



## Effect of Financial Performance on Corporate Social Responsibility and Stock Price: A Study of BSE Listed Companies

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**ABSTRACT:** This research study aims to examine the effect of financial performance on CSR and Stock Price of BSE listed companies in India. CSR and financial performance are very fundamental to sustain and continue the operation of corporation. Similarly, price of shares influences the capitalization of company and base for shareholder to decide their investment. CSR in India became mandatory from 2014. Under CSR companies has to spend a part of their earnings for the benefits of the society on various project regarding environment protection, economic development, education etc. Main part of study investigates the relationship among CSR, financial performance and Stock price of top 30 BSE listed companies. Data regarding CSR expenditure, stock price at the end of each year and accounting ratios have been collected for the study period of 2014-15 to 2017-18 and panel OLS, Correlation method have been used. This study is useful to investors, society and companies. Results through regression analysis indicates positive and strong impact of financial performance on CSR and Stock price.

**Keywords:** Corporate Social Responsibility, Bombay Stock Exchange, Stock Price, Panel Regression, Financial Performance.

**Abbreviations:** CSR, corporate social responsibility; BSE, Bombay Stock Exchange; OLS, Ordinary least square

### I. INTRODUCTION

Corporate social responsibility gained attention since it became mandatory in the new millennium, both academicians and industrialists are focusing on this area and researchers conducted very useful research to explore the factors affecting CSR [23]. Researchers have also focused on the factors affecting stock prices of the companies. Gunia, suggested that when firm's profitability increases, firm's expenditure towards CSR activities also increases [37]. Morrison defines "CSR as a group of issues related to the human rights, development and protection of environment". Author said that the company has determinant role to society [32]. "corporate social responsibility" "corporate social performance" and "corporate social responsiveness" have been used interchangeably. He chosen the term "CR". In other words, "CR implies responsibility in all the activities of a business" [26]. Companies to be competitive and acceptable globally must focus on his reputation, which is an external phenomenon of corporate excellence and bases upon its product and services reputation and credibility in financial market [12, 21]. Bowen in his book "social responsibilities of the businessman" defined "social responsibilities of business as those policies, those line of actions and decision which are desirable by our society" [6]. CSR became mandatory in 2013 which was volunteer in 2009. According to companies Act 2013, section 135, "make it mandatory for companies with at least Rs 5 crores net profit or Rs 1,000 crores turnovers or Rs 500 crores net worth to spend at least 2 per cent of the average net profits of three years, immediately preceding the financial year on CSR agenda" [29, 30].

A firm with good "CSR" can raise low cost fund for their investment [2]. CSR activities required good amount of financial resources. Many researchers found positive relation [15, 22], while other studies found inverse relationship [18, 40] between FP and CSR. Firm value is important aspect for investors to judge the financial performance, therefore company must strategies their policy regarding firm value to get shareholder's interest and trust [36].

Ball and Barth argued that information related to the financial performance reflected in stock prices and importance of financial performance as an indicator of stock return has attracted valuable attention [3, 4].

Firm value is associated to the investor's perception and associated to the stock price. High stock price increases the value of firm. So, the company must focus on the shareholder's welfare [14]. Previous studies were indicating the relationship of financial performance and CSR [7, 8, 10, 35]. Main advantage of this study is for investors. They can take decision regarding their investment based on results of study.

This study aims to examine the relationship of CSR, Stock price and financial performance of the top 30 BSE (Bombay Stock Exchange, India) listed companies during the study period of 2014-15 to 2017-18. Briefly, findings of the study indicate significant causality among CSR, Stock price and financial performance because expenditure on social welfare activities and prices of company's stock depends upon financial results. Profitability motivate to spend on social activities and generate the confidence of investors to invest.

Paper is organized as follow: Next section provide review of literature leading to hypothesis of this paper, research methodology used is outlined, followed by

statistics and main results and last section concludes the study.

## II. REVIEW OF LITERATURE

This section deals with relevant literature related to causality of CSR, Stock price and Financial performance.

