

CSR: Yesterday, Today and Tomorrow

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The present research examines the spending patterns of the Indian companies for CSR activities. The focus of the study is on the comparative analysis of CSR spending as a percentage of Profit After Tax (PAT) and the thematic approach of the public and private sector Companies toward their CSR responsibility.

The study employs both the primary and secondary data. Primary data is collected mainly through Questionnaire and from annual reports of the Companies for the financial years 2011-12 to 2014-15. Data collected by NGOs are used as secondary data. The study reveals that the Indian companies spend less than 2 percent of the Profit-after-tax (PAT) for CSR activities and that there is not much difference between the companies in the Public sector and those in the Private sector in the spending pattern as well as in their respective thematic approaches to the CSR policy.

The findings are relevant to help the Indian policy makers in their efforts to ensure that the Indian companies become more responsible and increase their CSR spending. The findings of the study can also prompt the Companies to adhere to the activities mentioned under Schedule VII of the Companies Act and bring more transparency in their disclosures in Business Responsibility Reports and Annual Reports.

Keywords: Corporate Social Responsibility; Public Sector; Private Sector

BACKGROUND OF THE RESEARCH

The history of business indicates a long journey from the barter system in its incipient stages to the use of plastic money in the modern era and to the current technologically advanced stage in which the material form of money is less used on account of business transactions conducted through the internet. In this process, there is significant evidence of separation of business activity from the society in general. Yet, business as an entity exists and operates in a social environment. The Corporates are making wealth and profit due to the use of society's resources. In this context, the logic of the idea of Corporate Social Responsibility (CSR) is to give back to the society what the Corporates morally owe to it. It constitutes a legitimate contribution of the Corporates towards socio-economic development of society. Various researchers have defined CSR from various dimensions and perspectives. Accordingly, there are various definitions of CSR. Generally, CSR is defined as a commitment of businesses to socio-economic development through contribution to the quality of life of their employees, local communities and the society at large. CSR as a concept has become very important worldwide for the socio-economic development of the societies in which the businesses operate.

Various studies have been done by researchers to know the different dimensions of this topic. The introduction

of the Companies Act 2013 by the Indian government has opened a new debate on CSR policy of Corporates. As provided in the Company's Act 2013, the Corporates specified in the Act have to spend in each year 2% of their average profit earned in the previous three financial years on activities mentioned under Schedule VII of the Act. The Companies are legally bound to implement the Act for socio-economic development.

As we know, the world has entered into a new era of Liberalization, Privatization and Globalization (LPG). In this context, there is a demand from various countries for bringing about and maintaining the principles of transparency and accountability in business-related policies and practices from different perspectives — economic, social and environmental, etc. In the Summit of the World Economic Forum held in Davos on 31 January 1999, the U.N. Secretary General, Kofi Annan, recommended to world business leaders to follow ten principles. These principles are derived from the UN's Global Compact, which outlined a framework of standards for the businesses to follow in the areas related to labour, human rights, environmental protection, and anti-corruption.

LITERATURE REVIEW

Literature review is a body text that aims to review the critical points of current knowledge including

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substantive findings as well as theoretical and methodological contributions to a particular research. Literature reviews are secondary sources and as such do not report any new or original experimental work done for research. Its ultimate goal is to bring the reader up to date with current literature on a topic and forms the basis for another goal such as future research on any perspective.

To design the present study in scientific manner, the researcher surveyed a good amount of research work and literature carried out in the area of corporate social responsibility. There are some of the reviews of the studies which had been previously undertaken in the field of CSR.

