

Impact of Environment, Social and Governance Index on Financial Indicators – Evidence from Indian Companies.

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Abstract

Corporate social responsibility was initially viewed as a philanthropy activity, and mainly focussed on community development. However with liberalization and globalisation of Indian economy and exploration of Indian markets by MNCs corporate has broadened their horizons of social responsibility to include environment as well as governance related issues. The present study is an attempt to analyse the relationship between environment, social and governance scores on the financial indicators. The study is based on secondary data for the year 2013 of 100 companies listed on NSE. Variables used in the study are EPS, volume, market capitalisation, net sales and net profit. The analysis shows that relationship between overall contribution in CSR activity is positively correlated with EPS and negatively correlated with Volume, Market capitalisation, net sales & net profit.

Key words: *Environment, social and governance index, Financial Indicators, philanthropy*

Introduction:

According to World Bank “Corporate social responsibility is the commitment of businesses to contribute to sustainable economic development by working with employees, their families, the local community and society at large, to improve their lives in ways that are good for business and for development.”

As per Confederation of Indian Industry Corporate sustainability essentially refers to the role that companies can play in meeting the agenda of sustainable development and entails a balanced approach to economic progress, social progress and environmental stewardship The corporate sector has played an important role in undertaking socially inclined activities that contribute to the development and growth of the economy. The major focus of CSR activities includes health, employees, environment, education and women empowerment. Recently it has been realized that corporate cannot be mere takers of scarce resources for earning profit. There has to be quid-pro-quo relationship

between corporates and its stakeholders. Today sustainable and balanced development is a major challenge for the economy. There has been a constant depletion of resources causing adverse impact on the environment. However, for the survival of the companies it is extremely important that the community in which it operates remains healthy. Moreover, shrinking Government resources has drifted the responsibility of the corporate sector to be a driver of socio-economic activities. Of-late the MNCs have defined CSR as Triple P: People, Planet and Profit.

Many companies in India have taken the initiatives of CSR practices for the amelioration of various sections of the society. This paper analyses the relationship between environment, social and governance scores on financial indicators of 100 companies listed on National Stock Exchange.

Review of literature

A. C. Fernando (2011) mentioned that sustainability of CSR activity implies that there must be a clear linkage established between use of resources and their regeneration, like the soft drink industry that uses plenty of water trying to maintain water tables through rain water harvesting and

recycling; Or a paper manufacturing company that destroys thousand of trees to make paper pulp will do well to plant and nurture an equal number of saplings. Accountability lies in an organization assuming responsibility for the effects of its action that have impacted the external environment. Sharma E (2013) observed that that though the Indian banks are making efforts in the CSR areas but still there is a requirement of more emphasis on CSR. There are some banks which are not even meeting the regulatory requirement of priority sector lending and rural branch expansion. Even after the RBI's guidelines for financial literacy programs the banks have not taken substantial steps in this direction. Anees M (2012) found that CSR initiatives of companies are independent of their level of profits, type of ownership and type of industry. High or Very High Level of CSR initiatives are almost nonexistent. Public Sector Companies role in CSR initiatives is insignificant. Sharma A, (2012) observed that IT and Auto industry is taking up more CSR initiatives while FMCG sector are less focused in the social responsibility initiatives. Ioannou & Serafeim pointed out that firms with higher visibility receive more favorable recommendations for their CSR strategies and that analysts with more

experience, broader CSR awareness or those with more resources at their disposal, are more likely to perceive the value of CSR strategies more favorably.

Objectives of the Study

The objectives of present study are:

1.
 - o identify companies undertaking corporate social responsibility initiatives and disclosing overall ESG scores.
2.
 - o study the relationship between variables like Earning Per Share, Volume of trading, Market Capitalization, Net profit and Net sales on the overall rating of environment, social and governance index.

Research Hypotheses

H₁: There is a positive correlation between earnings per share and overall ESG scores disclosed by the companies.

