

# Variations in Compliance to CSR Mandate based on Ownership Status of the Companies

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## **Abstract:**

The concept and practice of corporate social responsibility has witnessed various dimensions since its inception. In the current scenario, India is in the phase of regulatory CSR. Companies Act, 2013 mandates the companies to spend at least 2% of their average net profits of the last three financial years towards CSR. This is applicable to the companies with turnover of Rs. 1,000 crores or more or net-profit of Rs. 5 crores or more or net-worth of Rs. 500 crores or more.

The present study considers compliance to CSR mandate as the prime focus and analysis of variations in the compliance mechanism of the companies based on their ownership status is undertaken. It essentially analyzes the variations from the perspective of extent of adherence to 2% CSR mandate, using ANOVA technique. The study includes 235 companies, chosen from NSE NIFTY 100, NSE NIFTY Midcap 100 and NSE Nifty Smallcap 100. Here, 176 Indian public companies, 31 government companies and 28 foreign companies are examined, to find the variations in compliance to 2% CSR mandate. The study covers period of six years 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 no variations in the CSR practices of companies based on ownership status.

## **Keywords:**

CSR Mandate, Ownership status, Indian Public Companies, Government Companies, Foreign Companies

## 1. Introduction:

The CSR movement has transformed from purely voluntary activity to the greater use of laws because of the revolutionary changes happening in the corporate world. There are mandatory CSR reporting requirements in several countries, like Sweden, Norway, Netherlands, Denmark, France, and Australia. Moving one step further, in order to streamline the philanthropic activities and assure more accountability, the government of India made it mandatory for the companies to undertake CSR activities as per Section 135 of Companies Act, 2013. On April 1, 2014, India became the first country to legally mandate corporate social responsibility expenditures.

This remarkable revolution has increased the importance and scope of CSR. The 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 present study considers compliance to CSR mandate as the main subject matter and analyses the variations in the compliance mechanism of companies accordant with their ownership status of Indian public, Government or Foreign companies.

## 2. Literature Review:

(Sethi, 2003) insists that the large corporations, and especially the MNCs, must become an active agent for social change. The corporation as a dominant institution must adopt its rightful place and contribute to shaping the public agenda instead of simply reacting to policy choices opted by others.

(Said, Zainuddin, & Haron, 2009) reveal that the government ownership is positively and significantly correlated with CSR.

(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.

(Sharma & Mani, 2013) show that public sector banks have overall higher contribution towards CSR activities than private and foreign banks.

(Al-Hamadeen & Badran, 2014) find existence of association between market capitalization and CSR disclosure but insignificant association between industry type and ownership structure with CSR reporting.

(Muttakin & Subramaniam, 2015) find that the level of CSR is positively associated with government, or foreign ownership.

(Bhaduri & Selarka, 2016) find that firms which are larger and pay dividend, government owned or founding family-owned spend more on CSR activities.

## 3. Objectives:

There are several international as well as Indian studies on CSR practices and disclosures. But there is scarcity in the studies relating to mandatory CSR as it is of a recent development. 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 (CSR). The variations in CSR are analyzed based on Ownership status of the companies.

## 4. Research Methodology:

“Content analysis is a process of codifying the text into various categories depending upon the selected criteria.” (Weber, 1990) Due to its importance and applicability to the present study, content analysis of annual reports especially CSR reports is done to achieve the objectives.

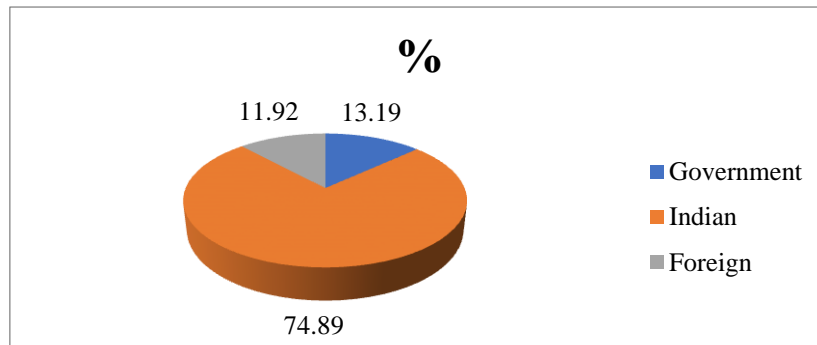
This study undertakes quantitative analysis since the measurable aspects like monetary values of CSR activities are considered.

## 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 comprising of 176 Indian public companies, 31 government companies and 28 foreign 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 general characteristics of the companies is collected from Capitaline database and NSE database.

Figure 1 depicts the percentage-wise distribution of companies based on ownership status.

