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The Corporate Social Responsibility Act in India: An Early Assessment

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ECONOMICS & THE ENVIRONMENT

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Abstract

The government of India recently enacted an Act that mandates firms to spend a minimum amount on corporate social responsibility (CSR) initiatives. This makes India the first country in the world that makes it mandatory for large firms (defined in terms of net profits, net worth or turnover) to set aside at least 2% of their average net profit for socially responsible expenditures. These funds have a potential to contribute to the social development agenda of the country and improving its environment. This paper aims at providing an early assessment of the response by firms to this Act. It examines the extent to which the CSR Act has led firms to comply and increase the share of profits being spent on CSR and the extent to which implementation of the CSR Act over the financial year 2014-2015 has contributed additional funds towards the social development of the country. The analysis is based on firm level data set of firms all over India over the years 2010-2015. We find that following the implementation of the CSR Act there has been an increase in the number of firms that are spending on CSR initiatives as well as the total amount spent on CSR activities. However, there is a very unequal distribution of CSR expenditures amongst firms. About 80% of the firms in our sample that came under the purview of the Act did not comply with the Act in the first year of implementation of the Act, i.e., 2014-15..

Keywords

Corporate social responsibility, Corporate regulation, India, Companies Act 2013, Social development, Environment.

The Corporate Social Responsibility Act in India: An Early Assessment

1. Introduction

There has been a growing shift in the role that corporations are expected to play in achieving sustainable development goals of countries that goes beyond the early views that the sole responsibility of the firm is to increase profits for its shareholders (Friedman, 1970). The UN's Sustainable Development Goals highlighted the challenges of achieving economic prosperity, social inclusion and environmental sustainability; these challenges cannot be met by governments alone. Corporations have large resources, knowledge and capacity to contribute to sustainable development and there is increasing expectation of proactive socially responsible behavior from them. Socially responsible management has typically been defined as private firms doing more than required by applicable laws and regulations governing the environment, worker safety and health and investments in the communities in which they operate. These efforts are typically voluntary and contribute to the environmental quality and social development agenda of society. While, altruism, personal environmental values and attitudes of managers may lead some firms to make their business more socially responsible (e.g., Benabou and Tirole, 2010; Nakamura *et al.*, 2001; Ervin *et al.*, 2012) such efforts need to be in the self-interest of firms to be adopted widely and be sustainable in the long run.

There is a large literature demonstrating that companies are making these decisions strategically because it is in their self-interest to do so as it can increase long run profits (Baron 2001). Firms are increasingly viewing pro-active efforts at demonstrating corporate social responsibility (CSR) as an opportunity not simply to minimize regulatory compliance costs, but also to control risks, lower operating costs, respond to stakeholders, gain market share, and improve competitive advantage (Nakao *et al.*, 2007). Case studies suggest that many firms are indeed finding that it is profitable to integrate sustainability into their business strategy (Esty & Winston, 2006).

This recognition of the value of CSR in developed countries has emerged largely as a response to regulatory and market pressures in these countries. Growing awareness among consumers and investors of the societal and financial risks of exploitative labor practices, poor environmental management practices, hazardous working conditions, leaks and accidents as well as tightening pollution standards and right-to-know regulations are motivating responsible management practices by firms (Baron, 2001; Brekke & Nyborg, 2004; Ervin *et al.*, 2012; Khanna & Speir, 2013; McWilliams & Siegel, 2001; Bansal and Gangopadhyay, 2003).[1]

However, the benefits of a proactive socially responsible strategy are less clear in developing countries, where regulations may be lacking or poorly enforced and social pressures to comply and be responsible are weak (Blackman, 2010). Compliance with environmental regulations is not the norm and the infrastructure and political will for enforcement is lacking. Consumers are less organized or less willing to pay higher prices for products produced by socially responsible firms and capital markets are influenced by economic returns, and investment in CSR is likely to be viewed as a non-productive cost and regulatory capture is a reality (Earnhart, Khanna, & Lyon,

[1] A 2013 Cone Communications/Echo Global Corporate Social Responsibility study that tracks global attitudes, perceptions and behaviors related to CSR finds that 96% of global consumers have a positive image of companies that engage in CSR, 94% are more likely to trust these companies, and 93% would be more loyal to companies that engage in CSR. Also, 91% of global consumers are likely to switch brands to ones associated with a good cause given comparable quality and prices. Available at http://www.conecomm.com/global-csr-study.

2014). Weak environmental regulations have also led to concerns that developing countries could become pollution havens for multinational corporations (MNCs) and that this could create further incentives for developing countries to race to the bottom by weakening environmental standards and enforcement to create incentives for MNCs to locate there.

To engage large corporations in achieving the social development agenda in India, the government recently enacted the Companies Act, 2013, Section 135 (referred to as the CSR Act hereafter) that mandates a minimum spending on corporate social responsibility (CSR) initiatives on April 1, 2014. This makes India the first country in the world that makes it mandatory for large firms (defined in terms of net profits, net worth or turnover) to set aside at least 2% of their average net profit made during the three immediately preceding years for socially responsible expenditures.

CSR refers to any business practices that benefit society, including efforts to reduce the firm's environmental footprint, philanthropic activities and charitable donations, and ethical labor practices. Carroll (1991) define CSR as the economic, legal, moral, and philanthropic actions of firms that influence the quality of life of relevant stakeholders. The World Bank Council for Sustainable Development defines CSR 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. The World Bank defines CSR as a tool to improve overall human development and social inclusion. More specifically, the World Bank envisions CSR as an activity that will ensure that corporations will work with government, civil society, and community to improve the lives of the underprivileged people of India by making growth more inclusive (World Bank 2013). The common idea put forward in these different definitions of CSR is that companies should conduct their business in a manner that demonstrates consideration for the broader social environment.

