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# A study on Corporate Social Responsibility and Financial Performance of NTPC Ltd.

## Abstract

Corporate Social Responsibility refers to building the relationship with the society by the corporate houses which may be termed as Social Relationship. This study is on Corporate Social Responsibility (CSR) and its impact on profitability of NTPC Ltd in India. Researcher has taken only one company. The study realised that the CSR has influence on the profitability measures vie, ROTA, ROCE of the company. The study is based on secondary data i.e. five years financial statements of company from 2013-14 to 2017-18. Based on correlation and regression, study found a significant negative relationship between CSR and profitability i.e. ROTA and ROCE.

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**Keywords:** CSR, Financial Performance, Ratio Analysis, CSR Disclosures

**Introduction**

Business is a vital organ of society catering to its ever-growing needs. Just as business has certain expectations on society, the society also has a right to expect business to behave in a responsible manner and to assume certain social obligations. The social role of business is rooted in its economic role. As a business gets men, money, materials and other requirements from the society, it becomes a duty of the business to contribute to the wellbeing of the society. This is Social Responsibility of a business. "Corporate Social Responsibility (CSR) is a concept that suggests that it is the responsibility of the corporations operating with in society to contribute towards economic, social and environmental development that creates positive impact on society at large. Although there is no fixed definition, however the concept revolves around that fact the corporations needs to focus beyond earning just profits"[1].

General measures of financial performance fall into two broad categories: investor returns and accounting returns. The basic idea of investor returns is that, the return should be measured from the perspective of shareholders. Accounting returns focus on how firm earnings respond to different managerial policies. This paper focuses on two accounting-based performance measures: return on assets (ROA) and return on Capital Employed (ROCE). These are the two most commonly used measures for financial performance and will therefore provide the most comparable results. It is the methods, in which ROA and ROE were used separately to measure a firm's financial performance. ROA is defined as the ratio of net income after tax to total assets, and ROCE is defined as the ratio of net income after tax to outstanding shares. Information on ROA and ROCE was collected from the annual report

" NTPC Ltd is the largest power generating company in India both in terms of installed capacity and generated output. The company is engaged in the business of generation and sale of bulk power. The company has two segments: generation and other business. There other business includes providing consultancy, project management and supervision, oil and gas exploration, and coal mining. The Company contributed 28.6% of the total power generation of India. They were ranked 317th in the 2009, Forbes Global 2000 ranking of the World's biggest Companies"[2, 3]

**Important Regulations under Companies Act,, 2013 relating to CSR Disclosures**

Section 135 and Schedule VII of the Companies Act, 2013 and also the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 provides the following regulations2: Any Private Limited or Public Limited Company having a Net worth of Rupees 500 cores or a Turnover of Rupees 1000 crores or Net Profit of Rupees 5 crore needs to spend at least 2 percent of its Average Net Profit of the three immediately preceding financial years, for CSR Activities. Any Activity mentioned in Schedule VII of the Companies Act,, 2013 would be considered as CSR Activity. Following Activities include CSR Activities:

1. “Eradicating hunger, poverty and malnutrition, promoting healthcare including preventive health care and sanitation including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water”[4]
2. “Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;”[5]
3. “Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;”[6]
4. “Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga”[7]
5. “Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;”[8]
6. “Training to promote rural sports, nationally recognized sports, paralympic sports and Olympic sports;
7. Rural development project”[,9]

**Reviews of Literature**

Many researchers have studied Capital Structure from different views and in different environments. The following study was given bellow

Ankita Patel (2016), in the research article entitled "Corporate Social Responsibility: A Comparative Study of SBI and ICICI in India" attempted to study the CSR activities of leading commercial banks in India and compare CSR spending from the year 2009-10 to 2015-16. The finding reveals that the percentage of Profit after tax spends for CSR by SBI is more compared to ICICI, but both the banks contributed highest in the financial year 2015-16. The estimated Spending for CSR for 2016-17 is also more in SBI as compared to ICICI.

RajnishYadav&Dr. F. B. Singh(2016), in their article,” Impact of Corporate Social Responsibility on Financial Performance of Indian Commercial Banks – An Analysis” observed in Public sector banks impact of CSR on net profit insignificantly positive and in private sector banks impact of CSR on profit significantly positive.

