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Corporate Social Responsibility- An Analytical Case Study

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ABSTRACT

There is growing interest among managers in the antecedents and consequences of CSR, especially for executives at multinational companies. In order to draw from the vast talent pool coming up in developing countries, companies need to gain a foothold in these emerging markets by establishing sound business practices addressing social and cultural concerns of the people. World Business Council for Sustainable Development defines Corporate Social Responsibility (CSR) as "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." Only firms that have gained the goodwill of the public and are ideal corporate citizens will be to develop these intangible assets into strategic advantages. In this context I have studied the possible impact of CSR investment on Sales of few companies selected at random from the sectors like Paper, Financial Services, Software and ITES and Banking to see whether there is any significant correlation between the two.

Keywords : Corporate Social Responsibility, Emerging Markets.

INTRODUCTION:

"The world cannot get out of its current state of crisis with the same thinking that got it there in the first place." ALBERT EINSTEIN.

CSR can be simply defined as the additional commitment by businesses to improve the social and economic status of various stakeholders involved while complying with all legal and economic requirements. As Warhurst (2001) points out, the three major elements of CSR are product use which focuses on contribution of industrial products which help in well being and quality of life of the society, business practices which focus on good corporate governance and gives high impetus for the environmental well being and equity which tries for distribution of profits equitably across different societies especially the host community.

Companies are expanding their boundaries to the evolving markets in the developing countries (emerging markets). The current trend of globalization has made the firms realize that to compete effectively in a competitive environment they need clearly defined business practises with a sound focus on the public interest in the markets (Gray, 2001). There will be increased costs to implement CSR, but the benefits are likely to far outweigh the costs.

LITERATURE SURVEY: Friedman (1970); Carroll (1979); Swanson (1999); Whetten, Rands, and Godfrey (2002) emphasised that corporations should follow the rules of the game as established by the political system and the moral customs of a given community understood as "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Based on this, DiMaggio and Powell (1983) worked on the institutional isomorphistic approach, which is understanding responsibility as a kind of adaptation process in which the organization reacts to external expectations. This theory was further developed by Strand (1983) and Palazzo and Scherer (2006). The evolution of CSR in the developing economies shows widely varying results. Further studies on obstacles to achieving corporate responsibility in developing markets were done by Kemp (2001). Chambers, Chapple, Moon and Sullivan (2003) measured the extent of CSR penetration in

the seven Asian countries and show that the mean value for the seven countries ((India, Indonesia, Malaysia, the Philippines, Singapore, South Korea and Thailand, even including industrially advanced Japan) is just 41% compared to a score of 98% for a developed nation like the United Kingdom. However, there are exceptions to the mean scores. India for example had an average CSR penetration of 72% compared to Indonesia's 24%. The concept of CSR as visualized in the emerging markets and the developed countries have very different understanding.

OBJECTIVE and SCOPE of the STUDY: As on date it is not mandatory for all companies to invest in CSR and more so disclose their investment or budget details pertaining to CSR. Though few companies have taken up the Global Reporting Initiative, there is still a large gap between the recommended and the actual practice. It had been recommended by Kar-mayog, an NGO dedicated to CSR activities of companies, that at least 0.2% of the Annual Sales of a Company be invested in CSR related activities. There are some companies who do that and more and also disclose their initiatives. However there is a plethora of companies who still don't meet this requirement. In this context it becomes relevant to study and analyse whether there is any significant correlation between the CSR investment and sales of the companies I have studied. This study can be further taken up in details in sector specific companies and the impact of CSR activities on sales and vice versa can help researchers understand the changing face of CSR in the society.

RESEARCH METHODOLOGY: I have taken a sample of 7 companies at random from different sectors like Paper, Financial Services, Software and ITES and Banking and collected the details of their annual sales figure. The companies are Ballarpur Industries Ltd, Housing Development Finance Corporation Ltd, Infosys Technologies Ltd, Mahindra & Mahindra Financial Services Ltd, Tamilnadu Newsprint & Papers Ltd, Tech Mahindra Ltd, Union Bank of India.. The actual investment that these companies have made in CSR activities in 2007-08 was considered as a benchmark. I have assumed that this investment remains constant over the study period of 2007-2010. Based on this I have tried to find a correlation between the annual sales and CSR investment of these

companies. I have used Pearson's Correlation (2 Tailed) test to study the relationship between CSR investment and the Sales of sample. The alpha level was 5%.

Null Hypothesis: H0: There is no correlation between Actual investment in CSR activities and Actual Sales figure of the companies.

Alternate Hypothesis: H1: There is a correlation between Actual investment in CSR activities and Actual Sales figure of the companies.

