



A CRITICAL STUDY ON CORPORATE SOCIAL RESPONSIBILITY INITIATIVES OF MAJOR LISTED COMPANIES IN INDIA IN THE LIGHT OF NEW COMPANIES ACT, 2013

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ABSTRACT

Section 135 of the companies act 2013 regarding corporate social responsibility is a path toward development of society through corporate organizations, enacted by the Ministry of Corporate Affairs through Companies (Corporate Social Responsibility Policy) Rules, 2014. Companies having net worth of more than 500 crore or turnover more than 1000 crore or net profit more than 5 crore need to comply with CSR rules i.e. contributing 2% or more for the welfare of society following the prescribed guidelines under schedule VII. The study focuses on CSR activities of companies listed under NIFTY 50 and evaluating their current status in CSR activities. The outcome is not quite impressive as the amount required to spend is a minimal of 2% of profit before tax but most of the companies fails to spend the amount. A detailed analysis is done to highlight the current situation of the companies, their spending, their outstanding spent amount and whether sectoral expenditure of CSR according to schedule VII is being followed or not. However the study reveals that there is an immediate need of strict rules and regulations to create an immense effect of CSR and development of the society.

Keyword: - Section 135; Schedule VII; CSR; NIFTY 50.

Introduction

Corporate Social Responsibility can simply be expressed as the moral duties that are to be performed by an organization in regard to encourage social activities and development of the society. An organization utilizes the resources from the society which creates an obligation to perform something in return to the society. CSR is also often termed as Sustainability; Corporate Citizenship; Corporate Responsibility; Environment, Social and Governance and Tripple Bottom Line. CSR has no such perfect prescribed definition, but still some of them have tried to define CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (*EU Commission*). Generally, CSR is a concept which is practiced voluntarily by the business organizations across the world, but India is the first and the only nation in the world to come up with legal provisions for CSR practices.

According to section 135(1) of the Indian Companies Act 2013, during any financial year every company having –

1. A net worth of Rs.500 crore or more
2. Turnover of Rs.1000 crore or more
3. Net profit of Rs.5 crore or more

shall require to form a Corporate Social Responsibility committee of the board comprising of three or more directors, out of which one must be independent director. Under section 134 of sub-section (3) the board's report shall disclose the composition of the CSR committee.

Moreover, the company under section 135(1) will have to spend in every financial year at least 2% of the average net profit of the company made during the three immediately preceding financial year, if the company fails to do so then the CSR committee must provide the reason for not spending the amount under the clause (0) of sub-section 3 of section 134. Net profit is computed as per section 198 of the Companies Act, here net profit means profit before tax as clarified by the MCA.

Rule 9 of the CSR rules 2014 says that a company falling under section 135 shall require to provide CSR report along with its annual report.

Further Schedule VII of the Companies Act 2013 states the following areas and the projects under which the activities of the CSR can be carried out –

1. Eradicating extreme hunger and poverty.

2. Promotion of education.
3. Promoting gender equality and women empowerment.
4. Improving maternal health and reducing child mortality.
5. Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases.
6. Ensuring environmental sustainability.
7. Enhancing employment vocational skills.
8. Social business projects.
9. Contribution to Prime Minister's National Relief Fund or any other fund set up by the central government or the state government for socio-economic development and relief and funds for welfare of the Schedule Caste, the Schedule Tribes, other backward classes, minority and women; and
10. Such others matter as may be prescribed.

Source:-MINISTRY OF CORPORATE AFFAIRS NOTIFICATION New Delhi, the 27th February, 2014

Activities that will not qualify as CSR activities are:-

- Projects that only benefit employees of the company are not to be qualified as CSR projects
- One off events- things that are done once and not repeated.
- Expenses made for the sake of complying with the regulations of an act.
- Contribution to political parties
- Activities to pursue or profit own business.
- Projects outside India

Review of literature

Windsor (2001) in his article attempted to figure out whether CSR activities results in positive relationship between society and business in long run. The researcher also studied about the changing phase of CSR. Looking to the past trends of CSR and Caroll's model, researcher found the emerging alternatives of CSR i.e. global corporate citizenship, stakeholder management practices and conception of responsibility.

