

## Linkage between Social Performances and Financial Performances: A case study of Asian Paints limited in India.



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### **Abstract**

**Purpose** - This exploratory study is designed to investigate the nature and extent of Corporate Social Responsibility Disclosures (CSR) in the annual reports and based on the disclosures, CSR score has been computed and also examined the relationship with Size and Profitability parameters of Asian Paints Limited in India.

**Design** – The present study is mainly based on Secondary data (Author used content analysis) and data are collected from annual reports of selected company for the year ended on 31<sup>st</sup> March 2007 to 31<sup>st</sup> March 2012. (www.moneycontrol.com). All the data relating to conceptual framework of the selected company is collected mainly from literature reviews. The study applied descriptive statistics, one sample statistic, Chi square test, Karl Pearson's coefficient of correlation and Linear regression model to examine the relationship between the selected factors and Corporate Social Responsibility initiatives score of Asian paints limited.

**Findings** – The relationship between CSR score and the size of the business, profitability of Asian Paints limited has significant at 0.05 levels. The result of coefficient of determination, CSR score and CSR budget influences the financial performances of Asian Paints Limited in India.

**Originality** - This exploratory study expands the knowledge in the area of CSR initiative disclosure score and determining financial factors and size of the business. In this study CSR score is considered as Social performance measure and Edward Altman's Z score be treated as financial measure and such a study is limited in Indian studies.

### **Keywords:**

CSR Initiative, Karmayog ratings, Size factors, Profitability factors, Asian Paints Ltd.

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### **Introduction**

Now a day's Corporate Social Responsibility (CSR) is being promoted more as a core area of management, next to marketing and finance. The role of business now a day has evolved from profit maximization approach to social responsibility approach. The business is not only responsible to shareholders of the organizations but also responsible to all stakeholders. CSR is about the basic idea that businesses have to meet society's expectations in the practices. TATA group is the pioneer in introducing the concept of CSR in Indian industries, through responsible business practices including philanthropic activities and community development. Several references towards CSR can

be found in ancient Indian philosophical and spiritual literature. Vedic literature (around 2000 B.C) views business as an instrument of wealth for welfare, to attain socially desirable goals, through ethically worthy means, resulting in a generation of healthy, wholesome individuals, who carry ethical values and positive impulses into their community. According to Votow (1972), "CSR means something, but not always the same thing, to everybody". The growth of CSR concept has improved highly, because of Liberalization, Privatization and Globalization. Customers are highly conscious and aware about the quality and standards, stakeholders are aware of their interests, legitimate framework is improving with the establishment of Acts like Right to Information Act. Every corporate body is to ensure predictability, sustainability, liquidity and profitability of return year after year. Normally annual reports contents product portfolio, management discussion and analysis, directors report, auditors report, report on corporate governance and general shareholder information. This study is designed to investigate the nature and extent of CSR disclosures in Annual Reports of Asian paints limited in India and examined the determinant relationship between financial parameters and corporate social responsibility disclosures.

### Review of Literatures

Bowman and Haire (1975, 1976) performed content analysis of the 1973 annual reports of eighty two food processing companies in order to ascertain the percentage of total prose devoted to issues of CSR and found that those firms with some social responsibility prose performed significantly better than those with none. (Ref: Andrew Crane et al, CSR reading and cases, pp 38). Suwaidan (2004) found that the size, profitability and risk to be significantly and positively associated with the disclosure of social responsibility information. Abdullah et al (2011) found that family owned firms in Malaysia were negatively associated with the level and the quality of CSR disclosures. Yaghouf Alavi Matin et al. (2011) examined the relationship between CSR and the financial performance of companies manufacturing pharmaceutical products. The authors concluded that there is no positive relationship between CSR variables with firm financial performance. Richa Gautam et al. (2010) examined CSR practices of companies operating in India and maps against GRI standards and used content analysis technique to Access and concluded that all activities undertaken in the name of CSR are mainly philanthropy or an extension of philanthropy. Dr.Meeta Nihalani and Ashish Mathur (2011), concludes that, Most of the organizations in India are involving CSR as a part of their Business Strategy and investing around 0.02 percent of their profit and integrating CSR into their core practices. Jain Neeta et al (2010) stated about stakeholder theory, Social contract theory and legitimacy theory, and used content analysis of 440 Indian companies, selected from rating list of 2009 by Karmayog CSR ratings. The authors studied the relationship between CSR ratings with firm characteristics, such as Sales, Number of Employees, Profit before Tax and the Age of the organizations and analyzed through Correlation and Regression analysis and concluded that Sales volume and Number of employees are significant variables of CSR ratings and these variables has positive impact on CSR rating. Saeed Khan (2010) discussed about the method of CSR rating calculations by Karmayog, an NGO, and used good insight on CSR rating of major FMCG companies in India. The author

