ABSTRACT

The Corporate Social Responsibility is the commitment of the corporates for the equitable growth & sustainable development of the society. Under the new Companies Act, 2013, passed by Parliament in August 2013, profitable companies will have to spend at least 2 per cent of their average net profit over the preceding three years on CSR activities. The study also focused on the comparative analysis of Corporate Social Responsibility spending as a percentage of PAT & the transparency score of the Public sector companies & Private sector companies. The new Companies Act has already made provisions for mandatory CSR spending by public sector enterprises (PSEs), as a specific percentage of their net profits. It may be noted that even without any statutory compulsion as above many private companies are making substantial CSR investments as part of their business strategy, in order to enhance their corporate image, brand equity and hence competitiveness in the market. In this context this paper: (i) analyses the significance of CSR in India for the sustainable growth of the country, and (ii) makes a comparative study of the pattern of CSR expenditure between companies in the public and private sectors. Thus, the paper suggests strategies for effective CSR spending by Indian corporates.

Keywords: Sustainable Growth; CSR Expenditure; PSES; Sustainable Development

INTRODUCTION

The World Bank’s working definition of corporate social responsibility, “Corporate social responsibility is the commitment of business to contribute to sustainable economic development—working with employees, their families, the local community and society at large to improve the quality of life, in ways that are both good for business and good for development.”

Businesses are an integral part of any society, and have an active role to play in the upliftment of the society. There is interdependence between business and society. Both these are mutually interdependent for survival and sustenance. CSR seeks to provide a part of the business returns to the society for its development. Taking into account the well documented merits of CSR, companies are thinking beyond the sole objective of profit-maximization and are becoming growingly conscious about their responsibility towards the society at large. This changing mindset of corporates as above has been an outcome of the economic benefits of CSR in the form of improved goodwill and long-lasting customer relations.

In respect of public sector enterprises (PSEs) in India CSR is not a new concept, the very idea behind the setting up of PSEs being that of providing a means for the economic and social wellbeing of the society at large. Since independence, PSEs in India, both under the Central and State governments viz. CPSEs and SPSEs are mandated towards the socio-economic welfare of the nation. Thus, providing employment to the masses, both skilled and unskilled, upliftment of the socioeconomic conditions of poor etc. were the aims of the PSEs. The mandatory compulsion for earmarking a specific percentage
of net profits of PSEs in India for CSR activities, contained in the new Companies Act of 2011, has given another dimension to the CSR initiatives in India.

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. It in this perspective the following study is undertaken to find out CSR spending of the Indian companies.

OBJECTIVES OF THE STUDY

1. To study the corporate social responsibility spending of Indian Companies.
2. To compare the Corporate social responsibility spending of Public sector companies & Private sector companies
3. To compare the CSR Transparency Score of Public sector companies & Private sector companies.

METHODOLOGY AND DATA SOURCES

This study is primarily of descriptive-analytical nature, as it makes use of latest available data on CSR activities by Indian companies and analyses the responses of corporates to relevant statutory provisions on CSR and market conditions. The study is exploratory too as it makes a comparative analysis of the trend in CSR expenditure and profitability between companies in public and private sector in India. The data used are secondary in nature and these include various government publications, official websites of regulatory bodies etc.

Significance and Relevance of CSR in India in the Ongoing Globalized Regime

The growing significance of CSR arises from the fact that it arises from adherence to ethical values, legal compliance, and respect for people, community, and environment. In fact, CSR seeks to

1. Treat its employees fairly and with due respect,
2. Operate with integrity and in an ethical manner in all its business dealings with customer, suppliers, lenders, and others,
3. Respect the human rights,
4. Sustain the environment for future generations, and
5. Be a responsible neighbour in the community and a good ‘corporate citizen’.

Division of the Economy into Public and Private Sectors

At the time of Independence, activities of the public sector were restricted to a limited field like irrigation, power, railways, ports, communications and some departmental undertakings. After Independence, the area of activities of the public sector expanded at a very rapid speed. To assure the private sector that its activities will not unduly curbed, two industrial policy resolutions were issued in 1948 and 1956 respectively. These policy resolutions divided the industries into different categories. Some fields were left, entirely for. The public sector, some fields were divided between the public and the private sector and some others were left totally to the private sector. A cursory glance at the division of fields of industrial activity into the public and private sectors clearly brings out, that while heavy and basic industries were kept for the public sector, the entire field of consumer goods industries (having high and early returns) was left to the private sector. Outside the industrial field, while most of the banks, financial corporations, railways, air transport, etc., are in the public sector, the entire agricultural sector (which is the largest sector of the economy) has been left for the private sector.
CSR Spend: How Public and Private Sectors Fared

Even though state-run companies had a five-year head start with respect to setting aside funds for corporate social responsibility (CSR) initiatives, they lagged behind their private sector peers in terms of the efficiency of spending on such efforts.