CSR has been considered a moral responsibility for firms and referred to as —'management's obligation to set policies, make decisions and follow courses of action beyond the requirements of the law that are desirable in terms of the values and objectives of society' (Mosley *et al*. 1996). Others believe the firm has an obligation "to use its resources in ways to benefit society, through committed participation as a member of society at large independent of direct gains of the company' (Kok *et al*. 2001) and to "protect and improve both the welfare of society as a whole and the interest of organizations," (Davis and Blomstrom 1975, p. 6). Some go even further and believe that "a corporation should be held accountable for any of its actions that affect people, their communities, and their environment' (Post *et al*.1996).

CSR activities can broadly be divided into two types: (a) those that are inward focused towards more responsible management within the organization and serve to further its internal interests such as employee welfare by reducing workplace accidents and risks, providing on the job-training, energy conservation, voluntary pollution reduction and waste management that reduces its liabilities and risks and (b) those that are outward focused and geared towards benefiting third parties such as the local community or society at large by improving environmental quality for them (planting trees, providing sanitary facilities in rural areas, establishing schools and worker training facilities). Thus CSR embodies voluntary efforts by firms to contribute to the environmental quality and social development goals of society. CSR initiatives can be undertaken for both philanthropic reasons and take the form of charity or because rational, profit maximizing corporations expect tangible or non-tangible benefits that outweigh the costs of these initiatives. As described below, CSR activities that comply with the requirements of the CSR Act in India are those that are outward focused.

The purpose of this paper is to provide an early assessment of the response by firms to the CSR Act. It examines (a) the extent to which the CSR Act has led firms to comply and increase the share of profits being spent on CSR activities (b) the extent to which implementation of the CSR Act over the financial year 2014-2015 has contributed additional funds towards the social development of the country (c) if the compliance with the CSR Act has resulted in shrinking of firms' other charitable donations and (d) the types of CSR activities undertaken by firms. We undertake this analysis by examining reported data by firms over the period 2010-2015 to compare CSR expenditures before and after the CSR Act as well as across large and small firms at a point in time. We use data from the Prowess IQ database, which is the largest available firm level time series data set on financial variables of Indian firms. This database is a product of Centre for Monitoring Indian Economy Pvt Ltd (CMIE). It includes all companies traded on the National Stock Exchange and the Bombay Stock Exchange, thousands of unlisted public limited companies and hundreds of private limited companies. The database is built from Annual Reports, quarterly financial statements, Stock Exchange feeds and other reliable sources.

We find that following the implementation of the CSR Act there has been an increase in the percentage of firms reporting expenses on CSR from 10% or below in previous years to 48% in 2014 -15. The percentage of firms spending 2% on CSR expenses has also increased. However, only 19% of the firms that come under the purview of the Act are spending 2% or more; i.e., 81% of such firms are not complying. Interestingly, these 19% of firms are spending 40% of total expenditures on CSR by all the firms that come under the Act in 2014-15. So the 11% of firms spending more than 2% are making up for the 78% of the firms that are not spending enough on CSR. This suggests a very unequal distribution of CSR expenditures by firms. In terms of activities, CSR expenditure is mainly directed towards health, education, environment and community development.

The plan of the paper is as follows. The next section provides a background on CSR Act. Section 3 describes data and its source, documents trends in reporting of CSR expenses and CSR expenditure incurred by firms, and identifies firms that come under the purview of the law. Section 4 analyses firm behaviour in response to the law. Section 5 examines extent of compliance with the new regulation. Section 6 analyses activities taken by firms under their CSR obligation. Section 7 contains concluding remarks.

2. Background on CSR Act

The CSR Act in India defines CSR more narrowly as expenditures that contribute to the social development agenda of the country. The CSR Act specifies that expenditures that benefit the company directly or its employees will not be considered as CSR activities in compliance with this Act. Instead, the company is expected to make these expenditures outside its boundaries and preferably to benefit the local area around its area of operation. It specifies CSR as activities that go beyond a firm's internal efforts at being environmentally or socially responsible to those that meet the larger societal needs like eradicating extreme hunger and poverty; promotion of education; promoting gender equality and empowering women; reducing child mortality and improving maternal health; combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases; ensuring environmental sustainability; employment enhancing vocational skills; social business projects; contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and such other matters as may be prescribed.

The CSR Act requires every company with a net worth of Rupees 500 crores, or a turnover or Rupees 1000 crores or a net profit of Rupees 5 crore or more during any financial year to constitute a CSR Committee of the Board of Directors that will recommend to the Board a CSR policy for the company as well as the amount of expenditures to be undertaken on CSR and monitor the implementation of this policy. The company is required to disclose its CSR Policy in its annual report and on the company's website. Firms may undertake such expenditures directly or through Trusts, Societies, or Section 8 companies operating in India, which are not set up by the company itself.

The CSR Act, 2013, grew out of the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Businesses released by the Ministry of Corporate Affairs in 2011 that promoted responsible business practices. While the recent Act enshrines responsible corporate governance into law, it remains a voluntary guideline in that there is no formal penalty for non-compliance. If a company fails to spend at least 2% of its average net profit on CSR activities, its Board is required to provide an explanation for not spending that amount in its annual report and on its website.

Many firms in India were doing voluntary CSR, philanthropic and other charitable activities even before the announcement of the CSR Act. Examples in the private sector include Birlas, TATAs, Hindustan Lever, Zindal, and WIPRO, and in the public sector include ONGC, Indian Oils, NTPC and GAIL. But the recent Act has made such expenditures mandatory for all the large firms. We now present some anecdotal evidence of the type of CSR activity firms in India are engaged in for altruistic or strategic reasons: Aditya Birla spends Rs. 250 crore annually to develop model villages which are supposed to be self-sustainable. The program covers 5,000 villages, reaching out to 7.5 million people out of which 60 percent are living below the poverty line (adityabirla.com). Public sector companies like ONGC, Indian Oils, NTPC and GAIL have been undertaking renovation and maintenance activities for temples and monuments around their operational area.

