



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2018; 4(11): 226-229
www.allresearchjournal.com
Received: 15-09-2018
Accepted: 20-10-2018

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Corporate social responsibility: An analytical study of the Indian industries

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Abstract

The Indian Companies Act, 2013 is a landmark initiative of the Government wherein the organisations operating in Indian soil must necessarily cough up two percent of three years average profit (Sec.135). This is the firm determination of the Government to deal with the organizations that were evading from the social responsibility initiatives. Thanks to the Government of India initiative. Further, the modalities of two percent spending with the variables of transparency and accountability is a right measure on the part of the central government to tame the organization and fall in line with the correct channelizing of CSR amount. The CSR data of the sample companies have been mustered to give an insight into the extent to which the sample organisations have delivered the activities under the CSR scanner.

Keywords: Corporate social responsibility, analytical study, Indian industries

Introduction

Corporate or Corporation is derived from Latin word "corpus" which means a "body". Governance means administering the processes and systems placed for satisfying stakeholder expectation with the help of various Corporate Laws formed for the Governance of the corporate sectors. When combined together Corporate Governance means a set of systems procedures, policies, practices, standards put in place by a corporate to ensure that the relationship with various stakeholders is maintained in transparent and honest manner. In the lines of Corporate Governance, the Indian Companies Act, 2013 ('the Act') which is a landmark legislation with far-reaching consequences on all companies incorporated in India helps in fulfilling the so called "Corporate Governance" and sustainable development by a notion of comparing the Old Law (Companies Act 1956) and the New Law (Companies Act 2013).

Sustainable development, ligation to future generation which was first used in Brundtland Commission in 1987, states that Sustainable Development is the development which is taking place to meet the demands of present generation without compromising or affecting the needs of future generations. There is a need to analyze whether the New Indian Companies changed provisions can be a blessing for the country as a whole or it will only add to the existing problems of the old Companies Act 1956. Introspection about how the Companies Act 2013 helps in achieving Corporate Governance by focusing on the key elements transparency and accountability^[1].

Practical reasons for CSR implementation

Historically, many CSR practices were not considered to be true business responsibilities of any single firm. In the current economic and social climate, however, organizations are embracing the idea that CSR activities, policies, processes, and procedures are noteworthy and should be executed for the benefit of not only corporations' reputations and profits, but also for the benefit of employees, customers, and the community in general. CSR "humanizes the company in ways that other facets of the job cannot; it depicts the company as a contributor to society rather than as an entity concerned solely with maximizing profits" (Bhattacharya, Sen, & Korschun, 2008, p. 37). Including customers, suppliers, and

¹ The Indian Company's Act 2013 – A Boon Or Bane To Sustainable Development; Iosr Journal Of Business And Management (Iosr-Jbm) E-Issn: 2278-487x, P-Issn: 2319-7668. Volume 19, Issue 7. Ver. V. (July 2017), Pp 08-16
www.Iosrjournals.Org

employees, are demanding more information about how businesses are conducted ^[2].

Given the heightened public outcry for improved working conditions, environmental care, and ethical considerations, companies are being forced to respond. Fuentes-Garcia, Nunez-Tabales, and Veroz-Herradon (2008) reported that there are two reasons why companies have established CSR programs including:

1. The idea of social awareness is recognized globally; and
2. The focus on companies with CSR activities as a basis for consumer purchasing decisions.

As a result, companies are responding to “the new social demands of their interest groups by implementing corporate citizenship actions, which includes all their environmental and safety, and social activities that go beyond mere economic interests and break away from the traditional image of a company that focuses solely on generating value for its shareholders” (Fuentes-Garcia, Nunez-Tabales, & Veroz-Herradon, 2008, p. 27).

The expanded scope of responsibility and ethical consideration also stems from a global backlash against corporate negligence and scandal (Sims & Brinkmann, 2003). Incidents like the Enron scandal prompted the Sarbanes Oxley legislation, which now hold accounting departments much more accountable for ethical decisionmaking (Prawitt, Sharp, & Wood, 2013). While legislation is a step in the right direction, the idea behind CSR is that legal statutes can only carry over so far and it is not enough to merely meet legal responsibilities. The company itself must adopt a sense of good for the betterment of the stakeholders as a fundamental part of company culture that must be carried down from top to bottom on a consistent basis encompassing goals that are both realistic and organized for accountability (Sims & Brinkmann, 2003).

