

# **Impact of CSR on Financial Performance of Public Limited Companies – A Case Study of ONGC and IOCL**

**Naveen Kumar**

Research Scholar

Department of Applied Economics and Commerce,  
Magadh University, Bodh-Gaya (Bihar)

## **Abstract**

*Corporate Social Responsibility (CSR) is not a new concept. It has been in practice in India since long and growing as an important part of strategy of the organization. It is a concept whereby companies decide to contribute for a better society and clean environment through their initiatives. The present paper is an attempt to study the impact of CSR on financial performance of Oil and Natural Gas Corporation (ONGC) and Indian Oil Corporation Limited (IOCL).*

**Keywords:** Corporate Social Responsibility (CSR), ONGC, IOCL, Stakeholders.

## **I. INTRODUCTION**

Corporate Social Responsibility is widely considered as an important part of firm's regulation which has impact on financial performance and corporate decisions of a company. Generally, a company needs to be responsible for all the actions they do either ethically or socially. There has been a continuous debate among the academicians and researchers about the effect of CSR on companies, their sales, net profit and interest of other stakeholders.

## **II. OBJECTIVES OF THE STUDY**

The present research study has the following objectives:

1. To know the meaning of CSR
2. To study the impact of CSR on financial performance of select companies.
3. To find out some concrete conclusion of the study with some vital suggestions

## **III. METHODOLOGY OF THE STUDY**

This empirical study is based on primary as well as secondary data. It is based mainly on secondary data collected from annual reports of ONGC, IOCL, Economic

Survey (GoI) and other publications. The sources of data also depend on books, leading journals, websites and newspapers. However, primary data has been collected through personal interview with the officials of the concerned companies. Further, we have used the correlation using quantitative method of analysis to study relation between CSR and sales and again CSR and net profit of the companies and have tested it using of t-test at 5% level of significance.

#### IV. REVIEW LITERATURE

**Moses L. Pava, Joshna Krausz (1996)** tried to establish relation between CSR and traditional financial performance through long term financial performance using the Council of Economic Priorities Ratings based on assessment of 12 specific components as a measurement of corporate social responsibility and then putting the criteria for measurement of financial performance depending on market base, accounting base, measure of risk and other specific features. They found a positive association between corporate social responsibility and traditional financial performance.<sup>1</sup>

**Sandhu, S.H. and S. Kapoor (2005)** tried to study the relationship of CSR and financial performance of 20 leading companies in India for the period 2000-03 by using correlation and regression techniques. They found that there was no significant relationship between CSR and financial performance of these companies.<sup>2</sup>

**Cyrus Iraya Mwangi and Jane Jerotich Oyenje (2013)** had tried to study the relationship between corporate social responsibility practice and financial performance of firms listed in Nairobi Securities Exchange. The results of the study indicated the existence of relationship between independent variables and dependent variables. The study also revealed that there was an insignificant positive relationship between corporate social responsibility practice and financial performance.<sup>3</sup>

**V.L. Govindrajan and S. Amilan (2013)** in their joint study tried to make a linkage between corporate social responsibility initiative, with financial performances in context of oil and gas product industry in India by using several statistical techniques like Anova, Chi-Square and Karl Pearson's Coefficient of Correlation. They observed that corporate social responsibility initiatives have certain impact on financial performances of this industry.<sup>4</sup>

**Tyagi, Rupal and Anil K. Sharma (2013)** have the relationship between Corporate Social Performance and Corporate Financial Performance in Indian context. The results of the study show neutral negative relationship between the CSP and CFP which eventually informs that if there would be any relationship, it would be negative.<sup>5</sup>

**Asatryan Roman & Brezinova Olga (2014)** in their research paper made a contribution towards the knowledge of corporate social responsibility initiatives of businesses and its ability to influence their financial performance in the airline industry in Central and Eastern Europe. In the study, the Return on Equity (ROE) and Return on Assets (ROA) were used as indicators to measure financial performance of the firms. The study observed that there was a significant positive relationship between CSR initiatives and financial performance measures.<sup>6</sup>

