# Embracing Of Corporate Social Responsibility by Nifty100 Companies

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**Abstract:** The Companies Act 2013 has mandated for companies to expend 2% of the profits for discharging their social responsibility. The aim of the study is to analyze the pattern in the CSR spending of the corporate in the period of non-mandatory spending and mandatory spending and on the basis of results assess whether the insertion of Sec-135 in the Act has bought desirable change or not. The sample consists of companies included in NIFTY 100 from 2011-2018. The analysis is based on the number of companies expending on CSR, details of CSR disbursement and the CSR expenditure as a percentage of reported net profit for each year in the period of study and on overall basis. The analysis revealed that the companies were spending least on the environment and pollution control in both the periods. The results also showed that the proportion of funds expended on CSR has risen from the period of non mandatory spending to mandatory spending. The proportion of funds allocated to CSR is an indicator of the company's engagement with society. Hence, it can be inferred that enactment of Sec-135 has made the corporations more responsible towards the society.

***Keywords -- Corporate Social Responsibility, NIFTY 100, Companies Act 2013, Non mandatory CSR, Mandatory CSR***

## INTRODUCTION

Companies are progressively recognizing CSR due to growing insistence by the stakeholders for improving CSR exhibitions and issuing related reports. The term CSR was formally defined by Bowen in 1950; he suggested that CSR is the commitment of company to pursue such strategies and line of activities which are desirable as far as values of the society are concerned. The concept of CSR was however reformulated later, in 1960; David expressed it in terms of improved financial performance, and specified how it can bring monetary advantages to the company in the long run. Over the time it was widely acknowledged that the organizations should seek financial objectives within the more extensive system of social standards and interest (Verma & Kumar, 2014). The initial stages reflected the conviction that the person's drive for greatest benefit and the statute of the competitive marketplace collaborate to make the biggest total wealth for the country and contributes in the maximum good of public at large. The period of 1980's was the time of extensively reported moral outrages that brought the public consideration regarding administrative and corporate bad behavior (Mukherjee, 2017). In 1990's CSR was seen as the fundamental part of corporate exercises. The idea of triple bottom line extended CSR to integrate the goals of people, planet and profit. This led to a new interpretation of CSR as sustainable corporate practice and complete sustainable development. The term corporate social responsibility has been characterized by numerous researchers in many from multiple points of view. According to Carroll (1979), corporate social responsibility demands that the performance of the business is economically profitable, law-obedient, ethically and socially encouraging. McWilliam & Seigel (2000) defined corporate social responsibility as the actions that promote social welfare over the concern of the company and beyond the requirement of law. Centre for Corporate Research and Training (2003) defined corporate social responsibility as the way of conducting business in such a way that surpasses the ethical, legal and commercial suppositions of the society.

In India, several companies like Tata Group, Infosys and Wipro are active in CSR either by themselves or through foundations established for the purpose of discharging social responsibilities. CSR has largely been non mandatory activity in India. In the wake of unpleasant involvement of Indian corporations in CSR and to aid the corporations in embracing responsible practices, in 2009 the Ministry of Corporate Affairs put in place "CSR Voluntary Guidelines" which directs the attention of the corporations towards some vital areas that will help them in attaining long term sustainability. In March 2010, CSR guidelines were issued by the Department of Public Enterprises of the Ministry of Heavy Industries and Public Enterprises. As per the guidelines the CSR practices every company was required to develop a CSR action plan based on project accountability approach. Moreover for the public sector organizations it was mandatory to expend certain percentage of their profits in discharging CSR. The manifest of compulsory spending on corporate social responsibility was encompassed in the Companies Act in 2011. After years of consideration and discussions the law of mandatory expenditure on corporate social responsibility (CSR) became operative from April 1, 2014. The Companies Act, 2013 mandates all the listed companies (public) and private companies with annual turnover exceeding INR 1000 Crores, net worth exceeding INR 500 Crores or whose profit exceeds INR 5 Crores in any financial period to disburse 2 per-cent of the average profit of immediately preceding previous three years on corporate social responsibility. This is implemented on "comply or explain" manner as per which the non-compliant companies would have to provide a reasonable justification of their inability to spend on CSR.

At present the debate about CSR is with regard to the idea of guidelines regarding the compulsory expenditure. The idea of compulsory CSR rests on the belief that the government must ensure welfare of all. The government must introduce the essential guidelines which would guarantee that the profits earned by the businesses, as a part of the society, are used to boost the interest of public at large (Rahim, 2013). In contrary to this the centre of the non mandatory spending is the conviction that the laws for dealing with the business exercise must not intrude with the inner systems of the organization, as this will hamper the advancement of the company and will prevent them for achieving success (Friedman, 1970). CSR is not about philanthropy, it is an attempt of the business to act in morally and socially dependable and ecologically responsible way. Thus, it can include such exercises which can't be assessed in financial terms. However following the study of Verma & Kumar (2014) the present study adopted a money oriented approach for measuring CSR.

