

SMART

Journal of Business Management Studies

(A Professional, Refereed, International and Indexed Journal)

Vol - 14 Number - 1

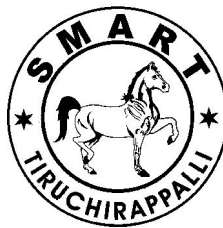
January - June 2018

Rs.500

ISSN 0973-1598 (Print)

ISSN 2321-2012 (Online)

Professor MURUGESAN SELVAM, D.Litt
Founder - Publisher and Chief Editor



UGC Approved Journal - 36131

**SCIENTIFIC MANAGEMENT AND ADVANCED RESEARCH TRUST
(SMART)**

TIRUCHIRAPPALLI (INDIA)
www.smartjournalbms.org

CORPORATE SOCIAL RESPONSIBILITY PRACTICES OF PUBLIC SECTOR AND PRIVATE SECTOR COMPANIES IN INDIA

Berly Sebastian*

Assistant Professor, K.G College, Pampady, Kottayam, Kerala
berlycs21@gmail.com

and

Tomy Mathew

Associate Professor, CMS College, Kottayam, Kerala
tomycms@gmail.com

Abstract

Spending on Corporate Social Responsibility (CSR) has been made mandatory, for companies, from the financial year 2014-15, in India. The Companies Act, 2013 has made it obligatory, for companies, to undertake CSR activities and to spend at least two percent of the average profits on CSR. The study was conducted, to know whether there was difference in CSR practices, between public sector and private sector companies. Spending on CSR activities, by the two groups, was compared. The number of independent and woman director in the CSR Committee and number of committee meetings, were studied. T-test and chi-square test were conducted and the results were found not significant. There was no difference in the CSR practices of public sector and private sector companies, i.e., ownership did not affect the CSR practices.

Keywords: *Corporate Social Responsibility, CSR Committee, Independent Director.*

JEL Code: *M140, G300.*

Paper Received : 20.07.2017

Revised : 22.08.2017

Accepted : 04.10.2017

*** Corresponding Author**

1. Introduction

Corporate Social Responsibility (CSR) was considered as philanthropy in the early stages. **Carroll (1991)** defined that corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible means that profitability and obedience to the law are foremost conditions while discussing the firm's ethics and the extent to which it supports the society in which it exists, with contributions of money, time and talent. The Corporate Social Responsibility is considered as 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 local community and society at large (**World Business Council of Sustainable Development, 2006**). The importance of CSR emerged significantly, in the last few years, with the introduction of CSR Rules in the Indian Companies Act, 2013. Under section 135 of the Act, "every company, having a net worth of Rs.500 crores or more, or a turnover of Rs. 1000 crores or more, or net profit of Rs. five crores or more, during any financial year, has to spend at least two percent of its average net profit made during the three immediately preceding financial years, on CSR activities". There are contradictory views as to the relevance of compulsory spending on CSR. **Carroll (1991)** is of the view that corporations have a social responsibility beyond pure profit whereas **Friedman (1970)** was against the CSR principle, stating that the social responsibility of business is to increase its profits. The present study considers various aspects, related to CSR spending, such as amount of spending, activities undertaken and the CSR Committee.

2. Review of Literature

Melo (2009) found that corporate social responsibility has a long term impact on corporate performance and brand value.