FINDINGS and INTERPRETATION: As per the results of the Pearson's Correlation Test performed on the sample the following interpretations can be arrived at:

1. There is a significant positive correlation between the Actual Amount of Investment in CSR activities made by the sample companies in 2007-08 and the Actual Annual Sales of these companies in 2007-08 and 2008-09. In the first case the Pearson's Correlation Coefficient is 0.943 and in the latter its 0.950, thus is significant at 0.05 level of confidence. Thus the null hypothesis was rejected as the p values in the cases were less than 0.05. Thus it can be said that there is a positive linear relationship between the sales in 2007-08 and 2008-09 with the CSR investment made in 2007-08 in the sense that as an increase in sales may lead to increase in CSR activities and vice-

versa (Table 1).

2. There is a weak negative correlation between the Actual Amount of Investment in CSR activities made by the sample companies in 2007-08 and the Actual Annual Sales of these companies in 2009-2010. In this case the Pearson's Correlation Coefficient is - 0.155. Thus it can be interpreted that in the year 2009-10 the actual annual sales was negatively correlated to the CSR investment made in 2007-08 which has been considered as a constant benchmark. This may be due to the fact that the sales had actually declined in the year 2009-10 as compared to the previous years (Table 2).
3. There was also a significant positive correlation between the sales of the years 2007-2008 and 2008-09, but the reverse with the sales of the year 2009-10 (Table 3).

CONCLUSION: It is clear from the above results that there is a correlation between Sales and CSR Investment. More companies need to start disclosing their CSR Investment to help us understand the impact better. Upper management must be persuaded to support not only CSR goals, but regulatory recommendations as well especially regarding disclosure of CSR investment. Every company (especially MNCs) needs to emphasize on CSR activities to strengthen their market position, improve goodwill and thereby profitability and last but not the least to give back something positive to the society and environment.

TABLES

Table 1: Correlations for 2007-08 and 2008-09.

| | | Actual amount spent on CSR in crores (Rs.) | Sales ('07-'08) in Rs. crores | Sales ('08-'09) in Rs. Crores |
|--|---------------------|--|-------------------------------|-------------------------------|
| Actual amount spent on CSR in crores (Rs.) | Pearson Correlation | 1 | .943 | .950 |
| | Sig. (2-tailed) | | .001 | .001 |
| | N | 7 | 7 | 7 |
| Sales ('07-'08) in Rs. crores | Pearson Correlation | .943 | 1 | .996 |
| | Sig. (2-tailed) | .001 | | .000 |
| | N | 7 | 7 | 7 |
| Sales ('08-'09) in Rs. Crores | Pearson Correlation | .950 | .996 | 1 |
| | Sig. (2-tailed) | .001 | .000 | |
| | N | 7 | 7 | 7 |
| Sales ('09-'10) in Rs. Crores | Pearson Correlation | -.155 | -.071 | -.119 |
| | Sig. (2-tailed) | .740 | .879 | .800 |
| | N | 7 | 7 | 7 |

Table 2: Correlations for 2009-10.

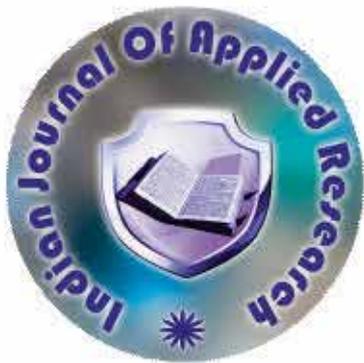
| | | Sales ('09-'10) in Rs. Crores |
|--|---------------------|-------------------------------|
| Actual amount spent on CSR in crores (Rs.) | Pearson Correlation | -.155 |
| | Sig. (2-tailed) | .740 |
| | N | 7 |
| Sales ('07-'08) in Rs. crores | Pearson Correlation | -.071 |
| | Sig. (2-tailed) | .879 |
| | N | 7 |
| Sales ('08-'09) in Rs. Crores | Pearson Correlation | -.119 |
| | Sig. (2-tailed) | .800 |
| | N | 7 |
| Sales ('09-'10) in Rs. Crores | Pearson Correlation | 1 |
| | Sig. (2-tailed) | |
| | N | 7 |

Table 3: Details of CSR Investment and Annual Sales of Companies.

| Company | Actual amount spent on CSR in crores (Rs.) | Sales ('07-'08) in Rs. crores | Sales ('08-'09) in Rs. Crores | Sales ('09-'10) in Rs. crores | Industry Category |
|---|--|-------------------------------|-------------------------------|-------------------------------|--------------------|
| Ballarpur Industries Ltd | 3.7 | 1030 | 2849 | 2252 | Paper |
| Housing Development Finance Corporation Ltd | 5.4 | 8000 | 11706 | 8739 | Financial Services |
| Infosys Technologies Ltd | 20.0 | 15000 | 21693 | 11389 | Software & ITES |
| Mahindra & Mahindra Financial Services Ltd | 0.8 | 1200 | 1400 | 2953 | Financial Services |
| Tamilnadu Newsprint & Papers Ltd. | 1.0 | 940 | 1100 | 1939 | Paper |
| Tech Mahindra Ltd. | 3.0 | 3600 | 4358 | 97360 | Software & ITES |
| Union Bank of India | 14.0 | 9500 | 13372 | 4955 | Banking |

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