

## **6. CHAPTER-SIX: FINDINGS AND CONCLUSION**

Corporate Social Responsibility is a term which has gained much importance recently in India

due to the introduction of the mandatory section 135 of the New Companies Act 2013, which mandates a spend of minimum 2% of the average net profit of immediately preceding three financial years on CSR initiatives. Many companies in India had been spending substantial amount on CSR initiative prior to 2014-15. The companies have spent funds on Education, Health, Rural transformation, Empowerment etc. The annual CSR reports indicate that Health, Education and Rural Transformation have remained the favourite areas for CSR spends for almost all companies included in this study. The prescribed amount of outlay of 2% involves huge funds for big companies like Reliance, Tata, Infosys etc. The study tries to find out that what has been the impact of high CSR spending on the financial performance of the companies under scrutiny. The financial impact of CSR spending has been done to understand three aspects of the sample companies. First, the study describes the magnitude of the CSR spending in the country during the past 6 year after the enactment of the mandatory section 135 and compares the contribution made by the sample companies to the total CSR spending in the country as reported by the national CSR portal. The study also tries to analyse the CSR spending done by the sample company in the different categories as specified by the schedule VII. Secondly, a statistical analysis is conducted to understand what impact the CSR spending of individual companies have on their profitability as represented by their PAT, ROE, ROA, and EPS. Thirdly we analysed the impact of the CSR spending by the sample companies in different categories on their combined average PAT. Individual analysis of 25 companies listed in Nifty 100 has been done. The finding of the study are as follows-

1. Over the period of 6 years i.e., from 2014-15 to 2019-20 the total CSR spending of the 25 sample companies increased by 79% and the total CSR spending in the country as reported by the National CSR portal increased by 139% for the same period.
2. The average contribution of the selected 25 companies to the total CSR spending in the country as reported by the national CSR portal has been around 16%.
3. The average contribution of the selected 25 companies to the CSR spending done by the non-government companies in India as reported by the national CSR portal has been around 21.61%
4. Over the period of six years the highest amount of total CSR spending i.e., 26% is in the education sector, 24% in the health sector and 16% in the Rural Transformation

(including livelihoods and infrastructure). The least amount i.e., 0.03 to 0.34% of the total CSR funds are allocated towards the benefit of armed forces veterans and their widows and promoting technology incubator. Out of the total spending around 2% of the spending is on administrative overheads.

5. In case of Adani Ports and Special Economic Zone, CSR spending does not have a significant impact on PAT and EPS of the company. However, CSR spending has a significant negative impact on the ROE and ROA of the company.
6. In case of Asian Paints, CSR spending has a significant positive impact on PAT, whereas it has negative impact on the ROE. The CSR spending does not have a significant impact on ROA and EPS of the company.
7. In case of Aurobindo Pharma Ltd, CSR spending has a significant negative impact on the PAT. However, the CSR spending does not have a significant impact on the ROA, ROE, and the EPS of the companies.
8. In case of Bajaj Auto Ltd. CSR spending has a significant negative impact on the PAT, ROE ROA. However, it has a significant positive impact on EPS.
9. In case of Bosch Ltd., the CSR spending does not have any significant impact on the PAT and EPS of the company. However, the CSR spending has a negative impact on the ROA and ROE of the company.
10. In case of Cadila Healthcare Ltd. the CSR spending does not have any significant impact on PAT, EPS, ROE and ROA of the company.
11. In case of Cipla Ltd. the CSR spending has a significant positive impact on PAT and EPS but does not have a significant impact on ROA and ROE.
12. In case of Dr. Reddy's Laboratories Ltd., the CSR spending does not have any significant impact on PAT, EPS, and ROA of the company. However, it has a significant low impact on the ROE of the company.
13. In case of Grasim Ltd, the CSR spending does not have any significant impact on PAT, EPS, ROE and ROA of the company.
14. In case of HCL Technologies Ltd., the CSR spending does not have any significant impact on EPS, ROE and ROA of the company. However, it has a significant positive impact on the PAT of the company.
15. In case Hero MotoCorp Ltd., the CSR spending has a significant positive impact on PAT and EPS. However, it has a significant negative impact on ROA and ROE.
16. In case of Hindalco Industries Ltd. The CSR spending has a significant positive impact on ROE and ROA but does not have any significant impact on PAT and EPS.