Sharma and Mani (2013) found that Indian banks are not undertaking much CSR activities. The public sector banks contribute more than private sector and foreign banks. **Jain and Jain (2014)** compared the views of employees of private sector and public-sector companies, regarding the various dimensions of CSR practices like environmental policies, societal policies, company values, human resource policies and market policies and found that employees want their companies to be socially responsible. CSR activities make the companies more sustainable in the long run. **Rai and Bansal (2014)** found that public companies spend more on CSR than private sector companies. Domestic firms spend more on CSR than foreign firms. There is a positive correlation between CSR and profit and the probability of higher spending on CSR increases as the firm becomes bigger. **Das and Pramanik (2015)** analysed the social responsibility disclosure practices of manufacturing companies, using social disclosure checklist, containing 49 items of social information and found that social information items, disclosed in annual reports, were mostly non-financial and descriptive in nature. **Pirzad and Naderi (2015)** examined the relationship between the determinants of CSR and corporate financial performance of listed companies, in Iran and found that only one of the CSR aspects, viz., community involvement, was positively related to the financial performance. **KPMG in India's Reporting Survey (2016)** found that CSR spending of PSU companies had gone up by 12% and that of non-PSU companies, had gone by 15% in 2016. In the sector wise focus of CSR spending, 90% of the companies have projects in the area of education and health, followed by environment and rural development. **Sehar, et al., (2017)** examined the relationship between CSR disclosure and its determinants of listed companies in FMCG sector, in Malaysia, by using CSR index and regression analysis and found that profits and independent directors did have significant influence on CSR disclosure.

3. Statement of the Problem

The Corporate Social Responsibility Rule, in the Companies Act, 2013, is to be followed by the companies, from the financial year 2014-15 onwards. Companies should have a CSR policy and should constitute a CSR Committee. CSR activities are to be disclosed, in the companies' annual report, in the format given in the Act. As there are structural differences between private sector and public sector companies as far as ownership is concerned, the CSR practices of these companies also may be different. Both public sector companies and private sector companies are spending on CSR activities. There may be difference in spending due to the structural differences in the ownership pattern. The public sector companies are more oriented to service rather than profit as compared to private sector companies. This orientation may affect the CSR practices also. Companies have to constitute a CSR Committee, with at least three independent directors. The CSR Committee should meet regularly to discuss CSR activities.

4. Need of the Study

Corporate Social Responsibility has, for the first time, been legally recognized in India. According to the provisions of the Companies Act, 2013, a company is required to spend 2% of average net profit, made during the three immediately preceding financial years on CSR. Before the introduction of mandatory provision for CSR in the Companies Act, many corporates in India contributed to CSR activities voluntarily and all companies followed different CSR strategies. This study is an effort to analyse the CSR practices of selected manufacturing companies.

5. Objective of the Study

The objective of the study was to find out, whether there was any difference in Corporate Social Responsibility practices of public sector and private sector companies, with regard to amount of spending, committees and the CSR activities.

6. Hypothesis of the Study

NH-1: There is no significant difference between the Corporate Social Responsibility practices of private sector and public-sector companies.

7. Methodology of the Study

7.1 Sample Selection

In this study, purposive sampling method was adopted. Twenty manufacturing companies were selected for the study, i.e., ten each from the public sector and the private sector. The manufacturing companies included textiles, telecommunication equipment, cement, automotive, chemicals, computer hardware, and agro-foods etc.

7.2 Sources of Data

The study required information, relating to Corporate Social Responsibility spending, committee and practices. This information was collected from the websites of companies and annual reports, published by the companies.

7.3 Period of the Study

One-year data (financial year 2015-16) were used, for studying Corporate Social Responsibility practices of private sector and public sector companies.

7.4 Tools used for the Study

T-test and Chi-square test were used in the study. T-test was used, for studying the Corporate Social Responsibility spending, number of members in the CSR committee, number of independent directors in the CSR committee and number of CSR committee meetings, held in a year, by public and private sector companies. Chi-square test was used for studying the number of women directors, in the public and private sector companies.

8. Data Analysis

In India, the Companies Act, 2013 made it obligatory, for eligible companies, to spend at

least two percent of its average net profit, on CSR activities. The CSR spending of the selected sample private and public sector companies, is given in **Table-1**. The descriptive statistics of CSR spending indicated that the spending of public sector (2.12%) was little less than that of the private sector (2.27%) manufacturing companies. However, the difference was not statistically significant ($t = 0.43013$, $p = .672209$) (**Table-2**). Companies undertake CSR activities, in the areas of education, health, environment, rural development, hunger and poverty eradication, infrastructure development, sports, livelihood and financial inclusion, skill development, disaster relief and so on. The focus area of each company may be different. Both public sector and private sector companies are contributing towards CSR activities. Various CSR activities, undertaken by the sample companies, are presented in **Table-3**. The major activities of CSR spending are education and health, followed by environment. The spending pattern of the companies, under both sectors, is almost the same. The selected companies did not involve themselves in the areas of financial inclusion, sustainability and disaster relief.

