



A STUDY OF CSR PERFORMANCE OF BSE LISTED COMPANIES

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Abstract

Corporate Social Responsibility 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 society at large. It addresses the legal, ethical, commercial and other expectations that society has from business and making decisions that fairly balance the claims of all key stakeholders.

The study focuses on 'how much and on what' was CSR money spent during financial year 2014-15 by BSE listed 250 Companies. The findings can help assess organizational accountability towards various stakeholders and in channelizing CSR funds for sustainable social development.

Keywords: BSE ,Corporate Social Responsibility.

Introduction

In India CSR has evolved from merchant philanthropy to social development oriented activities by companies. Many companies are practicing CSR in order to contribute towards society and enhance public image. The new Companies Act of 2013 has made CSR mandatory for companies with effect from April 2014. As per Companies Act 2013, Section 135, compliance of CSR regulations are mandatory for Companies with a net worth of Rs.500 Cr or more or turnover of Rs.1000 Cr or more or Net profit of Rs.5 Cr or more in a given financial year. The companies are required to spend 2% of average net profit of immediately preceding three financial years on specified CSR activities. Section 135 of Companies Act, 2013 mandates setting up a Board level CSR Committee and public disclosures of CSR documents. Companies are required to adhere to a set of criteria including:

- Formulating a well-defined CSR policy
- Undertaking projects in alignment with Schedule VII of the Companies Act and the CSR Rules
- Monitoring CSR policy and projects
- Reporting details of the CSR activities in the annual report in prescribed format.

Due to globalization, multinational enterprises and global supply chains, there is an increase in awareness on CSR concerns related to human resource management practices, environmental protection and health and safety issues etc. Reporting on the CSR activities by corporate is therefore increasingly becoming mandatory. CSR initiatives enable corporate to engage in more meaningful and regular stakeholder dialogue and are there by in a better position to anticipate and respond to regulatory, economic, social and environmental policy changes.

Globalisation and mandates under the Companies Act 2013, has made companies in India proactive in taking up CSR initiatives and integrating them in their business processes to maximize their overall impact.

Under the Companies Act, 2013, Companies can establish their own trusts and societies to undertake CSR activities or route their spend through existing, reputed NGOs and similar such agencies. In **India**, companies have a strong desire to dedicate their resources for a social cause, however they find it difficult to reach the right people given the vast demography and diverse social problems, hence they generally take help of NGO's to invest in social initiatives.

Objectives

1. To study legal compliance of CSR spends by BSE Listed 250 companies for the F.Y. 2014-15 in terms of Mandated v/s Actual Spend.
2. To study compliance in terms of Schedule VII of Companies Act in context of CSR spend.
3. To study Industry wise Prescribed and Actual Spend on CSR.
4. To suggest measures for effective implementation of CSR.

Scope: The researcher has selected BSE listed 250 companies on three parameters:

1. The mandated CSR spend in Financial Year 14-15 was above 1 CR across different industrial sectors
2. Availability of annual report



Research Methodology: The study is based on the secondary data collected through articles and annual reports of companies representing various sectors.

Literature Review

CSR is defined as 'a commitment to improve community well-being through discretionary business practices and contributions of corporate resources' (Kotler & Lee, 2004, p. 3). However, a company is socially responsible when it not only complies with the minimum requirements as per regulations, but also acts voluntarily above what is stipulated by law. (Crane & Matten, 2004).

India has a long tradition of philanthropy. Philosophers such as Kautilya from India and pre-Christian era philosophers in the West preached and promoted ethical principles while doing business. Kautilya's Arthashastra provides an inside-out approach to CSR, which is development of the individual leader's self conscience, contrary to the western approach that takes an outside-in perspective. The leaders and the role they play in corporations are crucial in ensuring transparency, good conduct and governance all of which are crucial objectives of CSR activity. The concept of helping the poor and disadvantaged was cited in several ancient literatures. In the pre-industrialized period philanthropy, religion and charity were the key drivers of CSR. The industrial families of the 19th century had a strong inclination toward charity and other social considerations. During this period, the industrial families also established temples, schools, higher education institutions and other infrastructure of public use.

