A COMPARATIVE ANALYSIS OF MANDATORY CSR SPENDING BY INDIAN COMPANIES

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Abstract

With the revamping of Companies Act, 2013, India has witnessed a new dimension of CSR for the companies. Now CSR has been made mandatory for Indian companies of a particular financial strength. With this backdrop of mandatory CSR, an attempt has been made in the current paper to examine whether there is statistical difference in the actual CSR spending of companies across industries. For this purpose, a sample of 50 companies divided into five industries is taken. CSR spending for accounting year 2014-15 has been taken. One-way ANOVA has been used to make the analysis which is carried out on SPSS version 20. On the basis of results, the study concludes that industries differ significantly with respect to CSR spending by companies in those industries.

Keywords: CSR spending, ANOVA, mandatory CSR, Mean plot, Industries.

I.   Introduction

India has one of the world's richest traditions of corporate social responsibility (CSR). The concept of CSR is not new to India. CSR originated as a voluntary attempt by companies to serve the society in early 20th century. Over last seven decades, CSR has grown from a narrow and marginalised notion into a complex multi-faceted concept, one which is increasingly central to today's corporate decision making (Cochran, 2007). There has been a continuous discussion over the nature and extent of CSR and it has evolved from just an individualistic philanthropic initiative to a holistic corporate strategic decision. Amidst this transformation, which is still continuing, a lot of literary work has been done in terms of giving new definitions to the term CSR, coining of various theories and development of models. A detailed attempt has been made by both business and academic communities to give sharpness to the meaning of CSR and therefore as a consequence there is a myriad of definitions for CSR without any unanimous one single definition till date.Since then it has evolved in terms of conceptualization but remained a voluntary initiative by the companies. Despite of the fact that CSR has been a voluntary initiative, Indian companies have always depicted a strong inclination to undertake

various activities under an umbrella of CSR for the benefit of various stakeholders beyond just shareholders.

Till date, across the globe with an exception of India, CSR continues to be a voluntary initiative by the companies. To encourage more and more companies to participate in the process of development of the society via- CSR, India took a stern step towards making CSR mandatory by virtue of Companies Act, 2013. The inclusion of the CSR mandate in the Companies Act, 2013 has been an attempt to supplement the government's efforts of equitably delivering the benefits of growth and to engage the Corporate World with the country's development agenda. By making CSR mandatory, India aims at increasing the number of companies undertaking CSR and thereby increasing the overall CSR spent. The act among other provisions lays down the provisions related to CSR i.e. Section 135, which says every company having a turnover of Rs. 1000 crore or more, or a net worth of Rs. 500 crore or more, or a profit of Rs. 5 crore or more during any financial year shallspend in every financial year, at least two per cent of the average net profits (net profits are defined in Section 198) of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy. Thus, making CSR a legislative requirement, will definitely bring more companies under the umbrella and very purpose of serving the society will be done at a larger volume. This legislative requirement of compulsory CSR spent requires to be studied sector wise in order to see the uniformity in the nature and extent of CSR initiatives.

Thus, in order to examine whether actual CSR spent by companies in different industries differ significantly, the current paper attempts to do a comparative analysis of actual CSR spent in the Accounting Year 2014-15 of select Indian companies. The remainder of the paper is organised as follows. Section II gives a brief review of literature related to the topic. Section III states the objectives of the study. Section IV details out the research methodology adopted. Section V presents the analysis and results. Section VI gives contribution of the study and Section VII concludes the paper.

II. Review of literature

CSR has gained much attention over the last few decades as a researchable area The academic research relating to the diverse aspects such as time, strength, direction, nature, causality as well as identification of the underlying factors affecting the various dimensions of CSR is very extensive and controversial one. For more than 50 years, various academic fraternities from the

fields of economics, management, finance etc. have worked upon the subject from different perspectives. Csr has been made mandatory in India in 2013 and thus, there are few studies only which throws light on the analysis of CSR spent.