The Companies Act, 2013, made it mandatory that the companies must constitute a Corporate Social Responsibility Committee. This Committee has to formulate and suggest the CSR policy, to the Board of Directors, decide on the CSR activities to be undertaken and regularly monitor the CSR policy. There should be at least three directors, in the CSR Committee. The number of meetings of the Committee or the number of members in the Committee, is not a criterion to decide the efficiency of CSR implementation, but these disclosures are important from the angle of accountability and transparency. The disclosures, regarding the number of members in the CSR Committee, are given in **Table-4**. The descriptive statistics shows that the average number of

members, in the CSR Committee, is higher in public sector companies (5.4) than that of private sector companies (4.6). However, the difference is not statistically significant ($t = -1.97279$, $p = .06408$) (**Table-5**). As per the Companies Act, there should be at least three directors in the CSR Committee in which at least one director shall be an Independent Director. **Table-6** shows the number of independent directors in the CSR Committee of selected sample companies. The descriptive statistics of independent directors, in the CSR Committee, is given in **Table-7**. All the companies have equal to or more than the prescribed number (which is one Independent Director) in the CSR Committee, which is a positive sign. The average number of independent directors was two, for both private sector and public sector companies. Thus there is no difference ($t = 0$, $p = 1$). This Section analyses the number of women members in the CSR Committee. The law does not make the presence of women directors, mandatory. **Table-8** depicts the presence of women directors in the CSR Committee. Presence of women directors was low, in both public sector and private sector companies. The private sector was better than public sector in this regard. The difference is not statistically significant (chi-square=0.9524, $p = .329114$).

The CSR law is silent with regard to the number of meetings of CSR Committee, in a year. It depends on the requirement of the company. **Table-9** shows the number of CSR committee meetings, held in a year. The descriptive statistics shows that the average number of meetings, held in a year, was higher in private sector companies (2.8) than that of public sector companies (2.2). However, the difference is not statistically significant ($t = 0.06422$, $p = .949587$) (**Table-10**). On the basis of the results, the null hypothesis, **NH-1**: There is no significant difference in the CSR practices of private sector and public sector companies, is accepted.

9. Findings of the Study

There is no significant difference in the spending on Corporate Social Responsibility, under both public and private sector companies. There was no difference in the CSR activities of private sector and public-sector companies. The spending pattern of the companies, in both sectors, was almost the same. There was no significant difference, in the number of members or independent directors or women directors in the CSR Committees of the companies, in the public as well as private sectors. There was no significant difference, in the number of meetings held in companies, in the public as well as the private sector.

10. Suggestions

The spending of majority companies, irrespective of the sector, was around 2%. It would be better if the companies were to go beyond the statutory minimum. The focus area of CSR spending of these companies was education and health. It would be better if these companies were to do the CSR activities, in their own core area of operation. CSR activities should be built into their business. CSR Committee should undertake socially responsible activities, with their innovative ideas and management skills, instead of focussing on what other companies do.

11. Conclusion

The study was conducted to know whether there was any difference in the Corporate Social Responsibility practices of selected companies, on the basis of ownership. The study found that there was no difference in the CSR practices of public sector and private sector companies. Thus it can be stated that ownership did not affect the CSR practices.

12. Limitations of the Study

The spending on Corporate Social Responsibility of companies was studied, only on the basis of published data. The sample companies were selected only from the manufacturing sector and the study considered only one-year data (financial year 2015-16), for studying the CSR practices.

13. Scope for Further Research

The companies, which undertake Corporate Social Responsibility activities, may enhance the reputation and the financial performance of the company, leading to the enhancement of the firm value. Further research can be done, on establishing the relationship between CSR activity and the firm value.