Definitions of CSR

| Author | Definition |
|----------------------------|---|
| Bowen (1953) | [CSR] is to the obligations of business to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of values of our society and objective. |
| Frederick (1960) | CSR implies a public posture towards society's economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of and firms and private persons. |
| Friedman (1962) | There is one, and only one, social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game which is to say, engage in open and free competition . |
| Davis and Blomstrom (1966) | It implies a person's obligation to consider the effects of their decisions and actions on the whole social system , which affects the society in various ways. |
| Andrews (1973) | To maintain a balance between voluntary restraint of profit maximization, sensitivity to the social costs of economic activity and to the opportunity to focus corporate power objectives that are possible but sometimes less economically attractive than socially desirable, will be considered CSR. |
| Arrow (1973) | Corporate house want to ' maximize profit according to their social obligation since business profit represents the net contribution that the firm provide social good and services. Therefore, profit should be as large as possible and only be limited by law and ethical codes to avoid any fraud. |
| Sethi (1975) | CSR demands corporate behavior up to a level where it is congruent with the prevailing social |

norms, values and expectations of performance of the organisation.

| | |
|------------------------------------|---|
| Carroll (1979) | A business encompasses the economic, legal ethical and discretionary expectations the society to make CSR complete. |
| Jones (1980) | Corporate social responsibility refers corporations have an obligation to constituent groups in society other than stockholders. |
| Wood (1991) | Corporate social responsibility refers business and society are inter-woven rather than separate units. |
| Bloom and Gundlach (2000) | CSR refers to the obligation of the firm to its stakeholders – people and groups – who can affect or who are affected by corporate policies and practices framed by corporate houses. However these obligations go beyond legal requirements and the firm's duties to its shareholders and stakeholders. To fulfill these obligations is intended to minimize any harm and maximize the long run beneficial impact of the firm on society for socio – economic development. |
| Baker (2003) | CSR focused on how firms manage business processes to produce an overall positive impact of the firm on society people for holistic development. |
| Van Marrewijk (2003) | CSR is associated with the communion aspect of people CSR relates to phenomenon such as transparency, stakeholder dialogue and sustainability reporting, while Corporate sustainability (CS) focuses on value creation, environmental management, environmental friendly production systems, human capital management. |
| Crowther and Rayman Bacchus (2004) | CSR is concerned with what is or should be the relationship between the global corporation, governments and individual citizens whilst in its more local context it is concerned with the relationship between a corporation and its local society in which it resides or operates, or with the relationship between a corporation and its stakeholders and shareholders. |

Source: Kakabadse et al (2007)

These definitions given in the table can be segregated into two parts, one part comprises of the academics who attach importance to profit maximization (Arrow, 1973). While a majority of academics in the other part hold the business responsible to all the stakeholders, not just to the shareholders only. Therefore these two definitions that are widely referred to have been coined by Business for Social Responsibility (BSR) and the World Business Council for Sustainable Development (WBCSD).

The World Business Council for Sustainable Development (WBCSD) described, CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large for holistic development. The other definitions that emphasize the importance of creating a balance in the interests of all the stakeholders of a business unit (Johnson, 1971). CSR is defined by Hopkins (2003), as concern with treating the stakeholders of the firm ethically or in a responsible manner from all perspective. According to Friedman et al. (2006) the contribution of Carroll (1979) in the field of CSR. According to that encompasses the economic, legal, ethical and discretionary expectation that a society has towards business organizations. The definitions propounded by all focused that CSR gives a very general idea about the responsibility of business towards its stakeholders and shareholders of the business. According to Sutcliff (2003) and Lobbezzo *et al.*, (2004) stated that, the non-existence of a clear-cut definition causes ambiguity about the elements to be included in CSR and this ambiguity causes anger among shareholders in business. Corporates often define the term that fits their own interests (Welford, 2003). Moon (2002) defines that, CSR comprises of three waves of activities namely 'community involvement', 'socially responsible production processes' and 'socially responsible employee relations' to define CSR.