Whether CSR should be made mandatory or not depends on the question that whether companies need any laws and regulations to report/disclose its CSR activities or whether the decision to act and report is to be left to the individual judgment of the corporation. The issue of mandatory CSR reporting has gained prominence in recent years following the global financial and economic crisis in the 2000s, a string of corporate misconduct and failures, and growing threats from business operations to environmental sustainability from business operations, all of which have created a 'trust deficit' between corporates and their stakeholders (KPMG-UNEP, 2010).

GahlotSushmita (2013) studied "Corporate Social Responsibility: Current Scenario" and concluded that the Clause 135 introduced by the Companies Act 2013 would go a long way in strengthening the social initiatives taken by the companies.However, certain clarifications are needed to handle the issues of penalties in the event of non-disclosure, scope of Schedule VII, internal controls, tax implications etc. Under voluntary reporting, if all firms engaging in CSR report in equilibrium, making CSR reporting mandatory will add to regulatory burden without adding any additional information (Lin, 2010). Further, mandatory CSR reporting could have a perverse effect on corporate accountability if it leads to useless and biased information (Hess and Dunfee, 2007). Thus, with just one year passed by with mandatory CSR in India, there is a long way to go to see the actual repercussions of this legislative requirement.

III.   Objectives of the study

The present study has been conducted with the following objectives

To identify the actual CSR spending by the companies in 5 industries in the AY 2014-15 after CSR has been made mandatory.

To find whether there is any statistical difference between actual CSR spending of companies across five industries.

IV.   Research Methodology

This study makes an attempt to identify whether there is any statistical significant difference in the actual CSR spending of companies across five industries for which necessary research design has been developed :

Sample size and sampling period

The study uses secondary sources for data collection. Data for actual CSR spending by the companies has been obtained for a sample of 50 companies divided into 5 industries i.e. auto and its ancillaries, banking and finance, information and communication, pharmaceuticals and oil drilling and refineries. This is collected from the CSR outlook report, 2014 generated by NGO box. CSR spending of the companies has been taken for the accounting year 2014-15.

Model

The current study makes a comparative analysis on CSR spending of Indian companies across five industries. Thus, as there are five independent samples of industries, therefore for this purpose, one-way ANOVA has been used to make an analysis.

For the purpose of inferring on the basis of ANOVA, following chronological steps have been followed:

Checking assumptions- The very first thing to do is to check whether data satisfies the underlying assumptions of ANOVA analysis. There are two assumptions :

i. Assumption of normality - For ANOVA analysis, it is presumed that the distribution is normal. Normality of data in the current study has been checked using K-S test.

ii. Assumption of homogeneity of variances - This assumption is checked using Levene's test.

Data analysis - Once the data satisfies both the assumptions, and then analysis is carried out using one - way ANOVA analysis. The p-value will reveal if there is any difference between the mean NPA indicators of the 4 categories of the banks.

If there is no significant difference then the analysis ends here as no significant inference can be drawn. But if there is a significant difference then further digging into information is done using -

i. Post - hoc analysis tell us that where is the difference. Which all categories of banks significantly differ from each other viz.- a -viz. NPA indicator.

ii. Mean plot - Mean plot graph will tell as to which category of bank is significantly higher or lower than other categories of banks with respect to each individual NPA indicator.

Drawing inference - Finally, inferences can be drawn for the population and suggestions may be made.

Hypothesis development

For addressing the objectives of the study, detailed in above section, the following hypotheses are framed:

Hypothesis 1: There is no statistical difference between CSR spending of auto industry companies and companies of other industries.

Hypothesis 2: There is no statistical difference between CSR spending of banking and finance industry companies and companies of other industries.

Hypothesis 3: There is no statistical difference between CSR spending of information and communication industry companies and companies of other industries.

Hypothesis 4: There is no statistical difference between CSR spending of pharmaceutical industry companies and companies of other industries.

Hypothesis 5: There is no statistical difference between CSR spending of oil drilling and refineries industry companies and companies of other industries.

V.   Analysis and results

In this section of the study, data is analysed using one - way ANOVA to find out if there is any statistically significant difference between CSR spending of companies categorised into five industries. For this purpose, actual CSR spent by the companies in the accounting year 2014-15 has been taken. Companies are categorised into 5 industries. All the test results are analyzed on the basis of p-values at 5% level of significance.

In the following tables, the results of ANOVA tests are presented.