Mrs. SwapnaShetty&Dr. Molly S Chaudhuri (2018), in this paper, have to explore the relationship between CSR and Financial Performance Indicators such as Net profit, ROA, ROE and EPS of 10 FMCG Companies.The results reveal that CSR and Net Profit are highly significant, whereas CSR and Return on Assets are slightly significant and EPS and Return on Equity are negatively correlated with CSR.

Sharma and Agarwal (2016) in their study "Comparative study of Corporate Social Responsibility in Selected Public and Private Sector Banks" analyze the CSR practices of selected public and private sector banks in India. The study concluded that selected banks are making efforts for the implementation of CSR, but are not spending their 2% share of profits on Corporate Social Responsibility

This paper focuses on the impact that Corporate Social Responsibility has on the financial performance of companies in India taking CSR as the independent variable and Return on Assets and Return on Capital Employed as the dependent variables. The data used for the study is secondary data and ranges from 2013-14 to 2017-2018

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**Objectives of the Study:**

The following are the specific objectives of the study area

1. To find out the impact of corporate social responsibility on profitability
2. To analyze the relationship between corporate social responsibility and profitability of the NTPC Ltd.

**Hypotheses of the study**

The following hypotheses were formulated for the study.

1. $H_{01}$: The CSR does not affect on ROTA
2. $H_{02}$: The CSR does not affect on ROCE

**Research Methodology**:

The present study is mainly based on secondary data. The study concentrates on NTPC LTD. The data has been analyzed using various statistical tools like correlation, regression by SPSS. The figures for the purpose of the analysis have been collected from various sources like annual reports of the company (NTPC) for a period of five years from 2013-14 to 2017-18.The CSR is used as a dependent variable while profitability ratios likeROTA, ROCE, are used as independent variables.

**Limitation of the study**

1. The study is based on secondary data sources.
2. Five years data for NTPC Ltd. has been analyzed but the results may not be proper for long run.
3. The net profit only is considered as return on investment

**Return on Total Assets**

This ratio is the primary criteria to arrive at investment decision by the shareholders as well as by the management. It indicates the rate of return on the resources of the firm that are invested. Return on Total Assets is a concept of investment i, e. investment in assets and another one is investment as capital employed. Here Investment is taken as total assets.

Return on Total Assets $= \frac{NetProfit\ (aftertax\ )}{TotalAssets} \times 100$

**Return on Capital Employed**

It is a ratio that "indicates the efficiency and profitability of a company's capital investment. It should always be higher than the rate at which the company borrows. Otherwise any increase in borrowing will reduce shareholders earnings"[10].

Return on Capital Employed

$= \frac{NetProfit\ \ (afterTax\ )}{EquityS\ hareCapital\ \ +Resurve\ \&Surplus}$

**Analysis of Data**

Statistical analysis of data shows the following results:-

**1. CSR and Financial Parameters Descriptive Statistics:**

**Descriptive Statistics**

| | N | Range | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|---|
| Corporate social responsibility | 7 | 242.36 | 49.44 | 291.80 | 181.9343 | 96.85988 |
| Return on Total Asset | 7 | 3.92 | 3.97 | 7.89 | 5.5414 | 1.43027 |
| Return on capital Employed | 7 | 5.95 | 9.75 | 15.70 | 12.1529 | 1.96066 |
| Net Profit | 7 | 3395.66 | 9223.73 | 12619.39 | 10515.2500 | 1134.90777 |
| | | | | | | |

**Source:** Annual Reports of the NTPC under Study

The descriptive statistics show that over the period under study, the profitability ratios measured by Return on Total Assets and Return on Capital Employed averaged 5.54%, 12.15% respectively. The corporate social responsibility averaged stood at 181.9343. The maximum and minimum values for CSR indicate that CSR composition varies substantially in theNTPC. But the standard deviation of Net Profit is also varying substantially in the composition.

**1.1 Corporate Social Responsibility and Return on Assets**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .915[a] | .838 | .805 | .63123 |
| a. Predictors: (Constant), Corporate social responsibility | | | | |

This Table provides the *R* and $R^2$ values. The *R* value represents the simple correlation and is 0.915 (the "R" Column), which indicates a high degree of correlation. The $R^2$ value (the **"R Square"** column) indicates as to what an extent the total variation in the dependent variable, Return on Assets(ROA), can be explained by the independent variable, CSR spending. In this case, 83.8% can be explained, which is very large.

