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# Empirical Analysis Of Csr Expenditure: A Case Study Of Some Selected Companies In India

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## Abstract

This is an empirical study concerning to capital market in India. Indian businesses need to give due recognition to social and environmental performance along with financial performance. Companies Act 2013 and Section 135 was introduced before some years ago. India was one of the first few countries across the world to mandate CSR. Due to this CSR has become a regulatory requirement which was earlier a voluntary effort by Corporates. This paper analyses the CSR spending of top 100 listed companies as per market capitalization on the National Stock Exchange (NSE). The paper further explores the thematic areas of CSR spending, availability of CSR information and the corporate compliance to the requirements of Companies Act 2013.

**Key Words:** CSR, Companies Act 2013, NSE, Section 135, Productivity etc.

## 1. Introduction

CSR in India is rooted in religious traditions of daan, seva and zakat for centuries. The vast majority of philanthropy in India has always been to religious institutions. But the situation is slowly changing with the CSR mandate. The companies Act, 2013 and the CSR Rules came into effect from 1<sup>st</sup> April 2014 in India. According to the Act, companies having a net worth of INR 500 Cr (or) more, or a turnover of INR 1000Cr or more, or a net profit of INR 5Cr or more in a given financial year are required to spend at least 2% of their own CSR programs average net profit of the last three years. It is the individual, the shareholder, who has to then make a call about whether he would like to give money to charitable causes or not. We do wrong by expropriating this money even before it reaches the individual. For an analogy, it is Bill Gates' birthright to gift away his own money, in his capacity as an individual. And I really admire the intelligence with which the Bill and Melinda Gates Foundation works. But Bill Gates (or the government or anyone else) has no right to expropriate money belonging to shareholders, through charitable initiatives by Microsoft". Another criticism is that reported expenditure on CSR projects is not a good metric of society welfare. There are various possibilities that can be attributed to increase in CSR spending after the law. White firms that were initially spending less than 2% increased their CSR activity; those that were initially spending more than 2% reduced their CSR expenditure.

## 2. Literature Review

There are extensive studies, reports and books available on corporate social responsibility, sustainability. We reviewed relevant literature partially to the topic under study. The relevant literature is reviewed on the basis of books, periodicals, news papers and websites. Sinha (2012) in his CRISIL report regards the traditional view of CSR as a potential distraction and loss of focus from fiduciary duty to the company and its share holders. Some advocated in this camp the need for companies to focus on its broader social role and engage in philanthropic activities. The author states the evolving view of CSR as public relations focus and strategic focus. CSR issues like Employee dissatisfaction or loss of key staff, Health and Safety Violations, lawsuits, regulatory penalties, community /NGO disputes, alienation of customers and suppliers, loss of brand value and loss of reputation can be a business risk for companies as per the researcher. CRISIL CSR year book (2017) reports that the mind set of “ruthless competition” is slowly changing in the corporate landscape due to Global Financial Crises (2008) and public protests. Business can sustain and thrive only if the communities also endure and flourish according to the report. The report concludes that collaboration will be a force multiplier in CSR as suggested by Peter Swager, author of “**The Most Good You Can Do**”, “apply evidence and reason to find the most effective way to change the world, rather than be driven by the ‘feel-good’ or ‘less suits’ effects of doing charity”.

CII Background paper on CSR (2016) reviews the long history of corporate social responsibility (CSR) in India which is mainly community development. According to the paper CSR became widely practiced from 1990s because of rapid economic growth, liberalization and privatization of Indian economy. The paper examines the CSR legislation and opines against the popular perception of section 135 of Companies Act 2013, which is that it stifles creativity and innovation as the legislation is prescriptive as it mandates what and how companies should be doing CSR.

