



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2017; 3(3): 533-536
www.allresearchjournal.com
Received: 26-01-2017
Accepted: 27-02-2017

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An analytical study on the impacts of companies act – 2013 on the performance of corporate social responsibility in Karnataka

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Abstract

In the beginning of 21st century the importance for Corporate Social Responsibility (CSR) has tremendously increased, encompassing both economic and social aspects. Today various companies are taking CSR activities particularly related to education, health, environmental protection etc. Corporate social responsibility is a form of corporate-self regulation integrated into a business model. Today, CSR in India is not simply dealing with charity and donations and now it is dealt with more organised and professional manner. To regulate the business of the companies in India the central government has brought out the Companies Act – 2013, which has larger implications on the corporate social responsibility activities of the companies. Hence, the present study is placed in this context to analyse the impacts of the Companies Act – 2013 on corporate social responsibility pertaining to Karnataka state. This analytical study is based on the primary and secondary data. The primary data for this study was generated from the four major companies situated in the state of Karnataka through purposive sampling method. As it has been shown in this study that there are numerous implications of the Companies Act – 2013 on the various aspects of CSR.

Keywords: Corporate Social Responsibility, Companies Act-2013, Sustainable Business and Development

Introduction and Design of the Study

It is apparent that since the last decade of 21st century the significance for Corporate Social Responsibility (CSR) has tremendously increased, encompassing both economic and social aspects. Today among business communities it has been norm of practising and participating in corporate social responsibility. Every nation needs CSR to foster society and to meet social needs. In the current scenario governments are insufficient of funds to cater social needs i.e. education, health, environmental protection etc. Thus, the large companies which are making abundant profits must contribute towards the betterment of the society by allocating small portion of their profit for the welfare of society (Stephen Dunne; 2008) ^[5].

Corporate social responsibility is a form of corporate-self regulation integrated into a business model. CSR is also called by various names among many streams of the economy such as, corporate citizenship, corporate responsibility, sustainable business, responsible business and corporate social performance. Today, CSR in India is not simply dealing with charity and donations and now it is dealt with more organised and professional manner.

With the increasing information and communication technology and public awareness the business of companies have been more transparent in their profiteering, accounting and public reporting. Among these companies the commitment and duties towards the welfare of society is increasing and it is being manifested in showing CSR in their annual reports.

To regulate the business of the companies in India the central government has brought out the Companies Act – 2013, which has larger implications on the corporate social responsibility activities of the companies. Hence, the present study is placed in this context to analyse the impacts of the Companies Act – 2013 on corporate social responsibility pertaining to Karnataka state.

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Defining CSR

There are numerous definitions dealing with CSR given by various economists, corporate and governments. CSR is all about how companies manage the business process to produce an overall positive impact on society (Karan Chaudhry; 2007) [3].

According to the European Union CSR is the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly, and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large.

Review of literature

In the following review of existing studies on the related topic provide us a base to go ahead in the pursuit of analysis on the impacts of the Companies Act-2013 on CSR.

Sharma (2008) studied the perception of Corporate Social Responsibility in India empirically. With the liberalization of economy, the corporate sector is making an increased effect on the rapidly transforming Indian society. The objective the study was to find out the perception of the Indian society toward corporate social responsibility. Sample respondents were from Northern India. The findings reveal that in a market – led economy, society took skeptic view of CSR activities and expects a responsible and ethical behavior from the corporations. The process of further integration of the society and business in required and the business has to reinforce the positive momentum to strengthen the confidence in the society.

Guptha in his study (2014) discussed various aspects of corporate social responsibility while implementing corporate social responsibility in India. As the study indicates corporate social responsibility involves the efforts the business organizations undertake to meet their responsibilities. The study also observes that the basic essence of corporate social responsibility being manifested at the corporate level through their initiatives.

Waller and Lavis (2009) analyzed corporate social responsibility discloser of advertising agencies. They also aimed at bringing a new way for the development of formal discloser of advertising agencies for the said purpose the study had selected top 6 advertising agencies. The results indicate that some advertising companies do engage in corporate social responsibility activities and disclose them in their annual reports, but the level of these corporate social responsibility disclosure is different between the organizations.