**Samra Kiran, Shahid Jan Kakakhel and Farzana Shaheen (2015)** attempted to study the impact of corporate social responsibility (CSR) practices on profitability of firms with reference to a case study of oil and gas sector of Pakistan. The study was conducted with the help of variable like CSR spending, net profit, net profit margin and total assets. The result of the study found that there was a positive correlation between CSR and net profit and net margin while there was negative correlation between CSR and total assets. The study also revealed that there was an insignificant impact of CSR activities on profitability of the firm.<sup>7</sup>

**Yadav M.P. and M. Gupta (2015)** had studied on linkage between Corporate Social Responsibility and Return on Net Worth (RONW) of selected companies while examining the influence of CSR activities on financial performance. They took five private companies in India such as Tata Steel, RIL, Mahindra & Mahindra, Infosys and Larsen & Toubro with the use of regression analysis and Anova. They observed that CSR has an insignificant relationship with return on net worth but it has positive relationship EPS of these companies.<sup>8</sup>

**M. Shoukat Malik and Muhammad Nadeem (2014)** have investigated the impact of Corporate Social Responsibility on the financial performance of banks in Pakistan especially multinational banks. The study reveals that there is a positive relationship between profitability and CSR practices. Banks adopting CSR practices were in position to earn more profit for longer period.<sup>9</sup>

**Amalendu Bhunia and Lakshmi Das (2015)** analysed the impact of Corporate Social Responsibility on firm's profitability with reference to Maharatna Companies in India including Bharat Heavy Electrical Limited (BHEL), Coal India Limited (CIL), Indian Oil Corporation Limited (IOCL), Oil & Natural Gas Corporation (ONGC), Gas Authority of India Limited (GAIL), National Thermal Power Corporation (NTPC) and Steel Authority of India Limited (SAIL). The variables taken under study were corporate social responsibility expenditures, profit after tax and earnings per share. The result of the study shows that profit after tax is positively associated with CSR in CIL, GAIL, NTPC and SAIL while it is negatively associated in BHEL, IOCL and ONGC.<sup>10</sup>

## V. FINDINGS OF THE STUDY

In this section, an attempt has been made to study the impact of corporate social responsibility on some select companies namely; ONGC and IOCL. The impact has been found through correlation coefficient between CSR and sales and further between CSR and net profit of the respective companies and they also have been tested by t-test technique.

### **Oil and Natural Gas Corporation (ONGC)**

Oil and Natural Gas Corporation (ONGC) is committed to achieve and develop social wealth by enhancing the triple bottom line benchmarks of economic, environmental and social performance through committed involvement. The company has objectives to understand the stakeholders' expectations, adopt environmentally sustainable practices, execute long term projects with geographically spread focusing the growth of marginalized and deprived sections of the society, create adequately empowered organizational structure and persuade business partners for adopting similar practices for CSR and sustainable development.<sup>11</sup>

An attempt has been made to study the CSR expenditure with sales and net profit of ONGC during the 2014-15 and 2018-19. Table 1 and Chart 1 shows that CSR expenditure of ONGC was recorded at Rs. 215.61 crore in the year 2014-15 which increased to Rs. 421 crore in 2015-16 and further to Rs. 526 crores in 2016-17 but it

decreased to Rs. 503.44 crore in 2017-18 . It again went upto Rs. 614.64 crore in the year 2018-19 thus, registered an increase about 2.85 times during the year.

Table 1 and Chart 1 further describe the figure of sales of ONGC during the same period. Sales of ONGC maintained an increasing trend except the year 2015-16. The figure of sales of ONGC was recorded at Rs. 83093.47 crore in 2014-15 which decreased to Rs. 77741.75 crore in 2015-16 but it again started increasing and finally reached to Rs. 109654.55 crore in the year 2018-19 thus registered an increase about 1.32 times during the period under study.

