



Corporate Social Responsibility and its Financial Impact to an Organization

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ABSTRACT

Over the last 15 years, there has been an ever increasing academic and practitioner interest in Corporate Social Responsibility. Today corporate social responsibility, sustainability, and ethical responsibility are common knowledge among business circles. The reason is obvious. Embracing sustainability helps avert costly setbacks from environmental disasters, political protests, and legal expenses. Corporate Social Responsibility is an efficient formula to attain sustainability which comes with a financial cost. It also comes with enormous benefits to an organization. This paper is a study undertaken to evaluate the financial implications of corporate social responsibility to an organization. Apart from helping the organization build a brand value, this study uncovers that Corporate Social Responsibility in fact benefits the organization financially. Thus, the paper explores the relationship between Corporate Social Responsibility and Financial Performance of an organization.

KEYWORDS : Corporate Social Responsibility, sustainability, brand value, financial impact

INTRODUCTION

Corporate Social Responsibility (CSR) refers to the voluntary activities undertaken by an organization to operate in an economic, social, and environmentally sustainable manner. Organizations live to make profit. However, the last few decades has seen organizations realize its social responsibility to the community and to the nation at large. This could also be seen as a brand building strategy. However we see it, CSR has benefited both the society and the organization.

It is a no-brainer that investments in social causes boosts the image of an organization and thereby increases brand value. In its infancy, companies perceived CSR as a cost or an expense incurred to improve brand value. Lately, this perception has also changed. Today, organizations see CSR as an investment. Many governments are also making CSR mandatory for companies that achieve certain financial strength. For instance, in India it is mandatory for companies that meet the defined financial criteria to spend 2% of their average net profits on specified CSR activities. In this study, we analyze two organizations that spend generously on philanthropy and on numerous social causes aimed at improving the lives of the under privileged. The study analyses the financial expenditure of these organizations in CSR and find the relationship it has to financial performance.

LITERATURE REVIEW

Engardio et al. (2007) explained that CSR and ethical responsibility are critical factors to build an organization that is sustainable. The authors explain at length how embracing a sustainable business model would help it avert costly setbacks from political protests and legal expenses [2].

(di Norcia, 1994) connects social responsibility of organizations to the negative impacts of technology advancements. The author explains that it is important for organizations to minimize any negative impact of technology on social, economic, environmental interests and human rights (SEER) of stakeholders.

Spicer (1978) explained that by following CSR, companies are able to build a brand image which helps them build capital investment.

Aditya Birla Group CSR Overview (2014) Mrs. Rajashree Birla, Chairperson of Aditya Birla Centre of Community Initiatives and Rural development states the vision of the company as follows. "To actively contribute to the social and economic development of the communities in which we operate. In doing so, build a better, sustainable way of life for the weaker sections of society and raise the country human development index"

OBJECTIVES OF THE STUDY

The study aims to understand the following aspects regarding CSR.

- 1) To find the relationship between financial expenditure in CSR and the financial benefits it brings to the organization.

- 2) To find whether CSR is a cost or an investment to an organization.
- 3) To find whether CSR improves brand value.

HYPOTHESES

Hypothesis 1 (H1): To establish that CSR is an investment for a good financial return.

Hypothesis 2 (H2): CSR is a prudent investment and not a liable cost for an organization.

Hypothesis 3 (H3): CSR enhances brand value

RESEARCH METHODOLOGY

For the purpose of the study, secondary data was collected from various journals, books, articles and other online resources. The testing of the hypotheses was done by doing a case study of 2 companies from various segments of the industry.

CASE STUDIES

Case Study of Aditya Birla Group

CSR is an integral part of Aditya Birla Group's value system. The impressive footprint of its social activities spreads to over 3000 villages in India touching the lives of over 7 million people, mostly living below poverty line and belonging to scheduled castes and tribes. The company has various schemes aimed at improving education, health-care and family welfare, social causes, infrastructure development, and creating sustainable livelihood for numerous people (Aditya Birla Group CSR Overview, 2014).

**TABLE – 1
CSR Expenditure and Revenue figures of Aditya Birla Group**

Item	CSR Expenditure/Revenue in INR		
	2010-11	2011-12	2012-13
Corporate Social Responsibility	130 crore	130 crore	130 crore
Annual Revenue	18,168 crores	21,840 crores	25,490 crores

Source: <http://www.adityabirla.com>

This business conglomerate spends handsomely each year aimed at improving the lives of millions of people. This could be one reason why the group has captured the minds of people across the length and breadth of India. The fact that investments in CSR have not dent-ed the annual revenue of the business conglomerate proves Hypothesis 1 right. It also proved Hypothesis 2 right by showing that CSR was a wise investment for the group and has not turned out to be a liable cost.

As shown in picture - 1, the stock price of the company has seen a steady growth in the last 3 years. This can be attributed to the increasing popularity of the company and resultant increase in brand value proving Hypothesis 3 right.

PICTURE – 1 Stock price of Aditya Birla Group over the last 3 years



Source: <http://www.moneycontrol.com>

Case Study of Tata Consultancy Services

At Tata Consultancy Services (TCS), sustainability is seen as a state of being in balance between Corporate Economic Responsibility (CER) and Corporate Social Responsibility (CSR) (Corporate Social Responsibility at TCS, 2014). The core areas where TCS has aligned its CSR activities are education, health, and environment. The company reports that in the year 2011-12 TCS associates has volunteered 58,362 hours on CSR activities, reached out to over 57 million beneficiaries, and reported social spend of 51.39 crore INR.

TABLE – 2 CSR Expenditure and Revenue figures of TCS

Item	CSR Expenditure/Revenue in INR		
	2011-12	2012-13	2013-14
Corporate Social Responsibility	51.39 crores	70.97 crores	93 crores
Annual Revenue	488 billion	629 billion	818 billion

Source: <http://www.tcs.com>

TCS spends on CSR initiatives across the world with specific focus on India. The revenue figures of TCS as shown in the picture - 2 show a steady growth over the last three years from 488 billion INR to 818 billion INR. Despite increasing expenditure on CSR, the revenue figures of the company have leaped forward significantly. This goes on to prove Hypothesis 1 that CSR is a good investment for companies which brings good returns. This also proves Hypothesis 2 right by outright rejecting any misconception of CSR as a liability.

PICTURE – 2 Revenue growth of TCS over the last 3 years



Source: <http://craytheon.com>

The stock price of TCS has seen a steady growth over the years. Picture - 3 shows the increase in stock price over the last 5 year period. This could be attributed to improvement its brand value proving Hypothesis 3 right.

PICTURE – 3 Stock price of TCS over the last 5 years



Source: <http://www.moneycontrol.com>

CONCLUSIONS

Business have a responsibility to the society, nation, and to the environment as it utilizes the various resources available. To attain sustained growth model, businesses need to incorporate CSR into its policies and business strategies. The study proves beyond doubt that CSR and corporate spending towards social causes is a prudent investment that brings in higher returns. It can also be concluded from the study that CSR is a sensible investment and not a liability to an organization. The study emphatically proves that CSR improves brand value thereby increasing stock preference and improving the financial performance of the organization.

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