



DOES CORPORATE SOCIAL RESPONSIBILITY LEAD TO SUPERIOR FINANCIAL PERFORMANCE? : A STUDY OF EXECUTIVE PERCEPTIONS

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ABSTRACT

The study examines the relationship between CSR and financial performance on the basis of several different variables which directly or indirectly affects the value and financial status of the firm. Most of the empirical researches on the same were based on quantitative studies which have been proved inconclusive and have many pitfalls on methodological grounds. Thus in this paper, qualitative approach has been used in order to avoid these consequences. It is emphasized on the qualitative study of executive's perceptions about the same. For this, the 150 personnel of seven mining firms of southern Rajasthan are surveyed. Firstly, the researchers applied Univariate analysis to analyze CSR as a value creation approach for the firm, when they are performing the social activities in the areas of Customers, Employees and Community. The results showed that CSR is used as a most innovative tool which positively affects the financial status of the firm. Secondly, researchers used Pearson's Correlation Coefficient test for examining the relationship between the constructs (financial, economic and credibility factors) which is influenced by the CSR activities or practices performed by the firm. The paper ends with useful suggestions for proper implementation of CSR practices to enhance the financial position of the mining firms.

KEYWORDS: Mining, Southern Rajasthan, Corporate Social Responsibility (CSR), Financial Performance.

INTRODUCTION

In today's competitive edge where companies are looking for a sustainable marketing approach which can keep them at leading position into the market, CSR is recognized as a value creation approach and could be used as an internal and external both marketing approach and could affect the financial position also by disseminating the company's identity as a socially responsible firm. So presently there is a recurring question in the literature on Corporate Social Responsibility (CSR) i.e. whether CSR Generates a sufficient monetary return or positively affects the financial position of the firm or not (**Kurucz et al., 2008**).

A sizable empirical literature consisting largely of quantitative studies about the relationship between CSR and profits has been probed through various CSR yardsticks and market/accounting measures (**Griffin and Mahon, 1997; Orlitzky et al., 2003; Johnsen and Gjoelberg, 2009**). These literature on CSR and profits ranges from works that identify a positive relationship between CSR and profits (**Orlitzky et al., 2003**) to those that find a negative relationship between CSR and profits (**Johnsen and Gjoelberg, 2009**). Many researchers simply conclude that the literature is inconclusive (**Griffin and Mahon, 1997; Waddock and Graves, 1997; McWilliams et al., 2006; Kolstad, 2007; Margolis et al., 2007**) and over the years, several methodological problems have been detected.

Against this backdrop, an attempt has been made in this research paper to use qualitative approach to examine the relationship between CSR and financial performance to avoid these consequences. For this firstly, the

researchers proposed the model of the relationship between CSR and financial performance. Financial performance indicators have been chosen i.e. CSR for Customers, Employees and Community which indirectly affects the financial status of the firm in order to analyze CSR as a value creation approach for the firm or not. Secondly examined the relationship between the different financial constructs (i.e. financial, economic and credibility factors) which are influenced by the CSR activities or practices performed by the firm.

This study is an effort to full fill the gap between the prior researches conducted on the same issue. For the purpose of study, the seven mining units of southern Rajasthan were chosen for examining and identifying the firms' executives and employees' opinion about the impact of CSR activities on the financial status of mining companies. The present research paper attempts to study the perception of executives of mining units about:

- Impact of CSR practices on financial position of the firm
- CSR as a Value Creation Activity

Towards the end of the paper some suggestions have been given for proper implementation of these CSR practices to enhance the financial performance of the mining firms.

LITERATURE REVIEW

The researchers have reviewed several papers which are relevant to the above issue. For the purpose of structuring, the review of literature is divided three sections

- CSR Practices in Mining

- Empirical Studies on CSR and Financial Performance

CSR Practices in Mining

Bad reputations stemming from environmental disasters and social disharmony led mining multinationals to adopt CSR policies and improve their practices (Dashwood, 2012). The researcher has provided an explanation for the global influence and dynamics that have led major mining companies to adopt CSR policies, and frame them in terms of Sustainable Development. It has also showed that the literature on organizational learning, when combined socialization in the international relations provides a theoretical framework that can better explain the response of mining companies to improve their CSR policies and practices.