H₂: There is a positive correlation between volume of trading and overall ESG scores disclosed by the companies.

H₃: There is a positive correlation between market capitalization and overall ESG scores disclosed by the companies.

H₄ There is a positive correlation between net profit and overall ESG scores disclosed by the companies.

H₅ There is a positive correlation between net sales and overall ESG scores disclosed by the companies.

Research Methodology:

The study is based on secondary data of top 100 companies listed on NSE. The required data has been obtained from websites of different companies and websites of National Stock Exchange for the year 2013. The analysis of data is done using SPSS software. Pearson's Correlation test is used to find the relationship between the selected variables and the overall ESG scores. In addition Spearman's rank correlation test is used to find out the relationship between CSR ranking and market capitalization ranking.

Analysis and Interpretation:

The above hypotheses were tested using a parametric test namely - Pearson's correlation and a non-parametric test viz - Spearman's rank correlation. The correlation between overall ESG index and selected variables was analyzed.

Pearson's Correlation

Table 1 - EPS and Overall rating

	Statistics		
	Mean	Std. Deviation	N
EPS	967.105	1412.71	100
Overall Rating	54.32	6.40	100

	Correlation		
		EPS	Overall ESG rating
EPS	Correlation Coefficient	1	0.02
	N	100	100
Overall ESG rating	Correlation Coefficient	0.02**	1
	N	100	100

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

Interpretation:-

Table 1 show that there is a weak positive relationship between EPS and Overall

rating. The correlation coefficient is 0.02. EPS and Overall Rating – 2tailed is low then significant level 0.01.

Table 2- Volume and Overall rating

	Statistics		
	Mean	Std. Deviation	N
Volume	325575.81	769465.52	100
Overall Rating	54.32	6.40	100

	Correlation		
		Volume	Overall rating
Volume	Correlation Coefficient	1	-0.082
	N	100	100
Overall rating	Correlation Coefficient	-0.082	1
	N	100	100

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

Interpretation:-

Table 2 indicates that there is a weak negative correlation between volume and overall rating of environment, social and

governance scores. The correlation is – 0.82. The overall rating is lower than the significant level 0.01.

Table 3- Market Capitalisation and Overall rating

	Statistics		
	Mean	Std. Deviation	N
Market Cap	54176.93	66058.61	100
Overall Rating	54.32	6.4	100

	Correlation		
		Market Capitalisation	Overall rating
Market Cap	Correlation Coefficient	1	(0.02)
	N	100	100
Overall rating	Correlation Coefficient	(0.02)	1
	N	100	100

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

Interpretation:-

Table 3 shows the correlation between market Capitalization and the overall ESG scores of the selected companies there is a weak negative correlation by -0.02. Thus it can be concluded that there is no impact of CSR scores on market capitalization.

Spearman Rank Correlation:

Table 4- Rank correlation – Overall rating and market capitalisation

Company	Overall rating	Market Capitalisation (Rs Cr)	CSR RANK	New Rank	Diff	Diff^2
Oracle Financial Ser	80	27302.22	54	1	53	2809
Sun TV Network Ltd.	71	14681.45	86	2	84	7056
Tech Mahindra Ltd.	69	42461.14	37	3	34	1156
NHPC	69	22879.38	65	4	61	3721
Wipro Ltd	68	133294.88	8	5	3	9
HCL Technologies	67	89670.79	18	6	12	144
Hind. Zinc	67	54675.38	26	7	19	361

