

THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY ON THE GAINFULNESS OF THE CORPORATIONS LISTED IN MUSCAT SECURITIES MARKET

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Abstract

The study explored the influence of Company Social Accountability on the gainfulness of corporations registered in Muscat Securities Market under industrial sector. Specifically, the study analyzed the kind of correlation that exists between CSR and gainfulness of the corporations. It describes influence of the Company Social Accountability spending on the gainfulness of the corporations. Thirteen companies under industrial sectors were selected randomly and the data were collected from their published audited financial statements for a period ranging from 2010-2017. The study employed correlation and regression for analysis. The results of the analysis reveal a positive relationship (0.71) between expenditure for CSR and gainfulness of the corporations. Also, the relationship is significant in terms of the P value which is less than 0.1.

Keywords: Corporate Social Responsibility, Profitability, CSR Spending, Gainfulness, Industrial Sectors.

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INTRODUCTION

The CSR also known as Corporate Social Responsibility is corporations' initiative to protect the environment as well as social welfare. Corporate social liability is something more than a business trend. The companies that want to stay relevant to new generations and who want to help people in need around the world will benefit from embracing CSR. Simultaneously, it helps in increasing their own revenue and efficiency.

CSR has become much popular and also mandatory in most of the countries.

When it comes to Gulf Cooperation Council (GCC) countries (CERNIGOI, 2015) things are different. Philanthropy is embedded in the culture and religion of Gulf Cooperation Council (GCC) countries. But the practices labeled as CSR are very much in an infant stage. Companies in GCC gave \$727 million to charity in the year 2012 accounting to 18% of the area contributions value additional \$1million, rendering to a C patronage result. This associates favorably to the United States and United Kingdom, everyplace establishments contributed thirteen per cent and seven per cent of \$1m favors, correspondingly. In Asian countries, India is the first country to mandate the companies with revenue of more than 10 billion Indian rupees (\$155million) to give away 2 per cent of their profit to charity every year. Whereas, still it is not mandatory for the companies in GCC to spend any specific percentage of profit as charity. But UAE's Ministry of Economy is modifying laws to introduce voluntary corporate giving in UAE.

Regarding Sultanate of Oman, which is one among the GCC countries, the situation is not much different. Here too it is not mandatory for the companies to spend a specific percentage of the net profit for CSR. However, the old code of corporate governance in Oman, was replaced by the new code which came into force on 22 July, 2016. It requires the board of all the public sector companies listed on Muscat Securities Market to draft their own internal Code of Professional Conduct which should be adhered to at all times. It requires the executive management of the companies to develop an annual plan or strategy to address corporate social responsibility and include a separate statement

of the social responsibility activities of the companies in the annual report (Services, 2016). The thirteenth principle of Code of Corporate Governance for Public Listed Companies in Oman says that the companies should develop a plan on CSR outlining the allotted financial plan, accessible provision and contribution means, the principles which the company finds to circulate through the various CSR events and communal sectors or societal fields directed by the company and also the yearly consolidation shall comprise a special report on CSR events describing such events, spent amounts, its impact, and bear taxation.

According to Flaskey (2015), influence of CSR on the businesses is varied and it has a short run as well as a long run effect over the firms. In reality the CSR activities or CSR spending by the companies will reduce the value of the firms in the short run as it affects the cash flow of the business affecting money-flow to the investors and eventually reducing the value of the firm. But, in the long run, it will enhance the ability of the company to attract qualified personnel, greater employee engagement, increased sales and profitability. This research focuses on the influence of CSR activities or CSR expenditure by the Omani companies on their profitability.

As it is evident that CSR reporting became mandatory for Omani companies from 22 July, 2016, this study, which tries to understand the influence of CSR on the gainfulness of the companies in Oman, will be useful for the companies as well as investors. Before 2016, most of the corporations did not mention the amount expended on CSR activities even though they gave a brief description about the activities they had undertaken.

Objective of the study

The primary aim of the study is to examine the relationship between the CSR expenditure and gainfulness of the Omani corporations. Also, The research aims to analyze the extent to which CSR expenditure can bring about a change in the profitability of the companies.

LITERATURE REVIEW

Examining the relationship between the CSR and the output of the firm, especially the profitability of the firm, is the subject of many research studies. Still it is a prominent topic which is not much explored in a country like Oman. There was a study conducted by Mamari (2016) in Sohar Port area of Oman, which focused on the several actions of CSR supported by the nominated corporations in the Al Batinah section of Sultanate of Oman. The research focused on the production companies which had high disposition towards CSR events rather than other activities. The study was conducted to understand the various types of CSR activities the companies were engaged in. It is understood that there has been no study conducted in Oman to reveal the actual relationship between the CSR and profitability, and hence the present study aims to fill the gap.

The study by Farzana (2013) conducted on Dutch Bangla Bank Ltd. in Bangladesh, which was the first bank to introduce CSR activities in the country, shows a significant association between the Company Social Accountability disbursement and the gainfulness of the banking sector. The annual reports from 2002-2011 were studied and analyzed using regression. The same was the situation in the study by Munaza Kanwal (2013) conducted in Pakistan on 15 companies listed in Karachi stock exchange which shows a progressive connection between the CSR and the gainfulness of the companies. The CSR activities enlighten the gainfulness as well as good will of the company among all other companies.