Some examples of strategic CSR include those by Coca Cola and Hindustan Unilever Ltd: Coca Cola was found to have pesticide residues above the permissible limit in India. To recover its image, in June 2007, Coca-Cola implemented a water stewardship program and committed itself to reduce its operational water footprint and to offset the water used in the Company's products through locally relevant projects. It carried out many projects on water harvesting and management thereafter. Hindustan Uniliver Ltd initiated a project in India by the name "Shakti". It recruits village women, provides them with access to micro finance loans, and trains them in selling soaps, detergents, and other products door-to-door. This not only increases the market size for the company but also improves household income of the villagers, contributes to public health by providing access to hygiene products and leads to women empowerment[2].

3. Data

The CSR Act is effective from 1st April, 2014 (i.e., firms are required to report CSR for the financial year 2014 -15 onwards), and the first year's data after the implementation of the regulation is now available. For the analysis we have used company level data from Prowess IQ data base, which is a product of Centre for Monitoring Indian Economy Pvt Ltd. It is the largest available data set on financial variables of Indian firms and has over 38,000 firms in its data base. For the year 2014-15, data for 9942 firms was available in the data base. Out of the 9942 firms, we consider data for a balanced panel (balanced on net worth) of 7305 firms over the financial years 2009-10 to 2014-15. We consider firms that have reported net worth for all the years from 2009-10 to 2014-15. This leads to a sample of 7305 firms. The remaining 2637 firms in the data base of the financial year 2014-15 could not be included in the analysis as their previous years' data was not available. Of the 2637 excluded firms, 97% are private sector firms, only 9.7% were listed and just 5.8% reported CSR in the year 2014-15. Other information about the excluded firms is given in the Appendix (Table A1).

According to the criterion given in the CSR Act, a firm is required to spend 2% of its profits before tax on CSR activities if its profits before tax are greater than Rs. 5 crores or turnover is greater than Rs. 1000 crores or net worth is greater than Rs. 500 crores. We call such firms as eligible firms since they are eligible to be mandated to comply with the CSR Act. Throughout the paper, we shall classify eligible (non-eligible) firms if they satisfy (do not satisfy) the criterion for eligibility in the CSR Act in the implementation year 2014 -15. In our sample of 7305 firms, 2,372 firms are classified as eligible and 4,933 firms as non-eligible firms. The following table describes the characteristics of such firms, whether they are private sector, have group affiliation[3] or if they are listed on stock market. As can be seen from Table 1, about 60% of the eligible firms in our sample are listed on the stock market, 90% belong to the private sector, and about 50% belong to a group of companies. Similar figures for the non-eligible firms are 52%, 98% and 37%.

[2] (https://hbr.org/2015/01/the-truth-about-csr).

[3] A firm is said to have a group affiliation if it belongs to a corporate group. A corporate group is a collection of parent and subsidiary corporations that function as a single economic entity through a common source of control.

Table 1: Characteristics of the firms in financial year 2014-15

Characteristics	Eligible Firms	Non Eligible Firms
Total Firms	2372 (100%)[1]	4933 (100%)[2]
Listed	1421 (59.9%)	2547(51.6%)
Private Sector	2124 (89.5)	4831(97.9%)
Group Affiliation	1182(49.8%)	1799 (36.5%)

1 Figures in parenthesis is % of firms relative to total number of eligible firms

2 Figures in parenthesis is % of firms relative to total number of non-eligible firms

Tables 2 and 3 report trends in reporting of CSR expenses and CSR expenditure incurred by firms, respectively. In 2015 while 48% of the eligible firms are reporting positive CSR expenses, only 3% of the non-eligible firms are doing so. There is a sharp jump in the amount of CSR expenditures in 2015, it has doubled from the 2014 levels for the eligible firms and increased by 74% for the non-eligible firms. As can be seen from Tables 2 and 3, in previous years a fewer number of firms were reporting CSR expenses, but the amount that individual firm was spending on average was much larger. For both the eligible and non-eligible firms average CSR expenditure is falling over the years (where average CSR expenditure is calculated by dividing total CSR by number of firms doing positive CSR). From 2014 to 2015, the number of firms reporting positive CSR expenditure has gone up by nearly 5 times but the total CSR expenditure has only doubled resulting in a fall in average CSR expenditure in 2015.

Table 2: Trend in reporting of CSR expenses

	Eligible Firms (2372)		Non Eligible Firms (4933)	
Year	Number of Firms Reporting CSR Expenses	Number of firms Reporting Positive CSRExpenses	Number of Firms Reporting CSR Expenses	Number of firms Reporting Positive CSR Expenses
2010	71 (3%)1	69 (2.9%)[1]	42 (0.85%)[2]	41 (0.8%)
2011	113 (4.8%)	104 (4.4%)	50 (1%)	33 (0.7%)
2012	138 (5.8%)	123 (5.2%)	66 (1.3%)	53 (1.1%)
2013	163 (6.9%)	143 (6%)	82 (1.7%)	61 (1.2%)
2014	1062 (44.8%)	247 (10.4%)	158 (3.2%)	70 (1.4%)
2015	1150 (48.5%)	1139 (48%)	159 (3.2%)	144 (2.9%)

1 Figures in parenthesis is % of firms relative to total number of eligible firms

2 Figures in parenthesis is % of firms relative to total number of non-eligible firms

Table 3: Trend in CSR expenditure

	Eligible Firms (2372)		Non Eligible Firms (4933)	
Year	Total CSR Expenditure (in Million Rupees)	Average CSR Expenditure (in Million Rupees)	Total CSR Expenditure (in Million Rupees)	Average CSR expenditure (in Million Rupees)
2010	22413.6	324.8	260.1	6.3
2011	17239.3	165.8	75.9	2.3
2012	11285.5	91.8	257.9	4.9
2013	19225.6	134.4	247.9	4.1
2014	24117.1	97.6	204.3	2.9
2015	50760.1	44.6	355.6	2.5

Note: To show per firm expenses, we have computed average CSR expenses by dividing total CSR expenses by the number of firms reporting positive expenses on CSR

Figure 1 illustrates trends in proportion of firms reporting expenses on CSR and proportion of firms reporting positive CSR expenses for the eligible and non-eligible firms. There is an upward trend in the proportion of firms reporting CSR expenses and the proportion undertaking positive CSR expenses amongst the eligible firms. Interestingly, a clear spike can be observed in reporting CSR expenses amongst the eligible firms in year 2014 (when CSR Act was announced) even though a major proportion of firms reported CSR expenses to be zero. This could possibly be due to an increased awareness about CSR reporting after the announcement of the CSR Act. In the implementation year of the law, i.e., year 2014-15, however, there is a clear spike in the proportion of firms reporting positive CSR expenses. Some spill over effects can also be observed as the proportion of firms reporting positive CSR expenses also increased amongst the non-eligible firms in year 2015.

