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A STUDY OF CSR SPENDING IN INDIA: EVIDENCE FROM CHEMICAL INDUSTRY

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ABSTRACT

Corporate Social Responsibility Reporting (CSR) has gained a lot of importance in recent years. This study attempts to examine some of the factors influencing CSR spending in India. The study examines whether size of the firm, leverage, ownership pattern and age of the firm influence CSR spending. To achieve the study objectives, the annual reports of 17 chemical companies forming part of NIFTY Large Midcap 250 index for five fiscal years from 2017-18 to 2021-22 are collected and content analyzed to explain the CSR spending. The study finds the influence of size, leverage, ownership pattern on CSR spending. It is also observed that firm characteristics such as size of the auditor and age are not significant variables of CSR spending.

Key words: Corporate Social Responsibility, CSR

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1. INTRODUCTION

Business organizations, these days have been facing pressure from a number of stakeholders like shareholders, investors, environmentalists, governments, etc. There is an increased demand by the stakeholders that businesses be more responsible towards society and environment. Stakeholders require the business organisations to pay back to the society as they owe a lot to the society. Increasing pressure from multiple stakeholders has resulted in adoption of transparent disclosure practices towards society and environment by business organisations. One of the ways to discharge the responsibility is through CSR reporting and spending. Corporate Social Responsibility Reporting has gained significance in India after the enactment of Companies Act, 2013.

CSR is defined as an organization's action on environmental, ethical, social and economic issues. Researchers have been attracted by CSR reporting practices adopted by companies all over the world. Numerous studies have been carried out in advanced nations to examine and explain the factors having an impact on CSR reporting. However, a few empirical studies on CSR reporting have been carried out in developing nations. This study is an attempt to examine the motivators of CSR spending in India.

2. LITERATURE REVIEW

The literature on CSR is extensive and varied. A large number of studies have been undertaken in western world. The studies cover variety of aspects of CSR disclosure like areas of CSR, impact of CSR activities, determinants of CSR reporting, etc. The literature also witnesses a number of studies in Asian countries. An attempt is made to analyze some of the significant studies.

The extant literature on CSR witnesses a large number of studies examining the relationship between firm characteristics like size, age, profitability, and leverage and CSR disclosures. Various studies on CSR disclosure find that size of the firm significantly influences CSR activities. The studies note that large firms undertake CSR activities extensively compared to smaller firms. Empirical evidence that size is an important variable in CSR is provided by several studies like Bayoud et al. (2012), Sulaiman et al. (2014), Akbas (2016) and Tan et al. (2016). Contrary to the above studies, study by Stanwick and

Stanwick (1998) finds that smaller firms are more CSR oriented compared to larger firms and Muhammad and Sabo (2014), report that size is an insignificant variable in explaining CSR disclosures.

Profitability is one of the several factors influencing the extent of CSR activities. Studies by Haniffa and Cooke (2005) Vintila and Duca (2013) reveal that CSR is significantly influenced by financial performance. Studies by Mahadeo et al. (2011) and Sulaiman et al. (2014) find an inverse relationship between profitability and CSR reporting.

Several studies have used leverage as one of the variables in explaining CSR reporting. Hossain et al. (1995) and Sulaiman et al. (2014) find a positive significant influence leverage on CSR reporting when more debt is used in capital structure while other studies Purushothaman et al. (2000), Haniffa and Cooke (2005) report contrary results that the use of more debt in capital structure has an inverse relationship with CSR.

There are studies that have attempted to explain CSR reporting using size of the audit firm as a variable. The results are mixed. Studies by Hassan and Mohammad (2003) and Kent and Stewart (2008) show that Big Four audit firms significantly influence CSR reporting while Hossain et al. (1995) provide that size of the audit firm is insignificant in explaining CSR.

It is documented by some previous studies that age of the firm is significant factor to explain CSR reporting (Roberts, 1992; Bayoud et al.,2012). While Sukcharoensin (2012) reports no relationship between age and CSR disclosures.