Benefits of CSR activism ^[3]

The economic benefits associated with CSR have become apparent. While, the term “corporate social responsibility” acts as a common buzz word, it has become affiliated with corporate annual financial reports and in many cases these business practices actually increase profits and public perception. Corporate citizenship has been aligned with the term “triple bottom line” which is focused on integrating the social, environmental and economic business activities and performance (Glade, 2008). The triple bottom line covers people, the environment, and profit: people who engage in practices that are unbiased and beneficial to the community; the environment which benefits from such practices; and profits which include the internal and external economic impacts to the organization as well as to society (Glade, 2008).

Thus, from a stakeholder perspective, customers and potential customers are the primary targets of an organization’s CSR activities. Research suggests that there is a positive relationship between CSR and consumers’ attitudes toward the company and its products (Sen &

Bhattacharya, 2001). CSR can provide additional product value to a firm in three ways:

1. It can increase the perceived value of a firm’s products, provide a firm with a positive corporate brand/identity, and minimize external perceptions of social irresponsibility. CSR enhances product value because customers take into serious consideration the firm’s CSR activities when making a purchasing decision. Prior research has concluded that consumers are willing to pay more for a firm’s product with significant CSR (Bhattacharya & Sen, 2004). Other research has concluded that although some consumers may not be willing to pay higher prices, they are nevertheless more likely to purchase goods from firms that are deemed more socially responsible (Servaes & Tamayo, 2012). Thus, practices considered socially responsible will increase demand for a product (Baron, 2001).

In addition to direct purchase value for a product and/or service, CSR activities have been regarded as a signal for a high product quality. Conversely, firms that are solely driven by profits might have an incentive to cut corners and produce products of lower quality (Servaes & Tamayo, 2012). McWilliams and Siegel (2001) suggest that CSR creates a reputation that a firm is dependable and trustworthy so that consumers will assume that its products are of a higher quality than those from companies not engaging in CSR.

Further, consumers speculate that these firms consider CSR investments to be expensive and they will seek out competing firms that acknowledge the importance of CSR because they are identified as having higher quality products (Fernandez-Kronz & Santaló, 2010). Lastly, CSR can also provide value through product differentiation, especially in highly competitive industries. For example, where two companies produce an identical product, but one provides an additional social benefit to its product, consumers will attribute a value to this feature (Orlitzky, Siegel & Waldman, 2012). Since CSR can be considered as a product attribute, these activities are another way to enhance product quality and perceived firm value by raising consumer awareness.

2. The second major benefit of CSR is that it can improve a firm’s value by creating a positive corporate brand. A corporate brand carries with it the visual, verbal, and behavioral expressions of an organization’s unique business model (Vallaster, *et al.*, 2012). A corporate brand should be the public display of its attributes and values that set the firm apart from its competition. As a result, a firm can use CSR to be identified with a specific cause while improving its own identity. Through CSR activities, firms can display their internal values, concerns and overall attitudes toward preserving the environment, maintaining positive work conditions, and going beyond what is expected of them. In short, investment in CSR is evidence of a firm’s reliability and honesty which positively impacts brand value (Melo & Galan, 2012).
3. Lastly, CSR is essential for every company because a perception of social irresponsibility can have severe negative consequences for a firm. In short, an organization’s success is dependent upon its ability to satisfy normative expectations (Lange & Washburn, 2012).