17. In case of Hindustan Zinc Ltd., the CSR spending does not have any significant impact on PAT, EPS, ROE and ROA of the company.
18. In case of ITC Ltd., the CSR spending has a significant positive impact on PAT but significant negative impact on ROE and ROA. However, the CSR spending does not have any significant impact on the EPS of the company.
19. In case of Infosys Ltd., the CSR spending has a significant positive impact on PAT but a significant negative impact on the EPS. However, the CSR spending of the company does not have any significant impact on ROA and ROE of the company.
20. In case of JSW Steel Ltd., the CSR spending has a significant negative impact on the PAT of the company. However, it does not have any impact on the ROA, ROE and EPS of the company.
21. In case of Lupin Ltd., the CSR spending does not have a significant impact on the PAT and EPS of the company. However, it has significant negative impact on the ROE and ROA of the company.
22. In case of Mahindra and Mahindra Ltd. the CSR spending does not have a significant impact on the PAT of the company. However, it has significant negative impact on the EPS, ROE and ROA of the company.
23. In case of Maruti Suzuki India Ltd., the CSR spending has a significant positive impact on the PAT and EPS of the company. However, it does not have any impact on the ROA and ROE of the company.
24. In case of Reliance Industries Ltd., the CSR spending has a significant positive impact on the PAT of the company. However, it has significant negative impact on the ROA and ROE but does not have any significant impact on EPS of the company.
25. In case of Shree Cement Ltd., the CSR spending has a significant positive impact on the PAT and EPS of the company. However, it has no significant impact on the ROA and ROE
26. In case of Tata Steel Ltd., the CSR spending does not have any significant impact on PAT, EPS, ROE and ROA of the company.
27. In case of Tech Mahindra Ltd., the CSR spending has a significant positive impact on the PAT. However, it has no significant impact on the EPS, ROA, and ROE
28. In case of Ultratech Cement Ltd. the CSR spending has a significant positive impact on the PAT and EPS of the company. However, it has no significant impact on the ROA and ROE
29. In case of Vedanta Ltd., the CSR spending the CSR spending does not have any significant impact on PAT, EPS, ROE and ROA of the company.

30. When the composite CSR spending on Health category is studied, the amount of CSR spending does not have significant impact on the PAT of the Companies.
31. CSR spending on Education, Rural Transformation and other sectors have a significant positive impact on the profit of the company.
32. In case of Reliance Industries Ltd. over the period of 7 years, i.e., from 2014-15 to 2020-21 about 80% of the CSR spending has been done in the category of Education (including vocational training), Health (including sanitation) and Rural Transformation (including drinking water, infrastructure, and livelihoods). The initiatives have reached many villages and states of the country. In terms of outreach the CSR programmes of Reliance Ltd are the most powerful. Considerable amount has been spent on rural programmes and the data shows that the spending has been effective in improving the life of the beneficiaries. The programmes and initiatives in health are the most effective as it reaches out to both, rural and the urban beneficiaries providing technology-based services to all. However, in case of Education the mention of Ambani International School as one of the CSR initiatives is questionable as the school is an institute which provides education facilities to the most affluent class of the society and the fee structure is such that no lower income child can study in that school. It is a good initiative as far as education system is concerned but considering it as a CSR initiative raises a question to whether it fulfils the basic essence of the legislature which aims at uplifting the poor and the most marginalised section of the country?
33. In case of ITC Ltd. over the period of 7 years, i.e., from 2014-15 to 2020-21 about 83.7% of the CSR spending has been done in the category of Education (including vocational training), Health (including sanitation) and Rural Transformation (including drinking water, infrastructure, and livelihoods). The programmes of ITC have a positive impact on the beneficiaries which is evident from the impact assessment reports. The analysis of various reports and information available leads to a conclusion that ITC Ltd. has been most proactive among the five selected companies in conducting impact assessment. This has been a priority for the company even before the enactment of the mandatory clause and the amendments.
34. In case of Tata Steel Ltd. over the period of 7 years, i.e., from 2014-15 to 2020-21 about 87.2% of the CSR spending is done in the category of Education (including vocational training), Health (including sanitation) and Rural Transformation (including drinking water, infrastructure, and livelihoods). From the various data regarding beneficiaries and the impact assessment reports, the initiatives of Tata Steel

Ltd has a positive impact on the rural beneficiaries of Jharkhand, Chhattisgarh, and Odisha.

35. In case of Ultratech Cement Ltd. over the period of 7 years, i.e., from 2014-15 to 2020-21 about 81.7% of the CSR spending has been done in the category of Education (including vocational training), Health (including sanitation) and Rural Transformation (including drinking water, infrastructure, and livelihoods). The CSR initiatives of the company have a positive impact on the society.

36. In case of Tech Mahindra Ltd. over the period of 7 years, i.e., from 2014-15 to 2020-21 about 94.5% of the CSR spending has been done in the category of Education (including vocational training). The company has done a remarkable work in Education and Employability training.

### Conclusion:

The analysis of impact of CSR spending on the financial performance of company gives mixed results. For some companies the CSR spending has positive impact on its profitability and for some it has negative impact. In some companies it was seen that there was no significant impact on the profitability of the company. Thus, it cannot be generalised that CSR has positive or negative impact on the profitability of the company. However, if we consider the category of spending then spending on Education and Rural Transformation does have a positive impact on the profitability of the company. This may be because spending on education and rural transformation creates a positive image of the company, thereby helping it in building a brand image and subsequently increasing the profitability.

Education, health and rural transformation have been the favourite focus areas for the selected companies. The summarised data on the CSR portal also indicates that the Indian corporate sector is highly attracted towards these three focus areas. This may be due to the following reasons: -

1. Indian education system is expanding rapidly; however, it requires a qualitative boost to improve its performance. The gaps are easily visible and hence easily identifiable by the companies. Providing books, infrastructural support, computers, scholarships become an easy and handy way to fulfil the CSR targets of the companies.
2. Establishing technical universities and institutes provides an opening to the companies in the education sector and gradually creates a positive attitude of the brand name in the general public.

