.1. Sample Selection:

The sample for the research work is randomly selected from the NSE listed companies. Sample is taken in such a manner that it should represent entire population. The sample comprises of top performing companies as well as worse performing companies also. Therefore, selected companies are sufficient enough to represent the population as whole. To analyze the financial performance, return on equity and return on assets have been taken into account for the period of last 5 financial years.

6.2. Research Model:

The current research work aims to explore the relationship between corporate social practices and financial performance while controlling for Human rights (HR), Product responsibility (PR), Workforce (W) and Community (C) of the selected companies. ROA (Return on assets) and ROE(Return on equity) are the dependent variables to represent the financial performance of the selected companies.

Following regression equations have been formulated to explain the nexus between dependent and independent variables:

ROA = f { Human rights, Product responsibility, Workforce and Community }......   (1)

ROE = f { Human rights, Product responsibility, Workforce and Community }.......... (2)

NP (%)= f { Human rights, Product responsibility, Workforce and Community }... ..... (3)

$ROA = c + \beta_1 \times HR + \beta_2 \times PR + \beta_3 \times W + \beta_4 \times C$ ... (4)

$ROA = c + \beta_1 \times HR + \beta_2 \times PR + \beta_3 \times W + \beta_4 \times C$ ... (5)

$NP (\%) = c + \beta_1 \times HR + \beta_2 \times PR + \beta_3 \times W + \beta_4 \times C$ ... (6)

7. Data Analysis & Interpretation

Human rights, Product responsibility, Workforce and Community are independent variable for research purpose; and Financial performance of the companies is dependent variables, which has been measured by ROA (return on assets) and ROCE(return on capital employed) and net profit margin (NP%).

Statistics

	Human rights	workforce	Prod_Resp	community	ROA	ROCI	NP
N	80	80	80	80	80	80	80
	.2385	.5058	.4116	.5093	9.7577	19.2086	10.6357
Median	.0560	.4920	.4250	.4900	9.4640	17.6230	11.6260
Std. Deviation	.30794	.29167	.32558	.29495	6.41622	12.55104	15.56330
Minimum	.01	.03	.01	.03	-5.41	.96	-97.14
Maximum	.96	.99	.98	.99	32.54	81.63	52.86

Table: 1   (Descriptive Statistics)

7.1 Descriptive statistics

This section analyzes the data and computes descriptive statistics (see Table 2). Based on 80 observations, ROA is found to have a mean of 9.7577, ranging from -5.41to 32.54; ROCI varies from .96 to 81.63, with a mean of 19.2086; NP has a mean of 10.6357and varies from -97.14 to 52.86, Human rights, ranging from 0.1 to 0.96, has a mean of .2385; workforce, ranging from 0.3 to .99, has a mean of .5058; the average number of Product responsibility are .4116 and ranges from 0.1 to .98; and the mean number of community per are .5093, ranging from 0.3 to .99.

7.2 Correlation analysis

	Human Rights	Prod Resp	Workforce	Community	ROCI	ROA	NP
Human Rights	1	.459**	.632**	.482**	.006	0.20	.010
Prod Responsibility	.459**	1	.724**	.611**	.076	.111	-.15
Workforce	.632**	.724**	1	.520	-.57	-.054	-.061
Community	.482**	.611**	.520**	1	-.059	.053	.024
ROCI	.006	.076	-.057	-.059	1	.519**	.167
ROA	-.020	.111	-.54	.053	.519**	1	.278**
NP	-.010	-.061	-.061	.024	.278**	.278**	1

Table 2 (correlation analysis)

Correlation analysis Table 3 shows the Pearson correlation matrix of the Social practices variables. Corporate social variables practices is significantly and positively correlated with all the other variables, except for Product responsibility and workforce, with which it is negatively correlated with ROA and NP. ROCI   is negatively correlated with workforce and community is positively correlated with other variables. On the other hand, ROA has a significant negative correlation with human rights and workforce. A NP has a strong negative correlation with human rights, product responsibility and workforce. The results also show that NP has a strong significant correlation with its community, ROCI, ROA and NP.