Figure 1: Percentage of Firms Reporting CSR Expenses over 2010 - 2015

Another interesting question to examine is if there is any crowding out effect due to the CSR Act, i.e., in order to meet their obligation under the CSR Act firms may have reduced their philanthropic expenditure under other heads that do not count as mandatory CSR spending. One such head is donations. We examine trend in percentage of firms reporting donations and the amount of donations for our sample firms over the sample period. We observe that in 2015 there is a drop in the number of firms making donations even though the total expenditure on donations has not fallen for eligible firms. But for non-eligible firms there is a drop in the number of firms reporting donations as well as the amount spent on donations from year 2009-10 to year 2014-15. The drop would be even higher in real terms if we take inflation into consideration.

To get more insights into the above mentioned crowding out effect, we carefully examine the set of firms that are undertaking CSR expenses and donations in both the years 2013-14 and 2014-15. We find that about 433 firms increased their CSR expenditure. Out of these 433 firms, 144 firms have increased donations but 255 firms have reduced donations. The remaining 34 firms showed no change. Further out of the 255 firms that have reduced donations, 240 of them belong to the eligible category. This suggests some crowding out of other philanthropic activities, in an attempt to comply with the CSR Act.

Table 4: Expenditure on donations

	Eligible Firms (2372)			Non Eligible Firms (4933)		
Year	Total Donations (In Million Rupees)	Number of Firms Reporting (Positive) Donations	Average donations (in million Rupees)	Total Donations (in Million Rupees)	Number of Firms Reporting (Positive) Donations	Average donations (in million Rupees)
2010	11900	731 (30.8%)[1]	16.279	815.9	433 (8.8%)[2]	1.884
2011	15163.6	704 (29.7%)	21.539	543.6	467 (9.5%)	1.164
2012	14491.8	741 (31.2%)	19.557	665.1	483 (9.8%)	1.377
2013	14322.4	746 (31.5%)	19.19	440.8	454 (9.2%)	0.97
2014	18397.4	775 (32.7%)	23.738	338.4	424 (8.6%)	0.798
2015	19736	727 (30.6%)	27.147	441.8	407 (8.3%)	1.085

Note: 1 Figures in parenthesis is % of firms relative to total number of eligible firms

2 Figures in parenthesis is % of firms relative to total number of non-eligible firms

Average donation has been computed by dividing total donations by the number of firms reporting positive donations

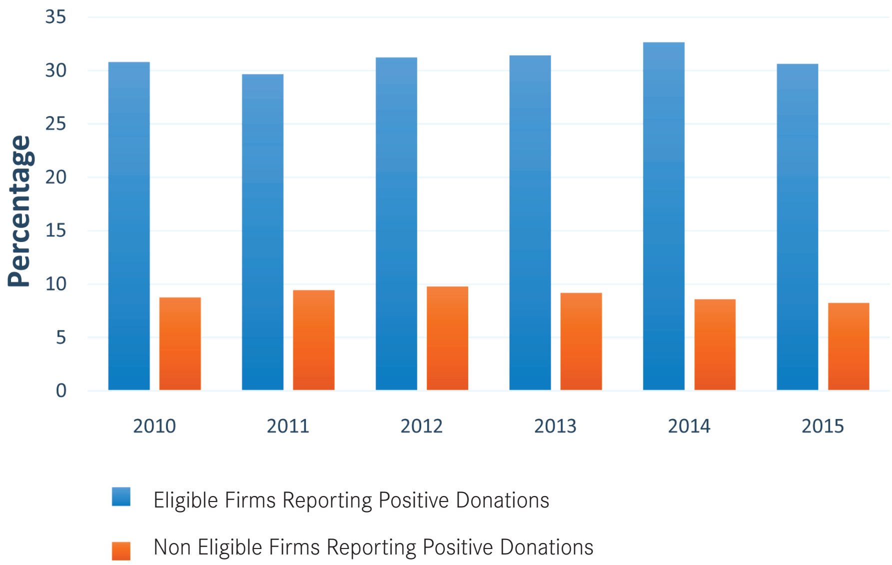

Figure 2: Percentage of Firms Reporting Donations over 2010 - 2015

We next look at total expenditures on philanthropic activities, i.e., the sum of CSR expenses and donations for each firm to see if the extent of reduction in donations was more or less than the increase in CSR expenses. It is reported in Table 5. We find a sudden increase in total expenditure on philanthropic activities in 2015 for the eligible firms. For non-eligible firms, however, there is a small fall as compared to 2010 level. For the sample as a whole, total expenditure on philanthropic activities has sharply increased in 2015 after the implementation of the CSR Act. The increase is largely contributed by an increase in CSR expenditure.

