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# **ECONOMIC TRAJECTORY OF CORPORATE SOCIAL RESPONSIBILITY: AN EMPIRICAL STUDY OF SELECTED INDIAN COMPANIES**

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**Abstract:** As a country of numerous contradictions, India has grown to be one of the prevalent economies in the world, and gradually an important competitor in the emerging global order; conversely, it is still home to the largest number of people living in absolute poverty and undernourished children mainly due to uneven distribution of the benefits of growth in the country. As a solution to this social and economic unrest business society has made their contribution for the sustainable development of the country. Corporate Social Responsibility (CSR) is one of the foremost aspects of such contribution as alternatives to the states, alternatives to the communities and also alternatives to the markets. The paper primarily proposes the extent of CSR in the economic viability of India after the enactment of Companies Act 2013. It provides a brief discussion of the trajectory of CSR in India from Gandhian trusteeship theory to current CSR scenario with special focus on its economic perception. It also attempt to discuss relevant areas of CSR practices of selected companies. In addition it provides a theoretical basis of CSR especially in the stakeholder perspective. The present study is based on secondary data related to the annual reporting of CSR practices of Indian companies and CMIE database Prowess and KPMG survey data. The selected companies also respond positively to the Companies Act 2013 but there is a considerable decline in the CSR spending of some companies after 2014. The study reveals that mandatory CSR has wide implications in India mainly in the areas of education and health care.

**Keywords:** Companies Act 2013, Corporate Social Responsibility, CSR Spending in India, Thematic Areas of CSR.

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**Introduction:** Indian economy is in a trajectory of ever renewing process of development. The ambience of Indian business made a revolutionary nurture in the global orbit with a congenial or proactive manner. CSR has progressively an integral part of corporate business and has brought into being enormous recognition among policy makers, government, and other stakeholders. CSR simply is a type of commitment of the corporate to its stakeholders. It may take the form of volunteer assistance programmes, special scholarships, and preservation of environment. Consumers' purchase choices depend largely on business ethics and CSR practices. The augmented community breeding CSR policies of the corporate will increase reputation which in turn accentuate adequate number of customers and facilitates to maximize profit. There were wide discussions regarding the concept of CSR and its vagueness with reference to its transparency, social impact and business benefit. The year 2013 marked a milestone towards gigantic changes in CSR ethos of India.

**Theoretical Foundations of Corporate Social Responsibility:** The first theoretical brass tacks of CSR emerged during the 19<sup>th</sup> century by Cadbury brothers in England and the Tata group in India. Legitimacy theory implies there is a social contract between a corporate and the society in which they functions. For the continuing existence of the company, they must be blame to develop a persistent approval from the society. Maignan and Ralston (2002) assert that the safeguarding of reciprocal relationship with its stakeholders is very crucial for legitimacy of a firm. Milton Freidman (1970) claimed that a companies' function is to maximize returns to its shareholders and that comply with the laws of the authority within which it operates forms socially responsible behavior. Freeman (1984) affirmed stakeholder approach that those group or individual are affected directly or indirectly by the

operations of the firm. It may embrace employees, investors, government, shareholders, customers and general public. Carroll (1991) underlined his CSR pyramid especially for developing countries. The pyramid gives a hierarchical form of corporate responsibilities moving as economic, legal, ethical and philanthropic dimensions and this horizontal space pyramid of Corporate Social Responsibility (CSR) become developed as Corporate Social Performance (CSP)<sup>1</sup>.

Stakeholder theory is more suitable for developing countries where companies must take part an active role in society in which they operate. Shareholders, workers, customers, suppliers, and community are the five cardinal stakeholders of a company. That is the company is responsible not only to work for the objective of profit making but also to take generosity actions to those who would be affected by the firm's actions. In crux, sensitivity of the stakeholders of a company defines the existence of that company leads to synergistic approach with stakeholders.

**Objectives:**

- To study the extent of CSR spending of selected Indian companies in the light of Companies Act 2013.
- To substantiate the areas of CSR in which the companies are involved.

**Research Methodology:** The research proposes to use both qualitative and quantitative research tools to empirically support the arguments of this research paper. Secondary data requisite was taken from the CMIE database Prowess and the Annual reports of the NSE listed top five Indian companies. Most of the calculations are made from the published data of the respective companies' websites. For getting theoretical facets, various books and texts are referred.

**Limitations:**

- The study is confined to NSE listed top ten Indian companies only
- Non-accessibility of relevant information of various companies

**CSR in India:** The origin of the concept of CSR in India largely depends on Gandhian principle of trusteeship. Since 1950s CSR was taken as a form of corporate philanthropy. The history of corporate philanthropy in India has limited to donations, investment in trusts, and other related services. Then philanthropic notion of CSR changed to strategic CSR especially during 1980s which leads to diversification in the sketch of Indian business sphere. The phenomena of transformation in Indian CSR practices has been reinforced to make a legal framework for CSR and finally ratified Clause 135 of Companies Act 2013 that makes CSR as a mandatory obligation for corporate to the society. India became the first country to enact a mandatory minimum CSR law and around 8000 companies will fall into the ambit of the CSR provisions and also this would translate into an estimated CSR spend of \$1.95 billion to \$2.44 billion (Sajwan, 2015). The Act provides the criteria that every company which has annual turnover of Rs.100 billion or more or a net worth of Rs. 5 billion or more or net profit of Rs. 50 million or more in any financial year must form a CSR committee wing with three or more directors including at least one as an independent director. Also the company must contribute at least 2% of their average net profits of past three financial years. Hence the present research paper is an endeavor to scrutinize CSR spending pattern of the Indian companies before and after the Companies Act 2013 in order to study the transparency and accountability of CSR practices in India.