Elkington, J. (2004). TBL agenda as most people would currently understand it is only the beginning. A much more comprehensive approach will be needed that involves a wide range of stakeholders and coordinates across many areas of government policy, including tax policy, technology policy, economic development policy, labour policy, security policy, corporate reporting policy and so on. Developing this comprehensive approach to sustainable development and environmental protection will be a central governance challenge – and, even more critically, a market challenge – in the 21st century.

Shah and Bhaskar (2010). selected a case study of BPCL (Bharat Petroleum Corporation Ltd.). They talked about the connection between organization and society. Organization exists with the society. Business entities use resources like manpower, material, etc. from the society and in return provide services to the society. From this study they found out the numerous initiatives taken by BPCL as a part of CSR activities.

Hartmen (2011), article “Corporate Social Responsibility in the food sector” in European review of agriculture economics journal, analyzed the importance of CSR in food sector, particularly those companies which have high brand. CSR is an important part of these companies. But SME’s are less capable in discharging their obligations towards the society. Further, the research found that the food sector always tries to improve the controlling and discharging its service towards the consumers. Consumers also prefer those brands or food firms which gave preference to CSR activities and provide good product and services.

Dutta, et.al. (2011). Corporate Sustainability is of utmost important for the survival of organizations and their future generations’ stakeholders. To cope up with the globalized challenges, corporate all around the globe wants to consider applying a corporate sustainability plan by addressing their “Triple Bottom Line Reporting” which includes paying close attention to their economic (financial factors), environmental (risk and requirement factors) and social (human factors) issues. The most vital challenge confronting by the Indian corporate houses while adopting Triple Bottom Line Reporting (TBLR) approach in their corporate agenda. Hence TBL emerged as a new tool for measuring organizational performance. Triple Bottom Line Reporting (TBLR) goes beyond the traditional way of reporting mechanism and encourages businesses to give closer attention to the whole impact of their commercial activities, over & above their financial performance.

Bansal, Parida, Kumar (2012) in their paper “Emerging trends of Corporate Social Responsibility in India” analyzed 30 BSE listed companies from 11 sectors using their annual reports. Few of the sectors were telecom, housing, FMCG, oil & gas, IT & power, finance and metal mining sector, etc. They tried to study the areas and nature of activities in which companies are investing.

Rakesh Bharti Mittal (2013) in ‘CII Handbook on Corporate Social Responsibility in India’ expresses the need and application of CSR for equitable, inclusive and sustainable growth. India’s development sector has evolved substantially over the last few decades and voluntary contribution and investment in value chain is noticed. With the passage of the Companies Act, 2013 the mandate for corporate social responsibility (CSR) has been formally introduced to the dashboard of the Boards of Indian companies. A positive response is noticed to the reform measure undertaken by the government with a wide interest across the public and private sector, Indian and multinational companies

The Economic Times (11 Jan.2013), news highlighted about the company Dell’s strategy of motivating its employees in initializing CSR. The news highlighted that employees of the companies motivate the company to do more for the society, engagement in the areas of education, environment and employee’s welfare. Other companies like Maruti and Godrej that these companies are also engaged in induction training to its employees for preparing them for community services. Maruti Company runs a program named e- parivartan for a group of employees to make them aware about community problem and their solution.

Objective of the Study

The study revolves around NIFTY 50 companies and their role in CSR activities. Contribution made by these companies to give back some benefit to the society is evaluated. Major objectives of present study are as follows-

- The companies listed under NIFTY 50 are fulfilling all the criteria required under section 135 of the companies act or not for CSR expenditures,
- Either the contributions are made by following schedule VII or not
- The actual percentage of net profit before tax that is being spent on CSR activities.
- Availability of CSR report on website.
- Amount actually spent and the amount carried forward of the total allotted amount.