Table 5: Total expenditure (CSR + Donations)

Total Expenditure (CSR + Donations (in million Rupees))			
Year	Eligible Firms	Non-Eligible Firms	All the firms = Eligible + Non-Eligible
2010	34313.6	1076	35389.6
2011	32402.9	619.5	33022.4
2012	25777.3	923	26700.3
2013	33548	688.7	34236.7
2014	42514.5	542.7	43057.2
2015	70496.1	797.4	71293.5

4. Analyses of Firm Response to CSR Act

We begin the analysis by plotting distribution of CSR as a proportion of last three years' average "Profits before tax" for the years 2012-13 to 2014-15. The plots are shown in Figures 3 and 4 for eligible and non-eligible firms, respectively. For the purpose of the plot, we have considered firms that are reporting CSR. For the group of eligible firms, 163 firms in 2012-13, 1062 firms in 2013-14 and 1150 firms in 2014-15 are reporting CSR. Similarly, for the non- eligible group, there are 82 firms in 2012-13, 158 firms in 2013-14 and 159 firms in 2014-15.

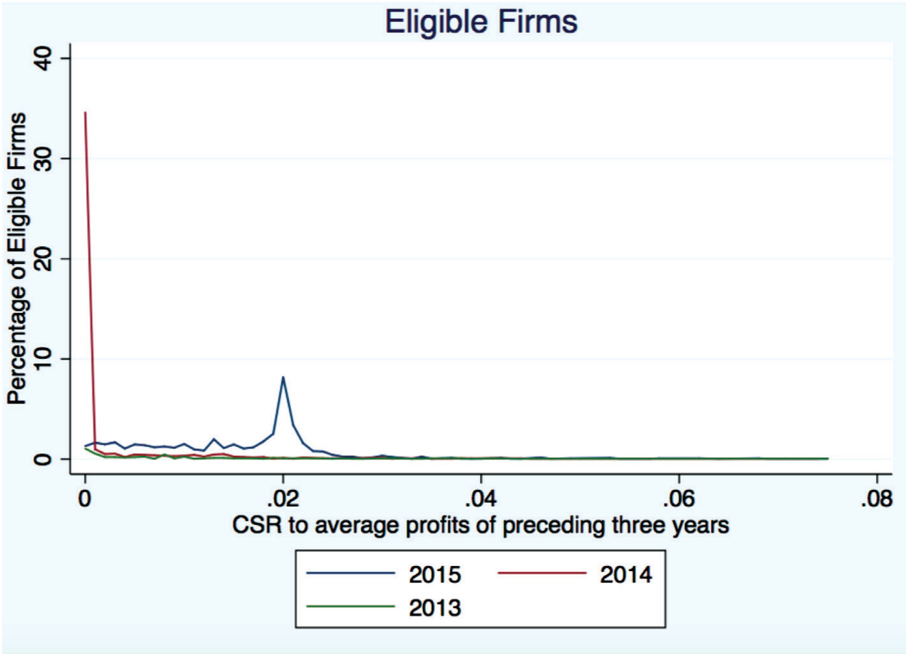

Figure 3: Distribution of CSR expenses to average profits ratio for year 2013 -2015 for eligible firms

In years 2012-13 and 2013-14, the ratio of firms' expenses under CSR to profit of the firms that are reporting CSR expenses is more or less uniformly distributed for both eligible as well as non-eligible firms. In 2013-14, however,

there is a sharp spike in firms reporting expenses under CSR as zero for both the groups. For both the eligible and the non-eligible firms, we see a clustering around two percent in year 2014-15, which shows that regulation had an impact in making firms that report CSR to adhere to the two percent rule. In 2014 -15 there are about two hundred eligible firms (8%) reporting CSR spending as two percent of their preceding three years' average profits and about twenty (0.3%) non-eligible firms doing the same. There is some evidence of a spillover effect. Even firms that do not come under the purview of the law are following the two percent rule.

To ascertain change in firm behavior in response to the Act, we compare CSR expenditures of firms in 2013-14 and in 2014-15. The results are reported in Tables 6 and 7. About 51% of the eligible firms and 97% of the non-eligible firms did not report CSR expenses in both the years. There are about 4% of the eligible firms that did not report CSR expenditure in 2014 but reported it in 2015. We also find that a small number of the eligible firms (about 7 firms) reported CSR in 2014 but did not do so in 2015.

About 1209 firms reported CSR expenditure in both the years 2013-14 and 2014-15. Of these 1,088 (90%) firms have reported an increase in CSR expenditure; 102 (8.4%) have reduced their CSR expenditure and for 19 firms there is no change in the CSR expenditure. It is interesting to note that 62 of the eligible firms and 40 of the non-eligible firms reduced their CSR expenditure from 2013-14 to 2014-15.

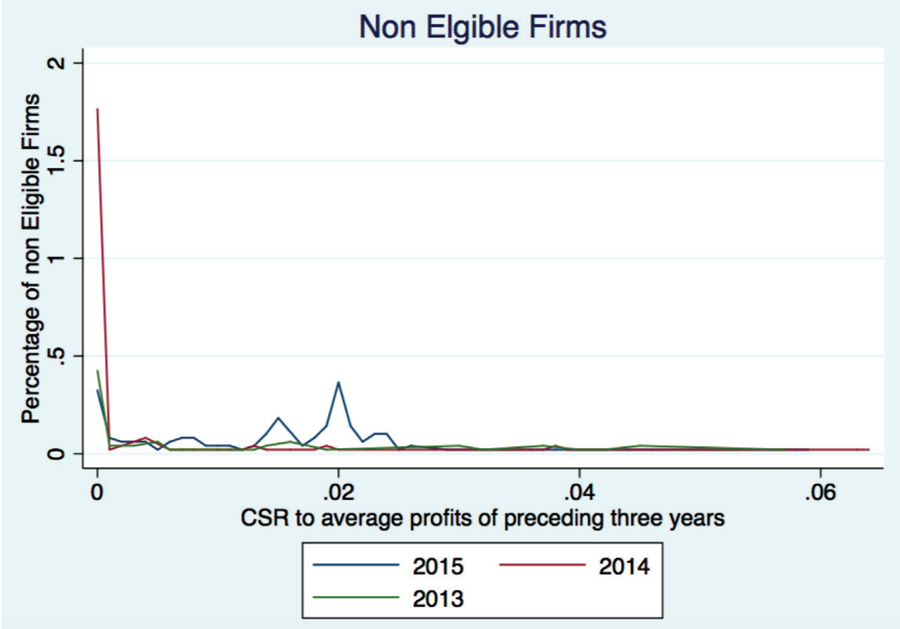

Figure 4: Distribution of CSR expenses to Average Profits Ratio for years 2013- 2015 for Non-Eligible Firms.