Checking of assumptions

For running ANOVA, data should satisfy two assumptions. Thus, first before doing ANOVA analyses, following assumptions are checked:

i. Assumption of normality - Normality of the distribution is checked using K-S test in SPSS. The result is presented in Table 1.

Table 1

One-Sample Kolmogorov-Smirnov Test

		CSRSPENT
N		50
Normal Parameters	Mean	58.4962
	Std. Deviation	2.870
Most Extreme Differences	Absolute	.219
	Positive	.219
	Negative	-.198
Kolmogorov-Smirnov Z		1.546
Asymp. Sig. (2-tailed)		.917

As observed from the above table, since p- value is 0.917, thus null hypothesis is not rejected at 5% level of significance. Null, being that distribution is normal, therefore the above distribution is a normal distribution. Thus, first assumption is satisfied.

ii. Homogeneity of variances : Second assumption for ANOVA analysis is to test for homogeniety of variances. This assumption is tested using Levene's test for homogeniety of variances. Result is reported in the table 2:

Table 2: Levene's test for homogeniety of variances

Levene Statistic	df_1	df_2	Sig.
15.707	4	45	.000

From the above table it is observed that as p- value (0.00) is less than .05(5% level of significance), therefore homogeniety of variances assumption is also satisfied.

Results of ANOVA analysis

To test the above hypotheses, one-way ANOVA analysis is conducted on SPSS 20.0 (a statistical software) and the results are presented in Table 3.

Table 3 - ANOVA analysis for CSR spent by companies across industries

CSRSPENT

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	127940.425	4	31985.106	16.288	.000
Within Groups	88368.054	45	1963.735		
Total	216308.480	49			

From the above table, it can be observed that there is a statistically significant difference in CSR spending across five industries at 5% level of significance as p-value of the output is 0.00. Thus null hypothesis is rejected.

Post hoc analysis

The results of ANOVA analysis only tells whether there is difference in the mean CSR spending of various groups or not. If there is a difference then it is essential to find the specific industries which differ in terms of underlying variable which here is CSR spending. This information is gathered through post-hoc analysis.

Results of post-hoc analysis are presented in the table 4:

Multiple Comparisons						
Dependent Variable: CSRSPENT Tukey HSD						
(I) Type	(J) Type	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	Upper Bound
Auto and ancilliaries	Banking and finance	-141.70700*	19.81784	.000	-198.0184	-85.3956
	Information and communication	-41.38400	19.81784	.243	-97.6954	14.9274
	Pharmaceutical	-75.16500*	19.81784	.004	-131.4764	-18.8536
	Oil drilling and refineries	-14.25500	19.81784	.951	-70.5664	42.0564
Banking and finance	Auto and ancilliaries	141.70700*	19.81784	.000	85.3956	198.0184
	Information and communication	100.32300*	19.81784	.000	44.0116	156.6344
	Pharmaceutical	66.54200*	19.81784	.013	10.2306	122.8534
	Oil drilling and refineries	127.45200*	19.81784	.000	71.1406	183.7634
Information and communication	Auto and ancilliaries	41.38400	19.81784	.243	-14.9274	97.6954
	Banking and finance	-100.32300*	19.81784	.000	-156.6344	-44.0116

	Pharmaceutical	-33.78100	19.81784	.442	-90.0924	22.5304
	Oil drilling and refineries	27.12900	19.81784	.650	-29.1824	83.4404
	Auto and ancilliaries	75.16500[*]	19.81784	.004	18.8536	131.4764
	Banking and finance	-66.54200[*]	19.81784	.013	-122.8534	-10.2306
Pharmaceutical	Information and communication	33.78100	19.81784	.442	-22.5304	90.0924
	Oil drilling and refineries	60.91000[*]	19.81784	.028	4.5986	117.2214
	Auto and ancilliaries	14.25500	19.81784	.951	-42.0564	70.5664
	Banking and finance	-127.45200[*]	19.81784	.000	-183.7634	-71.1406
Oil drilling and refineries	Information and communication	-27.12900	19.81784	.650	-83.4404	29.1824
	Pharmaceutical	-60.91000[*]	19.81784	.028	-117.2214	-4.5986

*. The mean difference is significant at the 0.05 level.