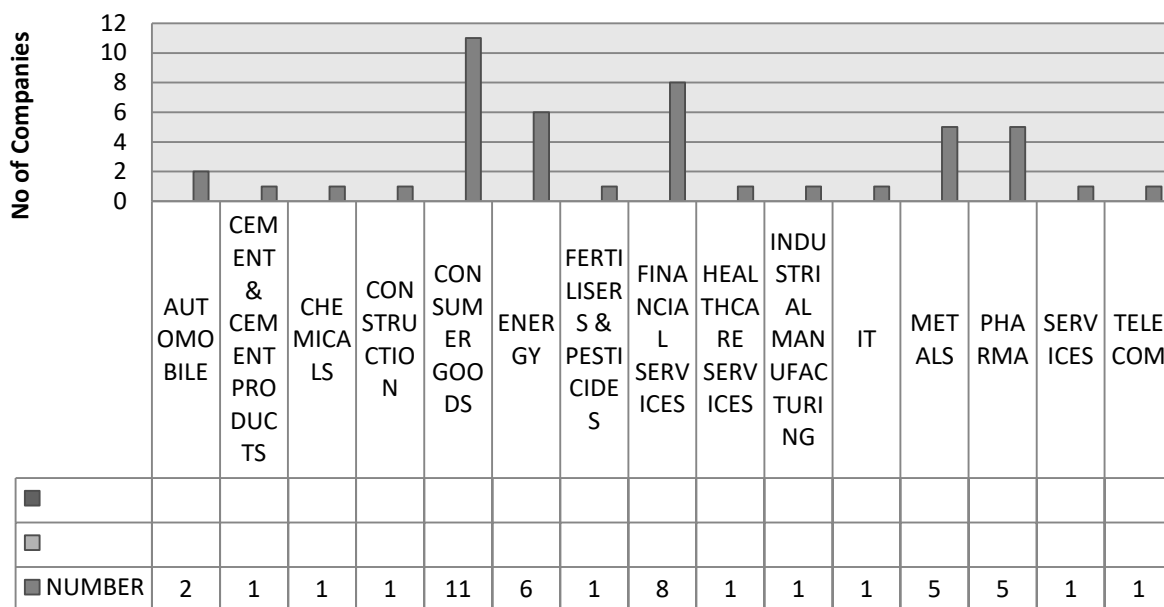
Research methodology

The study is totally based on secondary data collected from various sources primarily including company website. Data collected are regarding the financial year 2015-16 to represent the current status of companies registered under NIFTY 50. Further the study revolves around these companies and their contributions to CSR. An effort is to evaluate the concurrent situation of companies under section 135. The actual amount spent out of the total 2% responsibility.

Findings & Analysis

Nifty 50 is the benchmark stock index of Indian stock market. India Index Services and Products Ltd (IISL) own and control NIFTY. 22 sectors of the Indian economy are covered by nifty 50 and also help investment managers to analyze the Indian market in one portfolio. The study revolves around these NIFTY 50 companies and their CSR responsibility which is mandated by the Ministry of Corporate Affairs to be 2% of average profit before tax for the preceding three years. Proceeding with the study further reveals the current scenario of state of affairs of CSR activities of 50 biggest companies registered under National Stock Exchange but unfortunately, information regarding 3 companies could not be collected either due to the adequate disclosure practices. Reliance Communications Ltd., United Spirits Ltd., Vedanta Ltd. are facing loss in the financial year 2014-15 so there is no requirement for Corporate Social Responsibility as per the legal provisions and hence ignored in this study. Moreover, Bajaj Finance Ltd and its subsidiary Bajaj Finserv are both registered in NIFTY so as per legal provision it is to be considered as one company. So the study is confined finally on the basis of 43 companies and detailed analysis of their total CSR responsibility, percentage of net profit , actual amount spent by them,outstanding amount, industry they are involved in for the year 2014-15. A total of 20 companies' information is available in details in corporate website and their reports on CSR activities are evaluated to verify the sustainability of contribution to the society.