² Corporate Social Responsibility And Businesses: Examining The Criteria For Effective Corporate Implementation Utilizing Case Studies; International Journal Of Business And Social Science Vol. 5 No. 3; March 2014

³ Corporate Social Responsibility And Businesses: Examining The Criteria For Effective Corporate Implementation Utilizing Case Studies; International Journal Of Business And Social Science Vol. 5 No. 3; March 2014

Table 1: Sources of previously validated items used in the measuring instrument

Factors	References
Workforce-oriented CSR activities	De Vaney and Chen (2003), Eybers (2010:171), Herpen, Meulenberg and Pennings (2003:19), Polasek (2010:100) and Somyot (2008: 121)
Society -oriented CSR activities	Herpen <i>et al.</i> , (2003:19), Szlavik, Palvolgyi, Csigenegypal and Fule (2006:21), Timo (2006:101), and vives (2006:51)
Market-oriented CSR activities	Herpen <i>et al.</i> , (2003:19), Heyder and Theuvsen (2009), Maignan and Ferrell (2004), and Somyot (2008:121)
Environmentally -oriented CSR activities	Herpen <i>et al.</i> , (2003:19), Maignan and Ferrell, (2004), Nunez (2008:64) and Timo (2006:101)
Increased Competitiveness	Depperu and Cerrato (2005:10), Konstantinidis, (2009:2), Salavou and Avlonitis (2008: 976), Chew, Yan and Cheah (2008:210)

(Source: The Impact of Corporate Social Responsibility Factors On the Competitiveness of Small and Medium-Sized Enterprises; Sajems Ns 17 (2014) No 2:157-172)

Scope of the study

The study has taken sample companies from the Automobiles Sector, Engineering and Pharmaceutical sectors. The study is analytical in nature considering the CSR data for the financial years 2014-15, 2015-16, 2016-17 and 2017-18.

Analysis of the data

The following is the tabulated CSR initiatives of the sample companies from the Automobiles Sector, Engineering and Pharmaceutical sectors. The data is mustered from the National CSR Data Portal wherein the companies upload the information about the

Table 2: Number of CSR initiatives of the Companies in the Automobile Sector

Company name	2014-15			2015-16			2016-17			2017-18		
	Total	Local	Pan India									
Ashok Leyland Ltd	4	1	3	4	2	2	3	1	2	5	3	2
Automotive Axles Ltd	1	0	1	3	3	0	3	2	1	7	4	3
Bajaj Auto Ltd	40	39	1	66	65	1	63	59	4	12	10	2
Eicher Motors Limited	0	0	0	8	5	3	9	5	4	12	10	2
Hero Motocorp Ltd	6	5	1	6	2	4	8	4	4	6	3	3
Mahindra & Mahindra Ltd	31	17	14	1	0	1	5	1	4	4	3	1
Maruti Suzuki India Ltd	8	8	0	11	5	6	8	2	6	5	4	1
Tata Motors Ltd	4	0	4	5	0	5	7	2	5	7	2	5
TVS Motor Company Limited	2	2	0	5	2	3	0	0	0	4	2	2
Escorts Limited	6	5	1	3	2	1	0	0	0	9	6	3

(Source: National CSR Data Portal)

All the companies have adhered to incurring CSR expenditure from 2014-15 onwards except Automobile Axles ltd and Eicher MotoRs. Ltd The Ashok Leyland Company has incurred 83.3 crores for 2016-17. The

expenditure towards Social Activities is to the tune of 30.03 crores while 20 crores are incurred on economic Activities. During the year 2017-18, there is a decline in the total CSR expenditure to the tune of 15.66 crores.

Table 3: Number of CSR initiatives of the Companies in the Engineering Sector

Company name	2014-15			2015-16			2016-17			2017-18		
	Total	Local	Pan India									
Bosch Limited	26	17	9	20	17	3	20	20	0	22	19	3
Bharat Electronics Limited	7	4	3	11	11	0	7	7	0	11	10	1
Citrix R&D India Private Limited	3	2	1	4	3	1	6	6	0	5	4	1
Ingersoll-Rand (India) Ltd	1	0	1	8	8	0	4	1	3	5	2	3
Mindtree Ltd	6	6	0	5	5	0	7	7	0	15	14	1
Tata Elxsi Ltd	3	3	0	4	3	1	6	6	0	7	5	2
Titan Company Ltd	5	2	3	6	0	6	26	25	1	23	19	4
Triveni Turbines Limited	11	11	0	13	13	0	13	13	0	16	16	0
Axiscades Engineering Technologies Ltd.	2	1	1	3	3	0	4	3	1	0	0	0