Table 6: Comparison of reporting expenses under CSR in years 2014 and 2015

	Total No. of firms	Eligible Firms	Non Eligible Firms
Not reporting CSR expd in 2014 and 2015	5985	1215 (51%)	4770 (97%)
Reporting CSR expd in 2015 but not in 2014	100	95 (4%)	5 (0.1%)
Reporting CSR expd in 2014 but not in 2015	11	7 (0.03%)	4 (0.1%)
Reporting CSR expd in both years 2014 and 2015	1209	1055 (45%)	154 (3%)
Total	7305	2,372	4,933

Note: Figures in parenthesis in columns 3 and 4 denote percentage of firms relative to total number of eligible and non-eligible firms, respectively.

Table 7: Analyses of firms that have reported CSR expenses in 2013-14 and 2014-15

Eligible			Non-eligible		
1055			154		
Increased	Reduced	No change	Increased	Reduced	No change
987(93%)	62(6%)	6 (0.6%)	101(66%)	40 (26%)	13 (8%)

In a survey conducted of 150 firms, FICCI finds 77% of companies reported an increase in the CSR expenditure in the year 2014-15 vis-à-vis 2013-14; 12% reported a decline and 6% no change. In contrast, in our sample of 7305 firms, 5985 (81%) do not report CSR expenditures in year 2014 as well as 2015. We presume there is no change in their CSR expenditure. Of the remaining 1320 firms, 100 firms reported CSR expenditure in 2015 but not in 2014, and 11 firms reported CSR expenditure in 2014 and not in 2015.

5. Compliance

In this section we examine compliance to the mandatory CASR Act. There are 2372 eligible firms (i.e., are required by law to spend 2% of their last three years of average profit on CSR activities), but only 1,309 firms reported CSR expenses in the year 2015. We had to drop three observations due to missing figures on profits. Further, 58 firms are making loss on average, when we compute last three years average profit, and 47 firms have expenses under CSR to profit ratio as close to zero either because of zero CSR expense reporting or too little CSR expenditure as compared to profits hence, we do not include them in compliance[4]. We check percentage of firms that are reporting CSR as 2% of their profits, and those that are over or under complying. The results are reported in Table 8.

Table 8: Compliance to CSR act

	Eligible Firms (2,372)		Non Eligible Firms (4,933)	
CSR/profit	Number of eligible firms	Percentage of Eligible firms	Number of non eligible firms	Percentage of non Eligible firms
Greater than 0.02	256	10.8%	38	0.77%
Exactly 0.02	194	8.2%	18	0.36%
Less than 0.02	634	26.7%	61	1.2%
loss making firms (CSR to profit ratio is negative)	33	1.4%	25	0.51%
Not reporting CSR	1224	51.6%	4775	96.8%
CSR to profit ratio = 0	31	1.3%	16	0.32%
Total	2372	100%	4933	100%

Percentages in columns 2 and 4 denote percentage of firms relative to total number of eligible and non-eligible firms, respectively.

As can be seen from Table 8, about 52% of the eligible firms are not reporting expenditure on CSR and another 26.7% are doing less than the required 2%. About 11% of the eligible firms, however, are over complying (i.e., expenditure on CSR activities is greater than 2% of average profit), and about 8.2% of eligible firms are exactly complying.

We compute, how much should have been the CSR expenditure in the year 2014-15 if all the eligible firms in our sample had complied with the 2% regulation and compare it with the actual CSR expenditure. All the eligible firms taken together (excluding those that are making negative profits) make a profit of around sixty-six hundred billion (Rs. 6604.8 billion), firms should be spending 2 percent of this amount on CSR activities, which is about one hundred thrity two billion (132.1billion)[5]. The actual CSR expenditure spent by these firms in 2014-15 is Rs. 50.76 billion, which is about thirty-eight percent of the total that should have been spent on CSR activities. This suggests that the 10.8% of the eligible firms that are over complying are making up for the 78.3% of firms that either not undertaking CSR activities or under complying. This suggests a very unequal distribution of CSR expenditures by firms.

We closely examine the set of 256 firms that are over complying. These are not amongst the largest firms in our sample either in terms of sales, assets or net worth. Their average profit is close to 1400 million Rs. 164 out of these 256 firms are listed companies, 227 belong to the private sector and 137 firms have group affiliation. About 10 firms are spending more than ten percent of their last three years average profits on CSR activities, these are Adani Mining Pvt. Ltd (Merged), Sundaram-Clayton Ltd., Foods & Inns Ltd, Handicrafts & Handlooms Exports Corpn. of India Ltd, Rolta India Ltd., Equitas Holdings Ltd, Sandur Manganese & Iron Ores Ltd., Ashapura International Ltd.,

[4] There is ambiguity in the law as to what a firm is expected to do if it is eligible to do mandatory CSR according to one of the three specified criteria but has negative average last three years profits.

[5] There are 2,372 eligible firms in the data. We can get average profits for 2368 firms (4 firms do not report profits). Out of these 2368 firms, 318 firms have average profits (average for preceding 3 years) less than or equal to 0. Total profit (average for preceding 3 years for each firm) of 2050 eligible firms is 6604811 million. Two percent of 6604811 is 1,32,096.22 million.

Aban Offshore Ltd., and Emami Paper Mills Ltd. Firms such as Kirloskar Brothers Ltd, UFO Moviez India Ltd, Tata Motors Ltd, Central Coalfields Ltd, Nagarjuna Fertilizers & Chemicals Ltd, Dalmia Bharat Sugar & Industries Ltd spent more than 5% of their average profits on CSR activities. Total profits of the 256 firms (that are over complying) is only 9% of the total profits of eligible firms that are doing positive CSR expenditure, but their total CSR spending (10.35 billion) is 20% of the total CSR spending by the eligible firms (50.76 billion).