Statement of the Problem

With the emergence of an integrated world in the modern era, there is a manifold increase in the information dissemination to the people on the economic, cultural, social, environmental aspects of doing business. As a result, all over the world, the negative effects business activities like child labour and environmental damages, etc are being recognized, along with other socio-economic issues. The CSR has emerged as an important concept and strategy to improve the social, economic and environmental issues. The present research is a comparative study to finding out the contribution by public and private sector organisations to the socio-economic development and protection of environment through their CSR activities. In developing countries like India,

where there are various socio-economic problems facing the people in general, the adoption of CSR policy through the new Companies Act in 2013 is a significant step in the overall socio-economic development strategy. It is pertinent and important to see how this new initiative of the Government is working and the extent of its effect on business management practices and socio-economic progress. It is also important to understand to what extent the Companies are following the mandate of the Act for spending 2 % of their profits; how they are spending this mandatory amount, and whether they are following the specific provisions of the CSR policy. There is need to generate more awareness and knowledge on these questions and their importance on which presently there is a lack of adequate information and awareness in the Indian context.

RESEARCH METHODOLOGY

Need of the Study

Corporate Social Responsibility (CSR) is an effective way of achieving and maintaining sound business management. By practicing the social responsibility a company can actually enhance its own economic value and brand image as well as benefits the society. In addition, companies and other organisations are required to have accountability towards stakeholders such as consumers, investors, employees, local residents etc. while utilising the resources of society.

Sample Size

For questionnaire purpose 75 public and 225 private companies have been selected. 75 questionnaire were distributed, out of that 70 responses came from public sector. The 225 questionnaire was given to private sector. Out of that 212 respondents replied.

Justification of Selection of Sample

The selection of the companies are based on huge market share in the country. The criteria of selection is made on the following basis:

- ◆ BSE and NSE listed companies are selected.
- ◆ Different CSR practices is being done by these agencies and some have been awarded for CSR practices by FICCI, ASSOCHAM and Golden Peacock Awards Committee etc.

- ◆ The bases of turnover is an important criteria to select these 500 companies.

Sources of Data

To accomplish the above stated objectives of the study primary and secondary data are taken into consideration. The primary data has been collected through questionnaires. Twenty four (24) questions in a structured questionnaire were framed to collect the data regarding CSR policy and CSR Companies Act 2013.

Primary Data

- The questionnaire framed for public and private companies, consisted of 24 questions evaluating various parameters based on the objectives of the study.
- The questionnaire framed for public sector was given to 75 public sector companies out of which 70 public companies responded to the questionnaire where as others did not cooperate.

The same questionnaire was given to private sector companies. The total 225 questionnaire was distributed private companies. Out of 225, only 212 responded to the questionnaire, to evaluate the various parameter of corporate social responsibility.

Secondary Data

Secondary data are collected mainly from:

- Annual reports of selected companies
- Sustainability reports of companies
- CSR Reports of companies
- Official websites of companies
- Reports of surveys by private institutions
- NGO Box Study report on CSR
- Blogs on CSR

4.4.5 Period of Study

The data will be examined for the last three financial years that is from 2011-12 to 2013-14.

4.4.6 Hypotheses

To make present study more practical, following hypotheses have been framed by the researcher.

H_0 Indian companies are not following the CSR policy according to Companies Act 2013.

H_1 Indian companies are following the CSR policy according to Companies Act 2013.

H_0 There is no significant difference in CSR policy of Public and Private.

H_1 There is significant difference in CSR policy of Public and Private.

TOOLS FOR STUDY

Statistical Tools

Statistical tools will be used by the researcher at the time of research on the availability of data and as per the requirement of study. Some of these are mean, percentage, t-test, z-test etc.

- Simple average and percentage will be used to evaluate the CSR items.
- Ranking will be given to the companies on the basis of CSR practices.

Statistical Tools

$$\sigma_{\bar{x}} \quad : \quad \frac{\sigma}{\sqrt{n}}$$

$$Z_{\text{Cal}} \quad = \quad \frac{\bar{x} \cdot \mu H_0 / \sigma_{\bar{x}}}{\sigma_{\bar{x}}}$$