Indiacsr (2013) disseminate that Vedanta Aluminium Ltd is active in doing welfare of the society. Recently on 18th June 2013 at Harekrushnpur, through its associate partner Nirmala Kruti Vikash Trust (NKBT) and in association with Government Health Department has conduct a special camp for creating health awareness and improving the health status in the region by way of organizing health camps at its core and buffer villages of Kalahandi. More than 500 people from nearby villages of Lanjigarh Block area attended the camp and were given medicines free of cost during the day-long programme. Vedanta Aluminum Ltd with its health team has contributed towards creating awareness among the people regarding health conciseness, prevention of disease from waterborne, vector borne, awareness towards family planning, cleanliness, Hygiene practice etc in the community.

Empirical Studies on CSR and Financial Performance

Goyal et al. (2010) have examined the relationship between financial performance of the Indian companies and their relative spending on Corporate Social Responsibility (CSR). The study was based on secondary data which has been collected from a database maintained by Karamyog (an NGO) in the financial year 2007-08 of 37 companies, associated with CSR. Chi-square test and t-test have been used to test the hypotheses. The result demonstrated that CSR is driven more by unobservable firm characteristics than by financial performance and the level of commitment of Indian firms towards social programs remained in their annual reports only.

Most of the empirical research on the relationship between CSR and profits consisting of quantitative one which has been proved inconclusive and have many pitfalls on methodological grounds. Thus in order to avoid these consequences, (Blomgren, 2011) used qualitative approach by studying the executives perceptions about the same. The respondents were senior executives at 15 of the largest textile companies on the Norwegian market. Most of the responses were collected by telephonic interview method. The analysis showed that 13 out of 15 companies reported beneficial effects of CSR as

- It assures the quality of goods
- Increase the ethical standard of companies

But CSR doesn't help in achieving profits above industry average. It seems to indicate that CSR has simply become the industry standard to which all companies must adhere for achieving average profit margins.

The relationship between Corporate Social Responsibility and Corporate Financial Performance of selected public companies of Pakistan has been focused (Mansoor & Hassan, 2013). A descriptive analysis of annual reports concluded that companies are involved in approximately three to four areas concerning CSR activities but none of the areas completely cover the monetary aspect. And in the income statement, there has been a donation expenses account, which represents only one area of CSR but not the activities mentioned in their annual report.

The effects of Corporate Social Responsibility (CSR) activities on revenue and profits of the top 100 manufacturing companies of Canada have been explored by studying their annual reports and CSR activities. Ilter (2013) analyzed the data to measure the effects of three major CSR activity namely employee, environment and community on revenue and profit. The analysis recommended that following factors effects companies` revenue and profitability which are: profit sharing, design of eco-friendly products, membership to an international environmental organization, supporting community`s health and arts and culture. The adoption of Corporate Social Responsibility (CSR) practices in the area of environmental issues such as reduction of CO2 emissions or social issues such as the implementation of non-discrimination policies leads to an increase in shareholder value and enhances long-term operating performance (Flammer, 2014).

Thus the review of literature shows that there are so many quantitative researches about the relationship between CSR practices and financial performance but these are proved inconclusive and have many pitfalls on methodological grounds. And qualitative researches about the same are in infant stage and no such Indian study has been found in the area of mining. So it is clear from the above review of literature that the present research paper is a pioneering study in this significant area. Thus it is of great relevance in today's era.

RESEARCH METHODOLOGY

The objective of the present research paper is to examine the opinion of the mining employees, executives and managers about the relationship between CSR and financial performance. For this purpose, a well structured questionnaire was designed to administer the personnel of mining firms of southern Rajasthan. However, to ensure content validity, the items used in the questionnaire were verified from existing literature and then showed to various mining professionals for ensuring face validity. Thus the resultant questionnaire consists of three different sections and twelve different questions framed by the researcher which is an eminence effort to collect the responses of employees for all the possible issues of CSR practices. The structured questionnaire covers all aspects related to CSR and financial performance