Container Corporation	67	14637.69	87	8	79	6241
Oil India Ltd.	66	28049.19	51	9	42	1764
Dabur India	63	30167.74	48	10	38	1444
Infosys	62	198090.27	5	11	-6	36
Mahindra. & Mahindra	61	52745.09	29	12	17	289
Colgate Palm.	61	17951.32	79	13	66	4356
NMDC Ltd.	60	55287.74	23	14	9	81
Dr. Reddy's Labs	60	44021.03	36	15	21	441
Tata Power Co.	60	19259.33	75	16	59	3481
Shree Cement	60	15643.16	82	17	65	4225
Tata Motors Ltd.	59	118503.80	14	18	-4	16
Kotak Mahindra Bank	59	54537.36	27	19	8	64
Bharat Petroleum	59	23525.41	63	20	43	1849
Tata Consultancy	58	439463.73	1	21	-20	400
Reliance Petroleum L	58	58882.5	21	22	-1	1
Nestle India	58	51785.74	30	23	7	49
ABB India	58	14001.29	89	24	65	4225
YES Bank Ltd.	58	12651.09	99	25	74	5476
Maruti Suzuki India	57	54761.06	25	26	-1	1
GlaxoSmithKline Pharma	57	25079.67	59	27	32	1024
Siemens Ltd.	57	21691.27	67	28	39	1521
Divi's Lab	57	16392.63	80	29	51	2601
ITC Ltd.	56	249836.40	3	30	-27	729
ACC	56	19827.79	74	31	43	1849
Cairn India Ltd.	55	61949.91	19	32	-13	169
Indian Oil Corp	55	48304.07	31	33	-2	4
JSW Steel	55	24746.09	60	34	26	676
Hindalco Indus.	55	23290.94	64	35	29	841
Titan Company	55	19860.09	73	36	37	1369
GlaxoSmithKline Consumer ltd	55	18232.38	77	37	40	1600
Punjab. National Bank	54	21383.17	68	38	30	900
Reliance Power L	54	19032.81	76	39	37	1369
IDFC L	54	15388.72	83	40	43	1849
Eicher Motors	54	13594.67	96	41	55	3025
HDFC	53	124729.91	11	42	-31	961
L & T	53	89897.29	17	43	-26	676
Tata Steel	53	37972.42	42	44	-2	4
Steel Authority	53	28810.45	49	45	4	16
Godrej Consumer Prod	53	27878.76	52	46	6	36
Grasim Industries.	53	23873.2	62	47	15	225

Marico Ltd.	53	13928.87	92	48	44	1936
Satyam Computer	53	13574.27	97	49	48	2304
Bharti Airtel	52	131594.41	9	50	-41	1681
SesaSterlite	52	59403.78	20	51	-31	961
Axis Bank Ltd.	52	55596.67	22	52	-30	900
UltraTech Cement	52	46186.56	33	53	-20	400
Hero Moto Corp	52	41302.95	39	54	-15	225
Adani Ports & SEZ	52	30967.95	45	55	-10	100
DLF Ltd.	52	28314.72	50	56	-6	36
Zee Entertainment En	52	27705.6	53	57	-4	16
IndusInd Bank	52	21854.07	66	58	8	64
United Breweries Ltd	52	20488.36	69	59	10	100
Rural Electrification Corp Ltd	52	20094.81	71	60	11	121
Cadila Healthcare	52	18231.07	78	61	17	289
M&M Financial.Services	52	15988.52	81	62	19	361
GlenmarkPharma	52	13947.53	90	63	27	729
Aditya Birla Nuvo	52	13859.97	93	64	29	841
Cummins India Lt	52	13028.4	98	65	33	1089
MothersonSumi Systems Ltd	52	12492.88	100	66	34	1156
Reliance Industriess.	51	275237.98	2	67	-65	4225
Idea Cellular Ltd.	51	53171.19	28	68	-40	1600
Bharti Infratel Ltd.	51	33148.44	43	69	-26	676
Sterlite Indus.	51	30318.02	47	70	-23	529
Ambuja Cements Ltd.	51	26417.79	56	71	-15	225
Ranbaxy Labs.	51	20060.59	72	72	0	0
Bank of India	51	13937.51	91	73	18	324
Samruddhi Cement	51	13633.53	95	74	21	441
HDFC Bank	50	158551.83	7	75	-68	4624
Hindustan Unilever L	50	119970.24	13	76	-63	3969
Bajaj Auto Ltd.	50	55242.18	24	77	-53	2809
GAIL (India) Ltd.	50	44047.97	35	78	-43	1849
Lupin Ltd.	50	41858.88	38	79	-41	1681
Bharat Heavy Electricals ltd	50	39785.74	40	80	-40	1600
United Spirits Ltd.	50	39374.98	41	81	-40	1600
Bank of Baroda	50	26202.58	57	82	-25	625
Power Finance Co	50	20315.42	70	83	-13	169
Shriram Transport Finance co	50	13848.32	94	84	10	100
Asian Paints Ltd.	49	47010.39	32	85	-53	2809
Adani Enterprises Ltd	49	26945.1	55	86	-31	961
Jindal St & Power	49	24692.74	61	87	-26	676