On the basis of satisfaction Assistant professors in Science are also significantly different from Assistant professors in Arts at a significance level of 5%. Although both faculty members are satisfied and on the bases of mean value of satisfaction level faculty in Science (mean= 63.19) are more satisfied then faculty in arts (mean= 57.19). Assistant professors in Science are not significantly different from Assistant professors in commerce/economics at a significance level of 5% for satisfaction level. Both faculty members are satisfied and on the basis of mean value of satisfaction level faculty in Science (mean= 63.19) are less satisfied then faculty in commerce/economics (mean= 57.19)

Post hoc analysis suggests that at significance level of 5%, CSR spending of companies in auto and ancillary industry is significantly different from CSR spending in two industries viz. banking and finance and pharmaceutical industry.

However, CSR spending of companies in banking and finance industry is significantly different from CSR spending in all other industries viz. auto and ancillary, information and communication, oil and drilling and pharmaceutical industry.

CSR spending of companies in information and communication industry is significantly different from CSR spending in of only banking and finance industry.

CSR spending of companies in pharmaceutical industry is significantly different from CSR spending in three industries viz. banking and finance, auto and ancillary and oil drilling and refinery industry.

Finally, CSR spending of companies in oil drilling and refinery industry is significantly different from CSR spending in two industries viz. banking and finance and pharmaceutical industry.

Mean plot

The mean plot graph given below of different industries shows CSR spending by companies across different industries.
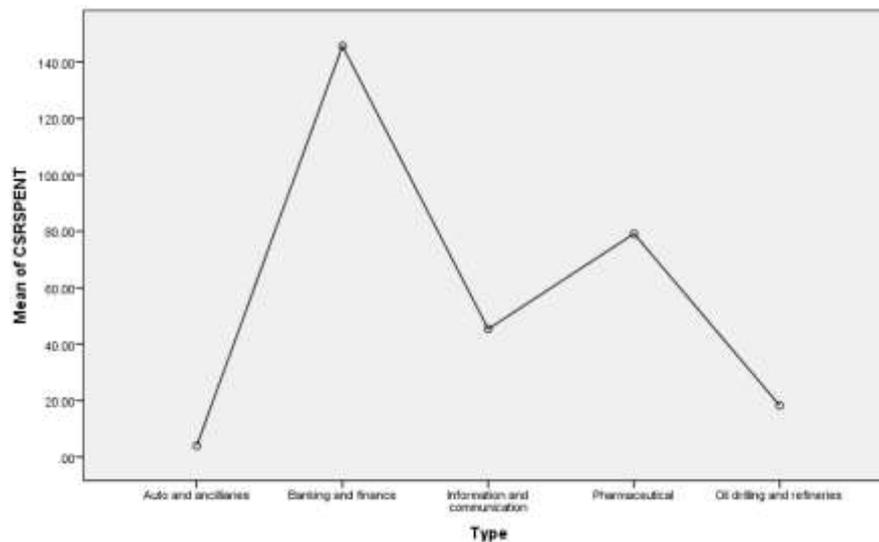
From the above mean plot graph, it can be observed that the mean CSR spending of banking and finance industry is highest whereas auto and ancillary industry has the lowest mean CSR spending.

VI.   Contribution of the study

In the current study, an attempt has been made to examine whether there is significant difference in CSR spending of companies in different industries. From the analysis, it can be observed that despite the fact that CSR has been made mandatory, the spending varies significantly from one sector to another sector. Thus, an attempt of the government to formalise and make CSR a uniform practice is somewhat not practically visible. This observation of empirical analysis can be of great help in forming the basis for further policy formation and strategic decision making of the companies.

VII.   Conclusion and scope for further research.

The current study is concluded with mentioning of a few areas not covered in this paper and thus an opportunity for further research First, the current study focused on five industries, further research may expand the number of industries. Second, the current analysis is carried out using actual CSR spending of the companies. Future research may take other measures of CSR to do the analysis. Finally, the current study focused only on companies operating in India. This was done primarily to study the post mandatory CSR regime which is only in India. Future research may include analysis on other countries which would allow for comparison between countries.

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