Chart#1: Industrial Analysis



Source: S&P BSE Index (<http://www.bseindia.com>)

These companies are involved in various industries consisting mainly of financial services and consumable goods, about 40 % of the companies are involved in these two sections. Industrial manufacturing, pharmaceutical, metals holds 10% place each in the total 50 companies of NIFTY 50. Energy is also a major part of NIFTY and also consists to major industries like health care, automobile, construction, IT, chemical, cement and cement products, fertilizers and telecommunications. The analysis represents the sectoral spread of NIFTY in different kind of industries. As each of the company qualify their 2% contribution of Average Profit of the last three years immediately preceding the financial year on the basis of Profit Before Tax mandated by the Ministry of Corporate Affairs so an analysis is not considered necessary rather an effort is made to highlight the percentage of CSR on profit after tax for the year ended 2014-15. To be specific out of 43 companies, eighteen companies' contribution towards CSR on profit after tax is less than 2%, this effort shows the effect that would have taken place if the entire amount was to be spent from the profit of shareholders. 16 companies stay above 2% but within 3 % on Profit after Tax of 2014-15. Seven companies show a remarkable contribution of more than 3% even on Profit after tax. These companies include Bharat Electronics Ltd., Cadila Healthcare Ltd., NMDC Ltd., Oil India Ltd., Oracle Financial Services Software Ltd., Shree Cement Ltd.,

Shriram Transport Finance Co. Ltd., and Steel Authority of India Ltd. Three companies mentioned above having loss did not require to make any contribution towards CSR.

Table#1: Percentage of Corporate Social Responsibility on Profit after Tax (PAT)

CSR % Of PAT	NUMBER OF COMPANIES
LOSS	3
BELOW 2%	18
2%-3%	16
3%-4%	4
ABOVE 4 %	4
TOTAL	45

Source: Computation by Researcher from Corporate Disclosure

A noticeable company Bajaj Finance Ltd. and Bajaj Finserv Ltd. are both registered under NIFTY 50 but Bajaj Finserv forms a subsidiary of Bajaj Finance Ltd. So a collective representation is available from the Annual General Meeting and also considered as one company in this study as per the provision of the Section 135(1) that any holding or subsidiary fulfilling the criteria of Section 135 need not to comply with CSR responsibility individually but group as a whole. Section 135(4) states that the board of directors must forecast their CSR report on their website. As proceeding through the study we also find that there is a difference between the amount allotted and the actual amount spent on Corporate Social Responsibility, which is known as unspent amount of CSR. The board is free to decide what percentage of CSR is to be spent and what percentage is to be unspent but any excess of 2% spent cannot be claimed as deduction in coming years. Twenty companies have no unspent amount of CSR as liability of the company which shows a positive contribution towards the development of society in 2014-15. Of these twenty companies thirteen companies have spent more than prescribed CSR amount which was allotted, which is represented in the table below.

Table#2: Companies spending more than 2% of Average Profit

COMPANY	INDUSTRY	TOTAL CSR	CSR SPENT
Ashok Leyland Ltd.	AUTOMOBILE	1,72,00,090	1,77,16,266
Bharat Forge Ltd.	INDUSTRIAL MANUFACTURING	7,11,70,000	11,23,10,000
Cadila Healthcare Ltd.	PHARMA	10,80,90,000	10,81,50,000