In the last decade, CSR has rapidly evolved in India with some companies focusing on strategic CSR initiatives to contribute toward nation building. Gradually, the companies in India started focusing on need-based initiatives aligned with the national priorities such as public health, education, livelihoods, water conservation and natural resource management. (Corporate Social Responsibility in India Potential to Contribute Towards Inclusive Social Development-Global CSR Summit 2013 an Agenda for Inclusive Growth).

Carroll's continuum of business responsibilities was reconstructed into a multidimensional construct by several other researchers principally by Niskala and Tarna (2003). This multi-dimensional model demonstrates the Western philosophy of 'triple bottom line' that superimposes the equilibrium of economic, social and environmental elements while conducting business. Carroll's continuum of business responsibilities was reconstructed into a multidimensional construct by several other researchers principally by Niskala and Tarna (2003). This multi-dimensional model demonstrates the Western philosophy of 'triple bottom line' that superimposes the equilibrium of economic, social and environmental elements while conducting business.

Carroll argued that social responsibilities of business encompass the economics, legal, ethical and discretionary. Carroll argued that social responsibilities of business encompass the economics, legal, ethical and discretionary. Kautilya's Arthashastra is one of the ancient Indian literatures which had provided some insights to CSR. Moon (2004), in his paper examined the role of government in driving corporate social responsibility among the corporate. The study explained that the drivers of CSR are related with business and society. Business includes its reputation, corporation itself, employee's relations, knowledge, goals etc. further, the study cleared that government is driver of CSR by making policies and regulations.

An article published at knowledge @ Wharton on 23 May 2012, recommended that according to changing generations, importance of CSR is also changing. Previous researchers like Milton Friedman referred to CSR as window dressing for businesses further, in this article, with the help of several examples it was discussed that companies engaged in CSR are more profitable in terms of image building, attracting human resource etc. Some companies and researchers termed CSR as cost saver while some take it as reputation building activities. Therefore CSR is beneficial for the society as well as business.

Bansal, Parida, Kumar (2012) in their paper entitled "Emerging trends of Corporate Social Responsibility in India" in KAIM Journal of Management and Research analyzed 30 companies of 11 sectors listed in the Bombay Stock Exchange with the help of their annual reports. They concluded that today companies are not working only to earn profit but also to be socially friendly. So, on the basis of the paper it can be said that social responsibility has now started taking a turn in the right direction.

Ms. Nidhi Khurana Asia Pacific Institute of Information Technology, Panipat (2011) – Strategic Corporate Social Responsibility: Challenging Sustainable Actions in India have observed that in the current economic condition in India, there is an immediate need of strategic CSR delivering value proposition to the masses. The paper focuses on the reasons to analyze the strategic gap between CSR implementation and CSR effectiveness and to identify sectors where sustainable



strategic CSR actions are required to create synergies in India. The paper urges the Corporate not to look at CSR as a non-profit activity and that in the long run, expenditure on CSR can help increase profitability.

Waddock and Graves (1997) used the KLD (Kinder, Lydenberg, Domini Research and Analytics) data and measured the relation between CSR and financial performance. Their study proved that CSR resulted in an improvement in firm performance. McWilliams and Siegel (2000) using similar KLD data found that there was a neutral relation between CSR and profitability. Hillman and Keim (2001) studied the “Social Issues of CSR” and “Stakeholder management CSR” in conjunction with KLD data and found that “Stakeholder management CSR” is positively correlated with shareholder wealth creation. “Social Issues CSR” is not positively correlated with shareholder wealth creation.

The market value of businesses is no longer determined solely by traditional financial data, but also by intangible factors such as brand reputation, intellectual capital risk management, codes of conduct, Inclusion of stakeholders and customer loyalty. (Source: Impact of Corporate Social Responsibility on the Financial and Non Financial Performance of Select BSE Listed Companies).

