

# Relationship between csr and financial performance of an organization

[Business](#), [Company](#)



Measuring CFPCFP can be measured using various indicators that can be broadly categorized as ' Accounting-Based Indicators' and ' Market-Based Indicators'.

Use of accounting standards to measure Corporate Financial Position of a company comes with its own set of drawbacks. ' Accounting-Based Indicators' belong to a traditional school of measurement and lack a contemporary approach unlike ' Market-Based Indicators'. ' Market-Based Indicators' reflect changes in CSR faster than ' Accounting-Based Indicators'.

On the brighter side however, ' Accounting-Based Ratios' are publicly accessible for any and all corporations and can therefore be compared. Methods such as ' Net Profit Ratio' which in turn compute total returns received by the organization, ignore the size of the organization, preventing, a true and genuine result from being shown and are hence improper for this purpose. Whereas, accounting ratios such as ' Return on Assets' which reveal a rather relative impact on earnings, also fail to ascertain a true and comparable picture of a company's performance, especially if the companies under review belong from different industries. This is because, different industries tend to have disparity in assets on the basis of structure and age. The most apparent drawback of Market-Based Ratios is that they can only be computed for Public companies that share their accounts with members of the public. Market-Based measures tend to be influenced by traits of the market not specific to the firm, such as Recession. Accounting-based measures are on the other hand incorporative of firm-specific characteristics. Often times, both categories of measures have been combined and indices

like 'Tobin's Q' which is the ratio of the market value of a company's assets (measured by valuing its outstanding stock and debt) to the replacement cost of the company's assets (book value) and the MVA which is a calculation that shows the difference between the market value of a company and the capital contributed by all investors.

Present scenario of corporate social responsibility in India In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1, 000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. The new rules, which will be applicable from the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director. The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The ministry's draft rules, that have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India. Clause 135 of the Companies Act, 2013 requires a CSR committee to be constituted by the board of directors. They will be responsible for preparing a detailed plan of the CSR activities including, decisions regarding the expenditure, the type of activities to be undertaken, roles and responsibilities of the concerned individuals and a monitoring and reporting mechanism. The CSR committee will also be

required to ensure that all the income accrued to the company by way of CSR activities is credited back to the CSR corpus.

### **UltraTech Cement Ltd.**

Mainstreaming CSR into their organizations and conveying societal esteem has given UltraTech gigantic returns, though of an alternate kind – the turnaround of human lives, lifting a huge number of individuals out of distinct destitution. UltraTech works with various rustic and inborn networks crosswise over India. It has officially transformed numerous towns into model towns that are totally independent. UltraTech Cement is a piece of an inheritance of the Aditya Birla Group, where thinking about the underserved is an unwritten proclamation that has been pursued a great many generations. UltraTech's undertakings to acquire comprehensive development are channelized through the Aditya Birla Center for Community Initiatives and Rural Development, of which, Mrs. Rajashree Birla is the Chairperson. This year the pined for Asian CSR Award was given on Vikram Cement for its fantastic work in human services at their honors function held in Malaysia. Moreover, the renowned Golden Peacock Award for CSR was presented on Birla White. Over this year the President of India offered the Padma Bhushan Award on Mrs. Birla in acknowledgment of her model social work. She was additionally the beneficiary of the Golden Peacock Life Time Achievement Award for Community Development, which she got in Portugal on account of the noteworthy previous Prime Minister of Sweden, Mr. Ola Ullsten. The Company's CSR exercises are spread across 407 towns, in proximity to its 22 plants, the nation over.

## **Infosys Ltd.**

Infosys Limited (' Infosys' or ' the Company') has been an early adopter of Corporate Social Responsibility (' CSR') activities. Alongside maintained monetary execution, natural and social stewardship is additionally a key factor for all encompassing business development. We set up the Infosys Foundation in 1996 as a not-for-benefit nodal body went for giving a committed way to deal with network advancement and furthermore to satisfy our CSR responsibilities. Infosys Foundation progresses in the direction of evacuating unhealthiness, enhancing human services framework, supporting essential training, restoring relinquished ladies and kids, and safeguarding Indian workmanship and culture. Infosys Foundation accomplices with non-government associations (NGOs) to have any kind of effect among nearby networks. The Company's center has dependably been to add to the reasonable improvement of the general public and condition, and to improve our planet a place for who and what is to come. As per the necessities under the Companies Act, 2013, Infosys CSR exercises, among others, center around:

Hunger, poverty, malnutrition and health: Eradicating extraordinary appetite, neediness and unhealthiness, advancing preventive human services and sanitation and making accessible safe drinking water.

Education: Promoting training, including specialized curriculum and work upgrading professional aptitudes particularly among kids, ladies, elderly and the diversely abled, and job improvement ventures; money related commitments to scholastic organizations for building up enrichment

reserves, seats, research facilities, and so forth., with the goal of helping understudies in their examinations.

Rural development projects: Strengthening provincial regions by enhancing availability, lodging, drinking water, sanitation, power and vocations, along these lines making practical towns.

