



“A Study on Impact of Corporate Social Responsibility and Companies Act on Business and Society”

KEYWORDS

Corporate Social Responsibility, Companies Act -2013.

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ABSTRACT

Corporate Social Responsibility (CSR) is defined as the 'relationship between corporation and the society in which it operates'. Many big Indian companies have implemented CSR activities as part of their business on their own. Indian government, through Companies act -2013 has implemented a new CSR guideline which requires companies to spend 2% of their net profit on CSR activities. Even though the move has increased the CSR spending on bigger scale is evident as per the analysis, the new norm has been criticized by some businessmen. Because of the new law, now Small and Medium Enterprises (SMEs) also have to take part in the CSR activities which could be an additional burden to their business operation. Also, whether the money spent for CSR activities has been spread evenly without geographic bias still remains a question. People's buying decision and Investor's decision also has been slightly led by what the company has contributed to the society apart from generating profit.

Introduction

The Corporate Social Responsibility (CSR) is concerned with the relationship between the corporations, government and the individual citizens. In other words, it is the relationship between the corporations and the society in which the corporation resides. i.e., the relationship between the corporation and its stakeholders. The CSR activities of the companies is making an impact on stakeholders and the society. The Companies Act, 2013 has increased the spending in the CSR and its impact is analysed in the article.

Corporate Social Responsibility

The Corporate Social Responsibility (CSR) is the relationship between the corporation and its stakeholders. The European Union commission defines 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" Corporate Social Responsibility are the activities that are carried out by corporates in the society, voluntarily, for the intent of uplifting the society. It is about giving back something to the society from which it has taken for its business operation.

The major sectors in India, where most of the CSR activities are taking place are education, environment, health and charity. The big business players in India are family led conglomerates and hence have a long trail on philanthropy even before the enactment of the Companies Act, 2013. The top companies which make a big contribution on CSR activities in India are Tata group of companies, UltraTech Cements, Mahindra & Mahindra, ITC, Shree Cements, Bharat Petroleum, L&T and Infosys.

Influence of CSR on public and investors decision

The CSR activities carried out by the companies and made known to the public have chances of influencing the buyer's decision to buy which company product they should buy. The companies' wants to be known as an organization not only just make quality products but also helping the society to improve the quality of the people's lives who are in need of it but can't afford it.

The recent trend of companies publicizing their brand not just stops at telling the qualities of their products but extends to publicizing how good they are to the society. The message, 'help us to help the society, by choosing our product' is indirectly inflicted in the minds of the customers.

Companies Act, 2013

India is the first country in the world, which made a mandate on CSR activities by the companies. The Ministry of Corporate affairs, in an

effort to increase the money spent on CSR activities, have notified the section 135 and schedule VII of the Companies Act, 2013 and the provisions of companies Rule, 2014.

As per the rule all the companies which has

- Net worth of Rs.500 crores or more or
- Turnover of Rs.1000 crores or more or
- Net profit of Rs.5 crores or more

in any one of the preceding three financial years are required to setup a CSR committee and spent a minimum of 2% of average net profit in preceding three financial years on CSR activities as mentioned in the schedule VII. The CSR committee of the board is required to be constituted to formulate the CSR policies and monitor the CSR activities. The CSR committee board should contain at least three directors, including an independent director.

Impact of Companies Act, 2013

The Companies Act, 2013 on Corporate Social Responsibility has brought in many companies on CSR activities and has increased the total CSR spent in India. According to 'the guardian' newspaper magazine, the total CSR spent has increased from 33.67 billion rupees in 2013 to 250 billion rupees after the implementation of the law.

Objectives of the Study

1. To explore the CSR spending of companies against their financial performances.
2. To find out the percentage of Profit after taxes (PAT), percentage of average of preceding three years net profit, percentage of previous year PAT spent on CSR.
3. To find out the impact of CSR and companies act on business and society.

Methodology

Primary and secondary data analysis method was adopted in this study.

Sample

Six companies at national level were taken for the study.