Where

$$\sigma_{\bar{x}} \quad = \quad \text{Std error of the mean}$$

$$\sigma \quad = \quad \text{Simplest deviation}$$

$$\bar{x} \quad = \quad \text{Sample of the mean}$$

$$\mu H_0 \quad = \quad \text{Hypothesized value of the mean}$$

$$n \quad = \quad \text{Sample size}$$

$$Z \quad = \quad \frac{\bar{x}_1 - \bar{x}_2}{Sp \sqrt{\frac{1}{n_1} + \frac{1}{n_2}}}$$

$$t \quad = \quad \frac{\bar{x}_1 - \bar{x}_2}{Sp \sqrt{\frac{1}{n_1} + \frac{1}{n_2}}}$$

$$Sp \quad = \quad \sqrt{\frac{(n_1 - 1)s_1^2 + (n_2 - 1)s_2^2}{n_1 + n_2 - 2}}$$

Where

S_p = Estimated standard error of the difference between sample means

\bar{x}_1 = Mean of sample 1

n_1 = Size of sample 1

s_1 = Std deviation of sample 1

\bar{x}_2 = Mean of sample 2

n_2 = Size of sample 2

s_2 = Std deviation of sample 2

Preparation of Checklist

Checklist will be prepared to check CSR practices of selected companies on the basis of different parameters of GRI Report & other related reports.

Presentation Tools

Graphs, Charts, Tables will be used to represent the trend of CSR practices, CSR initiatives in selected companies and for doing comparative analysis and profitability analysis among public and private sector companies.

Limitations of the Study

The study is based on the secondary data collected from the CSR report NGO Box Foundation.

Objective wise Research Methodology

| Objective | Population | Sample | Research Design | Statistical Tools Used |
|---|------------------------------|--|--------------------------------------|---|
| 1. To study the present status of CSR policy in India with respect to Company's Act 2013. | Public and Private Companies | 81 for descriptive survey 75 public sector and 225 private sector for questionnaire | Descriptive Survey and questionnaire | Check list, Table, percentage analysis. |
| 2. To compare the CSR policy in public and private sector companies. | Public and Private Companies | 81 companies for descriptive survey & 75 public sector & 225 private sector companies for questionnaire. | Descriptive Survey and questionnaire | Percentage analysis, chart and t-Test. |
| 3. | | | | |
| 4. | | | | |
| 5. | | | | |
| 6. | | | | |

4.9 Data Sources and Type

The study is conducted based on the primary and secondary sources of data collected through questionnaire, journals, articles & annual reports.

Objective wise Research Methodology

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| To compare the CSR policy in public and private sector companies. | Public and Private Companies | 81 companies for descriptive survey & 75 public sector & 225 private sector companies for questionnaire. | Descriptive Survey and questionnaire | Percentage analysis, chart and t-Test. |

Finding and Analysis

1. To study the present status of CSR policy in India with respect to Indian company's act 2013.

Descriptions

1. As per the company's act 2013, clause 135 CSR policy is studied
2. To review CSR policy 21 pharmaceutical companies is studied.
3. The CSR policy, CSR committee formulation and the expenditure of 2 % as per the norms is studied

Table – CSR Spending of Indian Companies

| S.No. | Company | N | Mean | Standard Deviation |
|-------|-------------------------------|----|-------|--------------------|
| 1 | Indian pharmaceutical company | 21 | 10.28 | 7.710 |

Data Analysis:

- ◆ 21 Indian pharmaceutical companies last 3 years average profit is selected
- ◆ The mean of average profit of 21 pharmaceutical company is 10.28.
- ◆ The standard deviation of these 21 companies are 7.710.

Table– t-Calculation

| t-CALCULATED | t-CRITICAL ($\alpha=0.05$) |
|--------------|------------------------------|
| 4.9214 | ± 2.032 |

Data Analysis

- ◆ Due to 21 companies data we have calculated the expenditure by the help of t-test.
- ◆ The upper limit of the acceptance region t critical is 2.032 t-calculator > t-critical.

CSR Policy as per the Companies Act 2013

| | YES | NO | TOTAL |
|---------------------|-------|-------|-------|
| Frequency | 07 | 14 | 21 |
| Percentage analysis | 33.33 | 66.67 | 100 |

Data Analysis:

- ◆ To review CSR policy the data of 21 pharmaceutical companies selected.