CSR has emerged as significant area of research for the researchers to find its relationship with other variable such Financial performance and Stock price. People wants to know what influence market value of share and spending on CSR. Practically, profitability and availability of fund influences firm's spending on social activities. Other factors like reputation of the company, expectation of society and environment protection are also motivator behind the spending on CSR. Investor also tends to invest their fund in those stock of companies which are socially responsible. A large number of studies has been examined the relationship between CSR and financial performance. Jørgensen, said that half of the studies indicated positive relationship while other studies have mixed results [21]. Geetika and Maqbool, found positive relationship between CSR and financial performance of Indian banks [17, 27]. Cochran, observed positive relationship between CSR and accounting performance [10] while Freeman said CSR may lead to cut the cost and conflicts with stakeholders [16].

Pava, concluded improvement in financial performance due to CSR [34]. Verschoor, found positive relationship of CSR with relationship of shareholders [39]. Peters said that CSR may have long term impact over financial performance [35]. Companies with good CSR policy may increase value of firm, operating performance and stock value. The concerned social welfare motivates firm's management to focus on profitability and positively assessed by investors [5, 9]. Companies in Singapore benefited by CSR in terms of high reputation, good economic performance, high morale of employees and faith of investors in company which will lead in high financial performance and increased stock price [7, 8]. Hudson said company's expenditure on wages, social welfare, timely payment to supplier may lead to liquidity problem [19] while Lee, observed that due to CSR companies can decrease their cost of equity [24]. Vance, said that CSR may lead to decline in share price of U.S.A companies [38]. Firm's CSR image may lead to lower cost and high performance [11]. Study conducted by [25] observed that firm's spending on CSR may have high market value. Jacobs, found positive relationship between stock price and social and environment related announcement [20].

**Table 1: Summary of Literature Review.**

Studies	Conclusion
[7, 8, 10, 16, 17, 27, 28, 34, 39]	Positive relation of CSR and financial performance
[35]	Long term association between CSR and financial performance
[19]	Negative impact of CSR on financial performance
[24]	CSR may lead to decrease in cost of equity
[38]	Decline in share price of USA companies due to CSR
[20, 25]	Positive relation of CSR and stock price

Based on the above review of literature following null hypothesis have been established to examine the relationship among CSR, Stock Price and Financial Performance:

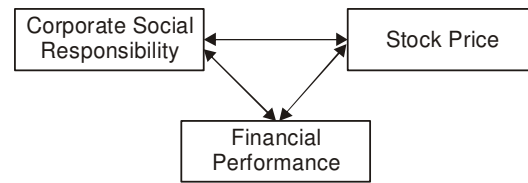
Ho1: There is no positive association between CSR and Financial Performance.

Ho2: There is no positive association between Stock price and Financial performance.

Ho3: There is no positive association between CSR and Stock Price.

## III. THEORETICAL FRAMEWORK

It has been observed that CSR now became the hot topic for the research. Companies who perform activities of social welfare required sufficient liquidity which can be generated through high profitability. Market value of the firm also dependent upon his reputation and investor's trust. The researcher found positive association between CSR and Financial performance [10, 16, 17, 27, 28, 34, 39], negative impact of CSR on financial performance [19], association of CSR and Stock price [25] and profitability of company influences the perception of investors [5]. To check the association among stock price, financial performance and corporate social responsibility, ratios of profitability, solvency, liquidity, yearly expenditure on CSR and stock price at the end of year have been used.



**Fig. 1. Theoretical Framework.**

## IV. RESEARCH METHODOLOGY

We set out this paper by addressing the meaning and importance of CSR, Stock price and financial performance then move to methodology. This research is to examine the association of CSR, Stock price and financial performance in India. The population of the study is BSE (Bombay Stock Exchange) listed top 30 companies. From inception of BSE many companies were included and excluded based on the calculation of base amount of 100 in 1986. BSE SENSEX constitutes 31 companies in which TATA Motors has two stocks. Data of financial performance for the period of 2014-15 to 2017-18 has been collected through the website of moneycontrol.com. To judge the financial performance, information of ROCE, NPR, CR, EPS and Net Sales have been collected in terms of ratios. On the other hand, stock price at the end of each year and expenditure on CSR in the respective years has been taken for the purpose of study.

