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CASUAL LINKAGE BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND PROFITABILITY: A CASE STUDY OF TATA GROUP

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ABSTRACT

The entire globe in the current scenario is emphasizing and fostering the term social responsibility of business houses and the same is prevalent in India too. Corporate Social Responsibility (CSR) became vital issue in India with the release of Corporate Governance voluntary guidelines in 2009 by the Ministry of Corporate Affairs, Government of India. In this context, the aim of the current study was to untangle the relationship between CSR and profitability of the Tata group. The study covered the period from 2009-2015. In order to determine casual linkage between CSR and profitability Cointegration test followed by Vector Error Correction Model (VECM) approach and Granger causality test were applied. The result of the study revealed that CSR was influenced by the Profitability of the Tata group.

Key Words: family business, financial performance, group, initiatives, profitability, social *responsibility.*

JEL Code–M14, P17

INTRODUCTION

Social or commercial organizations always depend upon the society. Prosperity of the organization depends on all kinds of resources which come from the society. Without society the very existence of the organization will cease to exist. Considering these views important, the organization was expected to share its resources with the society Vhankate et al (2011).Corporate Social Responsibility as a thought has roots six decades long but it became more familiar to the public few years ago Artturi (2013). The concept of shared value or Corporate Social Responsibility Samra et al (2015) attracted incredible attention of the corporate sector as well as researchers. CSR consists of practices, policies, procedures whose purpose is to make social conditions, rights, environmental protections better and safeguard the interest of various stockholders. CSR activities include donations or commitments regarding environment protection, education, social well-being, healthy and safe working place for the employees. Society demand a responsibility on the part of corporations towards its stakeholders mainly its customers, employees and community in spite of its profit maximization goals. Tanveer Bagh et al. (2017) emphasized that corporate social responsibility and financial performance might have neutral, positive or negative linkage and researchers have no consensus among them.

There are two types of classification of empirical studies on the relationship between corporate social responsibility and financial performance based on several theoretical arguments. Wright and Ferris (1997) emphasized negative relationship between financial performance and corporate social responsibility. Bagh (2017) found a positive and significant impact of CSR on financial performance (return on assets, return on equity and earning per share) of selected commercial banks of Pakistan. Munaza et al. (2013) examined positive relationship between CSR and net profit of the firm listed on Karachi stock exchange. Malik and Muhammad (2014) found that financial performance of banks got increased by spending on corporate social responsibility in Pakistan. Samra et al. (2015) found a positive association of CSR activities and net profits, net profit margin of the pakistani firms. In Bangladesh Dutch Bangla Bank Ltd study Mahbuba (2013) revealed that every unit change in CSR expenditure led to increase in profits after tax. In India Krishnan (2012) study on BSE listed companies found that CSR activities exhibited a positive impact on firm’s financial and non-financial performance and it was in the interests of the company to undertake CSR activities. However, Baird et al. (2012) illustrated that the influence of CSR on financial performance was found to be positive in some sectors in India but

Rajput et al. (2012) study on Indian companies explored that any previous expenditure done on CSR activities resulted in increase in average profits of the next year.

The current study was based on Tata group of companies which was started by Jamsetji Tata in 1860’s who was merely an entrepreneur and helped India to take her place in the league of industrialized nations. From the social welfare view point of view Tata group gave India its first science centre, hospital and atomic research centre which provide rehabilitation and relief to natural disaster affected places Kumar (2008). Tata group had done welfare programme in their organization voluntarily since their existence, even before many provisions of the government. Tata group changed their Memorandum of Association by inserting social activities for the welfare of the society in 1970.

With the passage of time the welfare programmes have converted into corporate social responsibility. Ministry of corporate affairs, government of India had issued National Voluntary guidelines on social, environmental and economic responsibilities of Business regarding CSR in 2009, refined and reissued in 2011 which were changed in 2013 into a law in 2013 under Section 135 of Companies Act. Inspite of all this no proper study has been done on specific companies in India due to which large area remains unexplored. Based on these grounds, there was knowledge gap and in order to fill that gap we had under taken this study. The problem statement of the current study was to untangle the relationship between corporate social responsibility and profitability of Tata group.

REVIEW OF LITERATURE

The section briefly discusses some of the important studies of relationship between Corporate Social Responsibility and profitability of various companies of different countries.