discussed in this paper about top three major FMCGs companies overall CSR initiatives and stated that website of few companies are providing information about their CSR initiatives, but are found not updated. The author focused about the seriousness of minimum annual CSR expenditures, CSR reporting, Adoption of Industry guidelines for improving processes, CSR link to the skill of a company and finally CSR link to the location of a company. Sumanta Dutta et al. (2011), explored CSR activities of Indian companies by comparing with TBL reporting with GRI and Karmayog ratings and concluded that 128 companies scored 0 level, 147 companies at level1, 146 companies at level 2, 66 companies at level 3, 13 companies at level 4 and No even a company under the level 5 and resulted that there is considerable improvement in the status level 0 from 2007 to 2009. Daniel Silberhorn et al (2007) studied an comparative content analysis of the CSR web-sites of 40 British and German companies and Data collected from the senior Managers through an interview, how the notion of CSR was developed and concluded that CSR arises from the performance considerations and stakeholder pressures and business and CSR strategy appear to be an convergent path, making business and CSR integration across the company and the CSR policies varied with Turnover, Industry sector and Nationality. Ashok Khurana observed that there is rising trend in publication of corporate sustainability report in India. The study explored global phenomenon in CSR and examined the CSR initiatives and trends of Indian companies on selected CSR indicators in comparison to Asia and World. The author found that Indian companies have shown its presence in the Top Two position in the most of the CSR indicators. i.e. Corporate governance, Codes and Policies, CSR strategy and Communication, Corporate Environmental disclosure, Community Investment initiatives and Total Industry Score. Author concluded the companies in India (53.2%) have the second highest rating for disclosure overall, which topped next to Australia by the comparison analysis form 2001 to 2009. Ashish Mathur provided an enhanced understanding of the nature of CSR by the small and medium scale industries through face to face interview from 250 respondents, operating small and medium firms in the city of Jodhpur by applying convenience sampling and concluded that Agricultural and Food Industry was ranked 1 among the other 9 Industries in the Demographic profile of Small and Medium Industries and the Top Three Area of CSR activities by SMEs are Donation to Welfare Organizations, Health and Safety Programs and finally Contributions to Educational Institutions. Authors also stated that, most Indian companies feel that CSR was only possible if profitability was high and concluded that there is a need today for Indian companies to re-examine their CSR interventions and determine their effectiveness through "think globally and act locally" (Alessandro,2003)Esra Nemli et al (2011) examined the relationship between Corporate Reputation and Corporate Financial Performance in Turkey for the period 2000-2010. The corporate reputation ranking from Capital Magazines Turkey's list used as proxy for Corporate Reputation. Return on Equity, Return on Asset and Market to Book value used as financial performance measures and concluded that there is casual relationship between Corporate Reputation and Corporate Financial performance and Corporate Reputation does not impact performance measure of ROE, but ROE improves corporate reputation. In this study the content analysis method was used and the disclosures have public relations bias, with very general 'good news' type of disclosures

being the normal and 'bad news' disclosures are minimum. (Nazli et al 2003, Tamoi et al 2007 and Md.Abdur Rouf 2011). However the main limitation of the score is that it considers only five categories of CSR activities. CSR initiatives has been classified into Healthcare, Education including Training Programs, Environment, Rural development and Other Community welfare activities and if an item of information disclosed, receives a score of 1, and 0 if it is not disclosed (Total Score is 5). This paper used weighted approach for CSR disclosure scoring and examined the determinant relationship between CSR disclosure score and financial parameters.

