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Research Paper

CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN SELECT INDIAN COMPANIES

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ABSTRACT

Corporate Social Responsibility (CSR) is one of the most important issues and developments of the 21st century. In the recent years, the challenges faced by the companies and society call for a major role of CSR. There is a lot of pressure on the companies to operate in an economically, socially, and environmentally sustainable way and to spend on CSR for the long run survival of the business. In this context, the present paper attempts to discuss the concept of CSR, legal framework of CSR, and analyze and compare the CSR spending of select Indian companies. The select Indian companies (SICs) for the present paper include HDFC Bank Limited, ITC Limited, Housing Development Finance Corporation Limited, Reliance Industries Limited and Infosys Limited which were the top five companies by weightage in NIFTY 50 as on May 31, 2017.

It is found that RIL is at the top in CSR spending on Schedule VII (i), (ii), (vii) and (Multi Areas and Overheads). ITCL is at the top in CSR spending on Schedule VII (iii) and (iv). IL is at the top in CSR spending on Schedule VII (v). HDFCBL is at the top in CSR spending on Schedule VII (x). HDFCBL is at the bottom in CSR spending on Schedule VII (i), and (iv). HDFCL is at the bottom in CSR spending on Schedule VII (ii), (iii), (vii), (x) and (Multi Areas and Overheads). RIL is at the bottom in CSR spending on Schedule VII (v). RIL is at the top while HDFCL is at the bottom in total CSR spending, required CSR spending and budgeted CSR spending. Schedule VII (i) has been considered to be the most important area for CSR spending by SICs while the SICs have not yet started spending any amount on the areas including Schedule VII (vi), Schedule VII (viii), Schedule VII (ix) and Schedule (xi).

In order to ensure concentrated efforts of the companies on CSR practices in uniform manner, it is suggested that the regulatory authorities should focus on specifying an exhaustive list of CSR practices with some tax benefits, prescribing minimum and maximum ceiling on allocation to various areas of CSR practices and organize more awareness programmes to ensure the active participation of the public for the better results of CSR spending of the companies.

KEY WORDS: Corporate Social Responsibility, Companies (CSR Policy) Rules 2014, Companies Act 2013, Housing Development Finance Corporation Limited, Reliance Industries Limited.



1. INTRODUCTION

Corporate Social Responsibility (CSR) is one of the most important issues and developments of the 21st century. In the recent years, the challenges faced by the companies and society like mandatory legal requirements, hunger and poverty, promotion of education, gender equality, health and safety, environmental sustainability and human rights call for a major role of CSR. Now, the stakeholders have started to take into account the company's CSR policies and practices in their decision making. These trends have been creating a lot of pressure on the companies to operate in an economically, socially, and environmentally sustainable way. Now a days, most of the leading companies are operating in a global business environment which requires the continuous commitment of corporate social responsibility by giving due focus on the three Ps that is People, Profit and Planet. In this scenario, CSR has gained a great concern because failure to spend on CSR would make the companies unsustainable.

2. OBJECTIVES

The present paper aims to achieve the following objectives:

1. To discuss the concept of CSR.
2. To explain the legal framework of CSR in India.
3. To analyze and compare the CSR spending of select Indian companies.

3. METHODOLOGY

The select Indian companies (SICs) for the present paper include HDFC Bank Limited (HDFCBL), ITC Limited (ITCL), Housing Development Finance Corporation Limited (HDFCL), Reliance Industries Limited (RIL) and Infosys Limited (IL) which were the top five companies by weightage in NIFTY 50 as on May 31, 2017. The information on CSR practices of SICs has been collected from annual reports of SICs for the year 2015-16. The spending on CSR practices of SICs have been analyzed and compared on the basis of the various areas as suggested in amended Schedule VII of Companies Act, 2013. The total CSR spending, required CSR spending and budgeted CSR spending of SICs have also been analyzed and compared in this paper.

4. CONCEPT OF CSR

CSR is an umbrella expression that not only includes social performance but also the economic, environmental, legal and ethical responsibility of business. According to World Business Council for Sustainable Development, "CSR is the continuing

commitment by business to behave ethically and contribute to economic development by improving the quality of life of the work force and their families as well as of the local community and the society at large".

The four main models of CSR namely ethical model, statist model, liberal model and the stakeholder model have described the concept of CSR differently. The ethical model of CSR believes in the concept of trusteeship, the statist model of CSR suggests that state ensures the liabilities and responsibilities of the business to the society, the liberal model of CSR argued that the companies are exclusively responsible for their owners and the maximization of profit is the only responsibility of business and the last stakeholder model of CSR is based on the stakeholder approach which suggests that the companies are not only supposed to earn maximum profit but also required to fulfill its obligation towards various stakeholders. There are divergent views on CSR. The classical economists felt that the concept of CSR is against to the principle of profit maximization as it diverts the business resources and attention from the economic objectives of business. The common argument against the idea of CSR includes the increased costs and prices, lack of skills to deal with social issues, dilution of business object, economic disadvantage, lack of public support and disregard of market mechanism. The modern view of CSR gives focus on stakeholder's model of CSR and suggests for earning of profits along with the responsibility of fulfillment of its obligation towards stakeholders. The arguments which support CSR includes the long term business interest, moral justification, better public image, consciousness of consumers, strong trade unions, increased societal expectations and pressure from different groups.