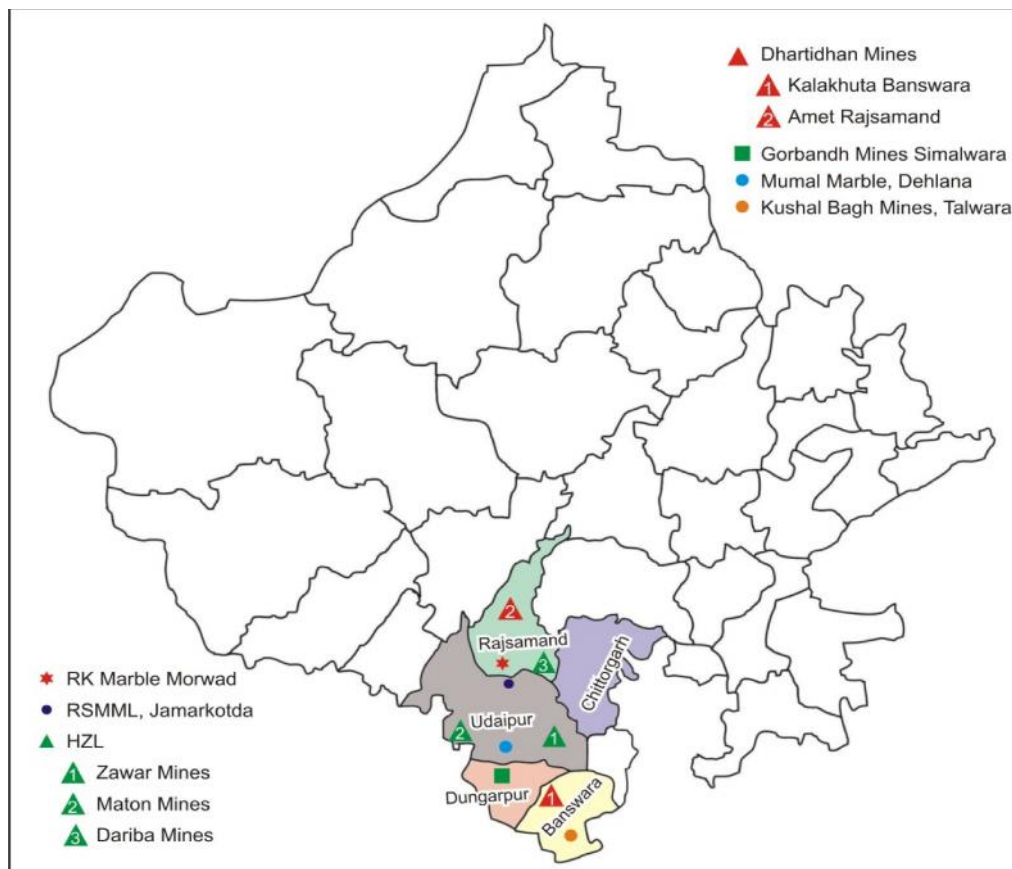
The survey was conducted in the seven mining units of Southern Rajasthan on the basis of Judgmental and convenience sampling which is shown in table1. The respondents targeted for the study purpose were 150 on the basis of their availability and knowledge about CSR and financial performance. The location of these mining units is shown in chart 1.

Table 1: Participating Mining Units in Research

S.No.	Name of Mining Unit or Organization	District	Minerals Specification
1	Hindustan Zinc Ltd.	Udaipur (Zawar Mines) Rajsamand (Dariba Mines) Udaipur (Maton Rock Phosphate Mine)	Zinc, Rock Phosphate
2	R K Marble	Rajsamand, Morwad Village	Marble (White)
3	RSMML	Udaipur, Jamarkotda, Umarda	Rock Phosphate
4	Kushalbhag Marbles	Talwara Village, Paloda, Banswara	White & pink Marble
5	Dharti Dhan Marbles	Kala Khuta, Banswara; Amet, Rajsamand	White, Pink & Green Marble
6	Gorbandh Mines	Simalwara, Dungarpur	Green Marble
7	Mumal Marble	Dehlana Village, Kesriyaji, Udaipur	Green Marble

Source: Primary Data

Chart 1: Locations of Mines in Southern Rajasthan under Study



Source: Researchers' Compilation

Firstly, Reliability test over the collected responses was performed by using Cronbach alpha test as shown in table 2, where Cronbach value for the responses of 150 employees of mining firms was found .822 which is more than 0.7 thus it is an excellent representation of the quality of data and confirms approx. 82% reliability of the collected data.