Bagh (2017) had analysed the impact of Corporate Social Responsibility (CSR) on financial performance (FP) of banking sector in Pakistan. Secondary data was collected from a sample of 30 commercial banks listed with Pakistan stock for the period 2006-2015 on market capitalization basis. To analyse the data, pooled regression model was applied. The findings of the study revealed positive and significant impact of CSR on return on assets, return on equity and earnings per share. This premise holds that CSR had positive and significant impact on financial performance of selected commercial banks of Pakistan.

Samra et al. (2015) investigated the impact of corporate social responsibility practices on the financial performance of the Pakistani firms. The study was conducted on ten oil and gas sector companies of Pakistani for a period 2006-13. The study had employed correlation and regression tests on CSR spending of the company, net profits, net profit margin and total assets. The findings of the study revealed that CSR had positive correlation with net profit and net profit margin whilst negative correlation was found with total assets. Further insignificant impact of CSR activities on profitability of the firm was found in the study. The study concluded that it was actually a responsibility of business to share their profits with society as without society it was difficult to survive.

Malik and Muhammad (2014) investigated the impact of Corporate Social Responsibility on the financial performance of banks in Pakistan. The study had employed panel data for the period of 2008-2012. The study made use of secondary data of 8 banks to examine the relationship between earning per share, return on asset, return on equity, net profit and CSR. Regression model was used to analyse the data and the results disclosed that there was lack of investment in CSR activities in Pakistan but positive relationship was found between profitability and CSR practices. The study further revealed that financial institutions which have implemented CSR in their operations earned more profit in the long run.

Farzana and Mahbub (2013) examined the impact and relationship by taking corporate social responsibility expenditure as an independent variable and profit after tax as a dependent variable of Dutch Bangla Bank Ltd. (DBBL) in Bangladesh. The study made use of secondary data relating to cost/investment/expenditure for the bank on corporate social responsibility and profitability for the period 2002-2011. Ordinary least square (OLS) model of regression was employed using SPSS 16 software. The study found that 90.7% of the variance of profit after tax of DBBL was due to the benefit accrued from corporate social responsibility and significant positive relationship was found between corporate social responsibility and profitability in DBBL.

Munaza et al. (2013) explored the relationship between corporate social responsibility & financial performance by analysing the cause and effect relationship. The data of 15 listed companies on Karachi stock exchange was analysed using correlation analysis. The result of the study revealed that financial performance played a vital role to carry out the CSR activities as the strong financial performance resulted in provision of necessary funds to carry out their social activities. The study found positive relationship between CSR and financial performance of the firm.

Rajput et al. (2012) analysed the relationship between CSR and financial performance in Indian context. The study used sales and profit figures of largest 500 Indian companies for two years 2008-09 and 2009-10. CSR indexes karamyog and financial performance (annual reports) measures were taken as variables by using ordinary least squares regression and correlation analysis. The results revealed that statistically significant relationship existed between corporate social responsibility and financial performance and the study concluded that there was a marked financial benefit for companies that were innovative to invest in CSR.

Krishnan (2012) examined the relationship between CSR and financial performance and influences of CSR towards primary stakeholders on the financial and non-financial performance of the firm in India was observed.. The research was conducted with a sample of 104 government and privately owned companies drawn over 19 industry sectors using primary and secondary data. To analyse the data statistical tools correlation and regression analysis were used. The study revealed that there was a significant and positive correlation of CSR with various stakeholders and the firm performance, except in case of Environment. The study was limited to the level of CSR activities at major Indian listed companies and level of CSR with respect to a few primary stakeholders namely, employees, community, customers and suppliers and environment.

Jean et al. (1988) evaluated corporate social responsibility and firm financial performance from 1977 to1985 of largest firms in 20-25 industry groups. In this study ten largest companies were rated on eight attributes: financial soundness, long-term investment value, use of corporate assets, quality of management, innovativeness, quality of products or services, use of corporate talent, and community and environmental responsibility. Researcher established that firm's prior performance, assessed by both stock-market returns and accounting-based measures was more closely related to corporate social responsibility and measures of risk were more closely associated with social responsibility.

RESEARCH GAPS

After scanning the literature, it came to light that though numerous studies had been done on corporate social responsibility and profitability in various other countries. However, the topic of CSR and profitability of Tata Group still remained untouched in Indian context. Thus the current study aimed to fill the research gap in the literature by examining the relationship between corporate social responsibility and profitability of the Tata group for the period 2009-2015.