Praxis (2016) CSR report states that companies have to be responsible in their core business. According to the report the national voluntary guidelines (NVGS) on Social, Economic and Environmental responsibilities of Business, 2011 remain an umbrella document for business to measure their commitments. The report states that CSR implies doing business in a socially responsible way. As reported by Kashyap & Khanna (2016) companies are expected to engage with and meet the societal expectations of their stakeholders. They further added that apart from investors, workers and management, government and community, consumers are also an important stakeholder group of each company that produces and sells goods and services. Afsharipour & Rana (2014) in their paper analyze that in an era of financial crises, income disparities, and environmental and other calamities linked to some corporations, the need for greater CSR is increasing rapidly around the world. Unlike the US and other major players in the global arena, which have largely emphasized voluntary approaches to the adoption and spread of CSR, India has chosen to pursue a mandatory CSR approach. The researchers conclude that India’s progress in the return of CSR is rejecting the notion of CSR as purely voluntary and stakeholder wealth maximization. This enables India to develop a mode of CSR and

corporate governance that presents viable alternatives to those of west. The paper is of the opinion that India's increasingly privatized economy appears to be seizing the CSR opportunities to improve economic growth and address public concerns.

Jose & Saraf (2013) in his paper analyses the sustainability initiative of India's top 100 companies across multiple variables related to sustainability. The highest reported variables were related to corporate governance, followed by those related to CSR initiatives and measures to improve operational efficiency. According to their research most initiatives in the area of CSR focused on four areas education, health care, community livelihood and infrastructure development. Tewari (2010) studies the contribution of CSR of IT sector in India. According to the paper, the IT sector has grown at a high pace in the Indian business environment but has also been blamed for affecting the environment and lives of many citizens. The CSR activities in the modern corporate affairs have been identified as a very important practice for Indian companies due to the impact of increased return, due to globalization. The researcher's study considers five sectors-cement, steel, oil and banking along with IT. Ramesh (2015) in his study listed "A study on CSR performance in India" examines the CSR spending of PSU & private companies, performance, transparency score is studied and the another recommended suggestion for improving CSR initiatives by the companies.

### **3. Objectives of the Study**

- 3.1. To study CSR after companies Act 2013 and section 135 CSR mandate.
- 3.2. To analyze the CSR performance of top handed listed companies at NSE in India

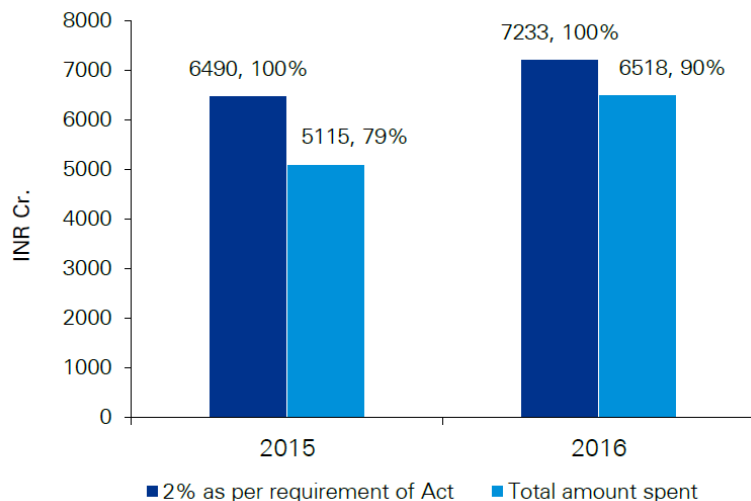
### **4. CSR Spending of Top 100 listed companies at NSE**

#### **4.1. Comparison of the amount to be spent (CSR budget outlay) against the prescribed 2 per cent CSR amount**

As per the Act, N100 companies are required to spend INR 7233 Cr. (calculation as per Section 198 of Act), against which companies have committed INR 7355 Cr., to be spent on CSR. Ten companies have shown a higher budget outlay against the prescribed amount. It is also important to note that seven companies that were not required to spend, have conducted their CSR activities and have reported CSR expenditure.

82 per cent companies have committed CSR budget outlay equivalent to prescribed 2 per cent amount as per Section 198 of the Act. Over 12 per cent companies have a CSR budget outlay higher than the prescribed 2 per cent, similar to last year. However, over 6 per cent companies have a lower CSR budget outlay than the prescribed 2 per cent.