## V. DATA ANALYSIS

Panel regression analysis (fixed and random effect) has been carried out with the help of Eviews 9.0 [1, 13, 33]. To check the relationship correlation applied. Preliminarily, descriptive statistics and unit root test also used with help of Eviews.

The model used for the study is as follow:

$$CSR_{it} = \alpha + \beta_1 NPR_{it} + \beta_2 CR_{it} + \beta_3 EPS_{it} + \beta_4 ROCE_{it} + \beta_5 SIZE_{it} + \epsilon_{it} \quad (1)$$

Equation (1) is used for regression analysis. Where CSR is dependent variable and the components of financial performance are independent variable.

Through (1) we want to check the association of CSR and financial performance through panel ordinary least square method.

$$SP_{it} = \alpha + \beta_1 NPR_{it} + \beta_2 CR_{it} + \beta_3 EPS_{it} + \beta_4 ROCE_{it} + \beta_5 SIZE_{it} + \epsilon_{it} \quad (2)$$

Eqn. (2) is to check the association of stock price and financial performance and panel ordinary least square method is adopted. In (2) SP is dependent variable while components of financial performance are the independent variable.

CSR<sub>it</sub> = Expenditure on Corporate Social Responsibility at the end of each year.

$\beta_1 NPR_{it}$  = Net Profit Ratio calculated by dividing net profit by net sales.

$\beta_2 CR_{it}$  = Current ratio calculated by dividing current assets by current liabilities.

$\beta_4 EPS_{it}$  = Earnings Per Share calculated by dividing earning after tax by shares.

$\beta_5 ROCE_{it}$  = Return on capital employed.

$\beta_6 SIZE_{it}$  = Size of the firm assumed on the basis of total amount of sales.

$\epsilon_{it}$  = error term follows normal distribution.

SP<sub>it</sub> = Stock Price at the end of year from 2014-15 to 2017-18.

$\alpha$ , is intercept and  $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ , and  $\beta_6$ , are the coefficient of the regression model.

**Table 2: Descriptive Statistics of the variables.**

	CR	CSR	EPS	NET_SALES	NPR	ROCE	STOCK_PRICE
Mean	1.237	123.761	44.622	51416.92	191.380	22.497	1154.555
Median	1.050	70.620	24.200	38945.42	14.420	14.180	659.850
Maximum	6.570	745.040	255.620	329076.0	10024.16	103.730	9731.350
Minimum	0.020	0.000	-24.840	165.530	-18.380	-5.610	0.000
Std. Dev.	1.087	152.605	50.487	58736.52	1087.815	20.861	1408.161
Skewness	1.590	1.872	1.874	2.676	7.333	1.847	3.1805
Kurtosis	7.124	6.365	6.8503	10.849	61.203	6.749	16.584
Jarque-Bera	134.528	125.758	143.174	447.627	17863.66	137.408	1115.617
Probability	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Sum	147.320	14727.61	5310.050	6118613	22774.33	2677.260	137392.1
Sum Sq. Dev.	139.642	2748018.	300777.1	4.07	1.40	51352.60	2.34
Observations	119	119	119	119	119	119	119

Table 2 shows the descriptive statistics of the variables. Descriptive statistics is very useful to understand statistical properties of data. CR (7.12>3), CSR (6.36>3), EPS (6.85>3), Net Sales (10.84>3), NPR (61.2>3), ROCE (6.74>3) and Stock Price (16.58>3) are Leptokurtic and have long-right tail (positive skewness). Null hypothesis that the data is normally distributed has been rejected 0.00>0.5 (at 5% significance level).

Table 3 tested the stationarity of the data. Stationarity test allows to test whether the series is stationary or not. It has two approaches, KPSS and unit root test such as ADF, PP test.