We further examine if these firms were over complying in the previous years but do not find evidence for the same. Out of the 256 firms, only 70 firms reported positive CSR expenses in 2014, and of these 35 firms spent more than 2% of their average profits. In 2013, only 33 firms out of the above 256 firms were undertaking positive expenses CSR and 23 firms spent more than 2% of their average profits. These numbers are 28 and 16 for year 2012, and 20 and 10 for year 2011.

6. Analysis of CSR Activities of Firms in 2014-15

In this section we analyze what kind of activities firms are undertaking under CSR obligation. This information is not available in the Prowess data set. We collected data from the annual reports of randomly selected 50 firms for the financial year 2014-15.

Broadly, we have identified the following areas in which CSR activities are undertaken by the firms: Education; Healthcare; Community Development; Protecting and sustaining the environment; Promoting gender equity; Skill development; Other activities (contribution to the PM's relief fund, Disaster Relief)

Education: The firms perform a range of activities to promote, provide and support education and educational institutions. While some firms like Bajaj Auto make generous donations to various schools, colleges and universities, firms like Hindalco directly fund and supervise the construction of school buildings and provide the required infrastructure to the school. Many firms such as Finolex and Birla, have their own schools and colleges that are managed and funded by the firms themselves. Firms such as Indian Oil Corporation give away academic scholarships to the meritorious student. Maruti Suzuki have tried to improve the state of affairs in government schools.

Health-care: This sector amounts to the largest share of firms' CSR expenditure. With a goal of providing better health-care facilities, firms undertake activities like organizing health check-up camps (Reliance Capital Ltd.), schemes to combat malnourishment (Tata Steel, ITC Limited and JSW Steel Ltd.), etc. Some firms like Bajaj Auto provide financial assistance to hospitals (to help them acquire better medical equipment and also encourage medical research). Essar Steel India Ltd, and Bank of Baroda have made significant contribution to the provision of mobile medical facilities to make health-care facilities accessible. Though most of the firms carry out their CSR activities in this sector in the rural areas, there are a few firms that have worked towards improving the medical facilities in the metropolitan cities of Mumbai and New Delhi (Bank of Baroda, Hindustan Times Media Ltd. and Jaypee Infratech).

Community Development: Community development includes activities that contribute to the betterment of the society and benefits the members of the society. Some of the activities that are undertaken include: protection of national heritage (Bombay Dyeing and Bajaj Auto), promotion of traditional handicrafts, art and culture (Essar Oil and Tata Steel Ltd.), setting up of orphanages and old age homes (JSW Steel Ltd.), Construction of village roads, halls, drainages (Grasim Industries) and running free bus services for the people (Essar Steel Ltd.) These activities are undertaken in cities like Mumbai, Delhi and Coimbatore as well as in the rural areas of the states like: West Bengal, Bihar, Punjab, Uttarakhand.

Protecting and Sustaining the Environment: Ensuring environmental sustainability has been the major focus of firms like Tata Steel, Oil and Natural Gas Corporation, Reliance Industries Ltd, and Tata Motors. Firms like JSW Steel Ltd and Power Grid Corporation of India have planted thousands of trees. ONGC, Aditya Birla Nuvo and Grasim Industries are making efforts to spread awareness about the environment and conserving natural resources. While, some firms carry out these activities in their local area where their plants are located, other firms conduct these activities beyond their local area.

Promoting Gender Equity: Axis Bank, Reliance Industries Ltd, ITC Limited and Bajaj Auto have been trying to help women through construction of special hostels and homes for working women, providing them training so that they can make a living from it.

Skill Development: Many firms have started schemes under CSR through which they provide vocational and technical education, support Industrial Training Institutes and encourage entrepreneurship among the youth. ONGC, Hindalco, Berger Paints and Maruti Suzuki have made a notable contribution in this sector.

Other Activities: Firms also make a contribution to the Prime Minister's Relief Fund, and engage in other activities that cannot be categorized into any of the above mentioned sectors.

Table 9: Distribution of the major sectors in which CSR activities are undertaken by the firms

Sector	Number of firms
Education	25
Health	22
Community Development	25
Environment	19
Gender Equity	6

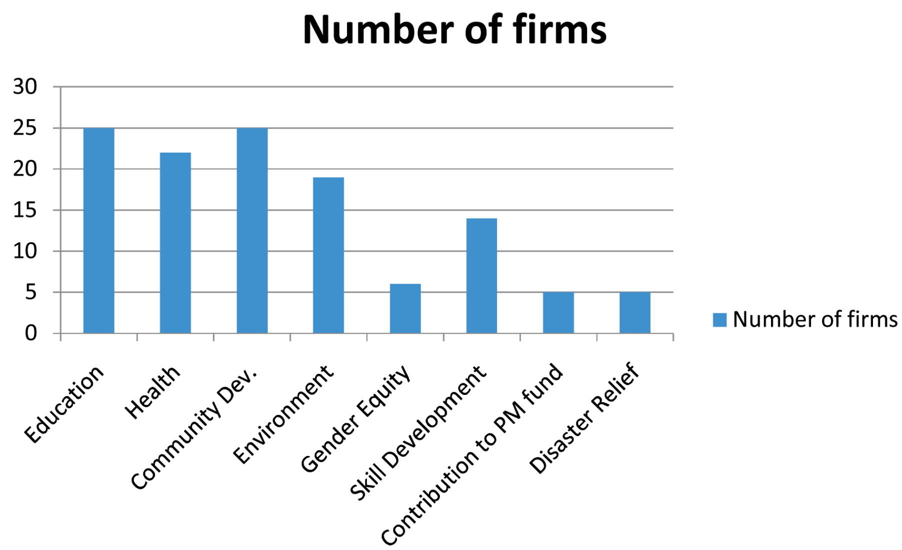

Figure 5: Number of firms engaged in various social sectors for CSR activities

The two sectors where maximum number of firms in our sample have directed their attention are Health Care and Education. These two sectors are closely linked to community development. Next most important sector, where firms have directed their CSR activities is sustaining and protecting the environment. Nearly forty percent of the firms in our sample have been working towards providing technical education and improving the job prospects of the workers.

