CSR Mandate: A Study of Variations in Compliance Mechanism among Sectors

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Abstract:

Corporate Social Responsibility, initially a voluntary activity has turned into obligatory commitment towards society which in the future will turn into a strategic way of doing business. This progress in CSR has increased its scope for businesses and academics.

The present study considers compliance to CSR mandate as the prime focus and analysis of variations in the compliance mechanism among sectors, is undertaken. It essentially analyzes the variations from the perspective of extent of adherence to 2% CSR mandate as per the Companies Act, 2013, using ANOVA technique. The study includes 235 companies, chosen from NSE NIFTY 100, NSE NIFTY Midcap 100 and NSE Nifty Smallcap 100. The companies represent 17 broad sectors and the study covers six years period from 2014-15 to 2019-20. To achieve the objectives of the study, 1,387 annual reports, especially CSR reports of the companies are thoroughly content analyzed.

The findings of the study reveal that there are variations in the sector wise CSR performance mainly because of telecom sector. However, CSR should be considered as the indispensable part of businesses.

Keywords:

Corporate Social Responsibility, CSR Mandate, Adherence, Compliance, Sectors.

1. Introduction:

Corporate social responsibility has evolved and will evolve into different forms and names with the evolution of businesses. As the businesses transform in terms of innovation, expansion, structure, rules, regulations, etc., so do their responsibilities and vice-versa. Social responsibility of the businesses, initially a voluntary philanthropic activity has turned into obligatory duty towards society which in the future will turn into a strategic way of doing business. This evolution has increased the importance of CSR and its scope. CSR practices vary across companies, industries, and nations. CSR can be analyzed from various viewpoints like its evolutionary phases, structural build ups, activities in different focus areas, state wise contributions, compliance to regulatory aspects, etc. The variations in the CSR practices in India can be found from the viewpoint of prescribed and actual amount spent by the companies or mode of implementation or contributions made to various focus areas or state wise contributions made by the companies.

The present study considers compliance to CSR mandate as the main subject matter and analysis of variations in the compliance mechanism among sectors, is carried out.

2. Literature Review:

(Chaudhri & Wang , 2007) in their study of top 100 IT companies, reveal that, more than 30% of the global companies have no CSR information on their Indian sites, and among those that do, two thirds have only one page of information.

(Mahadeo, Hanuman, & Soobaroyen, 2011) observe that legitimacy is a strategic and managerially driven approach favoring symbolic actions and is the prevailing motivation underlying the progression of corporate social disclosures in Mauritius.

(Bayoud , Kavanagh, & Slaughter, 2012) using both quantitative and qualitative methods find positive relationship of industry type and CSR Disclosures in Libyan companies.

(Al-Hamadeen & Badran, 2014) find insignificant association between industry type and CSR reporting.

(Kansal, Joshi, & Batra, 2014) observe that industry category is significantly correlated with the corporate social disclosures of the companies.

(Tan, Benni, & Liani, 2016) reveal, in their study of Indonesian listed companies, that firm size and industry sensitivity have significant effect on CSRD.

(Goel & Misra, 2017) note that there exist sectoral differences in reporting quality wherein the refineries and power sector follow most of the GRI prescribed norms.

3. Objectives:

There are several international as well as Indian studies on CSR practices and disclosures. But there is dearth in the studies relating to compliance to mandatory CSR. Hence the present study intends to analyze the variations from the perspective of extent of adherence to 2% CSR mandate as per the Companies Act, 2013 i.e., CSR performance (CSRP). The variations in CSRP among sectors are analyzed.

4. Research Methodology:

"CSR studies have used methods like survey, questionnaire and content analysis, etc. of which the most popular one is content analysis" (Sapkauskiene & Leitoniene, 2014), which is used in the present study to achieve the research objectives. This study undertakes quantitative analysis methodology as well, since the measurable aspects like monetary values of CSR activities are considered.

5. Profile of Sample Companies:

Companies listed in NSE Nifty 100, NSE Nifty Midcap 100 and NSE Nifty Smallcap 100 as per the NSE Indexogram/NSE Indices Limited as on December 31, 2020 are considered for this study. From the above indices, the companies belonging to financial services sector and the companies whose data is not available are excluded and finally a total of 235 companies are selected as sample. The study covers six years period from 2014-15 to 2019-20. A total of 1,387 annual reports are collected from the company websites and data pertaining to CSR is analyzed. Further, the data relating to financial aspects, board of governance and general characteristics of companies are collected from NSE and Capitaline database.

