

A comparative study of CPSE Guidelines and Companies Act, 2013 in context of Corporate Social Responsibility with a case of Navratna Companies

Bhanwar Singh

Junior Research Fellow, Institute of Management Studies & Research, MDU, India

Email - write2bhanwar@yahoo.com

Abstract: Corporate Social Responsibility is not new chapter in Indian Corporate sector. From beginning of industrialization, Indian industrialist involve in the betterment and welfare of communities at large. Indian industrialist voluntary contribute to charity and development projects for betterment of communities. But recent years are evidence of CSR mandatory for corporate by implantation of various legislation by government agencies and government. Central Public Sector Enterprises were spending amount on CRS as per Ministry of Heavy Industries and Public Enterprises CSR guidelines issued in 2010. CPSEs were spending the amount on CRS as per MHIPes guidelines from 2010 to 2014. Section 135 is applicable to all companies from April 1, 2014 for directing the amount to be spending on Corporate Social Responsibility. Therefore, motive behind this research study is to explore and identified the major difference amid MHIPes guidelines and section 135 for discharging Corporate Social Responsibility. Another objective of studies is tried to assess the impact of section 135 of Companies Act 2013 on Navratna Companies' Corporate social responsibility. Data used in this study totally secondary in nature and gather from annual reports of Navratna companies, website and other published articles in journals. To analyze the data, averages and percentages tools are used. Paired 't' with Statistical Package SPSS is used for testing of the hypothesis and analyses the data.

Key Words: CSR, Navratna Companies, CPSE guidelines, section 135.

1. INTRODUCTION:

Corporate Social Responsibility is not new chapter in Indian Corporate sector. From beginning of industrialization, Indian industrialist involve in the betterment and welfare of communities at large. Indian industrialist voluntary contribute to charity and development projects for betterment of communities. Richa and Anju (2010) have mention that there have great rational behind the organization's social responsibility; organization receive various benefits from the society so its social responsibility of business enterprise to give return back to society. It is efforts of stakeholder which force to companies to publish their accounts and public report more transparently. Today's all major companies have included CSR in their strategic policy. Presently, CSR become the ethical face of companies in mind of stakeholders.

In 2013, the Economic Times IIM Udaipur and Futurescape jointly conducted a drive, first in India of its kind, for find out best companies for corporate social responsibility. In first drive (study) 115 enterprises participated from the pane India. Subsequently in 2nd study, 2014, companies' participation has been accelerated 115 to 216 companies. There is more competition among companies regarding amount spend on CSR which result more companies have been placed in Top 10 rankings of study "Best Companies for CSR" 2014. ET, IIM U and Futurescape study reveals more fact about companies' responsibility about society, only 18% of companies surveyed has meet up compulsory norms 2% of profits on CSR. About Indian service sector, study reveals that none companies placed in Top rankings. These facts ask some crucial questions to Indian companies. Futurescape director Namrata Rana commented on these facts "Companies need to think of CSR more strategically". But recent years are evidence of CSR mandatory for corporate by implantation of various legislation by government agencies and government. Central Public Sector Enterprises were spending amount on CRS as per Ministry of Heavy Industries and Public Enterprises CSR guidelines issued in 2010. CPSEs were spending the amount on CRS as per MHIPes guidelines from 2010 to 2014. Section 135 is applicable to all companies from April 1, 2014 for directing the amount to be spending on Corporate Social Responsibility.

From Government of India side Ministry of Corporate Affairs (MCA) in recent time notified section 135 and schedule VII of Companies Act, 2013 along with this CSR Policy rules, 2014 also notified which has been implemented from the first April, 2014. The following conditions are for applicability of section 135 of company act, 2013 to a company:

- a. Company's net worth to be Rs.500 Cr or more in a financial year.
- b. Company's turnover to be Rs. 1000 Cr or more in a financial year.
- c. Company's net profit to be Rs. 5 Cr. or more in a financial year.

Provisions of Corporate Social Responsibility policy are applicable to Indian companies without any discrepancies and also applicable to branches and project office of MNCs.

1.1. MHIPEs CPSE guidelines on CSR & Sustainability applicable to Navratna Companies:

MHIPEs guidelines CPSE guidelines on CSR & Sustainability made mandatory applicable to Navratna Companies to expend share of their profits on Corporate Social Responsibility. Navratna companies net profit after tax (PAT) is more than Rs 500 crores, so Navratna companies need to spend 1%-2% of profit on CSR activities expect NBCC Ltd its PAT is more than Rs. 100 but less than 500, so NBCC Ltd need to spend 2% to 3% of profit on CSR activities i.e. from April 1, 2013 according to amended CPSE guidelines.

