

CORPORATE SOCIAL RESPONSIBILITY IN INDIAN COMPANIES: AN EMPIRICAL STUDY

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ABSTRACT

Corporate Social Responsibility (CSR) generally refers to the process of integrating social values and mission within business decision-making, to achieve positive and sustainable outcomes towards business, environment and the community at large. The potential and advantages of CSR are often overlooked and in order to achieve inclusive growth businesses must participate in addressing socio-economic concerns while still maintaining profitability. This present paper examine the corporate social responsibility of top 100 companies (include both public and private sector) from BSE. The study also focused on the comparative analysis of Corporate Social Responsibility spending as a percentage of PAT (profit after tax) of Public & Private sector companies. The study is based on the secondary data collected from annual reports of the companies.

KEYWORDS: *Corporate Social Responsibility, Legality, Public Sector; Private Sector.*

Introduction

Corporate Social Responsibility (CSR) is becoming an increasingly important activity to businesses nationally and internationally. As globalization accelerates and large corporations serve as global providers, these corporations have progressively recognized the benefits of providing CSR programs in their various locations. CSR activities are now being undertaken throughout the globe. In India the Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014. With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities.

Composition of CSR Committee

The Company should constitute a Corporate Social Responsibility Committee as follows:

- The Committee shall consist of minimum 3 (three) including 1 (one) Independent Director, however in case of Private Company or the Company, which is not required to appoint Independent Director on board, or Foreign Company the committee can be formulated with (2) two directors.
- The CSR Policy shall be formulated in accordance with Schedule VII and the CSR Committee will be responsible for framing the policy, finalizing the amount to be spent on CSR, monitoring & implementation of the Scheme.

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- If Company ceases to fulfill the eligibility criteria for three consecutive years, then the company is not required to comply until the company will meet the eligibility criteria once again.

The CSR Rules provides the manner in which CSR committee shall formulate, monitor the policy and manner of understanding for CSR activities.

Type of CSR Actions

CSR is implemented by the organizations in following ways:

- **Environment Sustainability:** Areas include recycling, waste management, water management, using renewable energy sources, utilizing reusable resources, creating "greener" supply chains, using digital technology instead of hard copies, developing building according to *leadership in energy and environmental design* (LEED). The highest ranked sustainability consulting firm is Ernst & Young.
- **Community Involvement:** This can include raising money for local charities, supporting community volunteerism, sponsoring local events, employing people from a community, supporting a community's economic growth, engaging in fair trade practices...etc. Starbucks is an example of a company that focuses on community involvement and engagement.
- **Ethical Marketing Practices:** company that ethically market to consumers are placing a higher value on their customers and respecting them as people who are ends in themselves. They do not try to manipulate or falsely advertise to potential consumers. This is important for companies that want to be viewed as ethical.

Statement of the Problem

From the past studied it has been found that the contribution on Corporate social responsibility by the Indian companies is very less. The new legislation of Companies Act 2013 requires certain class of companies to spend at least 2 % of their three year average annual net profit towards CSR activities. In this perspective the following study is undertaken to find out CSR spending of the Indian companies.

Objective

The major objective of the paper is as under:

- To study CSR in India.
- To examine the current CSR practices in Indian public sector and private sector companies.
- To compare the CSR performance of Indian public and private sector companies.
- To study the impact of CSR on companies performance.

Hypothesis

Based on research objective there are following hypothesis is formulated:

- **H₀:** There is no significance difference in Corporate Social Responsibility (CSR) spending in public and private sector companies in India.
- **H₁:** There is significance difference in Corporate Social Responsibility (CSR) spending in public and private sector companies in India.

Review of Literature

Yoon *et al* (2006) found that, CSR activities improve a company's image when consumers attribute sincere motives, are ineffective when sincerity of motives is ambiguous, and hurt the company's image when motives are perceived as insincere.

Denis *et al* (2012) argues that, the factors, community, policy, mission and vision, workforce, and environment have critical role in making CSR a very successful execution. Among these factors, environment and mission and vision had the strongest predictive power in people's preference to stay, willingness to pay, perception of service quality, and brand image and Waddock (1997) found that, CSR results in an improvement in firm performance in all levels.

According to Francesco *et al* (2008) the companies use different strategies as well as diverse management systems and tools to address Corporate Social Responsibility (CSR) issues along their supply chains (SCs).

According to Kabir (2011) the major reasons for involving CSR practices by companies are to create and maintain a favorable corporate image where companies should be viewed as social organizations and in terms of CSR practices, community involvement is higher than the other categories of CSR.