#### **Figure 1: Comparison of CSR amount vs. Requirement of Act**

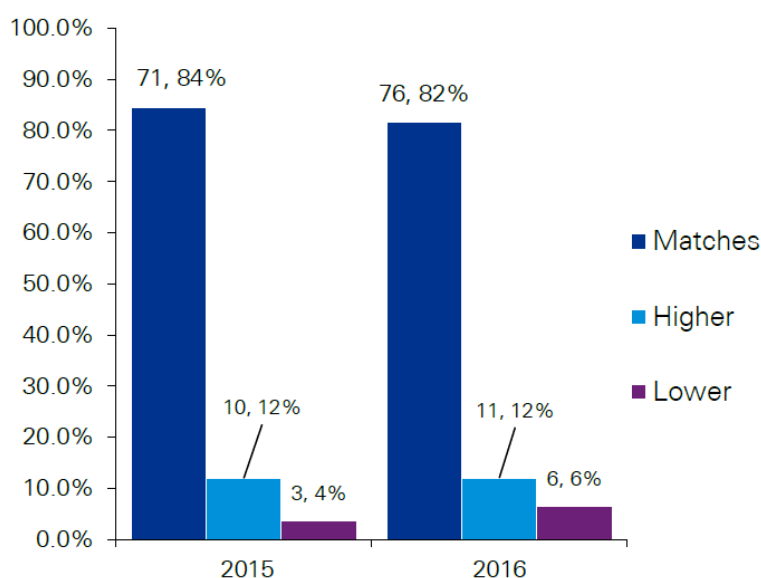


Source: KPMG in India's analysis based on our India's CSR reporting survey, 2016

### Amount spent against the prescribed 2 per cent on CSR

During the current year, against the requirement to spend INR 7233 Cr., India Inc. has spent INR 6518 Cr. (90 per cent). This is higher as compared to last year where in the companies had spent INR 5115 Cr. (79 percent) against the requirement of INR 6490 Cr. An increase of 11 per cent spend is observed during the current year as compared to last year. The average spending per company has also seen nearly 15 per cent increase. This is an indication of India Inc. getting familiar with the requirements of Act and also getting the internal controls in place, a major reason why companies that were not able to spend amount during previous year.

Figure 2: Analysis of CSR Expenditure matching



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2016

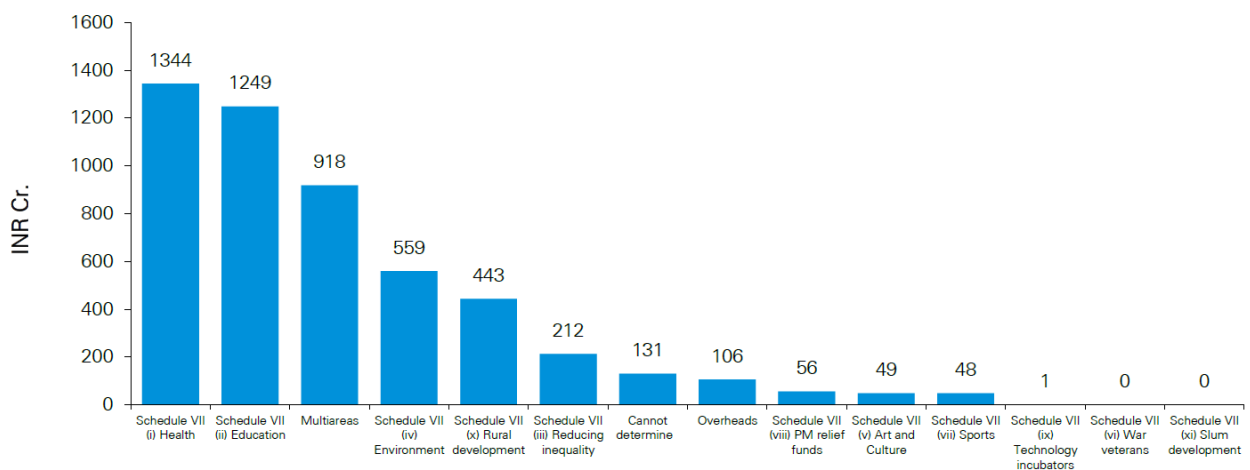
## 4.2 Sector-wise CSR spends by companies

During the current year, the health, sanitation and education sector account for the 63.74 per cent (INR 4155 Cr.) of the total spends on CSR against 50 per cent (INR 2592 Cr.) in the last year, an increase by 14 per cent. The CSR spend on the rural development sector has considerably increased from INR 443 Cr. (8.84 per cent) in 2014 -15 to INR 804 Cr (12.34 per cent) in 2015-16.