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 10.282 | 1 | 10.282 | 25.804 | .004[b] |
| | Residual | 1.992 | 5 | .398 | | |
| | Total | 12.274 | 6 | | | |
| a. Dependent Variable: Return on Total Asset | | | | | | |
| b. Predictors: (Constant), Corporate social responsibility | | | | | | |

This Table indicates that the regression model predicts the dependent variable significantly well. Here, *p* value which is less than 0.05, indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 8.000 | .540 | | 14.825 | .000 |
| | Corporate social responsibility | -.014 | .003 | -.915 | -5.080 | .004 |

a. Dependent Variable: Return on Total Asset

"The Coefficients table provides the necessary information to predict Return on Assets from CSR Expenditure, as well as determine whether income contributes statistically significantly to the model (by looking at the "Sig." column). Furthermore, it can be used the values in the "B" column under the "Unstandardized Coefficients""[11]column, as shown below:

**ROA== 8.00 -- .014(CSR)**

**2.1 Corporate Social Responsibility and Return on Capital Employed.**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .820[a] | .672 | .606 | 1.23054 |

a. Predictors: (Constant), Corporate social responsibility

This table provides the *R* and $R^2$ values. The *R* value represents the simple correlation and is 0.820 (the "R" Column), which indicates a high degree of correlation. The $R^2$ value (the **"R Square"** column) indicates as to what an extent the total variation in the dependent variable, Return on Capital Employed(ROCE), can be explained by the independent variable, CSR spending. In this case, 67.2% can be explained, which is very large.

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 15.494 | 1 | 15.494 | 10.232 | .024[b] |
| | Residual | 7.571 | 5 | 1.514 | | |
| | Total | 23.065 | 6 | | | |

a. Dependent Variable: Return on capital Employed

b. Predictors: (Constant), Corporate social responsibility

This Table indicates that the regression model predicts the dependent variable significantly well. Here, *p* value which is less than 0.05, indicates that, overall, the regression model statistically significantly predicts the outcome variable (i.e., it is a good fit for the data).

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 15.171 | 1.052 | | 14.421 | .000 |
| | Corporate social responsibility | -.017 | .005 | -.820 | -3.199 | .024 |

a. Dependent Variable: Return on capital Employed

The Coefficients Table provides the necessary information to predict Return on Capital Employed from CSR Expenditure, as well as determine whether ROCE contributes statistically significant to the model (by looking at the "Sig." column). Furthermore, it can be used the values in the "B" column under the "Unstandardized Coefficients" column, as shown below

ROCE == 15.171—0.017(CSR)

**Findings**

Following are the important findings of the study:

1. It is observed that the standard deviation of Net Profit is varying substantially in the composition.
2. The Corporate Social Responsibility (CSR) is closely associated with Return on Total Assets (ROTA), Return on Capital Employed.
3. The value of $R^2$ also shows that 82.0% impact on profitability is caused by CSR spending and other 18% is caused by other variables

**Conclusion**

This study involves determining the relationship between Corporate Social Responsibility (CSR) and Profitability of NTPC Ltd. in India. The CSR of the Company is found to be of significant negative relationship with ROTA and ROCE, because the company under study do not follow the CSR practices properly and their investment in CSR is also inconsistent. They do not follow the provision of Companies' Act 2013 for spending of CSR that is 2% of average past three years net profit.Hence both the null hypotheses taken are rejected. It is observed that CSR affects the profitability. It is surprising that a company like NTPC has such apathy towards CSR.

**Suggestions**

Following points can be suggested for betterment

1. The data is collected only for 5 years. Data can be collected for a huge span of time for getting the appropriate results and to make an in-depth analysis.
2. Since CSR Spending produce idealistic yield and have a negative effect on the profitability of the firm, there is a need to include CSR among the strategic policies of the business for its long-run success.

3. The study only uses two performance measures such Return on Total assets (ROA) and Return on Capital Employed (ROCE) whereas there are other performance indicators such as the Spending in CSR, which should be followed the Companies Act, 2013, CSR disclosures.
4. Non-Financial parameters can be taken into consideration to find out the views on CSR spending and how it impacts the overall performance of the firm

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**Footnotes**

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