Raghuraman (2006) analyzed the status of corporate social responsibility in India from very new prospective. The study used content analysis method to gather data. In this process the major 50 Indian companies were selected. The results of the study indicate that the organizational set of a company influences the successful implementation of corporate social responsibility in India.

Roberson and Nicholson (1996) examined the different aspects of corporate social responsibility among firms belonging to United Kingdom. The study also analyzed the nature of corporate social responsibility disclosure among this companies. The results of the study reveal that there are 3 levels of social corporate rhetoric, discloser, specific endeavors, and implementation and monitoring.

The study of Welford (2005) entitled as “Corporate Social Responsibility in Europe, North America and Asia” examined the CSR policy in counties in Europe, North America and Asia based on some elements. An e-mail survey was sent to a sample of twelve countries with a sample of 20 firms in each. Welford noted that within North America, Canadian firms tended to engage more in CSR activities, followed by firms in the U.S. and Mexico. Welford shows that there is more CSR activity in Northern than in Southern Europe, and the most philanthropic firms were found in Norway.

Kumar (2014) [4] in his study entitled “Corporate Social Responsibility; An analysis of impact and challenges in India” has analyzed the major challenges while implementing CSR in India. As the study indicates corporate social responsibility is not a new concept in India and also it has not merely remained at the stage of charity. Currently in India most of the significant companies are incorporating their annual reports and accounts.

Fernando and Carles (2008) focused on the influence of corporate social responsibility on business profitability. This research aimed at showing how the different corporate social responsibility indexes relate to business aspects. In order to fulfill the desired objectives the researchers have analyzed the data regarding corporate social responsibility reports for the year of 2005 and 2006. The results depict that there is no significance differences on profitability with respective corporate social responsibility.

Objectives of the study

- To analyse the impacts of the Companies Act – 2013 on the initiatives of CSR in Karnataka state.
- To examine the level of implementation of CSR in Karnataka state.
- To evaluate the recent trends in CSR spending.

Methodology

This analytical study is based on the primary and secondary data. The primary data for this study was generated from the four major companies situated in the state of Karnataka. These four companies have been selected through purposive sampling technique. These companies are; Infosys Ltd, Wipro Ltd, Bharat Electronics Ltd and United Breweries Ltd. The secondary data pertaining to CSR funding has been collected from the annual reports of the companies.

Hypothesis

H1: There is an increase in CSR spending by the companies after the implementation of the Companies Act – 2013.

Emergence and development of corporate social responsibility in India

In India the initiative of CSR has a long history among other countries. For many decades here CSR is not practically practiced with wholeheartedly. But now the Indian and Multi-National companies have realised that CSR is not a separate entity but it is their responsibility to implement for the wellbeing of the society (Harshey and Linda; 2011) [2].

At the beginning of CSR era the attitudes of companies towards CSR was ‘charity and philanthropy’. Before 1850’s wealthy traders gave some of their wealth for the development of temples. Sometimes they took interest in helping people at the critical times i.e. famine and drought.

In the period of colonial rule the perspective for CSR has changed. Some of the Indian industrial pioneers like Tata, Birla, Godrej, Bajaj etc. had already made considerable attempt to inculcate CSR in their policies.

After the independence due to Gandhian philosophy some of the companies adopted CSR in their annual profits and also brought out trusteeships. After 1980s the companies in India integrated CSR initiative with their sustainable business scheme due to the process of globalization.

Currently the major objective of practising CSR is that to increase the impact of companies on society. Today CSR policies are interwoven with the overall business operations of companies. The majority of the companies believe that CSR is not a type of direct tax on the profit but it is a mean to build up their reputation and business competitiveness.

Even though the idea of corporate social responsibility is not a new thing in India, it's implementation has been facing hindrances due to various reasons i.e. non-existence of community participation, lack of transparency, lack of NGOs, etc.

Impact of the companies act-2013 on corporate social responsibility

As the study indicated there are numerous implications of the Companies Act – 2013 on the various aspects of CSR. The following are the significant impacts which are persistent in the implementation of CSR by each and every company.