Interestingly, some of the activities undertaken by the companies could not be bucketed under any of the Schedule VII items and, hence, appear as, ‘cannot be determined’, in the chart below. The ‘Cannot be determined sector’ has observed sharp increase in 2015-16 with INR 204 Cr. (3.13 per cent) as compared to the last year of INR 33 Cr. (0.66 per cent). Inability of companies to clearly classify CSR projects in schedule VII activities is a concern.

Schedule VII activities mentioned below, put together, accounted for merely 3 per cent (INR 154 Cr.) of the total spends this year as well (INR 153 Cr. last year), and did not acquire much interest among the companies for their CSR activities-

**Figure 3: Sector-wise CSR spends by companies in 2015**



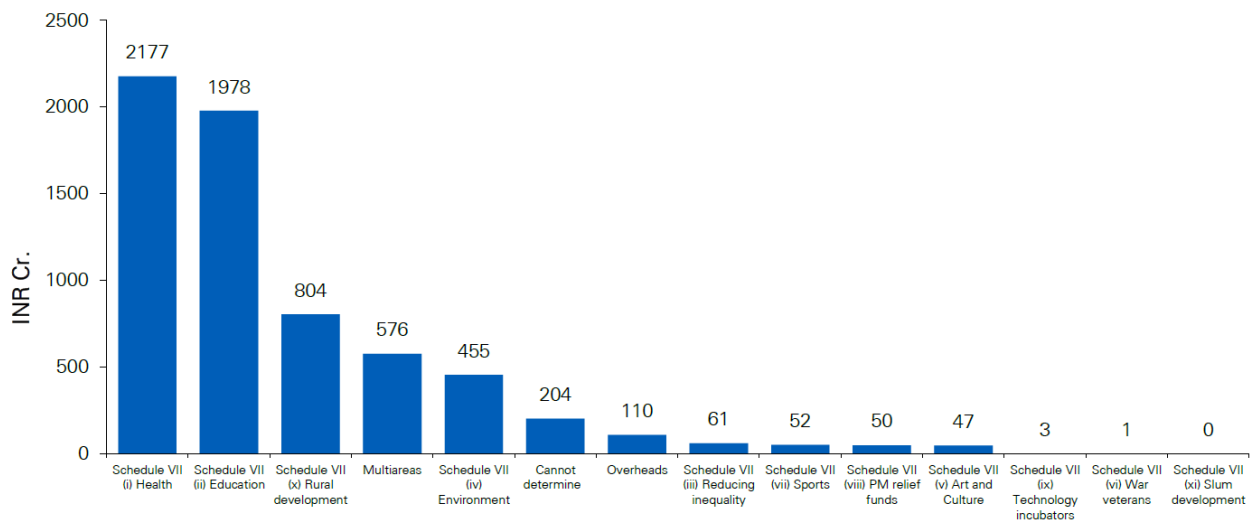
Source: KPMG in India’s analysis based on our India’s CSR reporting survey, 2015

Protection of national heritage, art and culture, including the restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts ,Measures for the benefit of armed forces veterans, war widows and their dependents ,Training to promote rural sports, nationally recognized sports, Paralympics sports and Olympics ,

Contribution to the Prime Minister’s national relief fund or any other fund set up by the central government for socio-economic development and relief and welfare of the scheduled caste, scheduled tribes, other backward classes, minorities and women ,

Contributions or funds provided to technology incubators located within academic institutions which are approved by the central government, Slum development.