6. Variables under Study:

As per Companies Act, 2013, the companies with net worth of Rs. 500 crores or more, or turnover of Rs. 1000 crores or more, or net profit of Rs. 5 crores or more are covered within the ambit of CSR provisions. Such companies are required to spend at least 2% of average net profit of last 3 preceding years on CSR activities every year. Hence, the variable considered here is Corporate Social Responsibility Performance (CSRP) i.e., extent of adherence to 2% mandate.

The variable CSRP is calculated as below:

- Prescribed CSR amount and Actual CSR amount spent by the sample companies are compared year-on-year basis from 2014-15 to 2019-20.
- If actual amount spent is greater than the prescribed amount, it results into overspent amount i.e., positive figure.
- If actual amount spent is lesser than the prescribed amount, it results into unspent amount i.e., negative figure.
- If actual amount spent equals to prescribed amount, it results into zero.
- Such overspent and unspent amounts of all the years are totaled and averaged to get CSRP.

7. Variations in CSRP based on Sectors:

There are some literatures relating to sectoral study of CSR practices and disclosures. Studies of (Samaha & Dahawy, 2011) and (Al-Hamadeen & Badran, 2014) show that industry type do not affect the extent of voluntary disclosure, whereas (Bayoud , Kavanagh, & Slaughter, 2012), (Kansal, Joshi, & Batra, 2014), and (Rao & Tilt, 2016) find positive relationship of industry type and CSRD. (Giannarakis, 2014) expresses that there are significant differences between various industries and the level of CSR disclosure. Further (Goel & Misra, 2017) note sectoral differences in reporting quality, wherein the refineries and power sector follow most of the GRI prescribed norms.

In the present study, in total, 17 sectors are examined to understand the variations among the sectors in complying to 2% CSR mandate (CSRP) using ANOVA.

H_0: There exist no variations in the CSR practices of different sectors.

H_A: There exist variations in the CSR practices of different sectors.

The study hypothesizes that there are variations in the CSR practices of different sectors.

Table 1 gives out the descriptive statistics of the various sectors considered for study.

Table 1

One Way Analysis

Descriptive Statistics of Various Sectors

Sectors	Size (N)	Mean Value	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Min.	Max.
					Lower Bound	Upper bound		
Automobile	18	-0.43	7.271	1.714	-4.04	3.19	-14	22
Cement	10	3.74	8.180	2.587	-2.11	9.59	-1	26
Chemicals	9	0.41	1.499	0.500	-0.74	1.56	-2	4
Construction	18	-0.41	3.030	0.714	-1.92	1.09	-6	8
Cons Goods	44	-0.02	1.518	0.229	-0.48	0.44	-7	5
Fertilisers	7	1.37	3.936	1.488	-2.27	5.01	-1	10
Healthcare	5	0.18	0.758	0.339	-0.76	1.12	-1	1
Industrial Mfg	14	-2.83	6.311	1.687	-6.47	0.81	-17	3
I.T	19	-6.13	20.308	4.659	-15.92	3.66	-67	16
Media	5	-3.87	7.011	3.136	-12.58	4.84	-15	3
Metals	12	10.51	44.108	12.733	-17.51	38.54	-96	89
Oil & Gas	15	5.04	25.150	6.494	-8.89	18.97	-27	79
Pharmaceutical	28	-2.21	7.056	1.333	-4.95	0.53	-35	5
Power	9	7.47	17.481	5.827	-5.96	20.91	-1	52
Service	11	-1.65	3.415	1.030	-3.95	0.64	-11	0
Telecom	4	-30.99	46.960	23.480	-105.72	43.73	-101	0
Textiles	7	-0.21	2.623	0.991	-2.64	2.21	-3	5
Total	**235**	**-0.32**	**15.755**	**1.028**	**-2.35**	**1.70**	**-101**	**89**

Source: Computations based on data collected

The above table depicts that 17 sectors comprising of 235 companies are being examined. Consumer goods sector consists of highest number of 44 companies followed by pharmaceuticals sector with 28 companies and then IT sector with 19 companies. Telecom sector has the least number of 4 companies preceded by healthcare sector and media sector with 5 companies each.

The mean value of CSRP of 235 companies is-0.32 which indicates that there is unspent amount of Rs. 0.32 crores on an average ranging from unspent amount of Rs. 101 crores (min) to overspent amount of Rs. 89 crores (max). This indicates large variation of about Rs. 15.755 crores standard deviation.