Public sector companies spent only 66.7% of what they had to spend in the year ended 31 March while private companies spent 82% of the prescribed spend in the first year of mandatory CSR spending, according to showed data compiled by Next Gen, a CSR management firm.

Under Companies Act of 2013, both public and private companies had to set aside 2% of their net profits.

Earlier, public companies needed to set aside anywhere between 0.5% to 5% of net profits based on the profits of the company, according to the 2010 CSR guidelines issued by department of public enterprises.

Next Gen’s data from 85 NSE-listed companies from top 100 companies by market capitalisation on the National Stock Exchange of India (NSE) shows that the 19 public sector unit (PSU) companies spent Rs.1,686 crore FY15, while 66 private companies spent Rs.3,307 crore. The data was collected until 14 September.

Source: Photogen

Public companies, however, outspent private companies in one area: environment. Public companies spent Rs.391.3 crore on environment, which is 23% of their total spending, while private companies spent Rs.291.7 crore or 8.8%.
This is because many PSUs are natural resource companies and since they have a direct impact on environment, they have taken it up as a cause. “But even here, they have spent on initiatives like planting trees and water conservation, which is very basic,” said Ganapathy.

The data also shows that women-led companies had a better rate of meeting the 2% spending target. Six women-led companies—State Bank of India, Axis Bank Ltd, ICICI Bank Ltd, Hindustan Petroleum Corporation Ltd, LIC Housing Finance, Apollo Hospitals Ltd—of the 85 surveyed saw their CSR spending amounting to 90.5% of what they had to spend, while the total average of the 85 companies was 76.1%. This could be because women leaders are more mindful of corporate governance and compliance matters, points out Ganapathy.

Next Gen’s data also showed that only 33 of the 85 companies spent the entire 2% of their profits or more on CSR while 52 did not meet the target in the first year after the new CSR rules were implemented. The most common reason that companies cited for not meeting the target is that they had undertaken long-term projects. This means that the amount was earmarked for a long-term initiative and the company is carrying forward the spend.

Many companies also said that they lacked prior expertise and delay in project identification as reasons for not spending. To be sure, companies have to mandatorily disclose the reasons why they failed to meet the 2% target.

About 65% of the 85 firms surveyed used their own foundations to carry out CSR. “Companies prefer this route as you can have better control over your funds. This way you can better monitor your initiatives,” said Ganapathy.

**Current Status of CSR in India**

The corporate belief that a company needs to be responsible for its actions: socially, ethically, and environmentally. CSR has become the need of growing business. Businesses need to be practices their activities to earn a good image. Big corporates like Reliance Industries, Tata Group, Aditya Birla Group, The Coca Cola Company, and Indian Oil Corporation are involved in serving the community. These corporates are fulfilling their responsibilities towards the society. Many other organizations have been doing their part for the society through donations and charity events. Today, CSR in India has gone beyond merely charity and donations, and is approached in a more organized fashion. It has become an integral part of the corporate strategy. Companies have CSR teams that devise specific policies, strategies and goals for their CSR programs and set aside budgets to support them. These programs, in many cases, are based on a clearly defined social philosophy or are closely aligned with the company’s business expertise. Employees become the backbone of these initiatives and volunteer their time and contribute their skills, to implement them. CSR Programs could range from overall development of a community to supporting specific causes like education, environment, healthcare etc.

**Factors And Influences Which Have Led to Increasing Attention Being Devoted to the Role Of companies And CSR**

These Include:

**Globalization**- Economic globalization is increasingly raising CSR concerns related to human resource management practices, environmental protection, and health and safety, among other things. CSR can play a vital role in detecting how business impacts labour conditions, local communities and economies, and what steps can be taken to ensure business helps to maintain and build the public good.

**Sustainable Development**- United Nations’ (UN) studies and many others have underlined the fact that humankind is using natural resources at a faster rate than they are being replaced. If this continues, future generations will not have the resources they need for their development. In this sense, much of current development is unsustainable it can’t be continued for both practical and moral reasons. Related issues include the need for greater attention to poverty alleviation and respect for human
rights. CSR is an entry point for understanding sustainable development issues and responding to them in a firm’s business strategy.

**Finance**- Consumers and investors are showing interest in supporting responsible business practices and are demanding more information on how companies are addressing risks and opportunities related to social and environmental issues. A sound CSR approach can help build share value, lower the cost of capital, and ensure better responsiveness to markets.

**Communications**- Advances in communications technology, such as the Internet and mobile phones, are making it easier to track and discuss corporate activities. In the CSR context, modern communications technology offers opportunities to improve dialogue and partnerships.