(Source: National CSR Data Portal)

Table 4: Number of CSR initiatives of the Companies in the Pharmaceutical Sector

Company name	2014-15			2015-16			2016-17			2017-18		
	Total	Local	Pan India									
Biocon Ltd.	10	10	0	11	11	0	12	12	0	11	8	3
Cipla Ltd	1	0	1	9	4	5	9	5	4	9	6	3
Divis Laboratories Limited	8	8	0	11	11	0	11	11	0	12	8	4
DrReddys Labs Ltd	1	0	1	27	21	06	19	8	11	16	7	4
Indoco Remedies Ltd.	16	16	0	15	15	0	20	20	0	7	6	1
NatcoPharma Ltd.	8	8	0	9	8	1	13	13	0	11	7	4
Novartis India Limited	12	9	3	13	11	3	9	6	3	11	8	3

Novo Nordisk India Private Limited	1	0	1	1	0	1	1	1	0	0	0	0
Pfizer Ltd.	2	1	1	5	4	1	9	9	0	8	6	2

(Source: National CSR Data Portal)

The research considers the pharmaceutical as a sample sector for the study under the sector, Indoco Remedies Ltd has undertaken 16, 15, 20 and 7 CSR activities for 2014-15, 2015-16, 2016-17 and 2017-18 respectively. At Pan India level, Dr. Reddys Lab Ltd has undertaken 11 CSR activities for 2016-17 while 6 CSR activities have been undertaken in 2015-16. Novartis India Ltd has also been active at Pan India level with the CSR activities been initiated. Cipla Ltd has spent over CSR activities at Pan India level in 2015-16 and 2016-17 by undertaking 5 and 4 CSR activities respectively. Natco Pharma Ltd and Biocon Ltd have undertaken a total of 13 and 12 CSR activities respectively during the year 2016-17.

Suggestions

- Ministry of Corporate Affairs has clarified that the statutory provision and provisions of CSR Rules, 2014, is to ensure that while activities undertaken in pursuance of the CSR policy must be relatable to Schedule VII of the Companies Act 2013. However, 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 Schedule VII of the Act must be treated by the companies as broad based and must be intended to cover a wide range of activities.
- No specific tax exemptions have been extended to CSR expenditure per se. Finance Act, 2014 also clarifies that expenditure on CSR does not form part of business expenditure. Activities under Schedule VII should be widened to enjoy the specific tax exemptions.
- CSR should not be interpreted as a source of financing the resource gaps in the Government schemes. Use of corporate innovations and managerial skills in the delivery of “public goods” is at the core of CSR implementation by the companies. CSR funds of companies should not be used as a source of funding Government projects. The Government has no role to play in the approving and implementing of CSR projects. MCA will provide the broad contours within which eligible companies will formulate their CSR policies, including activities to be undertaken and implement the same in right earnest.
- The Corporates and Policy makers should integrate the elements of CSR into the legal framework of the Corporate Governance.
- Improved reputation management: Organizations that perform well with regard to CSR can build their reputation, while those that perform poorly can damage brand and company value when exposed. Reputation, or brand equity, is founded on values such as trust, credibility, reliability, quality and consistency. Even for companies that do not have direct retail exposure through brands, their reputation for addressing CSR issues as a supply chain partner— both good and bad— can be crucial commercially.
- Improved relations with regulators- In a number of jurisdictions, governments have expedited approval processes for companies that have undertaken social and environmental activities beyond those required by

regulation. In some countries, governments use (or are considering using) CSR indicators in deciding on procurement or export assistance contracts. This is being done because governments recognize that without an increase in business sector engagement, government sustainability goals cannot be reached.

Conclusion

The CSR initiatives are a delicate issue. The Enforcement of the Act would dilute the very purpose if the parameters are not considered for the practical implementation. Steps and counter moves in case of deviations is the need of the hour. Accountability coupled with transparency can go a long way to change the way organisations function in the CSR canvas. The propellant from the Companies Act to manage those who have met the CSR enforcement could just be a push for the organisations.

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