### Objectives of the study

The study has been carried out with the aim of analyzing the CSR disclosure score with financial parameters of the Asian Paints Ltd. The aim of the study has been carried out with the following specific objectives

1. To study the nature and extent of CSR disclosures of the Asian paints limited.
2. To examine the determinant factors of CSR disclosure level of the selected company.
3. To find whether CSR score influence the financial performances of the selected company.

### Null Hypotheses

- 1a. That there no any significant differences between the CSR Disclosures of the selected company.
- 1b. That there no any significant differences between the CSR Disclosures score and CSR Budget of the selected company.
- 2a. That there is no any significant relationship between CSR score and Total Assets of selected Company.
- 2b. hat there is no any significant relationship between CSR score and Net Sales of selected Company.
- 2c. That there is no any significant relationship between CSR score and Age of selected Company.
- 2d. That there is no any significant relationship between CSR score and Number of Employees of selected Company.
- 2e. That there is no any significant relationship between CSR score and Percentage of independent directors on Board of selected Company
- 3a. That there is no any significant relationship between CSR score and Book value per share of selected Company.

### Analysis and interpretation

Table- 1: Descriptive Statistics of the selected variables

Variables	Minimum	Maximum	Mean	Std. Deviation
Total CSR Index score	2.20	10.61	5.24	3.24
Net Sales	2827.00	7964.20	4,994.40	1913.50
Total Assets	1554.87	5005.41	2,970.70	1305.57
Age of the Company	71.00	76.00	73.50	1.87
Number of Employees	3,868	4,937	4,335.17	412.37
Book Value Per Share	77.60	259.40	152.68	70.08
Market Value Per Share	149.61	513.00	311.74	151.73
Operating Profit	464.30	1493.20	929.67	417.37
Earnings Per Share	28.40	99.90	61.11	29.57
Percentage of Indept. Directors	46.67	53.84	51.45	3.70

3b. That there is no any significant relationship between CSR score and Market value per share of selected Company.

3c. That there is no any significant relationship between CSR score and net operating profit of selected Company.

3d. That there is no any significant relationship between CSR score and EPS of selected Company.

4. That the CSR disclosure score has no any impact on the financial performance of selected company in India.

### Research Design

The study is based on the secondary data, collected from annual reports of the selected company in Indian paint industry for the period ended on 31<sup>st</sup> December 2007 to 31<sup>st</sup> December 2012 and applied content analysis (Nazli et al 2003, Tamoi et al 2007, Md Abdur Rouf 2011).. The extent of CSR level is measured by using 40 items of information, grouped into Employee, Environmental, Community welfare activity and Customer service activity information. To measure the CSR disclosure score, the following two key parameters were considered. First, budget allocation of fund for CSR activities, which is calculated at two percent on past three year's average profit after tax of the year. Secondly, a scoring sheet was used to assess the extent of disclosures. If a item of information included in the index, it receives a score of 1, otherwise zero. Total score is 40 and subdivided into 15 for employee information, 10 for community and other information, 10 for environmental information and finally 5 for customer/ product based information. (Ruchi Tiwari, 2010 applied weightage of CSR activities, according to Karmayog ratings). This paper used an weighted approach for disclosure INDEX scoring and equal importance given to all the CSR initiatives and calculated as  $\sum (B * WCSR)$  where B is Budgeted CSR allocation amount and WCSR is Total Disclosures / 4 \* 100. Net Sales, Total Assets, Age, Number of employees and percentage of independent directors were treated as Size based variables (Md.Abdur Rouf, 2011). Net operating profit, Book value per share, Market value per share and EPS were considered as profitability variables. Altman Z score was treated as financial performance variables ( $Z \text{ score} = 1.20 X_1 + 1.40X_2 + 3.30X_3 + 0.60X_4 + 0.99X_5$ , where  $X_1$  is working capital / Total Assets,  $X_2$  is Reserves and Surplus/Total Assets,  $X_3$  is EBIT/Total Assets,  $X_4$  is Market Capitalization/ Total Value of Liability and  $X_5$  is Sales /Total Assets) and applied co efficient of determination, to measure the impact level of social performances on financial performances of Asian paints limited.