Hence the totality of CSR can be best understood by three words: ‘Corporate’ ‘Social’ and ‘Responsibility.’ In broad terms, CSR relates to responsibilities corporations have towards society within which they are based and operate. CSR is comprehended differently by different people. Some perceive it to be a commitment of a company to manage its various roles in society, as producer, employer, customer and citizen in a responsible manner while for others it is synonymous to Corporate Responsibility (CR) or Corporate Citizenship or Social Action Programme (SAP). The term is now also linked with Triple Bottom Line Reporting (TBL) which essentially measures an enterprise’s performance against Economic, Social and Environmental indicators.

Performance of BSE listed 250 companies as on Financial Year 2014-15:

Sector-wise Companies (Number):

- Top 13 Sectors: 146 Companies
- Others: 104 Companies
- Total: 250

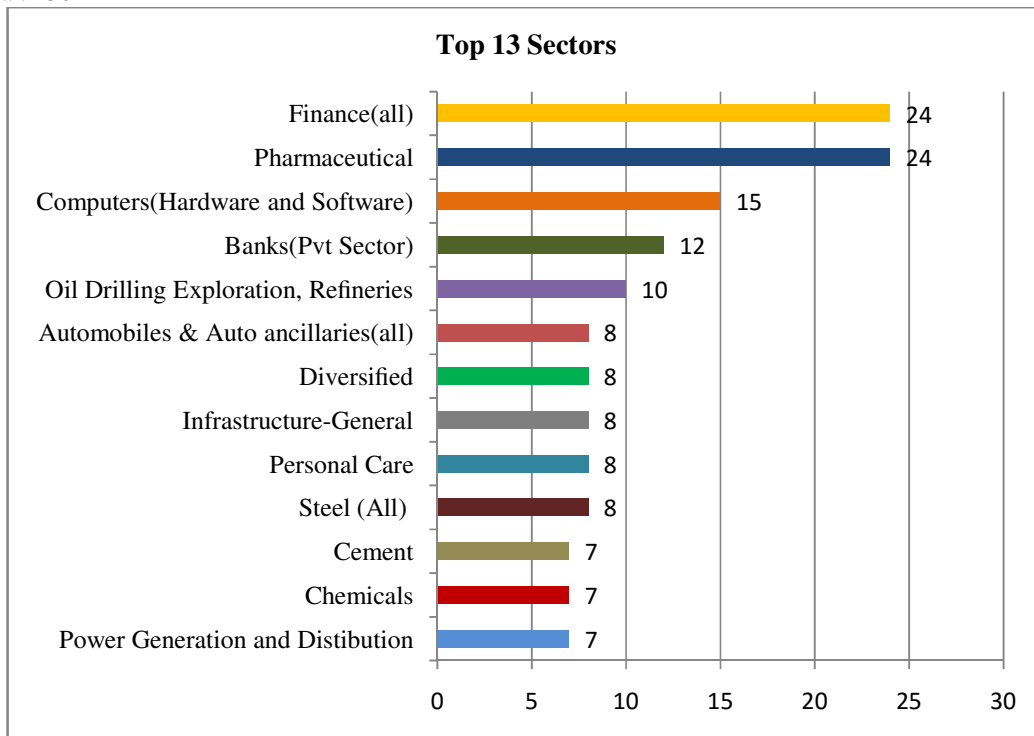


Figure1.Prescribed CSR Budget and the Actual CSR Spend of 250 companies:

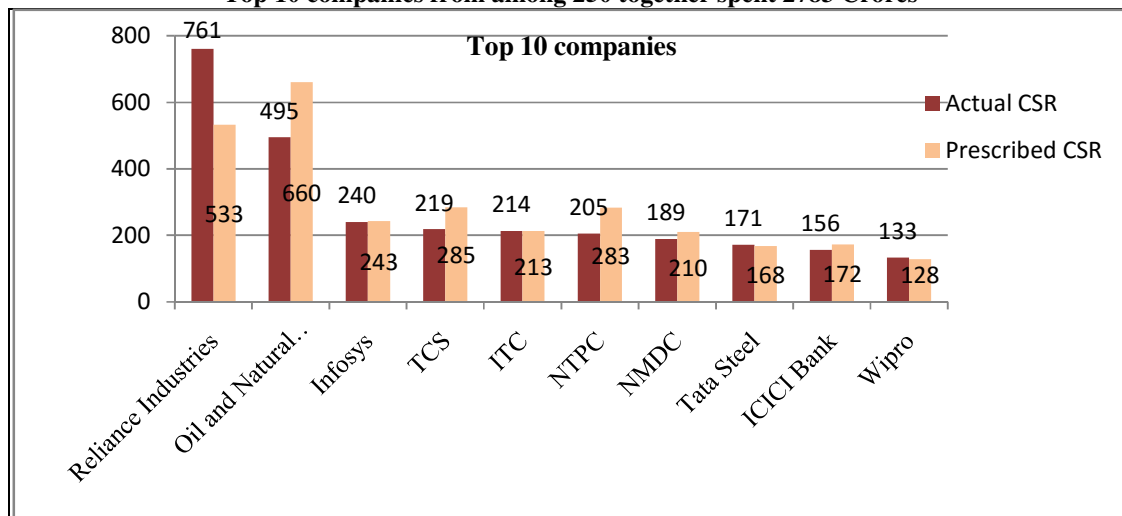
Prescribed CSR Budget and Actual CSR Spent FY 2014-15	(INR Cr)
Prescribed CSR spend in FY 2014-15	7040
Actual CSR spent in FY 2014-15	5563
Actual CSR spent in percentage	79%
Unspent CSR budget	1477
Unspent CSR budget in percentage	21%
Prescribed CSR spend in FY 2015-16	8016
Percentage increase in prescribed CSR budget from previous year	13.80%

(Source-India CSR Outlook Report 2014-15) Table:1

Total Companies: 250

- These 250 companies collectively required to spend INR 7040 Cr in FY 2014-15. The actual amount spent was 5563 Cr which comprises 79%. The top performing sector companies were Pharmaceuticals (24) and Finance (24) followed by Software (15) and banking (12) companies.
- Prescribed CSR budget has increased by 13.8% from 2014-15 to 2015-16
- These 250 companies have implemented 2784 projects in FY 2014-15
- Unspent CSR is 21% which is equal to 1477 CR which could have been spent to make a social impact.
- All the companies have CSR Committees, CSR Board as per the Companies Act 2013.

Top 10 companies from among 250 together spent 2783 Crores



(Source-India CSR Outlook Report 2014-15) Figure 2

Details of Sector Wise Performance: Actual CSR Spent to the Prescribed CSR in %:(Table 2).

	AUTO AND AUTO ANCILIARIES	BANKING AND FINANCE	SOFTWARE & HARDWARE	PHARMAC ETICALS	OIL DRILLING AND REFINERIES
Prescribed CSR spend	291	1161	763	228	1739 CR
Actual CSR spend	183	702	690	143	1586 CR
% of Actual to Prescribed CSR	63%	60%	90%	63%	91.20%

Actual to prescribed CSR spent among companies :		
Actual CSR spent range	No of Companies	Percentage
More than mandated CSR	78	31%
Exactly as prescribed	33	13%
66% to 99% of the prescribed	50	20%
33% to 65% of the prescribed	43	17%
0.1% to 32% of the prescribed	39	16%
Unspent CSR budget from prescribed	7	3%