- ◆ By the help of percentage analysis of 7 companies out of 21 has formulated CSR policy as per companies act 2013.
- ◆ 14 companies out of 21 still has not formulated CSR policy as per the companies act 2013.

Interpretation:

1. From the above data it can be interpreted that approximately 34% companies has formulated CSR policies under company's act 2013
2. However more than 66% of the companies still have not formulated CSR policy as per this act.

CSR Committee as per the Companies Act 2013

| | YES | NO | TOTAL |
|---------------------|-------|-------|-------|
| Frequency | 8 | 13 | 21 |
| Percentage analysis | 38.09 | 61.91 | 100 |

Data Analysis:

- ◆ The CSR committee should be formed as per the Companies Act 2013.
- ◆ The 8 companies out of 21 have formulated CSR committee
- ◆ The 13 companies out of 21 have not formulated CSR committee.

Interpretation:

- ◆ By the help of %age analysis it is found by the above data approximately 38.09% companies have formulated CSR committee.
- ◆ However 61.91% have still not formulated CSR committee as per the CSR act 2013.

CSR Implementation agency as under the Companies Act 2013

| | NGO | OWN SOCIETY | TOTAL |
|---------------------|-------|-------------|-------|
| Frequency | 18 | 03 | 21 |
| Percentage analysis | 85.72 | 14.28 | 100 |

Data Analysis

- ◆ CSR should be implemented through various agencies as per the 2013 act.
- ◆ To review the implementing agencies 21 companies data is selected.

- ◆ 18 companies are following the implementation through NGO's.
- ◆ 3 Companies are following their own society for implementation of CSR activities

Interpretation

1. As per the %age analysis it is being found 85.72% companies are following or dependent on NGO's to implement their CSR activities.
2. 14.28% has formulated their own society to implement CSR activities for social development.

CONCLUSION

The business has undergone various changes through barter system to plastic money. In this view various organizations are earning a lot of money. For moral purpose the money earned by these organizations should be spent for social development. Earlier socio-economic development was the sole responsibility of government. However due to the liberalization , Privatisation and globalisation (LPG) era. Various corporates have entered into economy. Therefore, the role of the government is also changing. The government has shifted some responsibility on the shoulder of corporates through the mandatory CSR companies act. This act will provide the direction to many corporate for socio-economic development. The finding of various companies through observation has been discussed already in chapter 5. On the basis of observation, few conclusion can be drawn.

- ◆ Under the companies act 2013, the CSR policy should be framed by corporates. However still only one third companies has formulated CSR policy as per the companies act 2013. Therefore there is a need to review the CSR policy formulation by various companies.
- ◆ Only approximately one third Indian companies has formulated CSR committee.
- ◆ As far as the spending is concerned that Indian banks are yet not prepared for 2% of the net profit spending on CSR. This situation is worse in public sector banks.
- ◆ Private sector banks have been spending a lot more on CSR than their peers in public sector.

◆ The ICICI Bank emerges the best performing bank in banking sector with spending of close to 182% of the average net profit of previous 3 years while Punjab National Bank comes out as the worst performing bank on CSR with meagre 0.04% of the average net profit of previous 3 years being spent on CSR.

◆ Most of the private sector banks have been undertaking initiative in strategic way with a journal approach towards long term impacts while public sector banks have been spending more in activities and sponsorship for NGO initiatives and welfare schemes.

◆ One of the favourites of public sector banks is donations to relief fund.

◆ Almost all public sector banks have contributed to Chief Minister/Prime Minister Relief funds.

◆ Five most preferred areas in priority order are education & vocational skills, healthcare, disaster relief, financial literacy and livelihood.

◆ The banking sector needs to spend two times more on CSR projects in financial year 2014-15 than what they have spent in last year.

◆ NGO's & Trusts have been preferred partners of banks when it comes to CSR project implementation.

◆ Some of the banks have their own foundation/trusts and implement project through there foundation/trusts.

◆ 28 companies has been found with INR 100 crore or above CSR budget (listed companies).

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