3. Corporate families like Tata and Birla always had a philanthropic attitude and a strong desire to bring about a change in the society through education which is reflected in their CSR initiatives. Other companies have since followed suit.
4. India is also characterised by lack of availability of timely and affordable medical services. All the companies provide preventive and curative medical care to the people around their plant locations. Majority of the working staff comes from the surrounding local areas and hence such initiatives not only fulfil the requirement of CSR regulation but also help them in taking employee welfare measures.
5. Improving or augmenting rural infrastructure help these companies in creating a positive image of the companies in the mind of the local people and help the companies avoid any adverse emotion among the people.
6. Skill development initiatives enable the companies to train the youth as per the requirement of the industries and hence bridge the gap between the requirement of the industries and skills present in the youth.

It is evident from the financial analysis that there is no strong reason to believe that CSR spending have a negative or a positive impact on the profitability of all the companies. The study finds that in case of more than 50% of the sample companies CSR spending does not have any impact on the profitability of the company. Moreover, CSR spending might have a positive impact on the image and reputation of the company. Hence it would be advisable for the companies to consider CSR spending as a strategy to induce positive corporate image which might lead to increase in sales revenue and profitability in future.

When we consider the impact of CSR on society it may be concluded that CSR is definitely advantageous to the society. The study of various CSR initiatives of the 5 selected companies point out the fact that these companies have definitely made a difference in the vicinity of their plant location. The increase in the number of beneficiaries and the positive project outcomes also indicate that in certain cases the work done by the companies was better than the government agencies. The problem of unemployment, illiteracy and poor health infrastructure cannot be handled only by the government efforts in a country as big as India having large population, inflation and evils like corruption prevalent in the system. Thus, assistance of the corporate sector is the demand of the day. Their professionalism and technical knowledge and ample resources might help in combating the developmental issues of our country. The argument that the sole purpose of a business is to maximise profit and thereby shareholders value does not seem valid here because the business which operates in a society cannot remain aloof from the same. Business gets its customers and capital providers from the society. A society suffering from unemployment, illiteracy and ill health is bound to

adversely affect the working of the business entities of the country. Thus, the CSR spending by corporate sectors does positively impact the society.

Suggestions:

From the study of various CSR initiatives of the companies it is evident that these initiatives give more positive results when they are implemented by the company itself or in collaboration with any specialised non-government organisations. On the basis of the study of various CSR reports and impact assessment reports following suggestions can be made: -

**Education:** The companies should come forward and establish affordable and qualitative educational institutes in the country which provide education to the poor and backward population of the country. Adopting government primary schools can also be a good option as primary education is the foundation of the entire education system. Highly qualitative education with best technology should be provided to all at affordable rates. However, this should be done with some intervention by the government to avoid exploitation by the private sector.

**Heath Care:** Companies should also consider providing financial assistance to the needy people for various complicated surgeries and treatment viz- providing artificial limbs and organ transplant. Such surgeries and treatment are too costly for the marginalised community of the country. There are many diseases which are rare and require costly treatment. The government should help the corporates to create a common fund for the treatment of such diseases which can be used to help poor people from all over the country. Of course, a full proof mechanism is required for the success of such initiatives.

**Rural Transformation:** Companies should work in the direction of providing latest technology-based solution to the rural population. The corporate sector should be encouraged to start good agricultural institutes at the doorstep of the rural population to enable them use modern technology for farming. Many initiatives like promoting sanitation, waste management, biogas plants etc. are such which are implemented by some companies however, aggressive promotion of these initiatives is the requirement of the day.

**General:** Most of the companies in India are working in the abovementioned three focus areas however there are few areas in which intervention by private sector can make a massive difference, one of them is the area of sports, art and culture. Technology, professionals, and

funds are the requirement for this focus area and private sectors can do a remarkable job in promoting the same. The second area in which corporate intervention can bring a remarkable change is “Gender Equality and Women Empowerment”.

One focus area- “benefit of armed forces and war widows” is an area which has been seriously neglected by many companies. Companies can do considerable work in this area by providing scholarships to the children of war martyrs, providing special schooling facilities for the children of armed forces and providing medical treatment facilities after retirement or to the war widows.

#### Further Scope of Studies:

The present study confines its scope of work to the companies in Nifty 100 and takes into account the accounting-based indicators of profitability for financial analysis. Similarly, the societal impact has been studied considering the outreach of various initiatives. However, much research can be done in the same area. Impact of CSR spending on market-based indicators of profitability can be studied post mandatory provisions. This impact can also be analysed from the point of view of the cash flows of the company. A comparative analysis can also be done among the post mandatory financial performance of Private sector and Government companies.

Similarly social impact of various initiatives can be studied on the basis of project wise analysis of companies based on primary data which can be collected based on personalised interviews of all the beneficiaries.