In terms of CSR expenditure, the maximum amount has been spent on healthcare, followed by education and environmental protection.

Table 10: Sector-wise distribution of expenditure on CSR activities by the firms:

Sector	Percentage
Education	16.5
Health	32.2
Community	14.5
Environment	15.7
Skill development	2.4
Miscellaneous	18.3

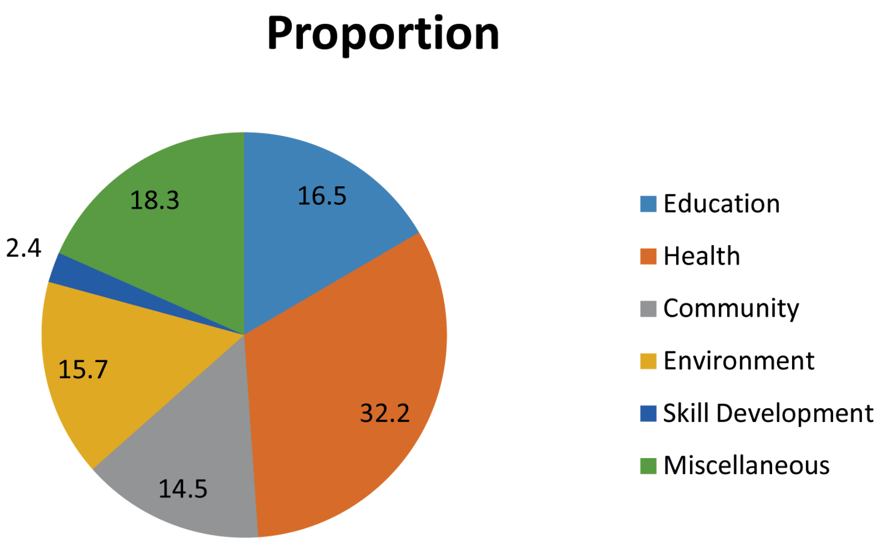

Figure 6: Sector-wise Distribution of Expenditure on CSR Activities by the Firms

In our sample of 50 firms more than 50 percent of the firms (18 out of 35) are spending less than the required amount on CSR activities. The main reasons for not complying as reported in the firms' annual reports are:

- The schemes implemented by the firms are in a nascent stage when infrastructure and the project parameters and resources were identified and set up and therefore the entire amount devoted to the schemes could not be spent[6].
- Being the initial year, the companies have been in the process of evaluating the focus area/locations of intervention for CSR activities to cater to the needs of society and deliver optimal impact[7].
- This being the first year after the law has come into effect, formulating new policy, putting new systems and procedures into place and mobilizing additional resources took up a substantial part of the year[8].

7. Concluding Remarks

India is the first country to mandate a minimum spending on corporate social responsibility expenditure of large firms. These funds have potential to complement government's effort towards social and economic development and protection of environment. The objective of this study was to provide an early assessment of the Indian firms' response to the law.

We do find a sharp spurt in the number of firms reporting CSR expenses in their annual reports and also an increase in the number of firms that are undertaking expenses on CSR activities. Yet about 52% of the firms that come under the purview of the law did not report CSR expenditures. A majority of the firms increased their CSR expenditures. There are spill over effects as not only the eligible but non-eligible firms also increased their CSR expenditure. We also observe firms' CSR expenditure to be clustering around 2% of profits. This suggests that firms that are reporting CSR are trying to comply by the 2% stipulated in the law. There is also evidence that some firms are meeting their mandatory CSR obligation by reducing expenditure on other philanthropic activities such as donation.

[6] Berger Paints Annual Report 2014-15.

[7] Bharti Airtel Annual Report 2014-15.

[8] National Thermal Power Corporation Annual Report 2014-15.

We also find a very unequal distribution of CSR expenditures amongst firms. About 80% of the firms that came under the purview of the Act did not comply with the Act in the first year of implementation of the Act.

Comparing the resources that the government aims to mobilize through CSR spending of firms with other planned expenditure under social sector: If all the eligible firms in our sample had complied with the CSR Act, about 132.1 billion Rupees would have been spent on CSR activities. This amounts to 43% of the planned expenditure on health sector; or 26% of the planned expenditure on school education or 78% of the planned expenditure on higher education for 2014-15. Thus in terms of resources, CSR expenditure has potential to complement government's efforts at social development. The actual expenditure on CSR activities in 2014-15, however, was about thirty-eight percent of the total that should have been spent. These suggest that there is a long way to go for the Act to achieve its full potential.

In terms of activities, a major focus has been on health and education, closely followed by environmental protection. Anecdotal evidence suggests that firms are also trying to contribute to the local governments developmental agenda through their CSR activities.

The effectiveness of CSR expenditure, however, on development goals would depend on successful functioning of the initiatives taken. Mere construction does not ensure its use. For instance, substantial investment has been incurred in constructing toilets. The success of toilets would depend on availability of toilets per person (one toilet in a school is not of much use), availability of water and cleanliness. Similarly cook stoves are distributed to reduce emissions from bio-fuels. Again they'll be successful if households change their cooking behaviour and actually use them.

This was the first year of implementation. How firms respond to the new regulation in the long run needs to be investigated in future.

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Appendix

Table A1: CSR to profit ration of the 2637 firms excluded from the analyses

CSR to Profit Ratio	Eligible Firms (351)	Non Eligible Firms (2,286)
Exactly 0.02	14 (0.04%)	0
Greater than 2 percent	28 (0.08%)	6
Less than 2 Percent	66 (19%)	28
Firms Not Reporting CSR	243 (70%)	2252 (98.5%)

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