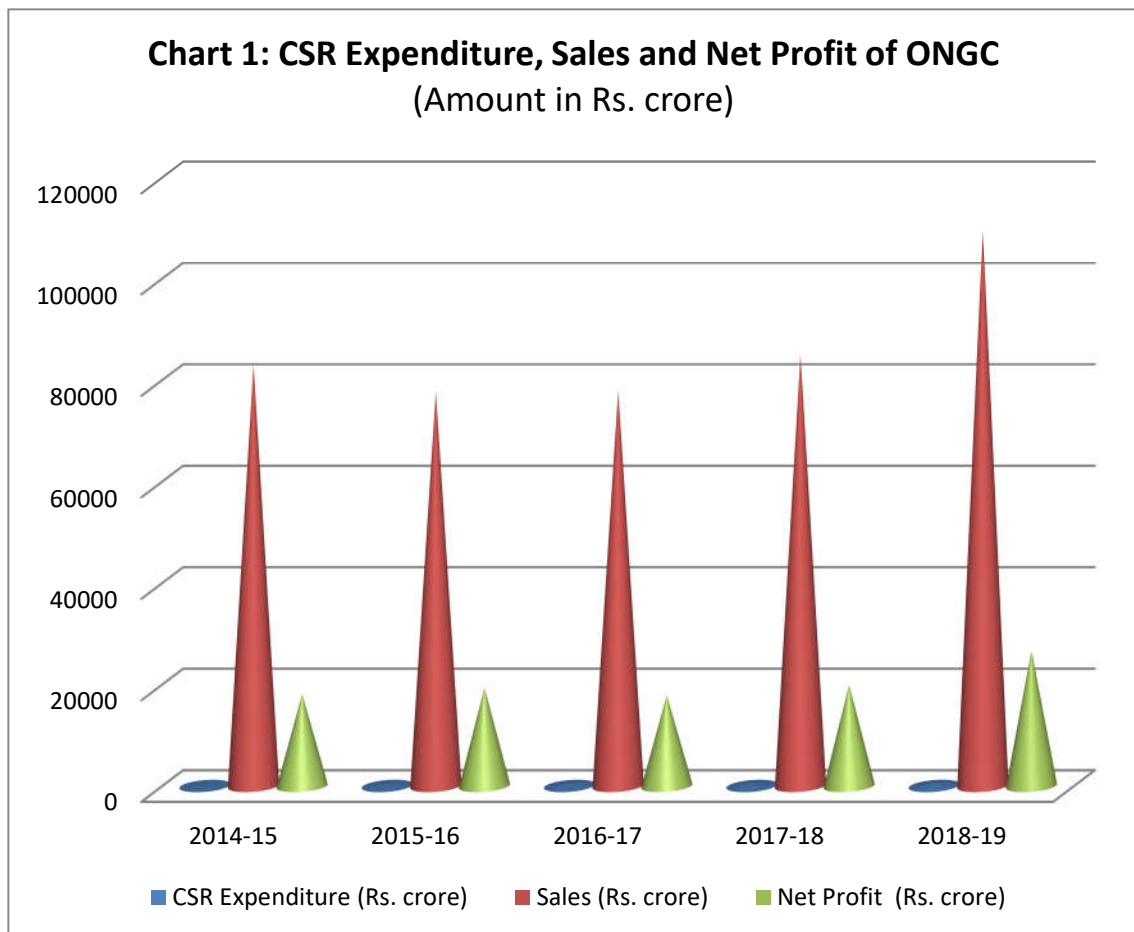
Table also reveals the position of net profit of ONGC during the same period. The net profit of ONGC for the period 2014-15 was recorded at Rs. 18116.86 crore which increased to Rs. 19366.52 crore in 2015-16 but it declined to Rs. 17899.98 crore in 2016-17. However, this figure increased to Rs. 19945.26 crore in 2017-18 and further to Rs. 26715.79 crore in 2018-19 thus registered an increase about 1.47 times during the period under study.