**Consistency and Community**- Citizens in many countries are making it clear that corporations should meet the same high standards of social and environmental care, no matter where they operate. In the CSR context, firms can help build a sense of community and shared approach to common problems.

**Business Tool**- CSR can reduce the risk of business disruptions, open up new opportunities, drive innovation, enhance brand and company reputation and even improve efficiency.

With increasing and widespread commitment of corporate resources to CSR, attention is now shifting to the strategic formulation, implementation, and measurement of the market returns to CSR initiatives. But still a concern to companies is whether their focus on “doing good,” will provide positive returns to their CSR actions. This emphasize the need for better measurement models of CSR that capture and estimate clearly the effects of a company’s CSR actions on its stakeholders as well as the nations in which they are operating. In this paper we have tried to highlight that developing economy like India is progressing at a growth which is much higher to its social growth. It is increasing the gap between the different strata of society in the country in terms of employment, human development, capital distribution and poverty.

**Notable Work by Some Companies in CSR**

**Ashok Leyland**- Operates a Fun Bus in Chennai and New Delhi. This bus, equipped with a hydraulic lift, takes differently disabled children and those from orphanages and corporation primary schools on a day’s picnic.

**Hindalco Industries**- It has constructed check dams, ponds and bore wells to provide safe drinking water. In education, it awards scholarships to students from the rural schools it supports.

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**Infosys**- In an interesting initiative undertaken by it, 100 school teachers in Karnataka, who were suffering from arthritis, underwent free surgery as a part of a week-long programme.

**Mahindra & Mahindra**- Nanhi Kali, a programme runs by the KC Mahindra Education Trust, supports education of over 75,000 underprivileged girls.

**Tata Consultancy Services**- Its Computer Based Functional Literacy (CBFL) initiative for providing adult literacy has already benefitted 1.2 lakh people.

**Issues and Challenges of CSR**

There are number of challenges to the implementation of CSR. They are enumerated below:

**Lack of Awareness of General Public in CSR Activities**: There is a lack of interest of the general public in participating and contributing to CSR activities of companies. This is because of the fact that there exists little or no knowledge about CSR. The situation is further aggravated by a lack of communication between the companies involved in CSR and the general public at the grassroots.
Need To Build Local Capacities: There is a need for capacity building of the local nongovernmental organizations as there is serious dearth of trained and efficient organizations that can effectively contribute to the ongoing CSR activities initiated by companies. This seriously compromises scaling up of CSR initiatives and subsequently limits the scope of such activities.

Issues of Transparency: Lack of transparency is one of the key challenge for the corporate as there exists lack of transparency on the part of the small companies as they do not make adequate efforts to disclose information on their programmes, audit issues, impact assessment and utilization of funds. This negatively impacts the process of trust building among the companies which is a key to the success of any CSR initiative.

Non-Availability of Well Organized Non-Governmental Organizations: There is no availability of well-organized nongovernmental organizations in remote and rural areas that can assess and identify real needs of the community and work along with companies to ensure successful implementation of CSR activities.

Visibility Factor: The role of media in highlighting good cases of successful CSR initiatives is welcomed as it spreads good stories and sensitizes the population about various ongoing CSR initiatives of companies. This apparent influence of gaining visibility and branding exercise often leads many non-governmental organizations to involve themselves in event based programmes; in the process, they often miss out on meaningful grassroots interventions.

Narrow Perception towards CSR Initiatives: Non-governmental organizations and Government agencies usually possess a narrow outlook towards the CSR initiatives of companies, often defining CSR initiatives more as donor-driven. As a result, corporates find it hard to decide whether they should participate in such activities at all in medium and long run.

Non-Availability of Clear CSR Guidelines: There are no clear cut statutory guidelines or policy directives to give a definitive direction to CSR initiatives of companies. The scale of CSR initiatives of companies should depend upon their business size and profile. In other words, the bigger the company, the larger its CSR programme.

Lack of Consensus on Implementing CSR Issues: There is a lack of consensus amongst implementing agencies regarding CSR projects. This lack of consensus often results in duplication of activities by corporate houses in areas of their intervention. This results in a competitive spirit between implementing agencies rather than building collaborative approaches on issues. This factor limits company’s abilities to undertake impact assessment of their initiatives from time to time.

CONCLUSION

Corporate Social Responsibility is essential in India as more than 65% of population is living in rural areas. There are huge differences between urban and rural India in terms health care facilities, education levels, infrastructure, housing, nutritious food, awareness on their rights of protection, etc.

The study revealed that the CSR spending as a percentage of Profit after tax of the Indian Companies is not equal to 2 %. Further there is no significant difference in the CSR spending of Public Sector Companies & Private Sector Companies. It also shows that there is no significant difference in CSR transparency score 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 organisation socially sensitive and responsible.

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