Table 1 shows CSR spending of the five selected companies from 2013-14 to 2016-17. In the case of Reliance Industries Ltd. CSR expenditure was very high during 2013-14 and 2014-15. But after the announcement of Companies Act 2013 (came into effect on April 1 2014) there is a negative aftermath of mandatory CSR, that is, considerable decrease in CSR spending of the company from 3.24% in 2013-14 to 2.4 in 2016-17.

**Table1:** CSR Spending of Selected Indian Companies

Years		Company Names				
		Reliance	TCS	IOC	ONGC	Infosys
2013-14	PAT	21984	18475	7019	22095	10194
	CSR Spend	712 (3.24%)	88 (0.48%)	84 (1.2%)	342 (1.55%)	9 (0.1%)
	2% of PAT	440	370	140	442	204
	Variance	272	-282	56	-100	-195
	Variance in %	62	-76	40	-22	-95
2014-15	PAT	22719	19257	5273	17733	12164
	CSR Spend	761 (3.35%)	294 (1.53%)	116 (2.2%)	495 (2.79%)	243 (2%)
	2% of PAT	454	385	105	355	243
	Variance	307	-91	11	140	0
	Variance in %	68	-23	10	39	0
2015-16	PAT	27417	22883	10399	20143	13491
	CSR Spend	653 (2.4%)	375 (1.64%)	156 (1.5%)	421 (2.09%)	270 (2%)
	2% of PAT	548	457	208	403	270
	Variance	105	-82	-52	18	0
	Variance in %	19	-18	-25	4	0
2016-17	PAT	31425	26289	1549	17900	13818
	CSR Spend	754 (2.4%)	447 (1.7%)	44 (2.86%)	526 (2.94%)	289 (2.1%)
	2% of PAT	629	526	31	358	276
	Variance	125	-79	13	168	13
	Variance in %	20	-15	41	47	5

**Source:** Annual Report of the Selected Companies

Tata Consultancy Service Ltd. (TCS) contributed 0.48% of profit after tax during 2013-14 and in 2016-17 it was 1.7%. There is a significant increase in CSR spending but the TCS is far away from the 2% of the profit after tax as per the Companies Act 2013. Indian Oil Corporation Ltd. (IOC) showed a better improvement in CSR from 1.2% in 2013-14 to 2.86% in 2016-17. ONGC made a substantial boost in the CSR payments (increased from 1.55% in 2013-14 to 2.94% in 2016-17) and also an appreciable fact is that both ONGC and Infosys keep their CSR spending 2% or above of their net profit after 2014. This is a picture of only selected Indian companies and not generalizes the corporate economy as well.

By comparing area wise distribution of CSR spending during the financial year 2016-17, it is recognize that education, health, rural transformation and environment sustainability are the predominant CSR expenditure heads. Education is the most common. Top five NSE listed companies were found to have some initiatives on education, followed by health and rural transformation.

Providing scholarship to disadvantaged students, infrastructure support, furniture, books, teaching supplies, construction of libraries, renovation work for school building, classes for underserved children, training for teachers are the most common activities in education domain CSR expenses. In the health care ground, providing infrastructure and equipment supports to chronically sick, support for maternal and child health, organizing health camps, drinking water and sanitation, geriatric care are the chosen areas of involvements.

**Table 2:** Theme-Wise CSR Spending and Number of Projects in India 2017

Thematic Areas	INR Cr	No of Projects
Education & Skills	2973	1598
Health Care	2131	1260
Rural Development	1091	433
Environmental Sustainability	795	433
Art & Heritage	190	110
Rural Sports	181	115
Gender Equality & Women Empowerment	146	177
Technology Incubation	45	11
Benefits to Armed Forces Veteran	32	17
Others (Projects, Admin, Misc)	862	NA

**Source:** India CSR Outlook Report 2017

Table 2 shows theme wise CSR spending of Indian companies in 2017 and number of projects undertaken in the respective area. It is realized from the table details that majority of the companies spent for educational development of the community. The second and third preference is for health care and rural development respectively. KPMG survey of 2016-17 pointed out that there has been an overall improvement in CSR spending, but disclosure of companies for direct spends and overhead expenditure remains a concern. In this survey 30.2% of the CSR of the surveyed companies is for educational purposes and 26.6% for health and poverty alleviation. The lowest amount of CSR goes for sports development.

**Summary and Discussion:** An important question to ask here is that will Companies Act 2013 a game changer for CSR in India? The trajectory of CSR from trusteeship principle to mandatory reporting standards of Companies Act 2013 has aid in creating transparent economic growth with a snowball effect by strengthening the synergistic efforts of all stakeholders. Equitable distribution of benefits of growth without risking business growth and in return creating indirect advantages such as brand visibility, long term community relationships and other type of reputation are the core objectives of mandatory CSR. It is also suggested that for the successful functioning of mandatory CSR, need more uniformity and accountability among companies in the practical application of the Act. Of course it is appreciable that the companies have their own hand in the educational and healthy economic capability of India. But the relevant thematic areas of CSR in India are confined to education and health care domains. Beyond these traditional areas, it should expand in the areas of sustainable tourism supply chain management, poverty eradication, reducing power shortage and pollution and preserving bio-diversity for making an economically vibrant India.

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