Brooks (2012) suggests that, corporate responsibility (CR) has to do with how a corporation respects the interests of its stakeholders and reflects those interests in its actions and accountability.

According to Shrivastava (1995) Industrial and environmental crises pose major threats to human survival. These crises are rooted in corporate activities, products, and production systems. For corporations to meaningfully respond to such crises, we need a more adequate conception of corporate social responsibility (CSR).

McWilliams (2002) supports that CSR strategies when supported by political strategies can be used to create sustainable competitive advantage firm. Aupperle *et al* (1985) found that there is a neutral relation between CSR and profitability and according to Russo (1997) there is a positive relation between environmental performance and financial performance.

According to Baron (2001) the use of CSR to attract socially responsible consumers is referred to as strategic CSR, in the sense that firms provide a public good in conjunction with their marketing/business strategy.

Friedman (1970) found that CSR is indicative of self-serving behavior on the part of managers, and thus, reduces shareholder wealth.

Research Methodology

The present paper is an empirical study conducted to compare CSR of top 100 companies (include public and private sector). Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type. Keeping in view of the set objectives, this research design was adopted to have greater accuracy and in depth analysis of the research study. Available secondary data was extensively used for the study. Company's annual report, Different news articles, reputed journals books and Webs were used which were enumerated and recorded.

• **Analysis and Results:** Companies and their current and potential CSR spending table-1 gave details of CSR investment of 84 companies whose total value is about 2724 Crores Rs. in FY 2012-13. In the FY 2012-13 Reliance industry investing maximum amount about 375 crores in corporate social responsibility, ONGC on second position by investing 261 crores rupees. Glaxosmithkline Consumer Healthcare investing minimum value in CSR which is about 0.01 crores in all companies taking for study. The total average value of CSR of company in finance year 2010,11,12 is 4276 crore in which ONGC is on first position with 405 crore rupees where as Reliance Industries on second

Table 1

Sr. No.	COMPANY NAME	CSR Spending in FY 12- 13	2% of Average PAT of FY 10, 11 and 12	CSR spending estimate in FY 13-14 2% of PAT of FY 11, 12 and 13
01.	Reliance Industries	357.05	377.07	408.86
02.	Oil And Natural Gas Corporation	261.58	405.42	433.15
03.	Tata Consultancy Services	65.21	161.09	208.88
04.	ITC	82.34	101.41	123.79
05.	NTPC	79.53	180.35	206.29
06.	State Bank of India	123.27	194.25	227.18
07.	Bharti Airtel	29.56	152.48	123.61
08.	HDFC Bank	39.01	80.27	105.46
09.	Wipro	14.13	93.29	101.19
10.	ICICI Bank	116.55	104.27	132.94
11.	Hindustan Unilever	69.09	47.99	58.61
12.	Larsen & Toubro	73.16	85.26	88.82
13.	MMTC	2.10	2.71	0.80
14.	Tata Motors	19.14	35.29	22.36
15.	Indian Oil Corporation	80.08	144.13	109.36
16.	Cairn India	20.50	NA*	79.25
17.	Bharat Heavy Electricals	63.00	115.75	131.11
18.	Sun Pharmaceutical Industries	4.55	28.01	25.25
19.	Jindal Steel & Power	99.14	37.69	38.44
20.	Power Grid Corporation Of India	21.75	53.27	67.90
21.	GAIL (India)	64.65	69.03	74.91
22.	Axis Bank	42.42	67.63	85.39
23.	Tata Steel	170.59	124.05	124.15
24.	Nestle India	24.54	16.29	18.97
25.	Mahindra & Mahindra	33.52	50.85	59.28
26.	Ultratech Cement	43.40	32.95	43.37