Our null hypothesis has been rejected at 5% significance level (P-value <0.05) for the series of CR, EPS, NPR, CSR and size of the firm hence, there is no unit root while in case of SP and ROCE not rejected (P-value>0.05) shows unit root exist.

Table 4 shows the results of correlation analysis between CSR and financial performance. Among all size of firm highly correlated with CSR 0.59 (59%) and EPS 0.13 (13%) and CR .03 (3%) also have positive correlation with CSR. While NPR -0.11 (11%) and ROCE -.04 (4%) are negatively correlated with CSR.

**Unit Root Test:**

**Table 3: Panel unit root test: Common unit root process by Levin, Lin and Chu t.**

Method	Statistic	Prob.	Cross- sections
CSR	78.832	0.035*	30
CR	167.092	0.000*	30
EPS	121.559	0.000*	30
NPR	113.011	0.000*	30
SP	63.310	0.360	30
ROCE	69.050	0.151	30
SIZE	85.376	0.017*	30

\* Significant level at 5%

**Table 4: Showing the results of correlation analysis between CSR and Financial Performance.**

	CSR	CR	EPS	NET_SALES	NPR	ROCE
CSR	1.000					
CR	0.038	1.000				
EPS	0.137	0.197	1.000			
NET_SALES	0.597	-0.259	0.074	1.000		
NPR	-0.112	0.056	-0.067	-0.143	1.000	
ROCE	-0.047	0.325	0.226	-0.227	0.579	1.000

**Table 5: Showing the results of correlation analysis between SP and Financial Performance.**

	STOCK PRICE	ROCE	NPR	NET SALES	EPS	CR
STOCK PRICE	1.000					
ROCE	0.157	1.000				
NPR	-0.101	0.579	1.000			
NET SALES	-0.024	-0.227	-0.143	1.000		
EPS	0.875	0.226	-0.067	0.074	1.000	
CR	0.104	0.325	0.056	-0.259	0.197	1.000

Table 5 reports the results of correlation analysis between stock price and financial performance. Among all the variable EPS is highly correlated with stock price 0.87 (87%). ROCE 0.15 (15%) and CR 0.10 (10%) have positive correlation with stock price while NPR -0.10 (10%) and net sales -0.024 (2%) are negatively correlated with stock price. Results of correlation analysis between stock price and CSR shows that CSR is negatively correlated with stock price by -0.488 (48.8%).

**Regression Analysis:** Regression is a powerful statistical method or statistical processes which estimates or examine the relationship between two variables, dependent variable and independent variable. It also useful to analyse the impact of independent variable on dependent variable. Based on the review of literature of [7, 8, 20, 25, 34, 35, 39] OLS (Ordinary Least Square) regression model has been applied. To check the best fit of the model fixed and random effect regression model also applied.

**Results of OLS:** Observation of regression analysis indicated that impact of financial performance on CSR by 61% ( $R^2$  0.61 and adjusted  $R^2$  0.59) and DWS (Durbin-Watson Statistics) 0.803 and all the measures except EPS have significant impact on CSR. Null hypothesis in this case has been rejected at 5% significance level ( $P$ -value>0.05). Table 7 indicates the results of regression analysis between the financial performance and SP (Stock price) where, analysis indicates that financial performance have significant

impact over SP by 66% ( $R^2$  0.66 and adjusted  $R^2$  0.647) and except CR and ROCE have significance impact at 5% significance level ( $P$ -value>.05).

**Results of Cross-Section Fixed Effect:** This model assumes that each company have some non-random variable. To deal with non-stochastic group cross-section fixed effect model has been applied with the help of E-views 9.0 version. Table 6 indicates that financial performance has impact over CSR by 91% ( $R^2$  0.91 and adjusted  $R^2$  0.87), DWS 3.17 and Table 7 shows that financial performance have impact over SP by 95% ( $R^2$  0.95 and adjusted  $R^2$  0.93) DWS 1.78 at significance level of 5% ( $p$ -value>0.05). Null hypothesis in both the cases have been rejected.