## STATEMENT OF PROBLEM AND OBJECTIVE

CSR is an exhaustive term with the focal point of sustainable corporate practices. Thus, the CSR practices of the companies should not be looked into only on the basis of money expended on such activities but it is hard to discharge CSR without expending money. In the period of non mandatory CSR the annual reports of the companies did not explicitly mention the expenditure incurred by the company on different CSR activities, the main areas in which funds were spend are social and community expenditure, donations and environment and pollution control expenditure. The point of inquiry is the proportion and pattern in the CSR disbursements of the listed companies in India in the period of non mandatory CSR and mandatory CSR regardless of the adoption of limited perspective of CSR.

The question that whether the rationale behind making CSR mandatory by introducing Sec-135 in the Companies act, 2013 has been achieved or not can be justified by examining the pattern of CSR disbursements of corporate sector before and after the implementation of Sec-135. The present study examines the CSR disbursements of the corporate sector in the period of non mandatory CSR and mandatory CSR as follows

- Total number of companies that have expended on CSR in the period of non-mandatory CSR and mandatory CSR
- Absolute expenditure incurred by the companies on CSR in the period of non-mandatory CSR and mandatory CSR
- Expenditure incurred on CSR as a percentage of reported net profit in the period of non-mandatory CSR and mandatory CSR

## REVIEW OF LITERATURE

Eilbirt & Parket (1973) explored the extent to which 96 U.S. companies included in the 1971 Forbes annual directory were actually concerned about their social responsibilities. The results of the survey revealed 90% of the companies had made social activities a part of their formal organization structure. Most of the companies were investing in the field of education, ecology and minority hiring. Teoh & Thong (1984) analyzed the commitment of chief executive officers of 100 Malaysian companies towards corporate social responsibility. The social involvement of the company was assessed in four areas namely, human resource, products, community and environment. The results showed that greater attention was devoted towards on the job safety of the employees followed by products offered to the customers, employment of handicapped and senior citizens, promotion of culture, education and literary work and lastly environment protection. Centre for Corporate Research and Training (2003) reviewed the CSR initiatives of 30 companies that were included in S&P CNX NIFTY, during the financial year 2003. The study showed that the seven areas in which CSR initiatives of the corporations were directed, namely, education & training, healthcare, environment, religious, welfare of under privileged, rural development, natural and other calamities Most of the companies had no standard limit for expenditure on CSR and actual expenditure varied from time to time. Narwal (2007) studied the CSR activities of thirty three banks. The study revealed active involvement of banks in promoting literacy, cultural heritage, providing concessional education loan, promoting income generation schemes in rural areas, organizing medical check-ups and blood donation camps, creating awareness about environment protection and providing value added services to the customers. Gautam & Singh (2010) explained the status CSR practices in India. The author examined the annual reports of 500 companies for the financial year 2007-2008. The author mapped the CSR revelations of the selected company to the social aspects of the global reporting initiatives. Most of the company's were reporting about the charitable contributions, reconstruction of schools in rural areas and mid day meals facility. The reach of the CSR practices of the company's was also unsatisfactory. Sharma & Mani (2013) studied the level of CSR practices in 30 Indian commercial banks in the financial year 2009-2010 to 2011-2012. The results showed perceptible increase in the average CSR score in each successive year which indicated rise in level of CSR activities undertaken by the banks. However there were some banks that failed to comply with the regulatory requirement. Das & Ram (2014) analyzed the trend in the level of CSR participation of Steel authority of India ltd, Coal India ltd and Oil & Natural Gas Corporation ltd in the financial period 2002-2003 to 2011-2012. The results of trend analysis showed that the level of CSR participation was highest in case of Coal India ltd followed by Steel Authority of India ltd followed by Oil & Natural Gas Corporation ltd. After the financial year 2009-2010 the level of CSR participation of the sampled companies increased at increasing rate. Bansal & Rai (2014) studied the pattern in the CSR disbursements of 200 companies. The pertinent information was gathered from the annual reports of the sampled organization for the financial year 2012-2013. The study revealed change in the spending pattern of the selected companies after the implementation of the new act. The CSR expenditure of the companies was earlier restricted for community development now expanded to environment protection, promoting education and improving health in all the industries. Mukherjee & Bird (2016) analyzed changes in the CSR expenditure of 223 Indian companies after mandatory CSR law. The results showed that training and development and health and safety of employees were the prominent areas towards which the CSR spending of the companies were directed. The introduction of law has increased the sensitivity of the companies towards issues such as sexual harassment, representation of women and minorities on the board of directors of the company and environment protection. Kumar & Dhanda (2017) studied the CSR disbursement pattern of BSE SENSEX 30 companies in the financial year 2014-2015 and 2015-2016. The results showed that the enactment of law have surged CSR expenditure of the companies, however lack of any clear CSR policy was attributed as the main reason of failure to expend 2% on CSR. The areas that capture the interest of the company's were reducing socio-economic disparity, promoting education, providing safe drinking water, sanitation, women emancipation, improving health and livelihood and disaster relief. Kavitha (2018) explained the trends in the nature of CSR activities of the companies of manufacturing sector in India from the financial period 2000-2001 to