**Table 1: CSR Expenditure, Sales and Net Profit of ONGC**

(Amount in Rs. crore)

Year	CSR Expenditure	Sales	Net Profit
2014-15	215.61	83093.47	18116.86
2015-16	421.00	77741.75	19366.52
2016-17	526.00	77907.73	17899.98
2017-18	503.44	85004.10	19945.26
2018-19	614.64	109654.55	26715.79
Coefficient of Correlation between CSR Expenditure & Sales (r) = 0.515917			
Coefficient of Correlation between CSR Expenditure & Net Profit (r) = 0.634196			

Source: <https://economictimes.indiatimes.com>



Source: Based on Table 1

An attempt has been made to find out the correlation between CSR and sales and further, correlation between CSR and net profit of ONGC between 2014-15 and 2018-19 taking the figures of five years. The study reveals that the value of coefficient of correlation ( $r$ ) between CSR and sales = +0.52 which shows moderate positive relation between CSR and sales of ONGC. But applying t-test, it was found that coefficient of correlation is not significant between CSR and sales. Value of ( $r$ ) shows that there is moderate degree of positive correlation. We can interpret that CSR is not the only factor which affects the volume of the sales of the company.

The value of correlation coefficient ( $r$ ) between CSR and net profit of ONGC = +0.63 which signifies that there is moderate degree of positive correlation. By applying

t-test, it was found that the coefficient of correlation is not significant. We can interpret that net profit is not the only result of CSR and net profit of ONGC

### Indian Oil Corporation Limited (IOCL)

Apart from supplying LPG, petrol and diesel, Indian Oil Corporation Limited (IOCL) is involved in a gamut of welfare and upliftment activities in India. The thrust areas of CSR initiatives of IOC include healthcare and sanitation, safe drinking water and protection of water resources, empowerment of women and economically/socially backward groups, education and employment, vocational skills, etc. These initiatives came into force in 2014-15. The company is always making attempt to improve the quality of life in various communities including marginalized and underprivileged sections of the society including SC, ST, OBC, physically handicapped, etc.<sup>12</sup>

The position of CSR expenditure, sales and net profit of IOCL has been studied from the period 2014-15 to 2018-19. Table 2 and Chart 2 shows the CSR expenditure recorded an increasing trend during the period which increased from Rs. 113.79 crore in 2014-15 to Rs. 490.60 crore in 2018-19 thus, registered an overall increase about 4.3 times during the period under study.