Table 1 represents the mean, standard deviation value of both size based and profitability based variables. The standard error of these variables does not exceed plus or minus 2. So the data possess reliability and normality.

**Table – 2 One-Sample Statistics**

	Mean	Std. Deviation	Std. Error Mean
Employee Informations	3.0000	.00000 <sup>a</sup>	.00000
Environmental Informations	3.1667	.40825	.16667
Products Informations	4.0000	.00000 <sup>a</sup>	.00000
Community /Other Informations	3.1667	.40825	.16667

Null hypothesis 1a is accepted that the CSR disclosure of Asian paints limited is not equal. Environmental information, Community and other information are comes under a group. (Mean is 3.16). Employee information and Product information has different means.

**Table – 3 Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.000	4	0.199
Likelihood Ratio	7.638	4	0.106
Linear-by-Linear Association	3.214	1	0.073

Null hypothesis 1b is accepted that the CSR disclosure score and CSR Budget of Asian paints limited is not significant. (Author calculated CSR Score as CSR Budget \* Weight of CSR disclosures)

**Table -4: Correlation between CSRD and Size based variables.**

	Total CSRD Index score		Net Sales		Total Assets		Age of the Company		Number of Employees	
	r	Sig	r	Sig	r	Sig	r	Sig	r	Sig
Net Sales	0.985	0.000								
Total Assets	0.963	0.002	0.994	0.000						
Age of the Company	0.960	0.002	0.985	0.000	0.975	0.001				
Number of Employees	0.990	0.000	0.992	0.000	0.974	0.001	0.987	0.000		
Percentage of Indept. Directors	-0.883	0.020	0.873	0.023	0.876	0.022	-0.828	0.042	-0.852	0.031

Null Hypothesis 2a, 2b, 2c, 2d, 2e and 2f were rejected. CSR disclosure score has positive and significant relationship at 0.01 levels with size based variables of Net Sales, Total Assets, and Age of the company, Number of Employees. Also CSRD has significant relationship at 0.05 levels with percentage of independent directors on board of directors.

Table -5: Correlation between CSRD and Profitability based variables

	Total CSRD Score		Book value Per Share		Market Value Per Share		Operating Profit	
	R	sig	r	sig	r	sig	r	sig
Book Value Per Share	0.971	0.001						
Market Value Per Share	0.826	0.043	0.936	0.006				
Operating Profit	0.906	0.013	0.977	0.001	0.981	0.001		
EPS	0.879	0.021	0.961	0.002	0.985	0.000	0.998	0.000

Null Hypothesis 3a, 3b, 3c, and 3d were rejected. CSR disclosure score has positive and significant relationship at 0.05 levels with profitability based variables of Book value per share, Market value

per share, Operating profit for the year and EPS of Asian Paints limited for the year 2012.

Table 6: Regression Estimates

Independent variables	Beta Coefficient	Standard Error	't' value	Significance
CSR disclosure score	3.450	0.339	5.251	0.013
CSR Budget	-3.783	0.122	-5.758	0.010

Table 6 showed that the null hypothesis 4 has rejected and the independent social variables of CSR disclosure score and CSR budget were influencing the financial performances (Alman Z score) of Asian Paints limited. ANOVA table represents the 'F' value is 17.461 and is significant (0.022) at 0.05 levels. So author concluded that the model is fit. Asian paints limited only the Nifty listed company in the paint industry is the first limitation of this study. CSR disclosure score construction is the sensitive, and can affect the results, if the selected item of information is improper is the second limitation of this study. In future, comparative study among the various industries is considered for the advancement of this research work.

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