Table 2: Reliability Statistics for the responses of employees of mining firms

Cronbach's Alpha	N of Items
.822	21

Source: Primary Data

MAJOR RESULTS

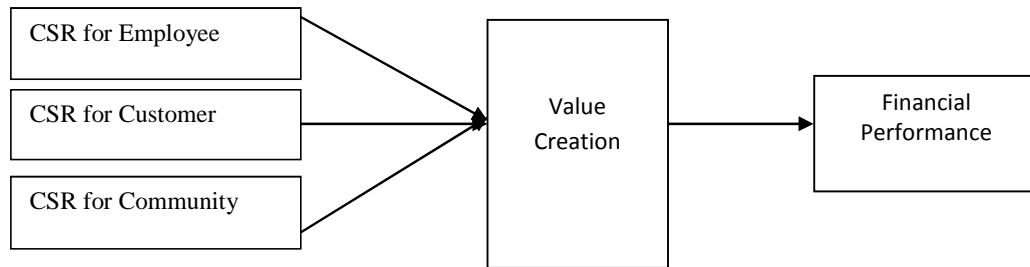
The questionnaire related to the responses of personnel of mining firms elicited that majority of respondents' i.e.75 % are male and only 25% are female which shows that in mining firms of southern Rajasthan male workers are higher in numbers than the female workers. The study interpret that out of 150 personnel recognized as the respondents for the purpose of study, major of the respondents were of age 21-30, 31-40 and above than that. And only 2 of the total respondents were found under 20 years of age. This shows that child labours are less in number in the mining units of southern Rajasthan. Thus exploitation of children is less in these mines which is a

positive sign for development of youth. The main findings of the structured questionnaire which was administered to the personnel of mining units are as follows:

CSR as a Value Creation Activity

Value creation means performing activities that increase the value of services or goods to consumers. It is the primary intention of any business entity. For analyzing whether CSR is a value creation activity or not, major areas of CSR i.e. Employees, Customer and Community have been chosen which play crucial role in value creation and develop positive image of the firm. The researchers proposed the model for the same which is shown in fig. 1.

Fig. 1. CSR as a Value Creation Approach



Source: Researchers' Compilation

To collect the respondent's opinion for these areas, multiple statements have been administered where 6 statements for customer area, 7 statements for employee area and 6 statements for community area were used. And Employee response for the relationship between the CSR activities performed by the firm for customers, employee and community and its value creation approach has been collected by using Likert five point scale.

Examination of Relationship between CSR activities for Customer and Its Value Creation benefits

For examining the relationship between CSR activities for Customers and its Value Creation benefits, hypothesis has been formulated which states as follows:

H₀₁ There is no relationship between the CSR for customers and its value creation benefits for the Mining Units.

H_{A1} There is relationship between the CSR for customers and its value creation benefits for the Mining Units.

For analyzing the significance of Hypothesis, Univariate analysis was applied which is shown in table (No.3) given below. The value creation ranking was considered as a dependent variable over the CSR for customer to depict the above relationship.

Table 3: Relationship between CSR activities for Customer and Its Value Creation benefits

Tests of Between-Subjects Effects					
Dependent Variable: CSR and Value Creation Ranking					
Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	99.876 ^a	77	1.297	1.571	.027
Intercept	1167.642	1	1167.642	1413.963	.000
CSR4CUST	99.876	77	1.297	1.571	.027
Error	59.457	72	.826		
Total	1826.000	150			
Corrected Total	159.333	149			

a. R Squared = .627 (Adjusted R Squared = .228)

Source: Primary Data

As per the above table, it was found that the F statistics is 1.571 with 77 degree of freedom. The significance value for the 'CSR for Customer' is .027 which is lower than .05 which proves that null hypothesis **H₀₁** must be **rejected**

and alternate hypothesis **H_{A1}** will be accepted. So from the acceptance of alternate hypothesis it could better be understood that there is a significant relationship between the CSR for customers and its value creation benefits for

the firm. Thus if the firms are performing CSR activities for customer then it will appreciably affects the value of a firm which finally increase the financial position of the Mining Units.

Examination of Relationship between CSR activities for Employees and Its Value Creation benefits

The significance of relationship between CSR activities for Customers and its Value Creation benefits has been analyzed by formulating the hypothesis which states as follows:

H₀₂ There is no relationship between the CSR for employees and its value creation benefits for the firm.