1.2. Section 135 of Company, Act 2013 applicable to Navratna Companies:

From 1 April, 2014, section 135 of Company Act, 2013 is applicable to all companies which satisfy at least one condition out of three following conditions:

- Company's net worth to be Rs.500 Cr or more in a financial year.
- Company's turnover to be Rs. 1000 Cr or more in a financial year.
- Company's net profit to be Rs. 5 Cr. or more in a financial year.

According to section 135 of Company Act, 2013 if any company satisfies at least one condition above mention irrespective of status of private and public companies need to extend minimum 2% of average profits which is calculated as average of profit earn during immediately preceding three financial years on Corporate Social Responsibility. From above discussion all Navratna companies satisfy all the three conditions. So Navratna companies need to expend at least 2% of average net profit on Corporate Social Responsibility.

Difference	CPSE CSR & Sustainability Guidelines 2013	CSR u/s 135 of Companies Act 2013	
Applicability to whom?	Applicable to all the Central Public Sector Enterprises	Applicable to all the Companies registered with the Registrar of Companies	
Applicability from when?	With effect from 1 st April, 2013. Now superseded by Section 135 i.e. April 1, 2014	With effect from 1 st April, 2014	
Conditions	Should have Profits in the immediately preceding financial year (i.e. 2013-14)	Should have a profit of Rs 5 crores or more or a Net Worth of Rs 500 crores or more, or Turnover of Rs 1000 crores or more in the current financial year	
Scope	Scope of this guidelines is limited to CPSE Companies only	Scope of this section extends to cover all Companies	
Percentage to spend	It varies based on PAT of the CPSE. If PAT is Rs < 100 crores: 3% to 5% If PAT is > Rs 100 crores < Rs 500 crores: 2% to 3% If PAT is > Rs 500 crores: 1% -2%	2% of the average profits of the preceding three financial years	
Activities Covered	The CSR and Sustainability activities undertaken by CPSE are under a policy approved by their Boards	Covered in Schedule VII of the Companies Act 2013. The schedule contains 10 points covering various elements (Annexure-I)	
Time Limit to spend unspent amount	Unutilized budget for CSR activities planned for a year will not lapse and will, instead, be carried forward to the next year. A maximum two years is available to spend, otherwise transfer to 'Sustainability Fund'	The amount has to be spent within a year. If not spent, the reasons are to be disclosed	
Committee	Board Level Committee will assist the CSR & Sustainability policies	Formation of CSR Committee is mandatory	

	of the Company		
Employees Benefit	The guidelines allow the employees to avail the infrastructure facilities created by their Company from its CSR and Sustainability Budget, provided, the facilities are originally created essentially for the external stakeholders, and the use of these facilities by the Company's employees is confined to less than 25% of the total number of beneficiaries	No such provision exists to cover employees	
			Table 1: CPSE CSR and Sustainability Guidelines 2013 Vs CSR under New Companies Act 2013

Source: CSR Guidelines: CPSE Vs Companies Act 2013

2. REVIEW OF RELATED LITERATURE:

Maimunah Ismail (2009) tries to find out the role of Corporate Social Responsibility in community development. Ismail define and explain the Corporate Social Responsibility on theories which are available in literature. Ismail argued in his research study that three theories, utilitarian, managerial and relational, relating to CSR are supported by different researchers around the world due to there have no border for business in global market. Researcher also discusses the role of CSR in development of country and communities. Ismail support that CSR impact the economy, society and environment. Ismail also assesses the willingness and competencies of business managers in order to discharge the Corporate Social Responsibility of business enterprise.

Richa Gautam and Anju Singh (2010) assessed the Corporate Social Responsibility practices of India companies. Richa and Anju include the top 500 companies in their research study to explore and assess the CSR practices. Their study explored the fact behind how Indian companies view and discharge their Corporate Social Responsibility. The study confirms CSR is included in top level strategy and companies endorse their business image through CSR. Research study indicates the fact that out of top 500 companies, only 271 companies deliver their duty on CSR. Out of 271 companies, only few were structured and planned approach to deal CSR activities.

Richard E. Smith (2011) defines CSR in their thesis "Defining Corporate Social Responsibility: A Systems Approach for Socially Responsible Capitalism Richard". In this thesis researcher tried to define the CSR with system approach. In this study, Richard, proposed many definitions and supporting concepts to corporate house to manage CSR strategies. The study divided amongst seven chapters. Researcher tries to develop a constructive delimitation of CSR by study the model of different corporate house CSR policy and strategies.