**Figure 4: Sector-wise CSR spends by companies in 2016**

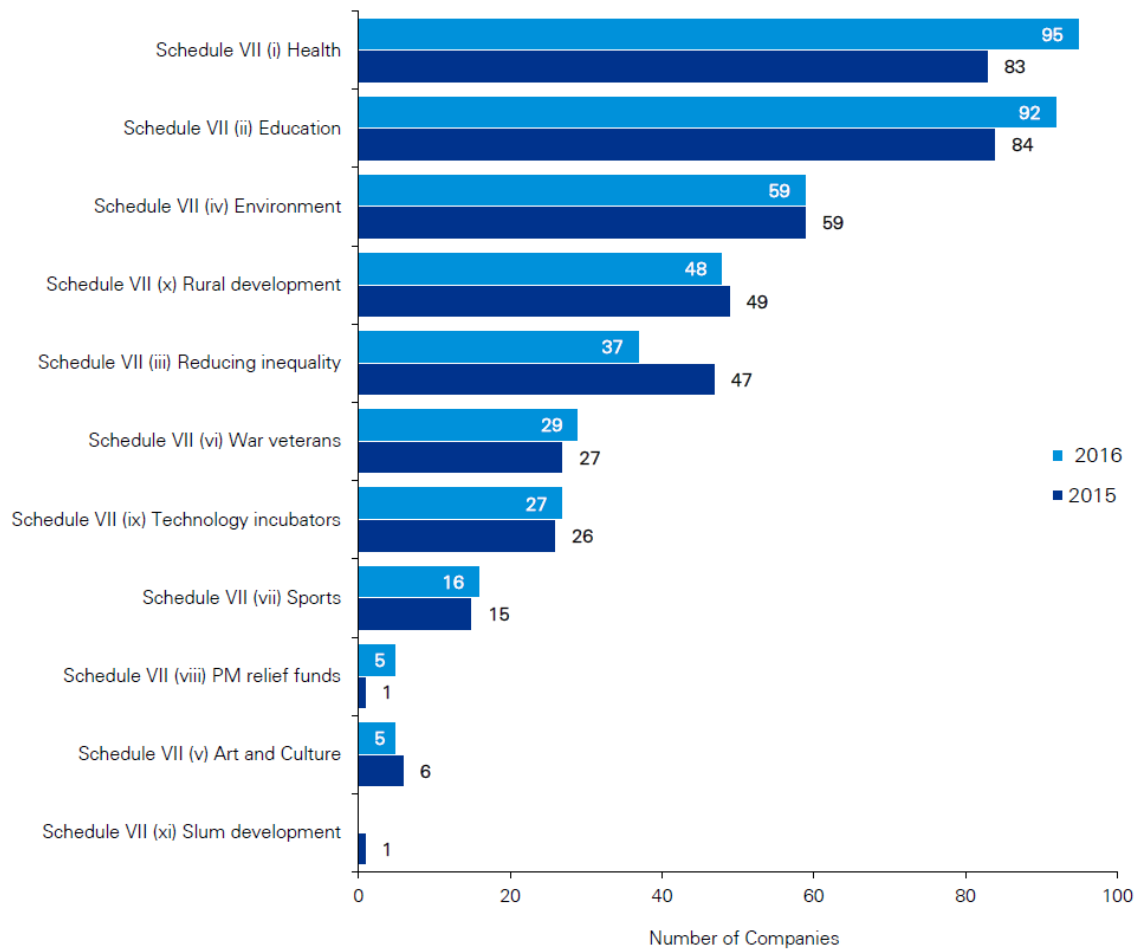


Source: KPMG in India’s analysis based on our India’s CSR reporting survey, 2016

### 4.3 Sector-wise focus of companies

In analyzing the projects undertaken by companies as per schedule VII classification we find that, more than 90 per cent companies have taken up projects in the area of health and education, followed by environment (59 companies) and rural development (48 companies). During the current year, slum development was at the bottom of this list followed by the PM relief funds and art and culture. All three areas together garnered interest from only 10 companies of the top 100.

**Figure 5: Sector wise analysis of CSR expenditure**



Source: KPMG in India’s analysis based on our India’s CSR reporting survey, 2016

#### 4.4. State-wise focus of companies

During the current year, Maharashtra had the highest number of projects, followed by Gujarat, Rajasthan, Karnataka and Tamil Nadu.