27.	Hero Motocorp	1.27	43.58	42.83
28.	Kotak Mahindra Bank	4.08	16.43	21.76
29.	Maruti Suzuki India	18.90	42.80	42.10
30.	Steel Authority of India	32.55	101.33	70.77
31.	Adani Enterprises	15.57	5.89	7.66
32.	DLF	6.81	20.50	18.74
33.	Reliance Power	10.70	5.71	7.32
34.	Bank of Baroda	7.17	82.03	91.51
35.	Asian Paints (India)	0.98	16.71	18.55
36.	Oil India	41.28	59.63	66.15
37.	Dr. Reddy'S Laboratories	16.82	17.67	20.47
38.	Punjab National Bank	3.32	88.15	93.76
39.	Ambuja Cements	39.82	24.73	25.25
40.	Bosch	5.75	17.13	19.59
41.	Adani Ports & SEZ	25.78	19.09	26.11
42.	ACC	25.60	27.01	23.37
43.	Bharat Petroleum Corporation	17.88	29.30	36.66
44.	Hindalco Industries	29.79	41.93	40.49
45.	Hindustan Copper	5.11	4.68	6.01
46.	Cipla	7.65	21.10	23.94
47.	Power Finance Corporation	22.10	57.88	67.13
48.	NHPC	15.73	46.85	48.57
49.	Grasim Industries	25.30	29.67	23.89
50.	Tata Power	7.88	20.38	20.89
51.	Lupin	9.32	15.08	19.15
52.	Oracle Financial Services Software	0.00	18.11	20.57
53.	Canara Bank	11.20	68.87	67.87
54.	IDFC	31.21	25.65	31.15
55.	Titan Industries	2.97	8.53	11.70
56.	Ranbaxy Laboratories	4.26	NA*	NA*
57.	Bank of India	1.10	46.04	52.76
58.	Glaxosmithkline Pharmaceuticals	3.69	10.37	10.47
59.	ABB	2.74	4.01	2.56
60.	Jaiprakash Associates	28.81	26.01	17.96
61.	Reliance Communications	2.62	NA*	0.15
62.	Sesa Goa	22.59	63.65	61.32
63.	Godrej Consumer Products	3.07	8.58	10.33
64.	Jsw Steel	24.85	37.72	36.25
65.	Cadila Healthcare	7.98	11.80	11.77
66.	Reliance Infrastructure	6.40	28.21	33.86
67.	Colgate-Palmolive (India)	9.92	8.47	8.96
68.	Indusind Bank	9.12	11.53	16.27
69.	Adani Power	6.50	2.66	NA*
70.	Neyveli Lignite Corporation	14.59	26.37	27.79
71.	United Breweries	1.72	2.47	2.97
72.	National Aluminium Company	30.99	18.22	16.75
73.	Cummins India	7.00	10.84	12.97
74.	Shriram Transport Finance Company	5.58	22.39	25.64
75.	Yes Bank	6.50	14.54	20.03
76.	Exide Industries	1.25	11.09	10.99
77.	Petronet LNG	3.68	13.87	18.83
78.	LIC Housing Finance	13.89	17.00	19.41
79.	Zee Entertainment Enterprises	1.41	10.83	11.37
80.	Union Bank of India	0.76	39.61	40.17
81.	Container Corporation Of India	4.38	16.93	17.95
82.	Bharat Electronics	4.21	16.08	17.21
83.	Glaxosmithkline Consumer Healthcare	0.01	5.92	7.27
84.	Bajaj Auto	51.73	53.63	62.57
TOTAL		2723.75	4276.07	4687.86

Position with 377 crores rupees and United Breweries at last position with 2.46 crore rupees. The estimated value of total investment is approximately 4688 crore rupees in the finance year 2013-14 with maximum investment by ONGC and minimum MMTC.

- **CSR Spending in 2012-13:** To analyze the companies on the basis of how much they spent on CSR in FY 12-13, keeping in mind the 2% clause which has come into effect, four grades were set. Companies that spent more than 2% of their average profits of the previous three years in FY 12-13 were categorized under Grade A; those who spent between 1 and 2% under Grade B; those who spent between 1 to .5% under Grade C and companies that spent lower than that in the last category, i.e. Grade D.

Table 2

GRADING	CSR SPENDING IN FY 2012-13
GRADE A	More than 2 % of Average Net Profit of FY 09-10, 10-11 & 11-12
GRADE B	Between 2-1% of Average Net Profit of FY 09-10, 10-11 & 11-12
GRADE C	Between 1 - .5 % of Average Net Profit of FY 09-10, 10-11 & 11-12
GRADE D	Less than 0.5 of Average Net Profit of FY 09-10, 11-12 & 11-12

- **Grading on Companies:** Adani enterprises topped the Grade A list with almost 5.28% of the average of the previous three years' profits spent on CSR in FY 12-13. The other top spenders include Adani Power, Reliance Power, NALCO, Ambuja Cements and Nestle India. The table-3 shows the companies falling under Grade A and Grade B and the percentage of profit them spent on CSR during FY 12-13.