Colgate Palmolive (India) Ltd.	CONSUMER GOODS	13,17,00,000	13,28,00,000
Dabur India Ltd.	CONSUMER GOODS	14,66,00,000	14,71,00,000
Emami Ltd.	CONSUMER GOODS	7,55,30,000	7,59,22,000
GlaxoSmithkline Consumer Healthcare Ltd.	CONSUMER GOODS	14,70,00,000	17,34,00,000
Godrej Consumer Products Ltd.	CONSUMER GOODS	12,41,00,000	16,08,00,000
JSW Steel Ltd.	METALS	42,86,00,000	43,39,00,000
Marico Ltd.	CONSUMER GOODS	9,50,00,000	11,19,00,000
Pidilite Industries Ltd.	CHEMICALS	11,32,50,000	11,43,90,000
Torrent Pharmaceuticals Ltd.	PHARMA	13,69,00,000	15,01,00,000
UPL Ltd.	FERTILISERS & PESTICIDES	6,93,00,000	10,62,00,000

Source: Computation by Researcher from Corporate Disclosure

The remaining 7 companies spent the exact same amount which was their responsibility and no unspent amount is carried forward. Out of profitable 44 companies 22 companies did not spend the full amount and a portion was left unspent. The company named Bharat Electronics Ltd. in spite of earning profit did not spend a 2% of Profit for CSR activities and transferred the entire amount to next year as unspent. On the basis of sustainability in the year 2015-16 only 20 companies information could be fetched, the study reveals that these companies follow the same trend as in 2014-15. Companies like Ashok Leyland Ltd., Colgate Palmolive (India) Ltd., Emami Ltd., Godrej Consumer Products Ltd., JSW Steel Ltd., Pidilite Industries Ltd., Torrent Pharmaceuticals Ltd., UPL Ltd. are again contributing more than its prescribed CSR. Glaxo Smithkline Pharmaceuticals Ltd also made more than prescribed contribution in 2015-16. The trend of spending on CSR activities in 2015-16 by these major listed companies is also increasing which is also a very encouraging trend.

Summary of findings

The study is on NIFTY 50 companies registered on National Stock Exchange of India and their Corporate Social Responsibility practices. However, of them 3 companies are facing loss in the year 2014-15 and another 3 companies annual report could not be traced due to inadequacy of corporate disclosure and technical fault and finally another company which is a subsidiary and

exempted from CSR leaves us a total of 43 analysable companies working in various industry. The study further highlights the percentage of CSR on Profit after tax on the current year i.e. 2014-15 to represent the part that the shareholders had to sacrifice in current year. Twenty four companies are showing a positive sign of CSR not just to avoid mandating effect but to accept it as a responsibility and contribute towards development of the society. 20 companies fulfil more than their prescribed CSR amount and representing their voluntary contribution towards society. On the other hand 22 companies just meet their responsibility as to comply with the mandatory guidelines of Ministry of Corporate Affairs. The study represents the willingness and voluntary contribution that the companies are making towards the society.

Limitations of the study

Although the study is undertaken to forecast the current situation in CSR of various companies registered under NIFTY there consist many limitations which are:-

- The study is conducted on secondary data so the accuracy and validity is questionable.
- Lack of transparency is noticed in case of few companies or may be some technical bug due to which information relating to three companies could not be fetched.
- The study is limited to NIFTY 50 companies only. It will be more comprehensive if more companies being involved in the gamut of the study.

Conclusion

The study is conducted to add up the relevancy in the real world. Despite the fact that all the company meets the required CSR i.e. 2% of average profit for the last three years immediately preceding the financial year but the study acknowledges that most of the companies are fulfilling the requirement just for the sake to avoid the mandatory effect. On the other hand there are few companies which have voluntarily accepted the need of Corporate Social Responsibility. Companies in NIFTY 50 are one of the major companies in various industrial field that represent Indian Stock Market, so an high expectation can be made by the society for development of it. Proper disclosure of carried forward unspent amount is also necessary which is lagging in the annual report. The sectoral investment is mentioned in CSR Report but the amount spent is not disclosed so there is a lack of transparency in this particular issue. But the companies are

adopting the social Responsibility which will lead to development of India and the impact will be strong.

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