

# The Effect of Size of the Company on CSR Practices

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## ABSTRACT

Corporate Social Responsibility (CSR) is the responsibility of corporates for their impact on society. The Companies Act, 2013 mandated companies to spend 2% of their profits on CSR activities. CSR activities are influenced by several factors like size of company, type of industry and nature of ownership among other things. The present study is conducted to analyse the effect of size of the company on CSR practices. Data of 36 companies for three years from 2014-15 to 2017-18 are collected from the annual reports. The analysis is made with SPSS and hypotheses are tested by using one-way ANOVA and chi-square. The study found that the size of the company has no impact on the amount of CSR spending, implementation strategy or type of CSR activities. The study also found that CSR spending has increased over the years, though all the companies are not fully complying.

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## 1. Introduction

Indian business houses have a very long tradition of philanthropy as a sign of social commitment and as part of thanks giving for using societal resources. It was in the form of providing money or goods or developing infrastructure. The Companies Act, 2013 made it mandatory for companies to spend on CSR activities from 2014-15 onwards.

Corporate Social Responsibility (CSR) is “the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.”

CSR spending was made mandatory for companies in India. Under Section 135 of The Companies Act 2013, every company having a net worth of Rs.500 crores or more, or a turnover of Rs.1000 crores or more, or net profit of Rs.5 crores or more during any financial year has to spend at least 2% of its average net profits made during the three immediately preceding financial years on CSR activities.

Companies can do the CSR activities mentioned in Schedule VII of the Act. It includes hunger and poverty eradication, education, health, sports, environment, skill development, infrastructure development, disaster relief and so on. These activities can be done under the scrutiny of the CSR committee formed specifically for the purpose through setting up foundations or through tie-ups with governmental and non-governmental organisations. The paper looks into the CSR practices of companies such as how far the new rule is followed, how the implementation is carried on and which are the CSR activities undertaken.

## 2. Review of Literature

Sharma and Mani (2013) studied the CSR practices of banks prior to the mandatory CSR rule and found that the highest contribution is done by public sector banks while the lowest contribution is by the foreign banks.

Rai and Bansal (2014) studied the CSR activities undertaken by top 200 companies and found that companies are doing their CSR activities in the areas where they affect negatively. Companies which pollute environment spends more on environment. Top companies set up own foundations/trusts rather than depending on implementing agencies. Community development, education and health are the major areas of CSR spending by companies.

Shah (2018) stated CSR activities undertaken in different countries are in accordance with their prevailing socio-economic conditions. Companies in European countries which have excellent social security systems focussed their CSR activities on sustainability and environment protection. Chinese companies are focussing on environmental protection and reduction of pollution as their CSR activities. Companies in capitalist country like USA donate billions of dollars for charitable and philanthropic activities every year mostly through their own foundations. Companies in Latin American countries like Argentina, Venezuela and Uruguay concentrated their CSR activities in the areas of poverty reduction and environment protection.

The Economic Times (March 22, 2018) reported that the CSR spending of Indian corporates have increased 14 percent in 2016-17 from the earlier year, and 74% of the eligible companies are using NGOs for implementing CSR activities.

## 3. Statement of the Problem

The Companies Act made CSR spending mandatory. Before the rule also, the companies were making voluntary charitable activities. After the passing of the Act, there is an increase in the spending on CSR activities. The large companies having huge financial resources may be spending more than medium and small companies. They can afford creation of own foundations. There may not be much difference in the type of CSR activities of large companies. Some companies do the CSR activities through own employees and foundations. Others prefer tie-ups with governmental and non-governmental organisations. Companies do CSR activities in

various sectors like health, environment, infrastructure development, education, skill development and so on.

There is a need to know whether there is any relation between CSR practices and size of company. Size of the company may have an impact on the amount of spending, implementation strategy and type of activities.

#### 4. Objective of the study

To study whether there is an impact of size of company on CSR practices of large, medium and small companies.

#### 5. Hypothesis of the study

There is no significant difference in the CSR practices of large, medium and small companies.

#### 6. Methodology of the study

The study uses secondary data. It requires information relating to CSR practices of large, medium and small companies. This information is collected from the business responsibility reports and annual reports published by the companies.

##### 6.1. Units of Study

Purposive sampling method is adopted for the study. Thirty-six NSE listed companies are selected for the study, i.e., twelve each from large, medium and small companies. Companies with a market cap of Rs 100,000 crores or more are treated as large cap companies, with a market cap between Rs 50,000 crores and 100,000 crores as mid cap

companies and those less than Rs 50,000 crores market cap as small cap companies.