Table 3

S.No.	Name of Company	% of PAT in CSR	GRADE
1.	Adani Enterprises	5.28	A
2.	Jindal Steel & Power	5.26	A
3.	Adani Power	4.89	A
4.	Reliance Power	3.75	A
5.	National Aluminium Company	3.40	A
6.	Ambuja Cements	3.22	A
7.	Nestle India	3.01	A
8.	Hindustan Unilever	2.88	A
9.	Tata Steel	2.75	A
10.	Adani Ports & Special Economic Zone	2.70	A
11.	Ultratech Cement	2.63	A
12.	IDFC	2.43	A
13.	Colgate-Palmolive (India)	2.34	A
14.	ICICI Bank	2.24	A
15.	Jaiprakash Associates	2.22	A
16.	Hindustan Copper	2.18	A
17.	Bajaj Auto	1.93	B
18.	Dr. Reddy'S Laboratories	1.90	B
19.	ACC	1.90	B
20.	Reliance Industries	1.89	B
21.	GAIL India	1.87	B
22.	Larsen & Toubro	1.72	B
23.	Grasim Industries	1.71	B
24.	LIC Housing Finance	1.63	B
25.	ITC	1.62	B
26.	Indusind Bank	1.58	B
27.	MMTC	1.55	B
28.	Hindalco Industries	1.42	B
29.	United Breweries	1.39	B
30.	Oil India Limited	1.38	B
31.	ABB	1.37	B
32.	Cadila Healthcare	1.35	B
33.	Mahindra & Mahindra	1.32	B

34.	JSW Steel	1.32	B
35.	Cummins India	1.29	B
36.	Oil And Natural Gas Corporation	1.29	B
37.	State Bank Of India	1.27	B
38.	Axis Bank	1.25	B
39.	Lupin	1.24	B
40.	Bharat Petroleum Corporation	1.22	B
41.	Indian Oil Corporation	1.11	B
42.	Neyveli Lignite Corporation	1.11	B
43.	Bharat Heavy Electricals	1.09	B
44.	Tata Motors	1.09	B

Topping the list of companies which came under Grade B is Bajaj auto with around 1.93% of its average profits spent on CSR. This figure, however, is lower than what will be expected of companies once the new law comes into effect. Other big spenders in this category include Dr Reddy's Laboratories, ACC and Reliance Industries among others. There's one company in the Top 100 list which claimed that it has not spent anything on CSR in 2012-13. The tables 3 & 4 shows the companies under Grades A and B and the amount spent by them on CSR in 2012-13 as a percentage of the profits of the previous three financial years (as per the Companies Act requirement). For Grades C and D, only company names have been mentioned shown in table 4.

Table 4

GRADE-C		GRADE-D	
HDFC Bank	Sesa Goa	Reliance Infrastructure	Asian Paints
Yes Bank	Titan Industries	Bharti Airtel	Punjab National Bank
Maruti Suzuki India	NHPC	Canara Bank	Hero Motocorp
NTPC	Bosch	Sun Pharmaceutical Indus.	Bank of India
Power Grid Corp. of India	DLF	Wipro	Union Bank of India
Tata Consultancy Services	Steel Authority Of India	Zee Entertainment Enterprises	Glaxosmithkline Consumer Healthcare
Tata Power	Petronet LNG	Exide Industries	Oracle Financial Services Software
Power Finance Corp.	Bharat Electronics	Bank of Baroda	
Cipla	Container Corp. of India		
Godrej Consumer Products	Shriram Transport Finance Company		
Glaxosmithkline Pharmaceuticals	Kotak Mahindra Bank		

Companies that are in loss: The following three companies are in loss in finance year 2012-13:

- Ñ MMTC
- Ñ Ranbaxy Laboratories
- Ñ Adani Power

Ñ **Number of Companies Find in Each Grade:** Among the top 100 companies, fig-1 shown only 16 companies fell under Grade A; 28 came under Grade B and 22 in Grade C.