14. References

- Carroll, A. B. (1991).** The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders. *Business Horizons*, 34, 39-48.
- Das, D., & Pramanik, A. (2015).** Nature of Social Disclosure in Corporate Annual Reports: A Study of Manufacturing Companies Listed in Indian Stock Exchanges. *Scholars Journal of Economics, Business and Management*, 2 (10A), 1008-1016.
- Friedman, M. (1970).** The Social Responsibility of Business is to Increase its Profits. *The New York Times Magazine*, September 13, 17.
- Jain, A., & Jain, R. (2014).** A Comparative Study of CSR Practices of Employees Working in Public and Private Sector Organisations. *Pacific Business Review International*, 7 (6).
- KPMG in India's Reporting Survey (2016).** <https://home.kpmg.com/in/en/home/insights/2017/02/csr-reporting-survey-2016.html>.
- Melo, Tiago (2009).** *Effects of Corporate Social Responsibility on Brand Value*. Thesis. Universidad De Salamanca, 22.
- Pirzad, A., & Naderi, E. (2015).** The Impacts of Corporate Social Responsibility in Financial Performance. *Journal of Social Issues & Humanities*, 3 (3).
- Rai, S., & Bansal, S., (2014).** An Analysis of Corporate Social Responsibility Expenditure in India. *Economic & Political Weekly*, 49 (50).

- Sehar, R. H., Jing, V. T., & Din A. B. (2017).** Determinants of CSR Disclosure: A Study on the Listed Fast Moving Consumer Goods (FMCG) Companies in Bursa Malaysia. *International Journal of Business and Management Invention*, 6(2), 2319 – 8028.
- Sharma, E., & Mani, M. (2013).** Corporate Social Responsibility: An Analysis of Indian Commercial Banks. *AIMA Journal of Management & Research*, 7(1).
- The Indian Companies Act (2013).** www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf
- World Business Council of Sustainable Development (2006).** <http://old.wbcsd.org/work-program/business-role/previous-work/corporate-social-responsibility.aspx>

Table-1: CSR Spending of the Companies

Private Sector	Rs. (in crores)	%	Public Sector	Rs. (in crores)	%
Apollo Tyres	12.96	1.92	BEL	25.69	2.05
Asian Paints	34.44	1.72	BHEL	110.1	1.99
Bajaj Auto	86.72	2.00	Coal India	73.26	0.56
Cipla	31.88	1.78	GAIL	118.64	2.30
Dabur	17.44	2.02	Hindustan Copper	7.68	2.54
Godrej	5.33	4.51	IOC	156.68	1.99
HUL	92.12	1.71	National Aluminium	27.17	2.07
L & T	119.89	2.36	NTPC	491.8	3.62
Reliance Industries	652	2.34	ONGC	421	1.41
Tata Steel	204	2.35	SAIL	76.2	2.62
Average		2.27	Average		2.12

Source: Annual Reports of the Companies (2015-16)

Table-2: Descriptive Statistics of CSR Spending of the Companies

Descriptive Statistics	Private Sector	Public Sector
Minimum	1.71	0.56
Maximum	4.51	3.62
Range	2.8	3.06
Count	10	10
Sum	22.71	21.15
Mean	2.27	2.115
Median	2.01	2.06
Standard deviation	0.8267	0.7949
Variance	0.6835	0.6319
Mid Range	3.11	2.09
Standard Error of Mean	0.2614	0.2514
Skewness	2.101	-0.1093
Kurtosis	6.043	3.151
Relative Standard Deviation	36.4%	37.59%

Source: Annual Reports of the Companies (2015-16) using SPSS 16.