Table 3

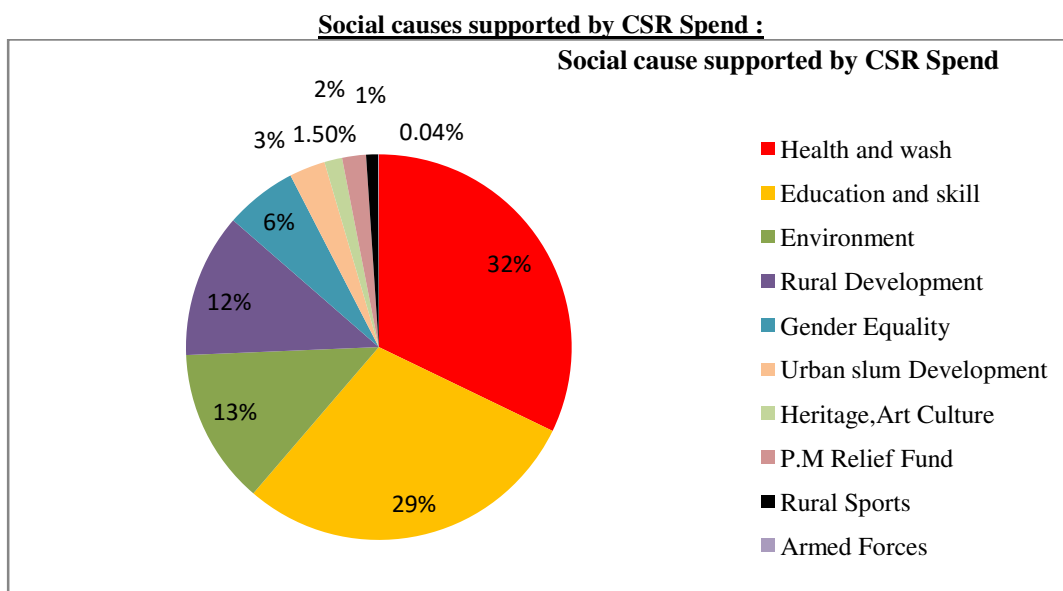
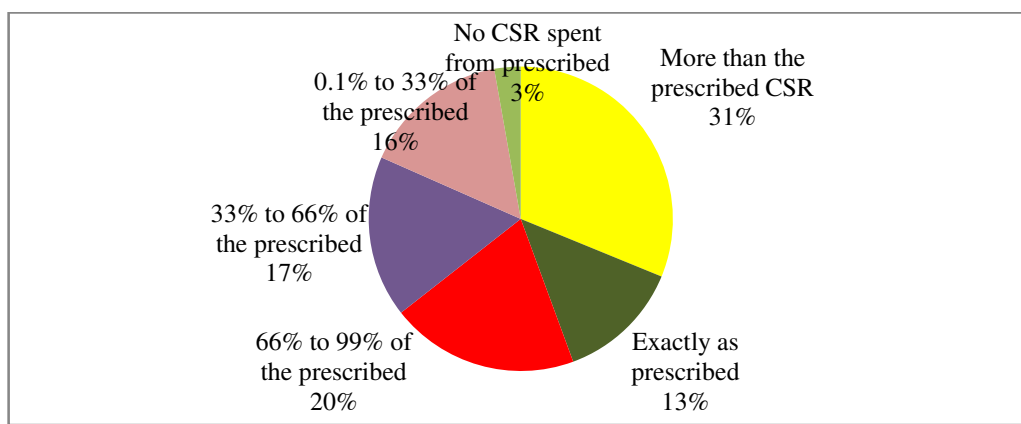


Figure 3.

From the above analysis health and sanitation has received highest contribution followed by education and skill development and environment and rural development. Gender equality, urban development, heritage art culture, P.M.'s relief fund and rural sports received nominal contribution.

CSR Implementation split:		
Category	No of Projects	% in Total Projects
Direct by Companies	700	25%
CSR Foundations	1465	53%
CSR Partners	619	22%

Table - 4

Section 135 of the Companies Act, 2013 as well as activities to be undertaken as per Schedule VII of the Companies Act, 2013.

