

# Impact of Corporate Social Responsibility on Shareholder's value ( An impact on company's EPS and Net Profit )

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**Abstract:** This research paper is studying the impact of Corporate Social Responsibility (CSR) on Shareholders value of socially responsible companies. This research objective is finding impact of CSR and its significance for the shareholders of companies i.e. either the investment of companies in social welfare does translates into enhanced financial performance by increasing Earning Per Share (EPS) or just a cost delivering no economic benefits in return. For this purpose; the relationship between CSR and EPS was examined. Stakeholder's perspective theory of CSR is used to measure CSR of the companies for the estimation of EPS. This is measured by its formulas. This research made from sample of 10 BSE listed Pharmaceutical companies. Co-efficient of correlation used to test the relationship between CSR and EPS. The results of this study found that negative & positive relation between CSR and NP (EPS); it shows that which company contributes higher proportion of net profit on CSR activities, which increases EPS.

**Key Words:** CSR, EPS, NP, ROA, ROE, ROCE, CFP and BSE.

## 1. INTRODUCTION:

The wealth maximization is the main objective of the organization and this objective shows the company's concerns about its shareholders. So Earning Per Share (EPS) is taken as proxy for company's CSR concerns to its shareholders. EPS is measured by dividing the total Net Profit (NP) after Tax and Preference Share Dividend by the total number of Equity Shares. In today's world of fierce competition, companies will find it increasingly difficult to handle the pressure of various external stakeholders without social investment (Margolis and Walsh, 2003). Concurrently, without strategic and deliberative philanthropy approach, these efforts will not be sustainable, and could actually end up harming a society that depends on them (Saia et al., 2003). Impact of Corporate Social Responsibility on corporate financial performance will decide their allotment on social activities. If the impact is found positive, the purpose of wealth maximization, then companies will be allocate more resources to social activities for achieving better CFP. On the other hand, if the social activities affect them negatively or none, then the companies will be more cautious about social activities and may adopt a conservative approach in regards to issues relating to their social activities. Therefore, a type of relationship between social activities and financial performance is meaningful to promote implementation of CSR in any commercial companies.

## 2. LITERATURE REVIEW:

In the literature on corporate social responsibility (CSR) and corporate financial performance (CFP) have been inspected extensively. Some of them supported to a positive relationship between CSR and CFP while few of them suggested neutral, curvilinear and negative relations between CSR and CFP. This study attempts to identify the effect of CSR on CFP by a potential mediator namely Intellectual Capital (IC).

**Singhania (2011)** determined the impact of corporate governance score on financial performance of companies in India on a sample of Nifty 50 companies between the years 2000 and 2009. The study gauged the impact of corporate governance on firm performance through computation of corporate governance score, thereafter analysing the impact of this newly constructed corporate governance score and eight other relevant variable on financial performance - Tobin's Q. The analysis highlights that corporate governance scores, when controlled with other variables, have a significant impact on Tobin's Q of Indian companies.

**Fisman et al., (2011)** provide a framework for analysing CSR. The model has two important ingredients – CSR is, at least in part, a profit motivated decision; different CSR activities are aimed at different audiences. The study examines the implications of their framework using a 'visible' CSR index that captures consumer oriented CSR. Research found that CSR is more prevalent in advertising intensive (consumer-oriented) industries, and CSR is more positively related to profitability in these industries. Further, the effect of CSR on profits is stronger in competitive industries, especially when few other firms undertake such actions, suggesting that CSR may be used as a means of differentiation in otherwise competitive environments.

**Rahman (2011)** demonstrates that CSR is a powerful signaling tool for leading firms when they communicate brand

values to consumers. The results depict a relationship between CSR and profitability, explains strategic CSR by highlighting motivations for this form of firm-level altruism, and suggest when and how much to spend on CSR.