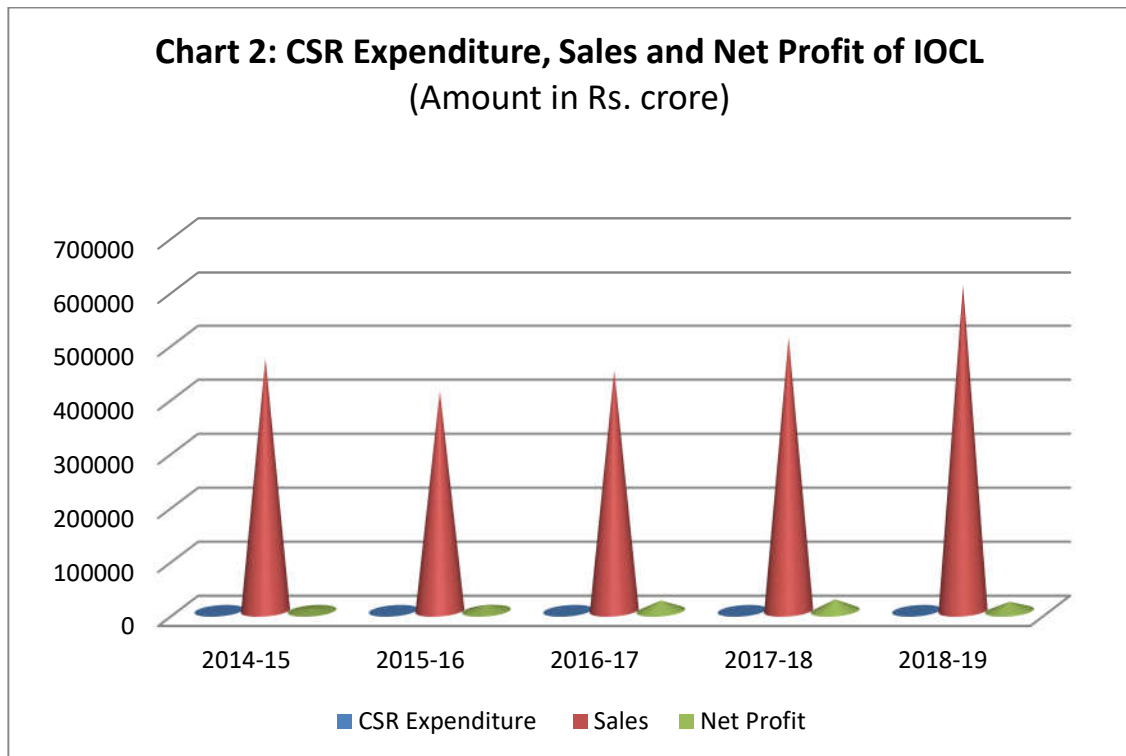
The sales of IOCL was recorded Rs. 467933.90 crore in 2014-15 which came down to Rs. 406827.99 crore in 2015-16 but it maintained an increasing trend till 2018-19 when it reached to Rs. 605923.77 crore thus, registered an overall increase about 12.95 times during the period under study.

**Table 2: CSR Expenditure, Sales and Net Profit of IOCL**

(Amount in Rs. crore)			
Year	CSR Expenditure	Sales	Net Profit
2014-15	113.79	467933.90	5273.03
2015-16	156.68	406827.99	11242.23
2016-17	213.99	445441.90	19106.40
2017-18	331.05	506427.59	21346.12
2018-19	490.60	605923.77	16894.15
Coefficient of Correlation between CSR Expenditure & Sales (r) = 0.905849			
Coefficient of Correlation between CSR Expenditure & Net Profit (r) = 0.634994			

Source: <http://www.moneycontrol.com> & <http://www.iocl.com>

The table also describes the position of net profit of IOCL during the same period. It shows that the net profit of IOCL was marked at Rs. 5273.03 crore in 2014-15 which continuously increased and reached to Rs. 21346.12 crore in 2017-18 but came down to Rs. 16894.15 crore in the year 2018-19 thus, registered an overall increase about 3.2 times during the period under study.



Source: Based on Table 2.

An attempt has also been made to study the relation between coefficient of correlation between CSR and sales and further CSR and net profit of the IOCL during the period 2014-15 and 2018-19. The coefficient of correlation between CSR and sales ( $r = +0.91$ ) which shows very high correlation between them. T-test shows that there is high relationship between CSR and sales of IOCL and the correlation is significant.

The study further shows the coefficient of correlation between CSR and net profit ( $r = +0.63$ ) which indicates that there is moderate degree of correlation between CSR and net profit of IOCL. But t-test signifies that there is no correlation between CSR and net profit of IOCL.



## VI. SUGGESTIONS OF THE STUDY

On the basis of study, following suggestions can be prescribed:

1. Corporate Social Responsibility is concerned with different stakeholders. Hence, companies must provide real information of corporate social responsibility in terms of quantity and quality. The information regarding CSR must be transparent and audited by the concerned authority.
2. In the interest of different stakeholders, companies should give advertisement highlighting the CSR activities in the organization. It will increase the profit of the company in the future.
3. Companies should prepare themselves and take initiative for ‘Atmanirbhar’ concept in India through effective CSR for better financial performance.
4. CSR projects must be well structured for the long term period which will improve the financial performance of the company and will enhance the benefits for beneficiaries. The company may contribute to the community at large through CSR activities.
5. Companies must improve the customer trust, minimise the risks and create a long term value through positive relation between CSR and profitability.
6. Companies must educate the public and other stakeholders for their commitments. Companies should involve the communities in planning, organizing, implementing and evaluation of CSR projects. It will create a good relation among the stakeholders.
7. While focusing on the needs of urban areas, companies also must consider the issues like education, Health, childcare, etc of the slum and weaker sections of the society in rural areas.
8. Companies should maintain good governance which will result in better relation between employer and employees and ultimately enhance the financial performance.