2014-2015. The results showed that prior to the implementation of the Sec-135 the CSR expenditure was limited to donations. The companies in the manufacturing sector were expending in the area of health and development of the community. The post legislation period saw significant changes in the nature of CSR activities performed by the companies. The areas that captured the attention of the companies were empowerment of women, evolution of the rural areas, environment protection, contributions to Swacch Bharat Kosh, healthiness and education. The level of donations witnessed marked decrease in the financial years after the implementation of the CSR law.
Most of the existing studies are centered on the CSR revelations and kind of CSR activities. The present study endeavors to examine the CSR practices of the listed Indian companies from the financial aspect.

## DATA & METHODOLOGY

**Sample:** The sample includes 101 companies included in NIFTY 100 as on 31st March, 2018. These 101 companies belong to fifteen industries and have large market capitalization. The period of study is from financial year 2010-2011 to financial year 2017-2018.

**Data:** The relevant data about the CSR spending of the sampled companies is taken from prowess database of CMIE and the data on reported net profit is collected from the Capitaline database. So as to keep the analysis meaningful any change in the composition of NIFTY 100 in the period of the study have not been considered. For the period of non mandatory CSR prowess classified CSR into social and community expenditure, donations and environment & pollution control related expenditure. Again to facilitate a meaningful analysis the study uses these three areas to proxy CSR in the mandatory CSR period.

**Limitations:** The study focuses only on the financial aspect of CSR. The quality and the nature of CSR activity of the sampled companies have been ignored. A company expending large amount on CSR need not necessarily be actively engaged with all the stakeholders. Moreover the sample is limited to only one hundred one companies.

## RESULTS & DISCUSSION

**Distribution of CSR Expenditure -** The present study analyses the CSR disclosures made by the companies under social and community expenditure, donations and environment and pollution control related expenditure in the period of mandatory and non mandatory CSR.

| YEAR | DONATIONS | SOCIAL AND COMMUNITY EXPENDITURE | ENVIRONMENT AND POLLUTION CONTOL RELATED EXPENDITURE |
|---|---|---|---|
| 2011 | 45 | 9 | 6 |
| 2012 | 48 | 9 | 7 |
| 2013 | 43 | 23 | 7 |
| 2014 | 43 | 75 | 7 |
| 2015 | 35 | 82 | 7 |
| 2016 | 33 | 84 | 8 |
| 2017 | 32 | 84 | 8 |
| 2018 | 32 | 81 | 8 |

Table 1: Number of Companies Expending in Different Areas

The table shows that in the period of non mandatory CSR most of the companies have made donations. The annual reports of the company did not provide any information about the nature of donations.. However, ABB India ltd., ACC Ltd., Aditya Birla Capital Ltd., Ashok Leyland Ltd. Bajaj Finance Ltd. Bajaj Finserv Ltd., Bank Of Baroda, Bharat Electronics Ltd., Bharat Petroleum Corpn. Ltd., Biocon Ltd., Britannia Industries Ltd., Colgate-Palmolive (India) Ltd., Eicher Motors Ltd., General Insurance Corpn. Of India, H D F C Bank Ltd., H D F C Life Insurance Co. Ltd., Hindustan Unilever Ltd., Housing Development Finance Corpn. Ltd., I C I C I Bank Ltd., I C I C I Lombard General Insurance Co. Ltd., I C I C I Prudential Life Insurance Co. Ltd., I T C Ltd., Indusind Bank Ltd., Kotak Mahindra

Bank Ltd., L I C Housing Finance Ltd., M R F Ltd., Maruti Suzuki India Ltd., New India Assurance Co. Ltd., Oil & Natural Gas Corpn. Ltd., Oil India Ltd., Oracle Financial Services Software Ltd., Power Grid Corpn. Of India Ltd., Procter & Gamble Hygiene & Health Care Ltd., S B I Life Insurance Co. Ltd., Shree Cement Ltd., State Bank Of India, Steel Authority Of India Ltd., Tata Motors Ltd., Titan Company Ltd., United Spirits Ltd., Wipro Ltd. and Yes Bank Ltd. have not expended on donations in any of the year in the non mandatory CSR period. The number of companies making donations decreased in the mandatory CSR period.