Gender equality and empowerment of women: Promoting sexual orientation fairness and enabling ladies; setting up homes, lodgings and day care habitats for ladies and vagrants; setting up maturity homes and such different offices for senior residents; and receiving measures for decreasing disparities looked by socially and financially in reverse gatherings.

Environmental sustainability: Ensuring ecological maintainability, biological parity, assurance of greenery, creature welfare, agro-ranger service, protection of regular assets and keeping up the nature of soil, air and water.

National heritage, art and culture: Protecting national legacy, workmanship and culture including reclamation of structures and locales of verifiable significance and gems; setting up open libraries; advancing and creating customary expressions and painstaking work.

## **ITC Ltd.**

Influenced by a dream to fill a bigger national need and reside with the solid estimation of Trusteeship, ITC has made inventive plans of action to make bigger societal capital while at the same time conveying long haul investor esteem. This larger yearning to make important societal esteem is show in

ITC's system to improve the aggressiveness of significant worth chains of which it is a section. It is along these lines a cognizant procedure to outline and actualize Social Investments/CSR programs with regards to ITC's organizations, by improving quality chains that envelop the most distraught areas of society, particularly those living in provincial India, through financial strengthening in light of grass-roots limit building.

Perceiving that business undertakings are financial organs of society and draw on societal assets, it is ITC's conviction that an organization's execution must be estimated by its Triple Bottom Line commitment to building monetary, social and ecological capital. ITC is consequently dedicated to making bigger 'partner esteem' by adjusting its execution to these Triple Bottom Line goals. As an Indian venture, ITC trusts that this methodology can release solid drivers of development to make it more comprehensive and impartial for even the most minimized areas of society, through the formation of maintainable occupations, and to guarantee long haul business manageability and intensity.

ITC has made an expansive commitment to the national reason for job creation, especially in rustic India. The Company's coordinated provincial improvement program has made a dynamic rustic eco-framework engaging ranchers, advancing the earth and raising country earnings. These inventive intercessions have achieved significant scale given the center spotlight on strengthening and co-creation, improvement of institutional structures and limit working at the grass-roots. By receiving a 360 degree way to deal with enhancing rustic eco-frameworks, ITC has set up long haul drivers that will

contribute definitively to the national need of business age and feasible development. The larger point of ITC's social part commitment is to engage partner networks to ration, increase and deal with their social and natural capital keeping in mind the end goal to advance maintainable vocations or employability on a huge scale. ITC is resolved to make development more comprehensive by concentrating on the requirements of three recognized areas: (a) Provincial people group in the Company's operational territories. (b) The people group living in closeness to the Company's generation units. (c) The focal and state governments, which empower Public Private Partnerships (PPPs). Under this, the three particular goals are: To advance atmosphere brilliant country improvement by wide basing homestead and off-cultivate employments arrangement of poor people and underestimated. Such mediations fortify the current beneficial base and additionally give substitute wellsprings of livelihoods, which help limit the reliance of agriculturists on rain-encouraged yields for monetary survival. To sustain and create social money to make a more level playing field for ability related employments and to meet the aggressive requests for higher profitability. Both, thusly, create higher salaries and help in reducing neediness. To investigate a more extensive canvas of social activities in light of a legitimate concern for the country. ITC is focused on seeking after brilliance in manageability and saving India's one of a kind social legacy. We will now rely on secondary sources of data collected from selected company's annual reports. In this research the sample of four years data, that is from 2013 to 2016, of 3 Indian listed companies in National Stock Exchange has been taken. The financial data used in this research are Net profit, total assets and



CSR expenditure extracted from annual reports of the firms. All the variables of the selected companies have been tested with Karl Pearson's correlation coefficient & correlation t-test for its validity. For profitability testing the correlation method to find the cause and effect relationship between CSR and impact on financial performance of the firm.

## **Observations**

The correlation between the CSR and net profit is strong positive in year 2013 to 2015 as shown in graph 1. but in 2016 the graph shows slight decreasing positive correlation between the CSR and Net profit. There is a strong positive correlation exist between the total asset and CSR in 2013 & 2014 as shown in graph 2. But in 2015 and 2016 the correlation is moderate weak between the Total assets and CSR (graph. 2) due to the political and economic condition prevailed in the economy. ' Karl Pearson Correlations t-test' The table below shows the positive correlation between CSR & net income of the companies and CSR & total assets of four year data of the 3 selected Indian companies.

## **Results & conclusion**

As the tables given above 2 to 5 these are the net profits, changing in assets and spending son CSR different sectors in India during 2013 to 2016. Table 5 showing the positive relationship between CSR and financial performance.

Four years Data has been collected from various companies listed at national stock exchange. Correlation is used to measure the cause and effect relationship between CSR and financial performance. In first measure, corporate social responsibility is compared with net profit of the company

which shows positive relationship between CSR and net profit. In Second measure CSR is compared with total assets of the firm which also shows the positive link between CSR and total assets. Thus, by these findings, the results show that there is significant positive relationship between CSR and Financial performance. Results show that as the company increased spending on CSR the financial performance of the firm enhanced.