**Figure 1**  
Percentage-Wise Distribution of Companies Based on Ownership Status



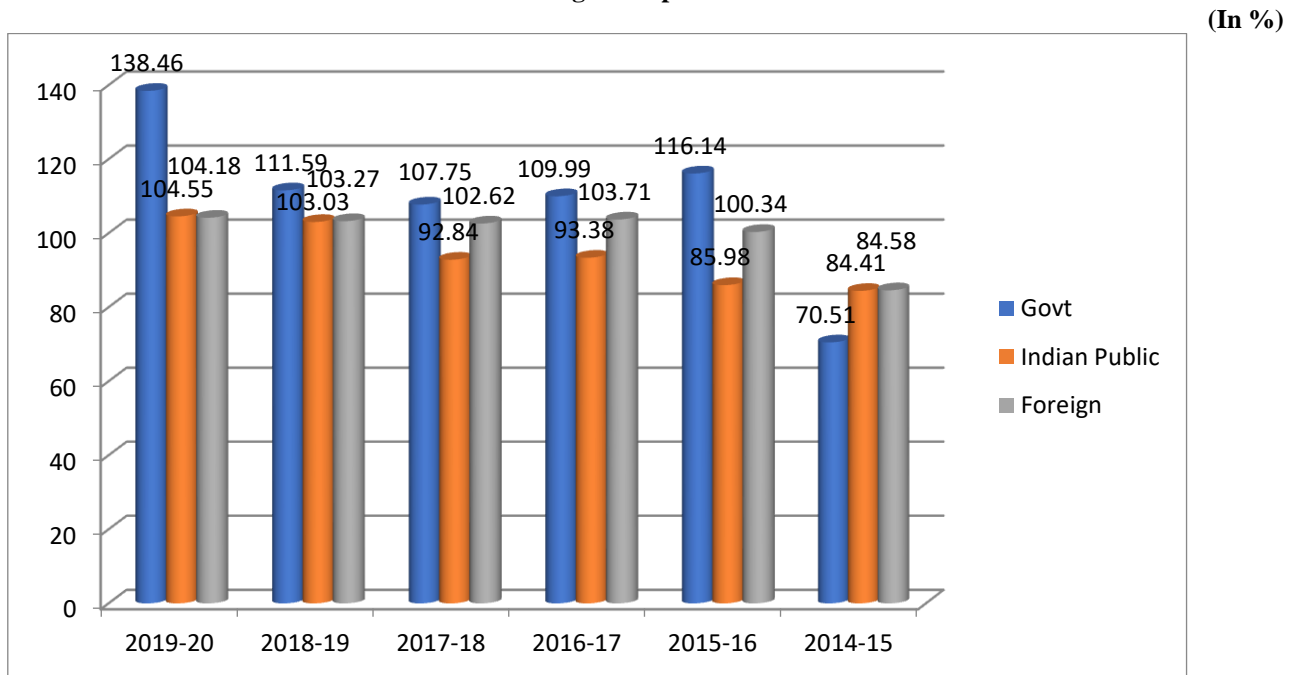
Source: Based on NSE and Capitaline database

From the above figure, it is understood that 74.89% are Indian Public companies, 13.19% are Government companies and 11.92% are foreign companies.

### 6. Comparative Study:

Figure 2 shows up the comparative percentage of CSR amount spent against prescribed amount among government companies, Indian public companies, and foreign companies.

**Figure 2**  
Comparative Percentage of CSR Actual Amount Spent against Prescribed Amount among Government, Indian Public and Foreign Companies



Source: Based on the calculations collected from the CSR reports.

The above figure reveals that, the government companies have outperformed in CSR activities as compared to Indian public companies and foreign companies except for 2014-15. Foreign companies are consistent in reaching the prescribed expenditure for all the years except for 2014-15. It is because of the Indian public companies, that the unspent amount exists from 2015-18. However, there is progress in all the three categories with regard to compliance with CSR prescribed amount from 2014-15 to 2019-20.

### 7. Variables under Study:

As per the Companies Act, 2013, 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 their 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.

## 8. Variations in CSRP based on Ownership Status:

In the present study, ownership status has been categorized into Indian public companies, government companies and foreign companies. A public company is a company that offers shares to the general public through initial public offering or through trades on the stock markets. Government company means any company in which more than fifty percent of the paid-up share capital is held by the central government, state government or jointly by the central government and the state governments and includes subsidiary of a government company as well. Indian public company and government company are incorporated in India, whereas a foreign company is a company that is incorporated outside India, but performs its business operations in India. There are some studies which analyze the effect of ownership on the CSR practices and disclosures of the companies. Studies of (Xiao, Chow, & Yang, 2004), (Cormier, Magnan, & Velthoven, 2005) show that ownership status determine the level of disclosures by companies. (Al-Hamadeen & Badran, 2014) find insignificant association between ownership structure and CSR reporting. (Haniffa & Cooke, 2005), (Barako, Hancock, & Izan, 2006) indicate significant relationship between corporate social disclosure and foreign share ownership. (Said, Zainuddin, & Haron, 2009) reveal that the government ownership is positively and significantly correlated with CSRD. (Muttakin & Subramaniam, 2015) find that the level of CSRD is positively associated with government or foreign ownership. (Bhaduri & Selarka, 2016) find that government owned or founding family-owned spend more on CSR activities.

Here, 176 Indian public companies, 31 government companies and 28 foreign companies are examined, using ANOVA, to find the variations in compliance to 2% CSR mandate based on ownership status.