The review of literature reveals that majority of the studies focussed on the relationship between CSR activities and company characteristics and extent of CSR activities and the impact on society. The present study focuses on the extent of CSR spending in the backdrop of Companies Act 2013 and the relationship between company attributes and CSR spending.

3. NEED FOR THE STUDY

Empirical research suggests the significant influence of company characteristics on CSR reporting. The studies indicate that the extent of CSR disclosures is influenced by corporate characteristics like profitability, age, leverage, industry characteristics, size, ownership type, size of the audit firm, etc. Though a vast majority of study exists on corporations in developed world, very few studies have been carried out in developing countries like India. The present study is an attempt to explain the impact of firm characteristics on CSR spending in India. Hence, the present study aims to fill the gap in the existing literature.

4. RESEARCH OBJECTIVES, SAMPLE AND METHODOLOGY

The objective of this study is to examine the impact of a group of corporate variables like size of the firm, profitability, leverage, size of audit firm; ownership type and age of the firm on the level of CSR spending of Indian companies. The present study is based on chemical companies taken from NIFTY 250 LargeMidcap index, listed on National Stock Exchange. The study is a descriptive study and an attempt has been made to examine and analyse the extent of spending by companies on CSR activities. The sample for data analysis consists of seventeen large midcap companies representing chemical sector of India. For data analysis, the annual reports of seventeen companies were collected for five years from 201718 to 2021-22. The study uses content analysis methodology to collect data on CSR spending. In addition, the data pertaining to variables such as total assets, total revenue, size of audit firm, ROE, debt equity ratio and age of the firm were also collected from annual reports.

5. LIMITATIONS

The study is based on only seventeen companies belonging to chemical sector. The main focus of the study is on the extent of CSR spending as per section 135 of Companies Act 2013 and the influence of certain firm characteristics on the extent of CSR spending. The study does not cover the areas of CSR spending and the involvement of the agencies in the CSR activities. Further the impact of CSR spending is also not considered.

6. FIRM OR COMPANY CHARACTERISTICS

1. Size of the firm

One of the most frequently tested variables in CSR studies is size of the firm. Majority of the studies have found a positive and significant association between size and CSR activities. Larger is the size of the firm, the greater the CSR activities and vice versa. The present study measures the size of the firm in terms of turnover and total assets.

2. Leverage

The studies using leverage as one of the variables have produced mixed outcomes. Some studies have found a positive and significant relationship while some others a negative relationship, where as a few other studies found no relationship between leverage and CSR activities. The present study measures leverage by debt-equity ratio.

3. Size of Auditor firm

Some studies find that a positive effect of CSR on corporate financial performance is more found in firms audited by Big 4 auditors (Anissa Dakhli, 2021). The external Big Four auditors have a significant impact on shaping the CSR disclosures of ADX-listed firms (Kolsi et al., 2021). The present study considers the impact Big 4 auditors and Non-Big Four audit firms on CSR spending.

4. Age of the firm

A number of earlier studies have used age of the firms as one of factors to explain the relationship with CSR. Studies by Bayoud et al., 2012 and Radhi and Shahed, 2014 find a significant positive relationship and reveal that that older firms are more CSR driven than younger firms where as some other studies find a negative association between company age and CSR disclosures (Sukcharoensin, 2012). A few studies have found no relationship (Khalid et al., (2017).

5. Profitability

Studies examining the impact of profitability on CSR activities are many. The findings of the studies are mixed. Some studies indicate the positive relationship, some other studies found a negative impact of profitability on CSR and others found no relationship. In this study profitability is measured by Return on Equity and Earnings per share.

6. Ownership Type

The study classifies the companies on the basis of ownership as private, Government and MNCs. The results of previous studies are mixed. Some studies find that MNCs and CSR disclosures are closely associated whereas others find inverse association.

Table 1. Distribution of Sample Companies

Sl.No	Sector	No. Of Companies	%
1	Private Sector	09	52.94
2	Government	01	5.88
3	MNCs	07	41.18
	Total	**17**	**100**

Table 1 shows the distribution of sample companies. Table 1 shows that 52.94% of the companies belong to private sector followed by multinational companies (41.18%). Government companies constitute a small percentage of 5.88%.