Excluding Madhya Pradesh, which has been replaced by Delhi during the current year, the rest of the states have retained their position in Top 10, by attracting spends towards CSR. However, it is surprising to observe that the number of projects have drastically come down by 33 per cent i.e. 1249 projects to 838 only. This is a positive indication wherein the corporates have started more focused projects rather than spreading too thin through multiple projects, which can, in long run, assist towards achieving measurable outcomes.

UTs such as Lakshadweep, Andaman Nicobar Islands, Dadra and Nagar Haveli, Puducherry and Chandigarh including North-Eastern states continues to have received least attention during the current year as well. It is even more surprising to observe that the number of projects have come down by 79 per cent i.e. from 102 to only 21 projects.

**Figure 6: State wise CSR focus of companies**



Source: KPMG in India's analysis based on our India's CSR reporting survey, 2016

#### 4.5. CSR Spends by type of companies and nature of Industry

Energy & power, BFSI and IT consulting & software have high budgets as compared to various types of companies / industries. They alone have a mandate to spend 65 per cent (INR 4681 Cr.) of the total prescribed two per cent as per the Act. Cement & cement products, construction, services, media & entertainment and chemicals account for spending only 5 per cent (INR 384 Cr.) of the total CSR budget of N100 companies.

Energy & Power, BFSI and IT Consulting & Software account for spending over 65 per cent of the total spends by N100 companies at INR 4208 Cr. The Energy & Power sector account for the highest spends at INR 2292 Cr. (35 per cent of total spends by N100 during current year) followed by BFSI (18 per cent) and IT (11 per cent).

Interestingly, chemicals, construction, services, mining, automobile, media, cement and energy & power sector companies have spent more than the prescribed 2 per cent CSR budget in the range of 101 per cent to 119 per cent.

The telecom sector has increased spends from 18 per cent to 31 per cent, however, it still continues lagging behind other sectors.

Excluding IT and industrial manufacturing, all other sectors have shown an increase in their spending during current year as compared to the previous year. Both construction and automobile sector have seen an increase in their overall spending by almost 40 per cent.

	2015-16	2014-15
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Type of Company / Industries (Number of companies)	Prescribed CSR Expenditure (INR Cr.)	Amount Spent (INR Cr.)	Amount Spent (per cent)	Amount Spent (per cent)
Chemicals (2)	21	25	119	101
Construction (1)	101	120	118	75
Services (3)	73	79	108	94
Mining and metals (6)	584	623	107	93
Automobile and allied products (10)	360	380	105	65
Media and entertainment (1)	22	23	103	87
Cement and cement products (4)	135	138	102	90
Energy and power (11)	2292	2312	101	89
Consumer products (18)	561	543	97	87
Banking and financial services (18)	1452	1160	80	61
IT Consulting & Software (6)	937	735	78	91
Pharmaceuticals (11)	250	189	76	53
Industrial Manufacturing (6)	176	108	62	101
Telecom (3)	269	83	31	18
<b>Grand Total</b>	<b>7233</b>	<b>6518</b>	<b>90</b>	<b>79</b>

## 5. Findings & Conclusions

1. Top 100 companies are required to spend INR 7233 Cr according to the Act and have spent INR 6518 Cr (90 percent) in 2015-16.

2. CSR spending in Fiscal 2016 is higher compared to Fiscal 2015 when the top 100 companies spent INR 5115 Cr (79 percent) against the requirement of INR 6490Cr.
3. CSR spending registered an increase of 11 percent in Fiscal 2016 compared to fiscal 2015.
4. The health, sanitation and education sector accounts for the 63.74 percent of the total spending on CSR in Fiscal 2016 against 50 percent in fiscal 2015, an increase by 14 percent.
5. CSR expenditure on rural development sector has considerably increased from INR 443Cr. (8.84 percent) in Fiscal 2015 to INR 804 Cr. (12.34 percent) in Fiscal 2016.
6. Some areas like National Heritage, support to war veterans, pm relief fund, sports, technology incubators, slum development received merely 3 percent of the total CSR spending in Fiscal 2016 which is the same as in Fiscal 2015.
7. There was more collaboration among companies in Fiscal 2016 compared to fiscal 2015, with the focus shifting more to CSR outcomes.

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