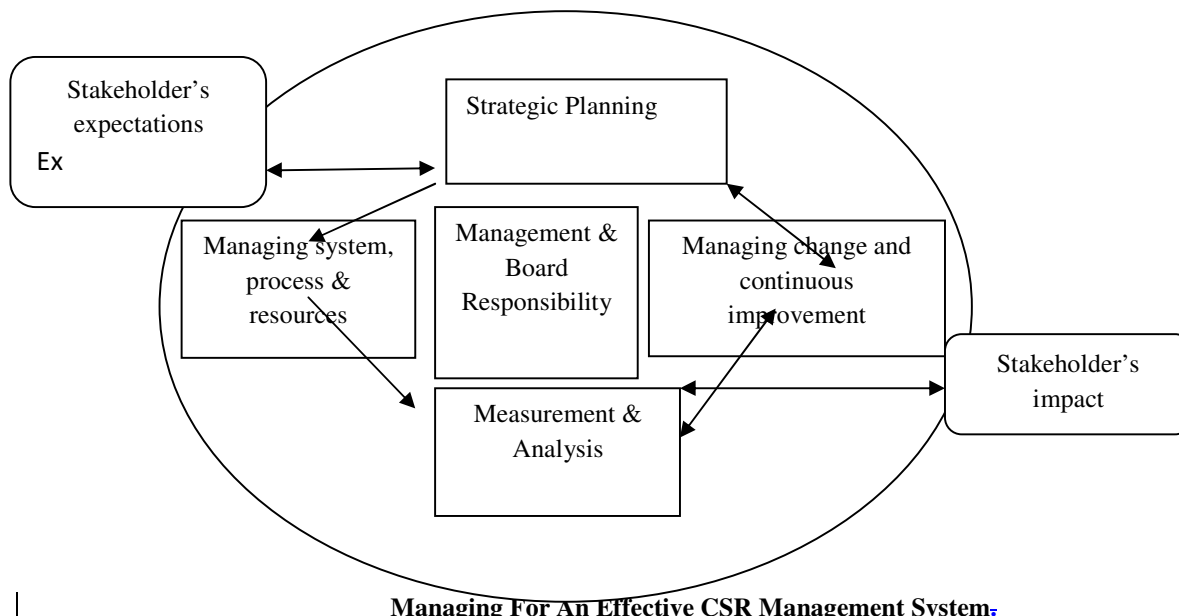
1. The statutory provision of CSR Rules, 2014, is to ensure that while activities undertaken in pursuance of the CSR policy must be related to Schedule VII of the Companies Act 2013, the entries in the said Schedule VII must be interpreted liberally so as to capture the essence of the subjects enumerated in the said Schedule. The items enlisted in the amended Schedule VII of the Act, are broad-based and are intended to cover a wide range of activities like education and health care, rural development, vocational skills development, environment etc.
2. It is further clarified that CSR activities should be undertaken by the companies in project/ programme mode [as referred in Rule 4 (1) of Companies CSR Rules, 2014]. One-off events such as marathons/ awards/ charitable contribution/ advertisement/ sponsorships of TV programmes etc. would not be qualified as part of CSR expenditure.
3. Expenses incurred by companies for the fulfilment of any Act/ Statute of regulations (such as Labour Laws, Land Acquisition Act etc.) would not count as CSR expenditure under the Companies Act.
4. Salaries paid by the companies to regular CSR staff as well as to volunteers of the companies (in proportion to company's time/hours spent specifically on CSR) can be factored into CSR project cost as part of the CSR expenditure.
5. Any financial year referred under Sub-Section (1) of Section 135 of the Act read with Rule 3(2) of Companies CSR Rule, 2014, implies 'any of the three preceding financial years'.
6. Expenditure incurred by Foreign Holding Company for CSR activities in India will qualify as CSR spend of the Indian subsidiary if, the CSR expenditures are routed through Indian subsidiaries and if the Indian subsidiary is required to do so as per section 135 of the Act.
7. 'Registered Trust' (as referred in Rule 4(2) of the Companies CSR Rules, 2014) would include Trusts registered under Income Tax Act 1956, for those States where registration of Trust is not mandatory.
8. Contribution to Corpus of a Trust/ society/ section 8 companies etc. will qualify as CSR expenditure as long as (a) the Trust/ society/ section 8 companies etc. is created exclusively for undertaking CSR activities or (b) where the corpus is created exclusively for a purpose directly relatable to a subject covered in Schedule VII of the Act.

Observations

- Out of 250 companies, 3% of the companies could not spend the prescribed CSR budget, they have not given any specific reason for not spending the full prescribed amount, and instead chose to give a generic commitment to spend the remaining amount in the next financial year.
- Out of BSE listed 250 companies, 78 companies have spent more than the mandated 2% towards CSR while 33 companies have mentioned committed amount as the actual CSR spent.
- Companies are still facing issues in identifying credible partners/NGO some of the companies have mentioned that they are still setting up internal processes to bring implementation partners on the board. 43% companies (107) have their own foundations/trusts.