The Companies Act – 2013 has brought out new provisions which change the dimension of Indian companies pertaining to CSR. According to the Companies Act – 2013 any company situated in India which is having net worth of 500 crore rupees, or turnover of more than 1,000 crore or net profit of 5 crore rupees have to utilize minimum 2% of last 3 years average net profits on activities related to corporate social responsibility.

This rule is applicable to both Indian company as well as foreign company in India. As the Companies Act – 2013 indicated that there should be a committee on CSR, which should include minimum three directors.

The Companies Act - 2013 provides a list of activities on which companies can spend, which are; eradicating hunger and poverty, providing educational services, upbringing gender equality and empowerment of women, helping to reduce child mortality and increasing the health of mothers, helping people who have HIV, malaria or any epidemic disease, environmental protection, through skill developmental programmes employment generation, prime minister's national relief fund, funds can also be given to the welfare of SCs, STs, OBCs and minorities.

The Companies Act – 2013 specifies that while the companies allocating funds for the CSR activities they must give regional preference for the locality in which the company operates. Such policy changes have been being implemented by the companies operated in India since the financial year of 2014. The new CSR rules in the Companies Act – 2013 gave a formal and strict structure which has to be followed by the companies. These policies are based on the principle of give and take.

Major findings of the study

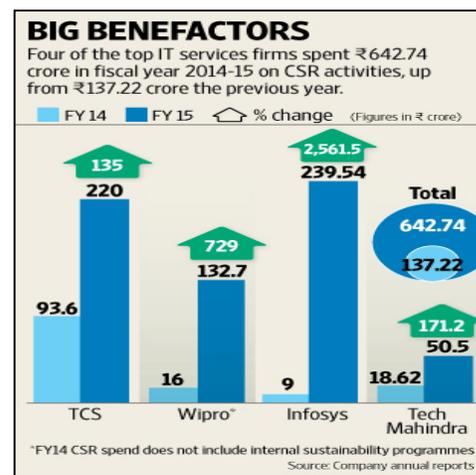
As the primary data from the fieldwork indicates that Infosys Ltd has been practising CSR initiatives for past 10 years. Their overall CSR activities can be broadly

categorized in the following four major fields: a) monetary support, b) organizations – led projects, c) employee – driven activities and d) community developmental activities. Infosys is taking up the works of helping destitute, providing education for children, providing healthcare and rural development.

Formally WIPRO had taken up the CSR activities as long back as 2001, by improving educational facilities to students. In the recent years Wipro is working for the betterment of environment and for the disabled children. Along with education and environment Wipro is making CSR activities in the field of primary health care also. As the data in the table no 1 clearly indicates that Wipro is adhering to the clause given in the Companies Act – 2013.

Table 1: List of Study Sample and their Annual CSR Spending

Name of the Company	2% of the average profit spent on CSR for the financial year 2014-15 (in crore Rs)
Infosys Ltd	239
Wipro Ltd	132
Bharat Electronics Ltd	4.57
United Breweries Ltd	3.60



As the above graph indicates that due to the impact of the Companies Act – 2013 the CSR spending of the major IT companies has increased tremendously. TCS, Wipro, Infosys and Tech Mahindra spent total 642 crore (Rs) in the financial year of 2014-15 compared to the previous year, in which they had spent only 137 crore (Rs). As the graph also shows that Infosys is the largest CSR contributor. In the annual report of Infosys it clearly stated that 239 crore rupees have been spent on providing education, healthcare and to counter malnutrition, collaborating with many NGOs.

Conclusion

In the current scenario particularly in India the significance for the activities of CSR among companies existing in India has increased remarkably. The Companies Act – 2013 is valuable decision in this path. However, as the study indicates that there are certain hurdles in achieving successful implementation of CSR among large companies. The public awareness of CSR has to be increased. The list of activities suggested by the government under the Companies Act – 2013 does not encompass the breadth and length of the society. Still there are certain areas which are untouched by the government as well as companies which needs

immediate attention. This study helps for further research in this realm.

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