#### 6.2. Tools of Analysis

The data analysis is done with SPSS and hypotheses are tested by using one-way ANOVA and chi-square. One-way ANOVA is done to analyse whether there is any significant relationship between CSR spending and size of company. Chi square test is done to analyse the association between size of company and CSR implementation strategy. It is also done to know whether there is association between size of company and CSR activities done by them.

#### 7. Limitation of the Study

The information is collected from the annual reports and business responsibility reports of companies. No further verification on the accuracy of data is done. Only three years data are used for the study.

#### 8. Analysis of Data

##### Analysis 1: CSR Spending of Companies after the mandatory law

CSR spending was made mandatory from 2014-15. The companies have to spend 2% of their profits on CSR activities. The study is done to analyse whether the companies are following the mandatory rule and whether there is any difference in their spending on the basis of size of company. One-way ANOVA is done to analyse whether there is any difference in spending on the basis of size of company. Table 1 shows the CSR spending of large, medium and small companies.

Table - 1  
CSR Spending of Companies (in %)

2017			2016			2015		
L	M	S	L	M	S	L	M	S
3.51	2.00	2.33	1.72	N.A	2.07	1.27	2.01	2.23
0.05	2.00	4.24	0.57	2.00	4.00	0.59	0.99	2.37
2.04	2.00	2.05	2.00	1.35	N.A	2.10	0.76	2.06
2.01	2.00	2.00	1.58	2.02	2.00	1.97	2.01	2.00
2.00	2.02	1.69	2.01	2.04	1.14	2.87	2.60	1.00
2.04	2.41	2.60	2.36	2.23	2.66	1.44	0.11	2.00
2.01	2.34	1.01	2.02	2.01	0.67	2.00	2.02	0
2.00	2.42	2.01	2.40	2.04	1.77	1.49	2.72	2.00
2.43	2.02	2.01	3.62	2.07	1.49	1.45	1.96	0.72
1.96	3.35	2.00	1.41	2.35	2.00	1.50	2.83	2.00
2.13	2.05	2.00	2.34	2.27	1.36	2.85	3.45	1.39
1.70	2.01	1.33	1.64	1.67	0.90	1.53	1.27	0.54
<b>1.99*</b>	<b>2.22*</b>	<b>2.11*</b>	<b>1.97*</b>	<b>2.00*</b>	<b>1.82*</b>	<b>1.76*</b>	<b>1.89*</b>	<b>1.66*</b>
F(2,33)=.345			F(2,31)=.212			F(2,32)=.261		
p value=.711			p value=.810			p value=.772		

Source: Annual reports of companies

\* means average.

Note 1: L, M and S stands for Large, Medium and Small companies

Note 2: Idea Cellular Ltd. did not do any CSR activities in 2015. Adani Ports and Ashok Leyland had negative net profits in 2016. So, they are not required to do mandatory CSR in 2016.

Table 1 shows that CSR spending has increased over the years, though all the companies are not fully complying even in the third year of implementation of the CSR rule. In 2015, 18

companies complied with the rule, which increased to 21 companies in 2016 and further increased to 30 companies. The average CSR spending of large, medium and small companies

were found out and there is a difference in their spending. To test whether the difference is statistically significant or not, one-way ANOVA is done taking the null hypothesis that:

H0: There is no difference in CSR spending of large, medium and small companies.

It was found that the result was not statistically significant. Hence, it can be concluded that size of company does not influence CSR spending.

### Analysis 2: CSR Implementation Strategies of Companies

The Companies Act, 2013 states that companies can undertake CSR activities through a registered trust/foundation established by the company or through tie-ups with governmental and non-governmental organisations. They can also do the CSR activities using their own personnel. Table 2 shows the CSR implementation strategies adopted by large, medium and small companies.

Table - 2  
CSR Implementation Strategy

Size of company	2017		2016		2015	
	Foundation, Direct, Employee	Implementing Agency	Foundation, Direct, Employee	Implementing Agency	Foundation, Direct, Employee	Implementing Agency
Large	12	12	12	10	12	10
Medium	12	12	12	12	12	12
Small	9	11	9	11	9	10
Test	chi square=0.141		chi square=0.382		chi square=0.219	
	p=0.932		p=0.826		p=0.896	

Source: Annual reports of companies

Table 2 shows the CSR implementation strategies of large, medium and small companies. Majority of the companies use a combination of their own foundation and tie-ups with governmental or non-governmental organisations. To analyse whether size of company affects CSR implementation strategies, chi-square test was done. It was found that there is no relationship between size of company and implementation strategy. The result was not statistically significant and it can be concluded that size of company does not influence CSR implementation strategy.