Table 2. Descriptive Statistics

Varibles	N	Minimum	Maximum	Mean	Std.Dev
Total Revenue	17	561.03	32240.20	6067.42	7731.52
PAT	17	91.06	2421.86	705.65	703.94
EPS	17	5.71	178.38	51.75	43.12
Assets	17	626.61	61880.40	9141.72	15106.28
DEquity Ratio	17	00.00	1.39	0.29	0.36
ROE	17	5.84	35.76	19.51	6.38
ROCE	17	6.73	46.07	22.81	9.61
Age	17	4	87	48	24.54
CSR%	17	0.98%	9.11%	2.43%	1.76%

Table 2 shows the descriptive statistics. It shows the mean value, minimum and maximum value of variables and standard deviation.

7. RESULTS AND DISCUSSION

Table 3 Analysis of CSR spending based on Turnover

Turnover Range (in Crore Rs)	Range of Turnover	No. of Companies	Net Profit	Target	Actual Spent	% Spent
Up to 2000 Cr	561 to 1938	05	2910.84	58.22	53.67	1.84
2001 Cr to 4000 Cr	2607 to 3974	06	9355.64	187.67	183.66	1.96
4001 Cr 32000 Cr	4111 to 32240	06	23275.59	465.57	626.43	2.69
Total		**17**	**35542.08**	**711.46**	**863.76**	**2.43**

Turnover is one of the important criteria to examine the relation with CSR spending. Table 3 shows CSR spending based on turnover. It can be seen that 64.70% (11) companies whose turnover is below Rs 4000 crore, spent less than 2%. The companies in higher turnover bracket (35.30%) spent over and above the target CSR amount indicating that turnover is positively associated with CSR spending.

Table 4 Analysis of CSR spending based on Total Assets

Assets Range (in Crore Rs)	No. of Companies	Net Profit	Target	Actual Spent	% Spent
Up to 2000 Cr	04	2691.86	53.84	49.24	1.83
2001 Cr to 4000 Cr	05	6055.86	121.68	120.84	2.00
4001 Cr to 62000 Cr	08	26794.36	535.95	693.68	2.59
Total	**17**	**35542.08**	**711.46**	**863.76**	**2.43**

Size of the firm has been used in many studies to explain the relationship between CSR disclosures and size of the firm. Earlier studies have measured the size in different ways like market capitalization, total number of employees, total revenue, total assets, etc., Majority of the earlier studies show a positive and significant relationship between size of the firm and CSR disclosures (Hossain and Reaz (2007), Sulaiman et al.,2014; Akbsa,2016). In other words, it has been proved by many studies that larger firms are more CSR oriented in comparison with smaller firms. Table 4 shows that firms having assets in the bracket of Rs 4001 to 62000 crores spend more than the target percentage compared to firms in the lower assets range. The results are similar to the earlier findings.

Table 5 Analysis of CSR spending based on Debt Equity Ratio

Debt Equity Ratio	No. of Companies	Net Profit	Target	Actual Spent	% Spent
Up to 0.30	09	17082.99	341.66	324.43	1.90
0.31 to 0.60	05	12085.53	242.30	271.68	2.25
0.61 to 1.40	03	6373.55	127.50	267.65	4.20
Total	**17**	**35542.08**	**711.46**	**863.76**	**2.43**

Debt equity ratio has been used in many studies to examine the relationship between leverage and CSR. Table 5 shows that firms using more debt, i.e., highly leveraged spend more compared to firms using less debt. This is an indication that firms using more debt tend to follow more transparent disclosure practices to avoid a negative perception of the firm. The results are similar to the findings of Hossain et al. (1995), Mahadeo et al. (2011) and Sulaiman et al. (2014) indicating that debt causes firms to be more responsible to society.