5. LEGAL FRAMEWORK OF CSR

Ministry of Corporate Affairs, Government of India has notified the Section 135 of the Companies Act, 2013 along with Companies (CSR Policy) Rules, 2014 and other notifications which make it mandatory w. e. f. 1st April, 2014 for certain companies who are covered under Sub Section 1 of Section 135 to comply with the provisions related to CSR. According to Section 135 of Companies Act, 2013:

(i) "Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a CSR Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

(ii) The Board's report under sub-section (3) of section 134 shall disclose the composition of the CSR Committee.

(iii) The CSR Committee shall,—

(a) Formulate and recommend to the Board, a CSR Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

(b) Recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

(c) Monitor the CSR Policy of the company from time to time.

(iv) The Board of every company referred to in sub-section (1) shall,—

(a) After taking into account the recommendations made by the CSR Committee, approve the CSR Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

(b) Ensure that the activities as are included in CSR Policy of the company are undertaken by the company.

(v) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR Policy: Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for CSR activities: Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount".

According to amended Schedule VII of Companies Act 2013 the following activities may be included by companies in their Corporate Social Responsibility practices.

(i) "eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water;

(ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects;

(iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for

reducing inequalities faced by socially and economically backward groups;

(iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga;

(v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;

(vi) measures for the benefit of armed forces veteran, war widows and their dependents;

(vii) training to promote rural sports nationally recognised sports, Paralympic sports and Olympic sports;

(viii) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;

(ix) contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;

(x) rural development projects;

(xi) slum area development

Explanation.—For the purposes of this item, the term 'slum area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force".

6. ANALYSIS AND COMPARISON OF CSR SPENDING

Schedule VII of Companies Act 2013 has suggested the areas on which the specified companies may to allocate their CSR spending and Companies (Corporate Social Responsibility Policy) Rules 2014 has made it compulsory to report the CSR spending on each such area. It has also made compulsory to report total CSR spending, required CSR spending and budgeted CSR spending in CSR report. The following is the analysis and comparison of CSR spending of SICs on the basis of areas of the Schedule VII of the Companies Act 2013, total CSR spending, required CSR spending and budgeted CSR spending. Table presents the CSR spending of SICs for FY 2015-16.

Table: CSR spending of SICs for FY 2015-16

							(Rs. in crore)
S. N.	Areas of CSR spending	HDFCBL	ITCL	HDFCL	RIL	IL	Total
1	Schedule VII (i)	9.62	54.94	41.23	310.35	69.00	485.14
2	Schedule VII (ii)	43.58	45.16	24.18	214.89	43.60	371.41
3	Schedule VII (iii)	NA	17.00	12.75	NA	NA	29.75
4	Schedule VII (iv)	0.72	68.10	1.68	0.85	10.34	81.69
5	Schedule VII (v)	NA	0.42	0.65	0.28	6.50	7.85
6	Schedule VII (vi)	NA	NA	NA	NA	NA	NA
7	Schedule VII (vii)	NA	NA	0.75	5.03	NA	5.78
8	Schedule VII (viii)	NA	NA	NA	NA	NA	NA
9	Schedule VII (ix)	NA	NA	NA	NA	NA	NA
10	Schedule VII (x)	140.89	49.62	2.95	10.60	50.88	254.94
11	Schedule VII (xi)	NA	NA	NA	NA	NA	NA
12	Schedule VII (Multi Areas and Overheads)	NA	12.26	1.51	109.57	21.98	145.32
Total CSR spending		194.81	247.50	85.70	651.57	202.30	1381.88
Required CSR spending		248.00	246.76	139.26	557.78	256.01	
Budgeted CSR spending		194.81	249.00	92.44	763.50	247.76	

Source: Compiled from annual reports of select companies

The table clearly reveals that:

- (i) All of SICs have the CSR spending on Schedule VII (i) for FY 2015-16 and the RIL is at the top with the spending of Rs. 310.35 crore while HDFCBL is at the bottom with the spending of Rs. 9.62 crore on this area.
- (ii) All of SICs have the CSR spending on Schedule VII (ii) for FY 2015-16 and the RIL is at the top with the spending of Rs. 214.89 crore while HDFCL is at the bottom with the spending of Rs. 24.18 crore on this area.
- (iii) Two of SICs have the CSR spending on Schedule VII (iii) for FY 2015-16 and the ITCL is at the top with the spending of Rs. 17.00 crore while HDFCL is at the bottom with the spending of Rs. 12.75 crore on this area.
- (iv) All of SICs have the CSR spending on Schedule VII (iv) for FY 2015-16 and the ITCL is at the top with the spending of Rs. 68.10 crore while HDFCBL is at the bottom with the spending of Rs. 0.72 crore on this area.
- (v) Four of SICs have the CSR spending on Schedule VII (v) for FY 2015-16 and the IL is at the top with the spending of Rs. 6.50 crore while RIL is at the bottom with the spending of Rs. 0.28 crore on this area.
- (vi) None of SICs have the CSR spending on Schedule VII (vi) for FY 2015-16.
- (vii) Two of SICs have the CSR spending on Schedule VII (vii) for FY 2015-16 and the RIL is at the top with the spending of Rs. 5.03 crore while HDFCL is at the bottom with the spending of Rs. 0.75 crore on this area.
- (viii) None of SICs have the CSR spending on Schedule VII (viii) for FY 2015-16.
- (ix) None of SICs have the CSR spending on Schedule VII (ix) for FY 2015-16.
- (x) All of SICs have the CSR spending on Schedule VII (x) for FY 2015-16 and the HDFCBL is at the top with the spending of Rs. 140.89 crore while HDFCL is at the bottom with the spending of Rs. 2.95 crore on this area.
- (xi) None of SICs have the CSR spending on Schedule VII (xi) for FY 2015-16.
- (xii) Four of SICs have the CSR spending on Schedule VII (Multi Areas and Overheads) for FY 2015-16 and the RIL is at the top with the spending of Rs. 109.57 crore while HDFCL is at the bottom with the spending of Rs. 1.51 crore on this area.
- (xiii) RIL is at the top with the total CSR spending, required CSR spending and budgeted CSR spending of Rs. 651.57 crore, 557.78 crore and 763.50 crore respectively while HDFCL is at the bottom with the total CSR spending, required CSR spending and budgeted CSR spending of Rs. 85.70 crore, 139.26 crore and 92.44 crore respectively.
- (xiv) Schedule VII (i) has been considered to be the most important area for CSR spending by SICs with the spending of Rs. 485.14 crore while the

SICs have not yet started spending any amount on the areas including Schedule VII (vi), Schedule VII (viii), Schedule VII (ix) and Schedule (xi).

7. RECOMMENDATIONS

The various suggestions for better CSR practices are as follows:

1. The companies should spend some amount on Measures for the benefit of Armed Forces Veterans, War Widows and their Dependents, specified funds, Contribution for Technology Incubators in Academic Institutions approved by Central Government and slum area development.
2. The tax benefits should also be given to the companies for CSR spending on activities other than contribution to Prime Minister Relief Fund so that they are motivated to divert their CSR spending to other areas also.
3. An exhaustive list of CSR activities should be issued by appropriate authority with minimum and maximum ceiling of amount to be spent on each activity to ensure equal development of each area.
4. Each company should adopt at least one local area instead of spreading the CSR spending in allover India for the better development of such area.
5. Active participation of general public in the CSR activities of the companies is required for the better results of CSR spending of the companies.

8. CONCLUSIONS

In global business environment companies are not only required to earn profit but also assume CSR for long term sustainable development. CSR is a means of sustainability through which we can ensure sustainable development. The analysis of CSR spending of SICs reveals that RIL is at the top in CSR spending on Schedule VII (i), (ii), (vii) and (Multi Areas and Overheads). ITCL is at the top in CSR spending on Schedule VII (iii) and (iv). IL is at the top in CSR spending on Schedule VII (v). HDFCBL is at the top in CSR spending on Schedule VII (x). HDFCBL is at the bottom in CSR spending on Schedule VII (i), and (iv). HDFCL is at the bottom in CSR spending on Schedule VII (ii), (iii), (vii), (x) and (Multi Areas and Overheads). RIL is at the bottom in CSR spending on Schedule VII (v). RIL is at the top while HDFCL is at the bottom in total CSR spending, required CSR spending and budgeted CSR

spending. Schedule VII (i) has been considered to be the most important area for CSR spending by SICs while the SICs have not yet started spending any amount on the areas including Schedule VII (vi), Schedule VII (viii), Schedule VII (ix) and Schedule (xi). In order to ensure concentrated efforts of the companies on CSR practices in uniform manner, the regulatory authorities should focus on specifying an exhaustive list of CSR practices with some tax benefits, prescribing minimum and maximum ceiling on allocation to various areas of CSR practices and organize more awareness programmes to ensure the active participation of the public for the better results of CSR spending of the companies.

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