### Analysis 3: Type of CSR activities

Section 135 of The Companies Act specifies the areas where CSR spending can be done by companies. The major CSR spending areas include education, environment, rural development, hunger and poverty eradication, health, skill enhancement, gender equality and women empowerment. Table 3 shows the type of CSR activities carried on by large, medium and small companies.

Table - 3  
Sector-wise CSR interventions

CSR Activities	2017			2016			2015		
	L	M	S	L	M	S	L	M	S
Education	17	16	14	15	16	17	16	17	14
Health	12	10	12	12	9	13	9	9	13
Environment	11	13	9	13	10	10	14	13	11
Rural development	7	6	6	7	6	6	5	5	5
Gender equality	5	7	9	5	8	6	7	7	6
	<b>52</b>	<b>52</b>	<b>50</b>	<b>52</b>	<b>49</b>	<b>52</b>	<b>51</b>	<b>51</b>	<b>49</b>
chi square	2.47			2.175			1.768		
p value	0.963			0.975			0.987		

Source: Annual reports of companies

Note: L, M and S stands for Large, Medium and Small companies

Table 5 shows the major CSR spending areas of large, medium and small companies. It was found that education is the most preferred CSR activity of all the companies. To analyze whether there is any relationship between size of company and CSR activities, chi-square test was done. It was found that there is no relationship between size of company and type of CSR activity. The result was not statistically significant and it can be concluded that size of company does not influence type of CSR activity.

### 9. Findings

- The CSR spending of companies has increased over the years though all the companies are not spending

the mandatory 2% even in the third year of implementation of the CSR rule. There is no significant difference in CSR spending of large, medium and small companies.

- Companies do their CSR activities through own foundations, using own personnel and tie-ups with governmental and non-governmental organisations. There is no difference in the CSR strategies adopted by large, medium and small companies.
- The major CSR spending sector of companies is education, followed by health and environment. There

is no significant difference in the type of CSR activities undertaken by large, medium and small companies.

- The difference in CSR spending, implementation strategies and sectors of spending of large, medium and small companies are tested using chi-square test and one-way ANOVA and found that the size of company does not influence CSR practices.

## 10. Conclusion

The present study is conducted to know whether size of company influence CSR practices. It was found that CSR spending have increased from the earlier years of implementation, but even in the third year of implementation of mandatory CSR rule, all companies are not fully complying. There is no significant difference in the CSR practices of large, medium and small companies. That is, the size of company does not influence CSR practices.

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## Appendix

### List of Companies

Sl. No.	Name of the Company	Market capitalisation (Rs in crores)
<b>Large cap companies</b>		
1	Asian Paints Ltd.	123,396.00
2	Bharti Airtel Ltd.	154,539.49
3	Hindustan Unilever Ltd.	325,566.77
4	Infosys Ltd.	257,890.81
5	I T C Ltd.	346,174.83
6	Larsen & Toubro Ltd.	194,452.99
7	Mahindra & Mahindra Ltd.	108,045.86
8	Maruti Suzuki India Ltd.	264,329.11
9	NTPC Ltd.	138,070.30
10	Oil & Natural Gas Corporation Ltd.	240,623.16
11	Reliance Industries Ltd.	626,736.66
12	Tata Consultancy Services Ltd.	661,759.65
<b>Mid cap companies</b>		
1	Adani Ports and Special Economic Zone Ltd.	85,468.18
2	Bajaj Auto Ltd.	81,469.84
3	Bosch Ltd.	56,945.60
4	Dabur India Ltd.	64,550.92
5	Godrej Consumer Products Ltd.	73,529.08
6	Hero MotoCorp Ltd.	72,261.60
7	JSW Steel Ltd.	78,257.51
8	Pidilite Industries Ltd.	56,019.10
9	Shree Cement Ltd.	56,461.39
10	Tata Steel Ltd.	73,120.15
11	Tech Mahindra Ltd.	65,303.83
12	Titan Company Ltd.	84,876.80
<b>Small cap companies</b>		
1	ACC Ltd.	27,623.51
2	Ambuja Cements Ltd.	43,118.29
3	Ashok Leyland Ltd.	47,375.18
4	Cadila Healthcare Ltd.	40,274.03
5	Cipla Ltd.	46,189.69
6	Hindustan Petroleum Corporation Ltd.	48,571.85
7	Idea Cellular Ltd.	22,429.21
8	Marico Ltd.	40,010.34
9	Oracle Financial Services Software Ltd.	35,176.86
10	Procter & Gamble Hygiene & HealthCare Ltd.	29,865.18
11	Siemens Ltd.	36,951.04
12	Sun TV Network Ltd.	34,226.25