H_{A2} There is relationship between the CSR for employees and its value creation benefits for the firm.

The table (No. 4) depicts the relationship between CSR activities for Employees and its Value Creation benefits for the mining firms. Univariate analysis was applied in which value creation ranking was considered as a dependent variable over the CSR for employees to depict the relationship.

Table 4: Relationship between CSR activities for Employees and its Value creation benefits

Tests of Between-Subjects Effects

Dependent Variable: CSR and Value Creation Ranking

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	28.749 ^a	14	2.053	2.123	.014
Intercept	411.626	1	411.626	425.544	.000
CSR4EMP	28.749	14	2.053	2.123	.014
Error	130.585	135	.967		
Total	1826.000	150			
Corrected Total	159.333	149			

a. R Squared = .180 (Adjusted R Squared = .095)

Source: Primary Data

The above table shows that the F statistics is 2.053 with 14 degree of freedom and the significance value for the 'CSR for Employee' is .014 which is lower than .05 which proves that null hypothesis **H₀₂** must be **rejected** and alternate hypothesis **H_{A2}** will be accepted. So from the acceptance of alternate hypothesis, it could better be understood that there is a significant relationship between the CSR for Employee and its value creation benefits for the firm. Thus if the firms are performing CSR activities for employees then it will significantly affects the value of a firm which indirectly increase the financial position of the Mining Units.

Consequences of Examination of Relationship between CSR activities for Community and its Value Creation benefits

For exploring the relationship between CSR activities for Customers and its Value Creation benefits, the hypothesis has been formulated which states as follows:

H₀₃ There is no relationship between the CSR for community and its value creation benefits for the firm.

H_{A3} There is relationship between the CSR for community and its value creation benefits for the firm.

Univariate analysis was applied to depict the significance of Hypothesis which is shown in table (No.5) given below. The value creation ranking was considered as a dependent variable over the CSR for Community to illustrate the above relationship.

Table 5: Relationship between CSR activities for Community and Its Value creation benefits

Tests of Between-Subjects Effects

Dependent Variable: CSR and Value Creation Ranking

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	12.364 ^a	5	2.473	2.423	.038
Intercept	342.676	1	342.676	335.752	.000
CSR4COMM	12.364	5	2.473	2.423	.038
Error	146.969	144	1.021		
Total	1826.000	150			
Corrected Total	159.333	149			

a. R Squared = .078 (Adjusted R Squared = .046)

Source: Primary Data

The above table interpreted that the F statistics is 2.423 with 5 degree of freedom and the significance value for the 'CSR for community' is .038 which is lower than .05 which proves that null hypothesis **H₀₃** must be **rejected**

and alternate hypothesis **H_{A3}** will be accepted. So from the acceptance alternate hypothesis, it could better be understood that there is significant relationship between the 'CSR for Community' and its value creation benefits

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for the firm. Thus performing the CSR for community significantly affects the Value of the Mining Units. From the above interpretation, the researchers come to the conclusion that if CSR is done for Employees, Customers, Community then it will create value for the firm which positively affects the financial performance of the Mining Units.

Impact of CSR practices on financial Status

For analyzing the relationship between CSR activities and financial status of the firm, the question consist of 13 statements related to financial performance of the firm were created. Then these 13 variables of financial status were clubbed manually into three constructs i.e. Financial Factors, Economic factors, Firm Credibility Factors on the basis of related variables which are revealed in table 6.

Table 6: Measures of Financial Status of the Firm which may influenced by CSR activities performed by the Mining Units

Constructs	Variable	Measure Used	Statement Nos.
Financial Factors	Variable 1	Encourage financial performance	1
	Variable 2	Encourage financial Position	3
	Variable 3	Reduces Taxation Barriers imposed by Government	6
	Variable 4	Increases profits of the Firm year by year	8
	Variable 5	Affects the Monetary and Fiscal Policy	12
	Variable 6	Positively Affects the Cash and Fund Status of firm	13
Economic factors	Variable 7	Encourage economic position	2
	Variable 8	Positively Affects the Rate of Returns	9
	Variable 9	Affects the Sale of Products and Services of the firm	10
	Variable 10	Positively builds the Brand and Value of the firm	11
Firm Credibility Factors	Variable 11	Helps in easy obtaining of finance from banks and Institutions	4
	Variable 12	Positively affects the Investors Perception for the firm	5
	Variable 13	Affects the Share Equity of the firm positively	7

Source: Researchers' Compilation

For examining the relationship between the variables or constructs of financial, economic and credibility factors

which are influenced by the CSR activities or practices performed by the firm, Pearson's Correlation Coefficient test has been applied as shown in table 7 below.