Measures for effective implementation of CSR:

In order to have effective sustainable implementation of CSR policies organizations must run their businesses profitably and also be accountable for the impact of actions of their organizations. Therefore, the key challenge for organizations is to find sustainable solutions that address their 'Triple Bottom Line (TBL) i.e. economic, environmental, and social aspects of their performance based on dialogue with their stakeholders. Organizations must focus on Process based management system.



The content of the CSR management system is expressed by the process-based management system. The figure describes the linkages of key elements of the CSR management system formulated. The key is the transformation of stakeholders' expectations into a set of CSR objectives, targets and indicators, which are then cascaded throughout the organization, embedded into organizational processes and continuously monitored. This part of the system provides feedback on whether the organization has satisfied its stakeholders.

The CSR management system specifies requirements for organizations that need to implement a CSR system and demonstrate that the organization is managed and directed by thorough considerations of its stakeholders' expectations and the impacts that the organization has on its stakeholders.

Thus everyone involved with the organization needs to take active part.

- The Board /or management needs to 'set the agenda'. They must create an appropriate strategic direction that incorporates the objectives of the organization, its operational structures and the business processes necessary to meet their CSR obligations.
- Organization needs to be managed to focus on delivery of these objectives, which will be achieved by implementing, measuring and improving these processes based upon performance and results.
- Everyone involved in delivering the objectives needs to know their part in achieving them, focusing their activity effectively.
- The stakeholders will need evidence of how well the organization is delivering its CSR objectives and will hold the Board accountable for not achieving the objectives.

Conclusion

- As per the guidelines of Companies Act 2013, companies are contributing towards CSR. Their main focus areas are: Health, sanitation and education receive highest focus followed by environment. Schedule VII activities such as contribution to technology incubators, slum development and training to promote rural sports received least interest in terms of number of projects undertaken by companies as well as amount spent on the activities.
- 53% of Companies are contributing to CSR through CSR Foundation, while 22% of companies are contributing through CSR partners and 25% of companies are contributing directly. Thus for direct involvement by companies government needs to establish CSR framework where companies can directly contribute to social causes.



- CSR partners and NGO need funds for administrative expenses like salary for employees, etc and these funds are deducted from contribution received from companies and individuals. Thus companies incur indirect costs while working with CSR partners and NGO.
- The current legislation focuses on amount spent on CSR activities and not on the benefits of these activities to society. A social impact assessment of CSR activities will help us understand effectiveness of CSR activities
- “Think global, Act local” policy can be applied to CSR activities as well. Government, NGO and companies need to create list of desirable CSR activities customized to localities in which they operate; like water conservation for Drought hit areas, health and sanitation.
- The Act mandates companies to have a CSR policy, which is easily accessible to individuals outside the organization as well. Also, it contains details regarding programmes projects undertaken in line with schedule VII, mode of implementation, monitoring framework and treatment of surplus.
- As per Outlook Report and KPMG Report for F.Y 14-15 of the CSR projects undertaken by companies, Maharashtra has the highest number, followed by Karnataka, West Bengal, Tamil Nadu, Gujarat and Uttar Pradesh. Whereas, Lakshadweep, Andaman and Nicobar islands, Dadra and Nagar Haveli, Pondicherry, Chandigarh and North-Eastern states have received least attention in terms of number of projects
- The performance evaluation of BSE listed 250 companies reveals information on the percentage of amount spent on CSR by all industrial sectors on quantitative parameters but there is not much focus on qualitative aspect like social impact assessment of CSR activities which needs to be strengthened.
- Thus organization should
 - Define their policies and periodically review its objectives, targets and indicators of CSR.
 - Engage and evaluate its stakeholders.
 - Ensure Legal and Regulatory compliance as per Companies Act 2013.
 - Evaluate organizational impact at determined intervals by CSR Boards and Committees.

Recommendations

- There should be increased level of cooperation between the various departments of the business for achieving CSR objectives.
- Introducing CSR aspects of the business at the initial stages of the project and integrating it with long-term aims and objectives.
- Specifying the activities of stakeholder identification and engagement as a continuous process.
- Implementing an effective audit/review system in terms of improving the quality of CSR.

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