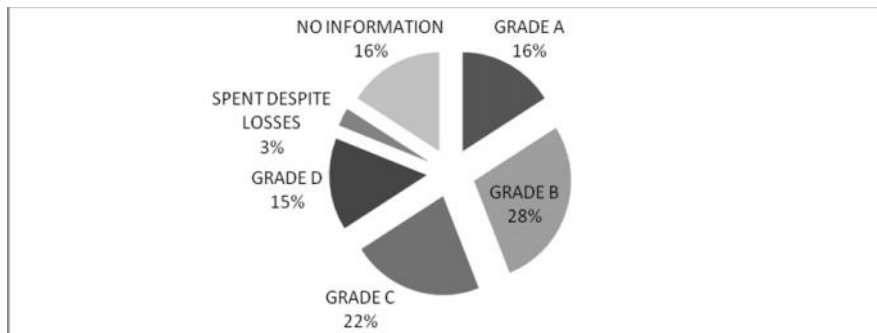


Figure 1: Number of companies in each grade

Total of 15 companies in the Top 100 list spent less than 1 % of their profits on CSR, with one company admitting it has not spent anything. While information for 16 companies was not available at the time of writing this report, 3 companies (MMTC, Ranbaxy Laboratories, Adani Power) spent on CSR, despite incurring losses in FY 12-13.

- **Top Spenders in India:** The figures above are based on the percentage of profits spent on CSR. The list changes its character once we look at the amount spent in absolute terms. The list is, unsurprisingly, topped by Reliance Industries with almost Rs 357 crore spent on CSR in 2012-13.

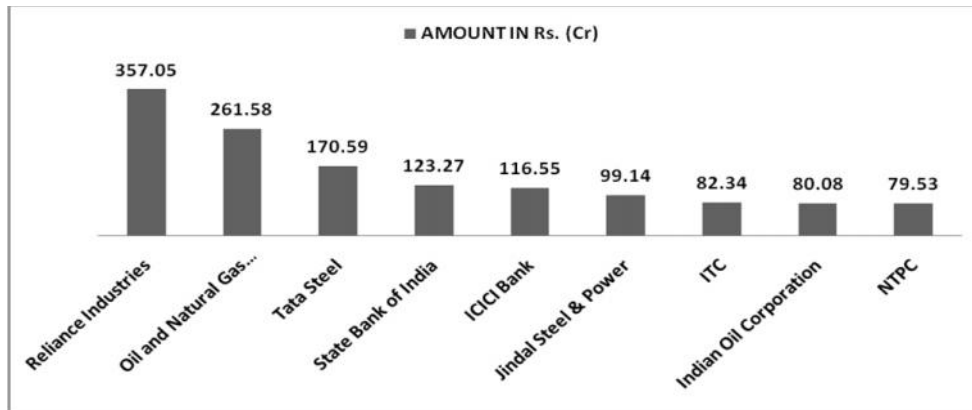


Fig. 2: CSR investment of top 10 companies

The list also includes ONGC at second position by investing about 262 crore, Tata Steel at third position and after that State Bank of India, ICICI Bank, ITC, Indian Oil Corporation, NTPC Larsen and Taubro and Hindustan Unilever. The chart below shows the top ten spenders among the top 100 and the approximate amount they spent on CSR in 2012-13.

Conclusion

The study revealed that the CSR spending as a percentage of Profit after tax of the Indian Companies is not equal to 2 %. The result of study indicated there is no significant difference in the CSR spending of Public Sector Companies & Private Sector Companies. The Companies Act, 2013 presents a unique opportunity to stand up to the challenge of providing equal access to opportunities. With a system of proper accountability & transparency it can bring about a remarkable change in the society by making the organization socially sensitive and responsible. Some public and private sector companies not performing their corporate social responsibilities in the above study we find 16 companies not define CSR in their annual report.

Recommendations & Suggestions

Companies can set a network of activities to be taken up in a consortium to tackle major environmental issues. It would also provide an opportunity to learn from each other. Everyone in the organisation needs to recognise their own role in promoting CSR. Companies should provide wider professional development activities. Training, conferences and seminars could be organised by companies to disseminate and generate new knowledge and information in this sector. A strong budgetary support would definitely help to grow this sector and research related to respective industry would enhance their organisation's contribution further. Government regulations which are supporting in this direction could attract more response from organisations. All this would also lead to benchmark CSR activities. Companies need to involve their stakeholders in order to build meaningful and long term partnerships which would lead to creating a strong image and brand identity. It is also suggested to review existing policies in order to develop more meaningful visions for the companies and broaden their contributions to reach to local communities.

Limitations

The paper considered only hundred companies (from BSE) in India for the study. The study is totally based on secondary data which is taken from reputed position so it have lack of primary data. The paper is based on only quantitative data for the study.

Scope in Future Research

The paper is defining comparative analysis of CSR in public & private sector companies India. The finding of paper will open the door of new research in the area of corporate social responsibility in Indian companies. Therefore in further research one might want to consider this paper as a reference to expand the scope and improve result of research.

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