**Choi et al., (2010)** studied the empirical relation of CSP and CFP using a sample of 1122 Korean firms surveyed during years 2002-2008. The study used both an equal-weighted CSR index and a stakeholder-weighted CSR index suggested by Akpınar et al., (2008) while CFP was measured by ROE, ROA and Tobin’s Q. Results indicated positive and significant relation between CFP and the stakeholder-weighted CSR index, but not the equal-weighted CSR index.

**Blazovich and Smith (2010)** explored the relationship between ethical corporate citizenship and financial performance (i.e., greater profitability and efficiency, and lower cost of capital). They also examined whether ethical corporate behaviour was associated with a market-value premium. The study matched firms listed by Business Ethics magazine as The 100 Best Corporate Citizens to a sample of control firms of the same size and industry. The univariate results indicated a significant relationship between ethical corporate behaviour and CFP; however, multivariate tests controlling for prior year market value of equity yielded results which indicated no direct association between those.

**Wang and Smith (2010)** determined whether high-reputation firms experience an economic benefit by looking distinctively at the firms’ market value of equity, and related financial performance and risk level. Reputation was measured by America’s Most Admired Companies published by Fortune magazine annually and other firms were compared to a sample of control firms (matched on size and industry). The study found that high-reputation firms show an average market value premium of \$1.3 billion.

### 3. METHOD:

- The correlation determines the degree of relationship.
- It can be negative or positive in either it tells the degree to which they move together.

The co-efficient of correlation varies between +1 to -1.

### 4. ANALYSIS OF STUDY:

- I have collected secondary data from company’s official website and money control. I have chosen top 6 pharmaceutical companies based on net worth in 2019. The top 5 pharmaceutical companies based on net worth in 2019 are Sun pharma, Lupin, Aurobindo, Cipla, Glenmark and Dr.Reddy.
- I have used correlation and co-efficient of correlation to check type of relation between CSR and Net Profit of Top Pharmaceutical companies. I have collected maximum of available data regarding expenditure of top pharmaceutical companies.
- I have assumed that other variables are neutral and not significant affect to CFP or Net Profit.

### 5, DATA ANALYSIS

Company	Net Profit					CSR Expenditure					r
	2018-19	2017-18	2016-17	2015-16	2014-15	2018-19	2017-18	2016-17	2015-16	2014-15	
Sun Pharma	816.6	-494.59	-34.95	1,087.51	1,474.13	3.94	2.7	2.41	11.65	4.60	0.45
Lupin	1,538.83	1,344.66	3,141.33	2,830.87	2,397.35	65.44	21.68	19.68	20.51	12.60	0.52
Aurobindo	1,529.73	1,812.77	1,706.76	1,626.70	1,516.35	44.46	17.73	19.35	18.76	8.10	0.24
Cipla	1,888.41	1,468.52	974.94	1,462.30	1,181.09	73.59	32.20	28.25	20.48	13.43	0.78
Glenmark	NA	1,014.35	2,140.61	1,484.27	1,007.53	NA	29.33	19.03	11.93	5.77	0.05
Dr. Reddy	NA	566.9	1,384.10	1,354.50	1,679.40	NA	32.81	42.66	41.20	29.17	0.07

Above data analysis showing that top 3 company have negative relation between CSR expenditure and Net Profit. Than other 3 company have positive relation between CSR and NP.

### 6. FINDINGS AND CONCLUSION:

So, I have concluded that there is no significant relation shown between CSR expenditure and NP (EPS).

The quest to find the real impact of CSR on Net Profit of company leads many researchers to probe into provides empirical evidences to confirm the relationship between CSR and Net Profit (EPS). In this study I have not able to write any perfect statement on the relationship between CSR and NP or EPS.

## 7. RECOMMEDATIONS AND LIMITATIONS:

- I have studied 6 companies and pharmaceutical sector, it will be expandable.
- I have measure correlation with assume that only CSR is impact on NP, other variables are neutral.

## REFERENCES:

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