PidiliteInds.	49	14901.28	84	88	-4	16
ONGC	48	239811.23	4	89	-85	7225
Coal India Ltd.	48	186774.77	6	90	-84	7056
Sun Pharma.	48	125618.28	10	91	-81	6561
ICICI Bank	48	121390.42	12	92	-80	6400
Power Grid Corpo	48	45788.03	34	93	-59	3481
RelianceCommunications Ltd	48	25676.16	58	94	-36	1296
SBI	47	112119.36	15	95	-80	6400
NTPC	47	110241.80	16	96	-80	6400
Cipla	47	32368.91	44	97	-53	2809
Indian Petrochem	47	14589.62	88	98	-10	100
Castrol India	42	14761.34	85	99	-14	196
Bosch Ltd.	38	30616.57	46	100	-54	2916

SUM	166796
6*Sum	1000776
n	100
n(n^2 - 1)	999900
	876
	1.000876
Spearman Rank	-0.00088

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

Spearman's Rank Correlation as per Table 4 between overall rating and Market shows that there is negative correlation capitalisation i.e. -0.00088

Table 5- Net Sales and Overall rating

	Mean	Std. Deviation	N
Net sales	28243.22	61746.74	100
Overall Rating	54.32	6.40	100

	Correlation		
		Net sales	Overall rating
Net Sales	Correlation Coefficient	1	(0.05)
	N	100	100
Overall rating	Correlation Coefficient	(0.05)	1
	N	100	100

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

Interpretation:-

corporate social responsibility rating of selected companies.

Table 5 indicates that there is negative correlation between net sales and overall

Table 6 Net Profit and Overall rating

	Statistics		
	Mean	Std. Deviation	N
Net Profit	3250.51	4457.79	100
Overall Rating	54.32	6.43	100

	Correlation		
		Net Profit	Overall rating
Net Profit	Correlation Coefficient	1	(0.06)
	N	100	100
Overall rating	Correlation Coefficient	(0.06)	1
	N	100	100

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

Table 6 depicts that there is a weak negative correlation between overall environment,

social and governance scores and the net profit.

Table 7 -Correlationship matrix

	Overall rating	EPS	Volume	Market Cap (Rs Cr)	Net sales (Rs.cr)	Net profit (Rs.cr)
Overall rating	1.000					
EPS	0.020	1.000				
Volume	-0.082	-0.205	1.000			
Market Cap (Rs Cr)	-0.017	0.036	-0.059	1.000		
Net sales (Rs.cr)	-0.054	-0.080	0.026	0.314	1.000	
Net profit (Rs.cr)	-0.059	-0.098	0.164	0.672	0.417	1.000

Conclusion:

The present study aimed to analyse the nature of relationship between ESG scores and five financial indicators. The results of the study revealed that financial indicators are independent of environment, social and governance scores. There is a weak positive relationship between earning per share and ESG scores. However, the correlation between financial indicators like volume, market capitalization, net sales and net profit with the overall ESG scores is negative. This implies that corporate social responsibility index does have any impact on the four out of five selected variables.

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