7.3 Impact of Independent Variables on ROCI

Variables	Coefficients	Standard Error	t Stat	P-value	F	Sig.	R^2
Intercept	22.613	3.335	6.780	0.000			
Human Rights	4.571	6.112	0.748	0.457			
Product Responsibility	12.715	6.883	1.847	0.069	1.109	0.403	.52
Workforce	-11.959	8.041	-1.487	0.141			
Community	-7.225	6.308	-1.145	0.256			

Table 3 (impact of independent variables on ROCI)

a. Dependent Variable: ROCI

b. Predictors: (Constant), community, Human_rights, Product_responsibility, workforce

From the above table 3, it can be exerted that independent variables explain only 52% of variables of dependent variables. It also explains that significance value 0.4 which is less than 5%. Therefore, the model is significant at 5% level.

It can also be concluded that, Human rights, Product responsibility, Workforce and Community have significant impact on return of capital invested at 5% significant level. Human rights& Product responsibility has positive impact on the other hand Workforce and community have negative impact on the independent variable.

7.4 Impact of Independent Variables on ROA

Variables	Coefficients	Standard Error	t Stat	P-value	F	Sig.	R^2
Intercept	10.360	1.706	6.074	0.000			
Human rights	.452	3.125	.145	0.885			
Product responsibility	6.182	3.520	1.757	0.083	1.008	.409	0.510
workforce	-6.558	4.112	-1.595	0.115			
Community	.122	3.226	.038	0.970			

Table 4.

a. Dependent Variable: ROA

b. Predictors: (Constant), community, Human_rights, Product_responsibility, workforce

From the above table 4, it can be exerted that independent variables explain only 51% of variables of dependent variables. It also explains that significance value 0.409 which is less than 5%. Therefore, the model is significant at 5% level.

7.5 Impact of Independent Variables on Profit Margin

Variable	Coefficients	Standard Error	t Stat	P-value	F	Sig	R^2
Intercept	11.672	4.228	2.761	0.007			
Human rights	1.640	7.747	.212	0.833	.169	0.953	0.094
Product responsibility	1.512	8.725	.173	0.863			
workforce	-7.235	10.193	-.710	0.480			
Community	3.161	7.996	.395	0.256			

Table 5.

a. Dependent Variable: NP

b. Predictors: (Constant), community, Human_rights, Product_responsibility, workforce

From the above table 5, it can be exerted that independent variables explain only 9% of variables of dependent variables. It also explains that significance value 0.953 which is more than 5%. Therefore, the model is insignificant at 5% level.

It can also be concluded that, workforce and community have significant impact on net profit at 5% significant level. Human rights, community and product responsibility has positive impact on the other hand workforce have negative impact on the independent variable.

7.Conclusion

This study examines the impacts of corporate social practices on financial performance of the companies in India. Our findings suggest a significant positive relationship between the social practices and FP, which indicates that corporate social practices components human rights, product responsibility, workforce and community activities create a positive perception, ultimately leading to an increase the FP. Research work also reveals that Human rights and product responsibility are significantly positively correlated with return on capital invested. Workforce and Community are significantly negatively correlated with ROCI. Human rights, product responsibility and community are significantly negatively correlated with return of assets.The government should encourage banks to engage in CSR activities to achieve higher levels of financial performance, especially in deprived communities. The present work has certain limitations such as research work is based on small sample size i.e. only 80 listed companies. Secondly, we have considered only 5 years as research work period i.e. 2017 to 2021. We also do not consider several control factors such as the growth factor, economic, political & social factors and risk factor. The research work finds that corporate social practices rating of selected companies is very low. Therefore, it is recommended that these companies need to improve the rating of variables of social practices in order to improve the CSR ratings. The components of corporate social practices should be given prompt attention to increase the financial performance of the companies as well as the trust of stakeholders.

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