## VII. CONCLUSION OF THE STUDY

Thus on the basis of study, it may be concluded that CSR is an important factor for companies and its importance is growing day by day. Companies are availing the resources of the society and environment. Hence, they must have some responsibility towards them. People are also giving preference to those companies and even ready to give more prices of their products which are adopting CSR initiatives. But it is also a matter of fact that CSR is not only the sole factor for sales and net profit of the company. There are some other factors which have impact on the sales and net profit of the companies. It is clear from the study that CSR is not significant with sales and net profit of all the companies. In some cases, it is significant either with both or none or anyone of them. Hence, companies should give proper care and attention to other factors also like organizational structure, decision making process of governing body, goodwill and performance of companies in other areas. Then after, the company may get success in the globalised market.

\*\*\*\*\*

## REFERENCES

1. Moses L. Pava, Joshua Krausz, (1996), "The Association between Corporate Social-Responsibility and Financial Performance" *The Paradox of Social Cost*", *Journal of Business Ethics* 15: 321-357.
2. Sandhu, S. H. and Kapoor, S. (2005), Corporate Social Responsibility and Financial performance: Exploring the Relationship, *Management and Labour Studied*. 30 (3). 211- 223.
3. Cyrus Iraya Mwangi,Oyenje, Jane Jerotich,(2013), The Relationship between Corporate Social Responsibility Practices and Financial Performance of Firms in the Manufacturing, Construction and Allied Sector of the Nairobi Securities Exchange, *International Journal of Business, Humanities and Technology*, Vol. 3, No. 2;81-90.
4. V.L Govindrajan and S. Amilan (2013) A Study on Linkage between Corporate

- Social Responsibility Initiatives with Financial Performances: An Analysis from Oil and Gas Product Industry in India, *Pacific Business Review International*, Volume 6, Issue 5, pp. 81-93.
5. Tyagi, Rupal and Anil K. Sharma (2013), Corporate Social Performance and Corporate Financial Performance: A Link for the Indian Firms, *Issues in Social and Environmental Accounting*, Vol. 7, No. 1 March pp. 4-29
  6. Asatryan Roman, Brezinova Olga.(2014) Corporate Social Responsibility and Financial Performance in the Airline Industry in Central and Eastern Europe. *Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis*, 62(4): 633–639.
  7. Samra Kiran, Shahid Jan Kakakhel and Farzana Shaheen (2015) Corporate Social Responsibility and Firm Profitability: A Case of Oil and Gas Sector of Pakistan, *City University Research Journal*, Volume 05, Number 01, January, Article 09.
  8. Yadav M.P. and Gupta M. (2015) A Study on Linkage between Corporate Social Responsibility and Return on Net Worth (RONW) of Selected Companies: An Empirical Analysis, *IOSR Journal of Business and Management*, 17(1), pp. 13-17.
  9. M. Shoukat Malik, Muhammad Nadeem (2014) Impact of corporate social responsibility on the financial performance of banks in Pakistan, *International Letters of Social and Humanistic Sciences*, Vol. 21, 9-19.
  10. Amalendu Bhunia, Lakshmi Das (2015)The Impact of Corporate Social Responsibility on Firm's Profitability- a Case Study on Maharatna Companies in India, *American Research Journal of Humanities and Social Sciences*, Volume 1, Issue3, 8-21.
  11. <https://www.google.com>
  12. <https://www.iocl.com>