OBJECTIVES OF STUDY

The specific objectives of the study were as follows:-

1. To examine the relationship between Corporate social responsibility (CSR) and profitability of the Tata group.
2. To analyse the impact of CSR on the profitability of the Tata group and vice versa.

HYPOTHESIS OF THE STUDY

H_{01}: There was statistically no significant relationship between CSR and profitability of the Tata group.

$H_{02:}$ There was statistically no significant impact of CSR on the profitability of the Tata group.

METHODOLOGY

To achieve the aforesaid objectives of the study, the following research methodology was incorporated into the study.

Scope of the Study

The scope of the study was limited to Tata Group and the variables considered for the study were corporate social responsibility and profitability of six companies of Tata group namely Indian Hotel Company, Tata Motors, Tata Steel,Tata Power, Tata Chemical, Tata Consultancy Services.

Sample Size

The sample size of the study was restricted to six companies of Tata group. As per non probabilistic convenience sampling, the sample from different sectors namely Engineering products and services, Materials, Services, Energy, Chemicals, Consumer products, Information technology and communications was considered for the purpose of the study. Companies selected as sample from each sector were Indian Hotel Company, Tata Motors, Tata Steel, Tata Power, Tata Chemical, Tata Consultancy Services respectively.

The study was based on secondary panel data which was extracted from annual reports of Tata group of companies. The Values of variables considered for the study were taken as the values existed as on 31st March every year during a period 2009-2015.

Variables Description

The variables chosen in the study were described as follows:-

Corporate social responsibility was considered as the amount of investment spent on CSR activities like donation, education, health social welfare and other natural catastrophes Bagh (2017) under study and profitability was taken as net profits after tax**.**

Analytical tools: The study employed the following statistical tools in order to accomplish the objectives of the study.

Homogeneity Test: This test is applied on balanced panel data to find whether the data is homogeneous or not.If homogeneity exists, then the data can be pooled, otherwise not.

Stationarity Test: Stationarity of a series is very important phenomenon as it can influence **its** behaviour. Stationarity of the variables is tested through the Augmented Dickey Fuller (ADF) Unit root test which exhibits that mean and variance remain constant over a period of time. Differencing of a series using differencing operations will produce other set of observations such as the first-differenced values, the second-differenced values and so on.

x level xt

x 1st-diiferenced value $x – x$

$t\ t–1$

x 2nd-diiferenced value $x – x$

$t\ t–2$

The series stationary without any differencing was designated as I (0), or integrated of order 0. On the other hand, a series that was stationary at first differences was designated as I (1) or integrated of order one (1).

Lag Optimum: In VAR based on Akaike Information Criterion (AIC), Schwarz Information Criterion (SIC) or Quinnon Hannan (HQ) lag order is determined.

Cointegration Test: Testing for cointegration is possible if the stationarity of the series is at the level of first difference or I (1). Cointegration is mainly focused to examine long-term equilibrium association between the observed variables. Sometimes an individual's data is not stationary but when connected in a linear data, it becomes stationary then the data is known as cointegrated. In the study, the cointegration test was applied by following the Johansen procedure. Johansen S. et al. (1990). Technique used two tests to decide number of cointegration vectors: the Trace test and Maximum Eigenvalue test. Maximum Eigenvalue statistic tested the null hypothesis of r cointegrating relations against the alternative of r+1 cointegrating relations for r = 0, 1, 2…n-1. The statistics of test are computed as:

$$\text{LR max}\ (r / n + 1) = -T * \log(1 - \hat{})$$

Where is the Maximum Eigenvalue and T is the sample size. The null hypothesis was examined by Trace statistics of r cointegrating relations against the alternative of n cointegrating relations, where n is the number of variables in the system for r = 0, 1, 2…n-1. In some cases Trace and Maximum Eigenvalue statistics may yield different results and in that case the results of trace test should be preferred.