Data Analysis

The sources of data for the study are; existing literature and data in websites, various publications of companies and other sources like books, magazines, newspapers, reports, articles, seminar papers published by universities and research institutions. Microsoft Excel is used for the data analysis as the nature of the research is

descriptive.

To study the impact of Companies Act on CSR spending, six companies were considered for an analysis and their financial performances for four financial years were studied through their annual reports and their expenditure on CSR activities were analysed.

To analyse the impact, the prescribed 2 % to be spent on CSR, percentage of average of preceding three years net profit spent on CSR, Profit after taxes (PAT), percentage of PAT spent on CSR, percentage of previous year PAT spent on CSR were taken for analysis.

Since Profit after Taxes plays an important figure in financial reports, it was taken into consideration. Since previous year's performance might influence the companies to decide current spent on CSR, it was also taken into consideration.

The companies studied in the analysis are Tata Steel (top contributor in CSR), Mahindra and Mahindra (Automobile sector), ITC limited (FMCG), Wipro (long player in CSR), Infosys (Service sector), Banco Products (small company).The year wise analysis of their CSR spending against their financial performances of companies are shown in Table 1.

Table1. Company's financial performance and CSR expenditure during 2012-2016

	Average net profit of previous three years				Prescribed 2% on CSR				Actual expenditure on CSR				PAT			
	2015-2016	2014-2015	2013-2014	2012-2013	2015-2016	2014-2015	2013-2014	2012-2013	2015-2016	2014-2015	2013-2014	2012-2013	2015-2016	2014-2015	2013-2014	2012-2013
Tata Steel	7518	8412.82	6588	6203	150	168.26	204	171	21	170	490	643	641	506	2.97	
M&M	4247.5	4151.5	2964.6	2706	84.95	83.3	85.9	83.24	32.7	33.3	316.748	332.111	375.835	335.282		
ITC	12338.22	110646.11	6190	5070	246.76	212.92	247.5	214.06	106.63	82.34	984.471	960.773	878.521	741.839		
Wipro	7800.2	6415	5060	4809	156	128.3	159.82	132.7	16.4	16	809.9	819.3	738.74	565.0		
Infosys	12800	12133	8009	6889	256	243	202.3	243	14.75	80	157.86	121.64	101.94	911.6		
Banco Products	63.9	74.874	55.23	69.75	1.278	1.497	1.278	1.5	0.129	0.02	82.128	41.675	66.45	34.85		

With the information available in the Table 1, the year wise expenditure on CSR, percentage of PAT spent on CSR, percentage of previous year PAT spent on CSR, percentage of average of preceding three years net profit spent on CSR, percentage of average of preceding three years net profit spent on CSR in 2014 and 2015 are calculated and shown in Tables 2, 3, 4 and 5 respectively. Their graphical representations are shown in Figure 1, 2, 3 and 4 respectively. Figure 5 illustrates the impact of Companies Act before and after its implementation.

Table2. Company expenditure on CSR in last four years

	CSR Expenditure in crores			
	2012-13	2013-14	2014-15	2015-16
Tata Steel	170.76	212	171.46	204
M&M	33.53	32.7	83.24	85.9
ITC	82.34	106.63	214.06	247.5
Wipro	16	16.4	132.7	159.82
Infosys	80	14.75	243	202.3
Banco	0.02	0.13	1.5	1.28

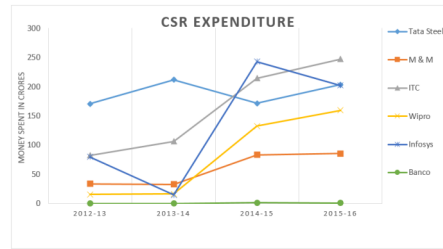


Figure 1. CSR Expenditure by companies.