Overall, there are 7 sectors which have overspent amount and these sectors are cement, chemicals, fertilizers, healthcare, metals, oil & gas, and power whereas all other 10 sectors have under-performed than their prescribed CSR amount.

Metals sector has the highest mean value of overspent amount of Rs. 10.51 crores followed by power sector with Rs. 7.47 crores and then oil & gas sector with Rs. 5.04 crores. The maximum overspent amount of company with Rs. 89 crores belong to metals sector followed by Rs. 79 crores in oil & gas sector and then Rs. 52 crores in power sector. There are no companies in the services and telecom sectors with overspent amount.

As regards to unspent amount, the least mean value of telecom sector with -30.99, revealing that the telecom sector has the highest unspent amount on an average of Rs. 30.99 crores, preceded by IT sector with Rs. 6.13 crores and then media with Rs. 3.87 crores. The minimum value of -101 i.e., unspent amount of Rs. 101 crores belong to telecom sector preceded by metals sector with Rs. 96 crores and then IT sector with Rs. 67 crores.

The highest deviation is found in telecom sector with standard deviation of 46.96, followed by metals sector with 44.108 and then oil & gas sector with 25.15. The least deviation is found in healthcare sector with standard deviation of 0.758, preceded by chemicals sector with 1.499 and consumer goods sector with 1.518.

Table 2 shows the result of ANOVA.

Table 2

ANOVA (Variations in CSRP based on Sectors)

Source of Variance	Sum of Squares	Df	Mean Square	F - value	Sig. value
Between Groups	7256.86	16	453.554	1.945	0.018
Within Groups	50825.46	218	233.144		
Total	58082.33	234			

Source: Computations based on data collected

From the above table, it can be interpreted that, since the p-value being 0.018 is less than 0.05, the result is significant and the alternate hypothesis is accepted, which reveals that there is mean significant difference between the CSR practices of various sectors. This indicates that there is difference in the compliance mechanism of various sectors towards 2% CSR mandate.

Post Hoc Duncan Test:

Means for groups in homogeneous subsets are displayed.

- The group sizes are unequal.
- The harmonic mean of the group sizes is used.
- Harmonic mean sample size = 9.484.

Table 3 shows the result of Duncan test.

Table 3

Homogeneous Subsets (Sectors)

Sectors	N	Subset for alpha = 0.05	
		1	**2**
Telecom	4	-30.99	
I.T	19		-6.13
Media & Entertainment	5		-3.87
Industrial Manufacturing	14		-2.83
Pharmaceuticals	28		-2.21
Service	11		-1.65
Automobile	18		-0.43
Construction	18		-0.41
Textiles	7		-0.21
Consumer Goods	44		-0.02
Healthcare Services	5		0.18
Chemicals	9		0.41
Fertilisers & Pesticides	7		1.37
Cement & Cement Products	10		3.74
Oil & Gas	15		5.04
Power	9		7.47
Metals	12		10.51
Sig.	235	1	0.055

Source: Computations based on data collected

From the post-hoc Duncan test, the telecom sector with mean value of Rs. -30.99 crores, is the main cause for difference in the CSR practices among all other sectors. Telecom sector consists of four companies out of which three companies have unspent amount with one company having maximum average unspent amount of Rs. 100.71 crores. The reason given by these companies is that the Indian telecom sector faced losses due to unprecedented challenges and pressure from 2016-17.

All other sectors fall in the similar CSR performance pattern ranging from average unspent amount of Rs. 6.13 crores of IT sector to average overspent amount of Rs. 10.51 crores of metals sector.

8. Conclusion:

CSR practices have been examined to find variations in the CSR performance based on sectors. CSR practices are mainly considered from the view-point of companies' compliance to 2% CSR mandate as per the Companies Act, 2013, termed as CSRP (Corporate Social Responsibility Performance).

The study found that there are variations in the sector wise CSR performance mainly because of telecom sector. Though these were initial years of CSR mandate, but now it is high time for all the companies belonging to any sector, to make CSR as the integral part of their core business values and adhere to CSR mandate. It was a soft mandate till the year 2020 to just give the reasons for failure, in case the companies did not spend towards CSR as per the prescribed limit. But after 2020, India is entering into stricter regime of CSR with government introducing the penal provisions. However, owning responsibility is always appreciable than owing responsibility.

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