Table 7: Evaluation of Relationship between Financial, Economic and Credibility Factors which may influences by the CSR practices of Firm

Correlations		Financial Factors	Economic Factors	Firms Credibility Factors
Financial Factors	Pearson Correlation	1	.584**	.322**
	Sig. (2-tailed)		.000	.007
	N	150	150	150
Economic Factors	Pearson Correlation	.584**	1	.375**
	Sig. (2-tailed)	.000		.001
	N	150	150	150
Firms Credibility Factors	Pearson Correlation	.322**	.375**	1
	Sig. (2-tailed)	.007	.001	
	N	150	150	150

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary Data

It could be interpreted by the statistics of above Table 7 that the positive and significant correlations was found between Financial factors and Economic factors i.e. (0.584**), Financial Factors and Firms Credibility Factors (.322**), Economic Factors and Firms Credibility Factors (0.275**). The strengths of these Correlations are as follows:

1. .10 to .29- Weak Correlation / Relationship
 2. .30 to .49- Moderate Correlation / Relationship
 3. .50 and above- Strong Correlation / Relationship
- The above correlations' strength is depicted in the below table which shows the strong and moderate relationship between these variables.

Table 8: Correlation between the Financial, Economic and Credibility Factors affected by the CSR activities of Firm

Relationships	Correlation Values	P-Values	Strength of Relationship	Significance of Relationship
Financial-Economic	.584	.000	Strong	Significant
Financial-Credibility	.322	.007	Moderate	Significant
Economic-Credibility	.375	.001	Moderate	Significant

The above table interpreted that all the constructs and their variables are significantly correlated with each other and the relationship between them is good enough as correlations are positive and p-values are less than 0.05. And the relationship between the Financial-Economic was found strong, Financial- Credibility and Economic-Credibility relationship found moderate. Thus the above result opined that according to the personnel of mining units, CSR activities positively encourage the financial performance of the firm, enhance the credibility by easy obtaining of finance from banks and Institutions and also improve the economic position by increasing rate of returns of the firm. Thus CSR performed by the firms plays a significant role in raising the overall financial position of the Mining Units.

SUGGESTIONS AND CONCLUDING REMARKS

The result shows that there is a significant relationship between CSR activities and financial performance of the firm. After review of the secondary data and based on the findings of the primary data, some concrete suggestions have been given for the Mining Executives in order to enhance the financial position of their firms which are as follows:

1. CSR activities in the various areas should be according to the requirement of the beneficiaries rather than the policy in order to increase the brand image of the Mining Units among communities and to perform the effective utilization of funds towards the CSR activities.
2. CSR activities performed must be transparent in nature. Mining Industry should take steps to share information with local communities in order to treat them as partners in development.
3. A proper framework should be designed before implementation of CSR in the specific areas to have a good impact on community which will positively build the Brand and Value of the firm.
4. The Organization Corporate Communication Dept. should highlight the CSR related activities of the company so that all the stakeholders are well informed about them which will increase the value of the firm.
5. Concentration towards the CSR activities for Employee, Customer and society should be there for earning more valued benefits.
6. Innovative CSR practices must be performed in the areas which are directly associated with financial variables of the firms (like employee training, vocational training for youth, educational and medical infrastructure development etc.).
7. Social development in CSR areas, which directly affects the Investors Perception should be performed to enhance the financial performance of the Mining Units
8. Firm should concentrate on those CSR activities which could act as a marketing activity and could introduce the ethical behavior of the firm in front of society and customers as well and enhance the Financial, Credibility and Economic factors of the Mining Units.

The study was focusing on examination of impact of CSR practices followed by the mining firms of southern Rajasthan on their financial performance. It was recognized from several statistical analysis that CSR is a value creation approach and could be used as an internal and external both marketing approach and it could affect the financial position also by disseminating the company's identity as a socially responsible firm. Thus activities performed under CSR should be carefully studied and implemented to extract all the potential benefits of it.

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