Table 3. Percentage of PAT spent on CSR

	% of PAT spent on CSR			
	2012-13	2013-14	2014-15	2015-16
Tata Steel	3.37	3.31	2.6	4.16
M&M	1	0.87	2.5	2.71
ITC	1.1	1.21	2.23	2.51
Wipro	0.28	0.22	1.62	1.97
Infosys	0.88	0.14	2.00	1.28
Banco	0.06	0.19	3.60	1.56

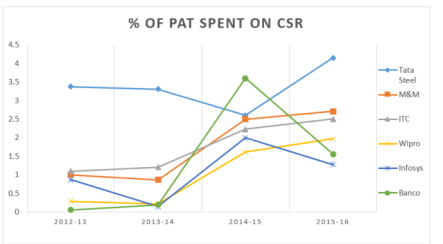


Figure2. Percentage of PAT spent on CSR

Table 4. Percentage of previous year PAT spent on CSR

	% of Previous year PAT spent on CSR			
	2012-13	2013-14	2014-15	2015-16
Tata Steel	2.55	4.1	2.67	3.10
M&M	1.16	0.97	2.21	2.59
ITC	1.33	1.43	2.43	2.57
Wipro	0.34	0.29	1.80	1.95
Infosys	0.95	0.16	2.38	1.66
Banco	0.03	0.37	2.26	3.07

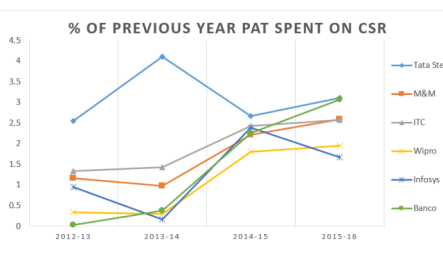


Figure3. Percentage of previous year PAT spent on CSR

Table 5. Percentage of average of preceding three years net profit spent on CSR

	% of Average of preceding three years net profit spent on CSR			
	2012-13	2013-14	2014-15	2015-16
Tata Steel	2.75	3.22	2.03	2.71
M&M	1.24	1.10	2	2.02
ITC	1.62	1.72	2.01	2
Wipro	0.33	0.32	2.07	2.05
Infosys	1.16	0.18	2.00	1.58
Banco	0.03	0.23	2.00	2

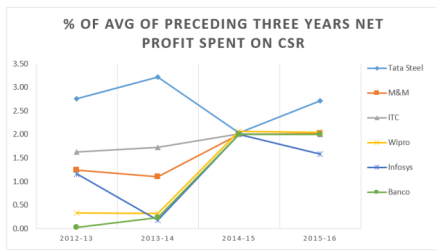


Figure 4. Percentage of average of preceding three years net profit spent on CSR

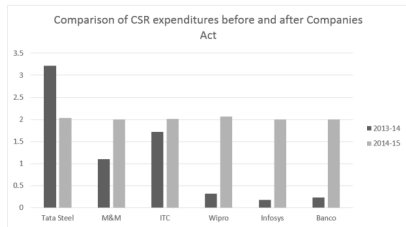


Figure 5. Comparison of CSR expenditures before and after companies Act

Wipro have been spending more on sustainability programs before the Companies Act, 2013 which could not be counted under CSR activities. The above charts clearly indicates that the companies have spent more on CSR activities after the Companies Act, 2013 apart from Tata Steel (but Tata Steel has spent more on the consecutive year). Tata Steel have been spending big on CSR for a long time and has taken CSR as part of their core values. For the bigger companies, the act has made them to spend considerably more on the CSR expenditures. But for smaller companies like Banco products, they were forced to spend multiple times of the money they were spending on CSR. In 2014-15, Banco products spent Rs.1.5 crores on CSR, which is a huge amount compared to Rs.13 lakhs they spent the previous year. But, the overall expenditure on CSR by all companies has considerably increased as a result of the Companies Act, 2013.

The Act has made the top earning companies to spend more on CSR and also have made many companies to spend on CSR for the first time. The Act could make many small companies and Small and Medium Enterprises (SMEs) to take part in Corporate Social Responsibility.

Criticism on Companies Act, 2013

Even though the mandate on CSR activities was brought up for good means, it is not without criticisms. The mandate of CSR activities by companies having net profit of Rs.5 crores has pushed many companies into Corporate Social Responsibility platform, especially the Small and Medium Enterprises (SMEs). The SMEs which already works on tight budget to compete with other players on quality and profit doesn't have operational capabilities or vast human resources to manage CSR activities. Many such companies are being forced to spend on CSR. The SMEs are suggested to collaborate with other SMEs for CSR (it is allowed by the companies act, 2013) to effectively manage their activities on CSR.