**Results of Cross-Section Random Effect:** Random effect model attempt to deal with unobserved stochastic group. Table 6 indicates that financial performance effect CSR spending by 42% ( $R^2$  0.42 and adjusted  $R^2$  0.39), DWS 2.30 and table 7 shows impact of financial performance over SP by 23% ( $R^2$  0.229 and adjusted  $R^2$  0.19), DWS 1.18 at significance level of 5% ( $p$ -value > 0.05).

Results of OLS, Fixed Effect and Random Effect shows that financial performance has impact on CSR and SP while CSR does not associate with SP. Out of FE and RE, FE is most suitable method to judge the association. Results are also supported by literature review of [24, 31, 35].

**Table 6: Results of Regression Analysis of CSR and Financial Performance (OLS, Fixed and Random Effect).**

Variable	OLS			Fixed Effect			Random Effect		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
C	-5.344	-6.306	0.000*	-6.347	-1.656	0.102	-4.684	-3.907	0.000*
CR	0.180	2.463	0.015*	0.116	1.503	0.137	0.144	2.178	0.031*
EPS	-0.000	-0.097	0.922	0.007	2.457	0.016*	0.002	1.348	0.180
SIZE	0.899	11.361	0.000*	0.979	2.597	0.011*	0.826	7.254	0.000*
NPR	0.000	3.011	0.003*	9.550	0.968	0.336	0.000	1.634	0.105
ROCE	0.010	2.301	0.023*	0.007	0.778	0.438	0.012	2.058	0.042*
$R^2$	0.611			0.917			0.425		
Ad. $R^2$	0.591			0.876			0.395		
F-stat (Prob.)	29.912 (0.000)			22.451 (0.000)			14.068 (0.000)		
DWS	0.803			3.171			2.309		

\*Significant level at 5%

**Table 7: Results of Regression Analysis of SP and Financial Performance (OLS, Fixed and Random Effect).**

Variable	OLS			Fixed Effect			Random Effect		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
C	7.355	12.502	0.000*	1.520	0.758	0.450	5.613	7.155	0.000*
CR	0.029	0.542	0.588	0.058	1.387	0.169	0.079	2.109	0.037
EPS	0.014	12.763	0.000*	0.000	0.075	0.940	0.006	4.932	0.000*
SIZE	-0.148	-2.731	0.007*	0.466	2.361	0.020*	0.043	0.583	0.561
NPR	-0.000	-3.479	0.000*	3.600	0.689	0.492	-4.63	-1.032	0.304
ROCE	0.003	1.117	0.266	0.007	1.433	0.155	0.006	1.631	0.105
$R^2$	0.662			0.956			0.229		
Ad. $R^2$	0.647			0.938			0.194		
F-stat (Prob.)	44.061 (0.000)			53.479 (0.000)			6.667 (0.000)		
DWS	0.566			1.785			1.182		

\*Significant level at 5%

## VI. CONCLUSION

This research examines the various factors influencing the decision of company's management regarding CSR spending and influence on the stock price of the BSE listed companies in India. It has been derived that size of the firm (Net Sales) is major component of financial performance which influences spending on welfare activities. While stock price is influenced by the accounting information of the company in form of profitability, and EPS. We do not find any association between SP and CSR.

## VII. FUTURE SCOPE

Study is very useful to the investors, government and to other stakeholders to judge the financial performance. It can also be used to make decision regarding investment in the stock of company. Management of various companies can also use this research to know the factors creating their reputation and empowerment of capital. Researcher can also understand various aspect of CSR, SP and financial performance.

**Limitation:** We have taken EPS, CR, NPR, Net Sales and ROCE to check their impact on CSR and SP. Other research may take other variable of financial ratios to analyse their impact on CSR and SP. This study used the data of 30 companies listed in BSE India, other stock exchange and no. of company can be used for further research.

**Conflict of Interest.** The authors of this research declare that they have no conflicts of interest.

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