According to the study by Babalola (2012) conducted in Nigerian firms, around 62% of the changes occurring in the profitability of the firm was due to CSR. The study conducted in Jordan by Mutasim Dabbas (2012) on 50 workers from industrial companies, also showed the same significant positive association between the Company Social Accountability and the gainfulness of the company. The research advocates the manufacturing companies should escalate the provicency of workers constantly in order to increase efficiency and productivity to maximize incomes, manufacturing companies should remunerate more attention to the community.

In another study by Al-Kayed (2014), which was conducted to examine the effect of CSR and Jordanian Orange telecom company Profit, the data of 110 employees in different administration levels were analyzed using 5 Likert scale. The study found a significant effect of CSR on the community as well as the employees thereby increasing the profitability. Another study which was conducted in Indian context using CSR indexes (www.karmyog.org) also showed a positive significant relationship between the CSR and financial performance (sales and net profit) of the company (Namita Rajput, 2012). The case study of Dangote Cement PlcbyZakari (2017) assessed the impact of CSR investment on Dangote’s increase in revenue, profit after tax (PAT), and earnings per share (EPS) over a period of 5years. The content analysis and trend analysis used for the study revealed a close relationship between Company Social Accountability investment and gainfulness. All the above-mentioned studies fetched a weighty confident connection between the Company Social Accountability and the gainfulness of the companies.

Research scholars who have made an attempt to use Economic Value Added (EVA) to measure the relationship between the CSR and profitability. EVA is the difference between net operating profit after tax and the weighted average cost of capital. But the results showed a weak but positive correlation between CSR and profitability (Linda-Marie Emilsson, 2012). Here, the profitability was a dependent variable and the proxy was taken as net profit of the company. Simultaneously the self-determining variable was CSR expenditure of the company.

Furthermore, there is also a study by Faustina which gives a negative correlation between CSR and lucrativeness of the companies. The study conducted on multinational companies in Nigeria revealed that there is a weak and insignificant negative connection between the Company Social Accountability and the gainfulness of the companies.

On the basis of prior revisions the hypothesis for the research is framed thus:

H0: There is no significant positive correlation between the CSR expenditure and profitability of the companies.

H1: The study shows an important positive correlation between the CSR expenditure and gainfulness of the corporations.

RESEARCH METHODS

The study uses a deductive approach where the hypothesis is set to test the data. The respondents of this research are 42 companies listed in MSM sector. Among them 13 companies were chosen based on random sampling technique. CSR expenditure and profitability of the companies are measured for the research. The statistical survey is taken for the period 2010-17.

DATA ANALYSIS AND INTERPRETATION

The data pertaining to a period ranging from 2010-2017 was collected from the 13 companies listed under industrial sector in MSM. Altogether 38 statements were collected. In order to test the hypothesis the correlation and regression analysis is used. Here is the list of companies taken as samples for the study:

1	Construction Materials Ind
2	Gulf International Chemicals
3	Salalah Mills
4	Galfar Engineering and Con
5	Oman Cement
6	Oman Chromite
7	Oman Packaging
8	Sweets of Oman
9	Gulf Mushroom Products
10	Omani Euro Foods Industries
11	A'Saffa
12	NABIL
13	Oman Flour Mills

The following table shows correlation and regression between the CSR and Profitability of the companies:

	CSR	Profit
CSR	1	
Profit	0.697779895	1

Regression Statistics	
Multiple R	0.697779895
R Square	0.486896781
Adjusted R Square	0.472643914
Standard Error	39088.51328
Statements	38
Multiple R	0.697779895

ANOVA

	df	SS	MS	F	Significance F
Regression	1	52195488979	5.22E+10	34.16132173	1.12047E-06
Residual	36	55004827327	1.53E+09		
Total	37	1.072E	5.22E+1		

			+11	0				
	Coefficient	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	2504 3.16 707	8061 .792 185	3.106 40 2	0.00 3683 339	8693 .094 705	41 39 39 4	8693 .094 705	41 39 39 44
Profit	0.00 7351 668	0.00 1257 82	5.844 76 9	1.12 047E -06	0.00 4800 691	0.09 90 26 5	0.00 4800 691	0.09 90 26 46

The correlation and regression analysis results show that CSR expenditure and the profitability of the companies are highly positively correlated (0.69). It connotes that both the variables Company Social Accountability and gainfulness of the companies have a mutual influence. When there is an increase or decrease in the CSR spending it will have the same effect of increase or decrease in the profitability of the companies. The P value obtained after running regression is less than 0.1. Hence, the substitute hypothesis is recognized whereas the null hypothesis is excluded. It denotes a progressive and important association of CSR expenditure and the gainfulness of the corporations. Also, the R square value which is 0.47 shows that more than 47% of the change in profitability is explained by CSR.

CONCLUSION

The study on Omani companies shows a positive and significant relationship between the CSR spending and the profits earned by them. CSR is one of the factors which decides the profitability of the Omani companies. The wide range of CSR activities is beneficial for enhancing the financial performance of the companies. Also, it benefits society in the form of employment generation, educational scholarships, charitable donations, healthcare, environmental sustainability schemes, etc. They play a vital role in emerging the communal. As it is made mandatory for the public listed companies it can be made mandatory for the companies in the private sector also, to initiate and implement good CSR practices in Oman.

LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FUTURE RESEARCH

In panel data, it was not possible to include the statements related to some years as the companies did not reveal the amount spent on CSR for some years especially those before 2016 when it was not mandatory. It is evident that the CSR has a twofold effect. The impact of profitability on CSR is as important as the influence of CSR on gainfulness of the corporations. As far as the scope of future research is concerned, the impact of profitability on the CSR activities of the Omani companies can be explored.

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