Many Business Leaders also have expressed their concerns over this mandate that even though it is brought with good intent might lead into a chaotic business environment.

Ratan Tata, the former chairman of Tata Sons, has said "We have a phenomenon which is meant to be good but is going to be somewhat chaotic we don't as yet know what kind of monitoring there'll be in terms of how well this money is used" He has also mentioned that CSR is something that "comes from within and cannot necessarily be effective in the form of a tax"

Azim Premji, head of Wipro, has said "My worry is the stipulation should not become a tax at a later stage ... Spending 2% on CSR is a lot, especially for companies that are trying to scale up in these difficult times. It must not be imposed."

Vikas Goswami, head of Godrej Industries' sustainability programme have said "For most organisations, the discussion at board level is now not about what we do, but does it count as CSR and does it meet the legal requirements" and also pointed out that the business rationale to Corporate Responsibility is now at the risk of getting lost. Another Business leader have pointed out that the corporate sector is facing difficulties to find credible partners and good projects they can support and hence the bigger charities that are well known are being flooded with money since small charities lack the capacity to cope with companies bureaucratic and operational demands.

The Companies Act, 2013 states that preferences should be given to local areas where the company operates. Many fear that this will lead to a geographical bias on CSR expenditure where more industrialised localities will get more funds and the remote and poorer which actually requires developmental aid might not get the CSR benefits.

Does CSR justify the environmental impact of companies?

Some organizations have corporate social responsibilities as one of their core values. They have voluntarily started out their contribution to the society without any external force. There are some organizations that have started out their CSR activities since it is required by the law or just because their competitors are doing it. Does CSR alone, make a company, a good guy? The society is indeed getting benefit out of CSR activities that are being carried out by many companies. But, does giving back something to the society, justifies taking a lot from the society?

The Tamil Nadu government has given permission to Pepsi co and Coca Cola to extract and use 9 lakh litres and 15 lakh litres of water every day for their industrial use. The water is supplied to these companies by the Tamil Nadu government at the rate of 3.75 paise per litre. When the state government is in a dispute with its neighbouring states over water sharing issues, this move paved way for criticisms and condemnms from public and environmentalists. A case was filed in the court against the government's move and the Madurai High court has banned Pepsi and Coca Cola to draw water from Thamirabarani River for its industrial and commercial usage.

Pepsi and Coca Cola also has taken major part in Corporate Social Responsibility. But does that CSR activities that are carried out, justifies those companies' request to draw water and in turn the impact that was going to make on the environment and society. Tamil Nadu has often faced with water shortage which in turn created many ill effects on agricultural yield and on poor farmers' lives.

To rectify those issues, many business leaders have suggested that Sustainability should be viewed as the true Corporate Social Responsibility rather than just the activities that are suggested by the government. CSR is taken as a part of sustainability in this approach. Sustainable development is considered as the "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Sustainability is taking the current and future, society and environment into consideration in business operations.

Recommendations:

To overcome the geographical bias of the CSR activities of the companies, the CSR activities should be evenly spread or should be spent on the regions where it is needed rather than where it is available. The SMEs can collaborate with each other and can form as a group to perform CSR activities to reduce the operational complexities of the CSR activities. The companies should also concentrate on sustainability along with the CSR if they want to

benefit the society in the long run.

Conclusion

The companies have spent more on CSR activities after the Companies Act, 2013. For the bigger companies, the act has made them to spend considerably more on the CSR expenditures. But for smaller companies and SMEs, they were forced to spend multiple times of the money they were spending on CSR or pushed to spend money on CSR for the first time. Since the CSR has been brought into the board meetings, all the companies were made to rethink about their business strategy. This has made an impact on their overall business outcome. But, on the other hand, the overall expenditure on CSR by all companies have considerably increased as a result of the Companies Act, 2013 and so has made a huge amount of fund available for CSR activities and hence has brought in many projects to help and improve the society.

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