**H<sub>0</sub>:** Ownership status of the companies does not affect their CSR performance.

**H<sub>A</sub>:** Ownership status of the companies does affect their CSR performance.

The study hypothesizes that ownership status of the companies affects their CSR performance i.e., there exist variations in the CSR performances of the Indian public companies, government companies and foreign companies.

Table 1 shows the descriptive statistics of Indian public companies, government companies and foreign companies under study.

**Table 1**  
**One Way Analysis**  
**Descriptive Statistics of Indian Public, Government and Foreign Companies**

Types of Companies	Size (N)	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
<b>Indian Public</b>	176	-1.38	16.312	1.230	-3.80	1.05	-100.71	88.85
<b>Government</b>	31	5.18	18.438	3.311	-1.59	11.94	-17.38	61.89
<b>Foreign</b>	28	0.19	2.573	0.486	-0.81	1.19	-4.91	8.36
<b>Total</b>	<b>235</b>	<b>-0.32</b>	<b>15.755</b>	<b>1.028</b>	<b>-2.35</b>	<b>1.70</b>	<b>-100.71</b>	<b>88.85</b>

Source: Calculations based on data collected

The above table shows that the sample of 235 companies consists of 176 Indian public companies, 31 government companies and 28 foreign companies.

Indian public companies have mean CSRP of -1.38 depicting that on an average for six years from 2014-15 to 2019-20, there is unspent amount of Rs. 1.38 crores of 176 companies. Government companies have mean CSRP of 5.18 revealing average overspent amount of Rs. 5.18 crores of 31 companies. Foreign companies have mean CSRP of 0.19 meaning overspent amount of 28 companies is Rs. 0.19 crores on an average. The average unspent amount of all 235 companies is Rs. 0.32 crores.

Indian public companies have deviation of 16.312, whereas government companies have highest deviation of 18.438 and foreign companies have least deviation of 2.573. Overall standard deviation of 235 companies is 15.755.

Indian public companies have minimum CSRP value of -100.71 and maximum of 88.85 which means that there is a range of unspent amount of Rs. 100.71 crores to overspent amount of Rs. 88.85 crores. The minimum CSRP value of government companies, is -17.38 and maximum is 61.89 depicting the range of unspent amount of Rs. 17.38 crores to overspent amount of

Rs. 61.89 crores. Foreign companies have minimum value of -4.91 and maximum value of 8.36 revealing that there is a range of Rs. 4.91 crores unspent amount to Rs. 8.36 crores overspent amount. The maximum unspent amount of Rs. 100.71 crores and maximum overspent amount of Rs. 88.85 crores belong to Indian public companies.

Table 2 reveals the results of ANOVA.

**Table 2**  
**ANOVA (Variations in CSRP based on Ownership Status)**

Source of Variance	Sum of Squares	Df	Mean Square	F-value	Sig.- value
<b>Between Groups</b>	1140.02	2	570.011	2.322	0.1
<b>Within Groups</b>	56942.3	232	245.441		
<b>Total</b>	58082.3	234			

Source: Calculations based on data collected

As in the above table, since p-value 0.1 is greater than 0.05, the result is insignificant. Hence null hypothesis is accepted, and an inference is drawn that ownership status of the companies does not affect the CSR practices. Indian public companies, government companies and foreign companies comply with 2% legal mandate of CSR in uniformity.

#### 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 = 40.731

Table 3 shows the results of Duncan test.

**Table 3**  
**Homogeneous Subsets**

Type of Companies	Sample (N)	Subset for alpha = 0.05
		1
<b>Indian Public</b>	176	-1.38
<b>Foreign</b>	28	0.19
<b>Government</b>	31	5.18
<b>Sig.</b>	<b>235</b>	<b>0.075</b>

Source: Calculations based on data collected

Post Hoc Duncan test also reveals that there are no differences in the CSR performances of the companies based on their ownership status. Among the three types of companies, Indian public companies with 176 companies, have average unspent amount of Rs. 1.38 crores, whereas foreign companies with 28 companies, have average overspent amount of Rs. 0.19 crores and government companies with 31 companies, have average overspent amount of Rs. 5.18 crores.

Though there are no significant differences in the CSR performances, government companies have outperformed than the Indian public and foreign companies. The average unspent amount of Indian public companies exists mainly because of huge average unspent amount of Rs. 100.71 crores of one company.

## 9. Conclusion:

CSR practices have been examined to find variations in the CSR performance based on ownership status of the companies. 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 no variations in the CSR performance of the companies based on ownership status. Indian public companies, government companies and foreign companies comply to 2% CSR mandate in uniformity.

Corporate social responsibility has evolved itself due to changes in the business performance, stakeholders' expectations, emerging new socio-economic and environmental challenges. The conscience of businesses and people have also contributed to the revolutionary changes happening in CSR. This has given timely rise to various approaches and will still make way for further thoughts on CSR. While receiving the Economic Times Award (2007), Shri. Narayan Murthy, Founder of Infosys, said,

“Unless we give back to society, some of what we are getting out of it, I foresee a very violent future for our country.” It is high time for the corporate world to integrate social responsibilities into their core activities and act accordingly.

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