Vector Error Correction Model (VECM): VECM is a restricted Vector Autoregression form. This additional restriction is due to the existence of a stationary but cointegrated data. VECM cointegration restriction then used the information into the specification. That is why VAR VECM is often called the design for the series that has a relationship non-stationery cointegration. After the discovery of a cointegration test,error correction method was performed. If cointegration exists between series it implies the existence of long-term equilibrium relationship between variables and facilitates the application of VECM order to evaluate the short run properties of the cointegrated series. However, in case of no cointegration, VECM is not required and directly Granger causality tests can be applied to establish causal linkage between the considered variables. A negative and significant coefficient of ECM (i.e. *et-1* in the equations) indicates that any short-term fluctuations between the variables will give rise to a stable long run relationship.

Granger-Causality: Granger causality test is applied to examine the causal relationships between the variables.Two tests can be obtained from this analysis: the first will examine the null hypothesis that X variable does not Granger-cause Y and the second test examines the null hypothesis that the Y variable does not Granger-cause the X variable. If we fail to reject the former null hypothesis and reject the latter, then this will conclude that changes in X variable are Granger-caused by changes in Y variable Gul, E. et al. (2006). Unidirectional causality will occur between two variables if either null hypothesis equation is rejected. Bidirectional causality exists if both null hypotheses are rejected and no causality exists if neither null hypothesis of equation is rejected Duasa, J. (2007).

Results and discussion

Before proceeding to apply any test the assumptions of the test were duly checked.

The data of Tata Group was multidimensional ie. 6 different companies data was considered over a period of 6 years. Firstly, homogeneity test was applied to examine whether data was homogeneous or not and the results of the study revealed that F statistic was significant as p value was found to be less than alpha value of .05 thereby indicating the homogeneity in the data and further data was pooled for further analysis.

The next assumption was that the data must pass the unit root test of stationarity. The study made use of Augmented Dickey Fuller (ADF) unit root test. The data was first tested at level, with trend model, the result showed that the data was non-stationary at level and then the data was tested at first difference. The current study revealed that the variables were non-stationary at level with none model as the actual p-value of both the variables was greater than the critical value and hence found non stationary at level. Thus, the variables case CSR and profits needed the log transformation so that they could come out to be stationary at lessor order of integration. In short, all the variables became stationary at first difference Horobet and Belascu (2012).Dickey and Fuller (1979). At first differences null hypothesis of no unit roots was rejected as the ADF test statistic values were less than the critical values at 5% level of significance. Thus, the variables became stationary at first difference.

Table1: Results of ADF Test with none

Variables	Level	Ist Difference	Null Hypothesis	Results
Corporate Social Responsibility	-0.163020 (0.6197)***	-5.844028 (.0000)***	Rejected at Ist Difference	Variable is stationary at 1st difference
Profit	.932156 (.9029)***	-3.140262 (.0026)***	Rejected at Ist Difference	Variable is stationary at 1st difference

*** denote significant at 5% using t-stat approach

Source: Author's own work

Null Hypothesis (H_0): Selected variable is not stationary

Alternative Hypothesis (H_1): Selected variable is stationary

Determination of Lags: The below models in table 2 recommended that seventh lag in Hannan-Quinn (HQ) could avoid the problem of autocorrelation among variable Akhmad et al. (2016)

Table2: VAR Lag Order Selection Criteria

Sample: 1 36
Included observations: 21

Lag	LogL	LR	FPE	AIC	SC	HQ
0	21.40488	NA	0.000540	-1.848084	-1.748606	-1.826495
1	38.84453	29.89653	0.000151	-3.128050	-2.829615	-3.063282
2	42.36831	5.369574	0.000160	-3.082696	-2.585305	-2.974749
3	43.34250	1.298915	0.000221	-2.794523	-2.098175	-2.643398
4	46.06026	3.106016	0.000267	-2.672406	-1.777101	-2.478102
5	54.81450	8.337370	0.000190	-3.125190	-2.030929	-2.887708
6	69.77943	11.40185*	8.05e-05	-4.169469	-2.876251	-3.888808
7	81.24801	6.553476	5.38e-05*	-4.880763*	-3.388588*	-4.556923*

* *indicates lag order selected by the criterion*

AIC: Akaike information criterion (each test at 5% level)

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

Source: E-Views (generated data)

Cointegration was estimated using Johansen methodology to grasp the relationship between profitability and CSR. The trace statistic either rejects the null hypothesis of no co-integration among the variables or vice versa. Trace test and eigen value results revealed that there was cointegration and the value of p was less than 0.05 so the null hypothesis was rejected in favour of alternative hypothesis and model continued with VECM Akhmad et al. (2016)