Table-3: Number of CSR Activities Undertaken by the Companies

Sector	Private Sector	Public Sector
Education & Skill development	10	10
Health & Sanitation	10	10
Environment	6	8
Heritage, art & culture	*	5
Rural development	4	7
Infrastructure development	*	3
Financial inclusion	*	*
Community development	4	*
Sustainability	*	*
Gender equality & women empowerment	4	*
Armed forces	2	*
Disaster relief	*	*
Sports	2	6
Government projects	3	*

Source: Annual Reports of the Companies (2015-16) Note: * - No Activity

Table-4: Number of Members in the CSR Committee

Private Sector	No.	Public Sector	No.
Apollo Tyres	4	BEL	5
Asian Paints	5	BHEL	7
Bajaj Auto	3	Coal India	5
Cipla	5	GAIL	5
Dabur	4	Hindustan Copper	6
Godrej	6	IOC	6
HUL	6	National Aluminium	6
L & T	4	NTPC	4
Reliance Industries	4	ONGC	5
Tata Steel	5	SAIL	5
Average	4.6	Average	5.4

Source: Annual Reports of the Companies (2015-16)

Table-5: Descriptive Statistics of Number of Members in the CSR Committee

Descriptive Statistics	Private Sector	Public Sector
Minimum	3	4
Maximum	6	7
Range	3	3
Count	10	10
Sum	46	54
Mean	4.6	5.4
Median	4.5	5
Standard deviation	0.9661	0.8433
Variance	0.9333	0.7111
Mid Range	4.5	5.5
Standard Error of Mean	0.3055	0.2667
Skewness	0.08872	0.3113
Kurtosis	1.892	2.398
Relative Standard Deviation	21%	15.62%

Source: Annual Reports of the Companies (2015-16) using SPSS 16.

Table-6: Number of Independent Directors in the CSR Committee

Private Sector	No.	Public Sector	No.
Apollo Tyres	2	BEL	1
Asian Paints	2	BHEL	1
Bajaj Auto	1	Coal India	3
Cipla	2	GAIL	2
Dabur	2	Hindustan Copper	4
Godrej	2	IOC	2
HUL	4	National Aluminium	3
L & T	1	NTPC	1
Reliance Industries	3	ONGC	1
Tata Steel	1	SAIL	2
Average	2	Average	2

Source: Annual Reports of the Companies (2015-16)

Table-7: Descriptive Statistics of Number of Independent Directors in the CSR Committee

Descriptive Statistics	Private Sector	Public Sector
Minimum	1	1
Maximum	4	4
Range	3	3
Count	10	10
Sum	20	20
Mean	2	2
Median	2	2
Standard deviation	0.9428	1.054
Variance	0.8889	1.111
Mid Range	2.5	2.5
Standard Error of Mean	0.2981	0.3333
Skewness	0.7955	0.5692
Kurtosis	2.813	1.98
Relative Standard Deviation	47.14%	52.7%

Source: Annual Reports of the Companies (2015-16) using SPSS 16.

Table-8: Presence of Women Directors in the CSR Committee

Sector	Present	Not Present
Private Sector	4	6
Public Sector	2	8
Total	6	14

Source: Annual Reports of the Companies (2015-16)

Table-9: CSR Committee Meetings held in the Year (2015-16)

Private Sector	No.	Public Sector	No.
Apollo Tyres	3	BEL	1
Asian Paints	1	BHEL	1
Bajaj Auto	1	Coal India	1
Cipla	4	GAIL	3
Dabur	4	Hindustan Copper	*No information
Godrej	2	IOC	*No information
HUL	3	National Aluminium	3
L & T	4	NTPC	4
Reliance Industries	4	ONGC	7
Tata Steel	2	SAIL	2
Average	2.8	Average	2.2

Source: Annual Reports of the Companies (2015-16)

Table-10: Descriptive Statistics of CSR Committee Meetings held in the Year (2015-16)

Descriptive statistics	Private Sector	Public Sector
Minimum	1	1
Maximum	4	7
Range	3	6
Count	10	8
Sum	28	22
Mean	2.8	2.75
Median	3	2.5
Standard deviation	1.229	2.053
Variance	1.511	4.214
Mid Range	2.5	4
Standard Error of Mean	0.3887	0.7258
Skewness	-0.3445	1.028
Kurtosis	1.465	2.873
Relative Standard Deviation	43.9%	74.65%

Source: Annual Reports of the Companies (2015-16) SPSS 16.