Table 6 Analysis of CSR spending based on Auditor Size

Auditors	No. of Companies	Net Profit	Target	Actual Spent	% Spent
Big Four	08	17227.73	344.57	335.52	1.95
Non Big Four	09	18314.35	366.89	528.24	2.88
Total	**17**	**35542.08**	**711.46**	**863.76**	**2.43**

Studies explaining the relationship between auditor type and CSR spending are not many. The presumption is that the firms audited by Big Four audit firms adopt more transparent practices on social spending. However, the analysis as per Table 6 reveal that firms audited by Big Four audit firms spent less than the target percentage proving no association indicating no significant impact of Big Four audit firms on CSR spending. The results are similar to the findings of Hossain et al. (1995) and Barako et al.(2006)

Table 7 Analysis of CSR spending based on Age of the Company

Age of the Company	No. of Companies	Net Profit	Target	Actual Spent	% Spent
Up to 20 years	02	1207.26	24.14	30.45	2.52
21 to 45 years	06	6468.89	129.93	265.68	4.11
Above 45 years	09	27865.93	557.38	567.63	2.04
Total	**17**	**35542.08**	**711.46**	**863.76**	**2.43**

Table 7 reveals that older firms spent less compared to younger firms supporting the findings that younger firms in the age bracket of less than 45 years are more CSR focused compared to firms above 45 years. The findings reveal that younger firms create a good image and to attract more investors spend more on CSR. The findings are contrary to the findings of (Roberts, 1992; Cormier et al., 2005; Bayoud et al., 2012).

Table 8 Analysis of CSR spending based on Earnings per Share

Earnings per Share	No. of Companies	Net Profit	Target	Actual Spent	% Spent
Up to Rs 10.00	01	1020.09	20.40	19.37	1.90
Rs 11.00 to 30.00	04	8040.58	160.81	162.67	2.02
Rs 30 and above	12	26481.41	530.25	681.72	2.57
Total	**17**	**35542.08**	**711.46**	**863.76**	**2.43**

Table 8 shows that higher EPS leads to higher CSR spending. The results show that higher economic performance is closely associated with CSR disclosures and the findings are similar to the findings of Haniffa and Cooke (2005), Gamerschlag et al. (2011), and Vintila and Duca (2013).

Table 9 Analysis of CSR spending based on Return on Equity

Return on Equity	No. of Companies	Net Profit	Target	Actual Spent	% Spent
Up to 10.00	01	885.56	17.71	23.29	2.63
11.00 to 20.00	07	19318.17	386.39	529.63	2.74
21.00 and above	09	15338.34	307.36	310.84	2.03
Total	**17**	**35542.08**	**711.46**	**863.76**	**2.43**

Table 9 shows that ROE is inversely associated with CSR spending. However all the firms succeed in spending the target CSR expenditure. Firms with ROE in the range of less than Rs 10 are more CSR oriented compared to firms in the higher ROE range indicating that ROE is an insignificant factor CSR spending. The findings are in line with previous studies by Mahadeo et al. (2011) and Sulaiman et al. (2014).

Table 10 Analysis of CSR spending based on Ownership Type

Ownership Type	No. of Companies	Net Profit	Target	Actual Spent	% Spent
Private	09	14830.15	296.64	291.46	1.97
Government	01	1088.35	22.32	23.02	2.12
MNC	07	19623.58	392.50	549.28	2.80
Total	**17**	**35542.08**	**711.46**	**863.76**	**2.43**

Table 10 shows that MNCs and Government companies spend more than the target CSR spending and private companies fail in spending the target CSR expenditure. This may due large stakeholders base for MNCs all over the world. The findings suggest that MNCs in order to satisfy multiple stakeholder requirement follow extensive CSR activities.

8. CONCLUSION

The present study examines CSR spending in chemical Industry in India. The study examines various financial and non financial factors influencing CSR spending in Chemical sector in India and valuable contribution to the existing literature is made by the present study. The results show that size of the company in terms of total revenue, total assets and profitability in terms of EPS influence CSR spending, whereas profitability in terms of ROE and CSR spending are inversely related. Further, the study finds that higher debt equity ratio leads to higher spending on CSR. Foreign companies are more CSR spending oriented compared to Government and private sector companies. Young companies spend more on CSR compared to old companies. The size of the audit firm is insignificant variable in CSR reporting.

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