The highest number of companies that have expended on social and community expenditure in the non mandatory CSR period is 75. However more than 80 per-cent of the companies were spending on social and community expenditure in the period of mandatory CSR. Bharat Heavy Electrical Ltd., Coal India ltd., GAIL Ltd., Indian Oil Corporation Ltd., NHPC Ltd., NMDC Ltd, NTPC Ltd., Power Grid Corporation of India Ltd. have been consistently incurring expenditure on social and community expenditure in the period of the study. Environment and pollution control expenditure have gained least attention of the companies in the period of study. Aurobindo Pharma Ltd., NHPC Ltd., NMDC Ltd. Power Grid Corporation of India Ltd. and UPL Ltd have been actively engaged in expending on environment and pollution control throughout the period of the study but rest of the companies have not paid any attention to adopt measures to curb pollution despite the fact that Income tax act provides full deduction for the cost of environment and pollution control equipment in the year of purchase itself.

**AMOUNT OF CSR EXPENDITURE**

(In Millions)

| YEAR | DONATIONS | SOCIAL AND COMMUNITY EXPENDITURE | ENVIRONMENT AND POLLUTION CONTOL RELATED EXPENDITURE |
|---|---|---|---|
| 2011 | 7136.1 | 3780.1 | 590.6 |
| 2012 | 6372.8 | 4835.5 | 1122.9 |
| 2013 | 10237.8 | 11846.3 | 1522.3 |
| 2014 | 12437.9 | 48285.1 | 1367.9 |
| 2015 | 11493.9 | 61087.2 | 1654.6 |
| 2016 | 10963.5 | 60473.8 | 2139 |
| 2017 | 11702.1 | 63193 | 2320.1 |
| 2018 | 11137.5 | 62338.1 | 2320.1 |

Table 2: Monetary CSR Expenditure

The amount expended on donations showed no observable trend during the period of the study. Highest donations were recorded in the financial year 2013-2014. The average amount of donations made by NIFTY 100 companies was INR 9046.15 millions in the non mandatory CSR period this rose to INR 11324.25 millions in the mandatory CSR period. Overall maximum donations in was made by Reliance Industries ltd.( INR 19710 million in the non mandatory CSR period and INR 29100 million in the mandatory CSR period) followed by NTPC Ltd. (INR 0.725 million in the non mandatory CSR period and INR 3197.7 million in the mandatory CSR period). The amount expended on social and community expenditure is highest in the financial year 2017-2018 (INR 62338.1 million) followed by the financial year 2014-2015 (INR 61087.2). The overall highest expenditure under this head was incurred by Reliance Industries Ltd. (INR 7610 million in the non mandatory CSR period and INR 28010 million in the mandatory CSR period). In pollution control related and environment expenditure NTPC ltd have incurred highest expenditure (INR 798 million in non mandatory CSR period and INR 1688.5 million in mandatory CSR periods).

| YEAR | % OF REPORTED NET PROFITS |
|---|---|
| 2011 | 0.48 |
| 2012 | 0.51 |
| 2013 | 0.87 |
| 2014 | 2.10 |
| 2015 | 2.36 |
| 2016 | 2.41 |
| 2017 | 2.17 |
| 2018 | 2.09 |

Table 3: CSR Disbursements as percentage of Reported Net Profit

The percentage is calculated by total CSR expenditure of all the companies included in NIFTY 100 expressed as a percentage of total reported net profit of all the companies included in NIFTY 100. The results showed that CSR disbursements as the percentage of reported net profit was lower than the benchmark of 2 percent in the period of non mandatory CSR period except in the financial year 2013-2014 and more than the standard limit of 2 percent in the mandatory CSR period.

## CONCLUSION

The study focuses on the pattern of CSR disbursement of NIFTY 100 companies. The results showed that in both the periods least attention was given to the head of environment and pollution control related expenditure. The CSR disbursement as the percentage of reported net profit was lower than 2 percent in the non mandatory CSR period and more than 2 per-cent in mandatory CSR period. It can therefore be concluded that enactment of Sec-135 of the Companies act, 2013 mandating at least 2 percent expenditure on CSR is justified. The studies can be carried to investigate the impact of corporate social responsibilities of the companies on its financial performance.

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