Table 3: Results of co-integration tests

Included observations: 21 after adjustments

Trend assumption: Linear deterministic trend   Series: LPROFIT LCSR

Lags interval (in first differences): 1 to 6

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.860590	42.22577	15.49471	0.0000
At most 1	0.039610	0.848723	3.841466	0.3569

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level

** denotes rejection of the hypothesis at the 0.05 level*

***MacKinnon-Haug-Michelis (1999) p-values*

Granger Causality Tests: Recall that though cointegration between two variables doesn't specify the direction of a causal relation, if any. Economic theory guarantees that there is always Granger Causality in at least one direction. Research verified the direction of Granger Causality between CSR and profitability. Estimated results for granger causality between the very variables are presented in Table 4. Chi-sq and probability values created under the null hypothesis of non-causality showed that there was a causal relationship between the variables.

Table 4: Vector Error Correction Granger Causality/Block Exogeneity Wald Tests

Null Hypothesis	Chi-sq	Probability	Decision
csr does not Granger-cause profit	9.441601	0.1502	Do not reject
profit does not Granger-cause csr	17.15962	0.0087***	Reject

Notes: denote significant at 5%

Table 4 provides the results of pair wise analyses. This study had rejected the null hypothesis if the probability value was more than 5% otherwise do not reject the null hypothesis if the probability value is less than 5%. It is found that Profit "Granger cause" CSR unidirectional at the 5% significance level. It means that CSR follow its mature counterparty in the short-run that there existed a lead-lag relationship between them. These results supported that greater social responsibility does not result in better profitability Amole et al. (2012); Hirigoyen et al. (2015).

Findings of the Study

The findings of the study revealed that there was a long term association between CSR and profitability of the Tata Group. profitability was granger causing CSR which meant profitability was affecting CSR but CSR was not affecting profits. The Tata group was increasing its investment in CSR with the increase in profits. This type of positive relationship between Corporate Social Responsibility and the profitability revealed the Tata group's positive behavior towards the society. This finding had also supported the Tata group's voluntary contribution towards the society since their existence. Thus, it could be inferred that Tata group was not contributing in CSR to increase their profits however, they were increasing their contribution in CSR with the increase in profits.

Suggestions/Implications of the Study

The results of the study elucidated that as there was a statistically significant impact of profits on CSR thus the companies should endeavor to earn more so as to enhance their profitability and further, the companies should increase the amount of investment on CSR activities for the betterment of the society. The study further suggested that company should indulge itself more and more in social work for the betterment of the society, environmental conditions and thereby builds positive image of company among various stakeholders related to the organizations.

Limitations and Scope for Future Research

One of the major limitations of the study was the paucity of time and financial resources. As the study was conducted on a single firm, Tata group thus the results cannot be generalized to other companies and are limited to the study only. Small number of statistical observations were included in the study, other variables have been left for future research. The study covered the time period 2009-2010 to 2014-15, thus previous and future period was ignored. The period of study can be extended for future study. As the study encompassed only six companies of Tata group i.e. one from each sector was considered in the study and thus in future the number can be increased in number to make further research. Furthermore, comparative study can be done by taking variables prior and after 2013 so as to study the effect of companies Act 2013 guidelines on CSR activities.

CONCLUSION

The study was undertaken to investigate the connection between CSR and profitability of Tata group. According to our knowledge, this was the first study to examine the connection between variables of Tata group. The empirical study of Tata group stated that there was an association between CSR and profitability. Further test was applied to study the relationship and the result exhibited that profitability was affecting the CSR of the Tata group. It was inferred that if the profitability of the company increased then only the CSR could be increased. However, the current study was subject to certain limitations as data of only one company of each sector was considered and time frame from 2009-10 to 2014-15 was taken for the purpose of the study. However, the study provided awareness regarding the importance of CSR practices and played an indispensable role in solving many social problems confronted by the country. Furthermore, the study would assist the corporate managers and companies to inculcate social concern in their corporate vision and strategy development. Thus, upper management must support CSR goals along with regulatory recommendations, especially regarding disclosure of CSR investment. Every company must emphasize on CSR activities so as to strengthen the market position, enhance goodwill, profitability and last but not the least to give in return something conducive to the society as well as to the environment.

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