Ramendra Singh & Sharad Agarwal (2013) used the CSR Impact Index (CSRII) to assess the social impact of Corporate Social Responsibility. Ramendra and Sharad draw a sample of 200 Indian companies to explain current CSR orientation of Indian companies. Ramendra and Sharad found the fact through their study that most of Indian companies fit into place with local communities in close proximity of their business operations. Indian companies generally prefer the local population as CSR activities beneficiaries. Study indicates the directional change in strategy adapting to planning and discharging the CSR among Indian Corporate. Research study confirms that Indian companies follow same line to adopt the sectors for discharging their CSR. They found that most firms have adopted the same, healthcare or education, sectors for CSR.

Uvais M and Hafeefa Cholasserri (2013) discussed various drivers, customer interest, shrinking role of regulators, labor market pressure, investor's pressure, demand for more transparencies, of CSR for companies. the. Uyais and Hafeefa also discussed the challenges, lack of transparency, low community involvement in CSR activities, problem of clear cut guidelines, in research study for discharging Corporate Social Responsibility. They suggest CSR policy functions should be self regulating mechanism by companies and companies should ensure proactive involvement on the way to society.

Futher, Premlata & Anshika Agarwal (2013) argued that corporate social responsibility offer opportunities to betterment and welfare of society directly or indirectly to companies. Researchers argue to companies that they are social entity and being a part of society they should take care of society. Companies must discharge its responsibility in efficient and proactive way that leads to satisfaction its all stakeholders. They also suggested that companies and government must work to gather to make earth livable place and bring dramatically changes in the welfare scheme of

society. They pointed out some limitation of corporate social responsibility policy i.e. there have no provision in companies act 2013 if company voluntary distribute more than 2% of its profits on CSR.

In 2014, Moon Urmila define corporate social responsibility as a continuous process and this process be going on year on year on basis. Urmila confirm that Companies Act, 2013 is a master stroke of central government to fix the social responsibility of corporate toward society. He suggests that companies should formulate a strong policy to deliver the CSR activities. He concluded that companies should focus on CSR activities to build strong corporate image. Company should provide wider professional development activities. He advocated companies should organized training, conferences and seminars to disseminate and generate new knowledge and information in this sector.

Nitin Kumar (2014) noticed lack of awareness among general public towards corporate social responsibility. They he argued that there should be a proper system for creation of awareness among general public about CSR to make CSR initiatives more effective. He believes that awareness will be lead to motive other corporate to discharge their social responsibility. He think awareness will play a constructive role to eradicate problems i.e. health care, education. He give more emphasis on join hands of Companies, government and NGOs to accelerate the social change and development of Indian society.

3. RESEARCH GAP:

Very few literatures have to know the major difference between CPSE guidelines and section 135 of Company Act, 2013 in context of Corporate Social Responsibility. From best knowledge of us, there have no study to know the effect and comparison between CPSE guidelines and section 135 of Company Act, 2013 in context of Corporate Social Responsibility with case of Navratna companies. All Navratna companies are included in present study.

4. OBJECTIVE OF THE STUDY:

- 4.1. To explore and indentified key differences between CPSE Guidelines and Section 135, Companies Act 2013 in context of corporate social responsibility
- 4.2. Compare the impact of CPSE guidelines and section 135 on Navratna companies in context of Corporate Social Responsibility.

5. HYPOTHESIS :

- *Null hypothesis:* There is no significant difference between amount to be spend on Corporate Social Responsibility by Navratna companies according to CPSE guidelines and Section 135 of Companies Act 2013
- *Alternate hypothesis:* There is a major significant difference between amount to be spend on Corporate Social Responsibility by Navratna companies according to CPSE guidelines and Section 135 of Companies Act 2013

6. METHODOLOGY:

To examine the objectives, all 17 CPSE Navratna companies have been selected. The study purely base on secondary data which collected from annual reports of companies, moneycontrol.com website and other published documents. The study has taken into account three years from year 2011 to 2014. Amount to be extended on Corporate Social Responsibility in a year is based on previous three financial years' average profits. Out of 17 CPSE Navratna, two CPSE Navratna companies, Hindustan Aeronautics Limited, Rashtriya Ispat Nigam Limited are excluded from the study because of non listed on exchange and other two CPSE Navratna companies, Mahanagar Telephone Nigam Limited, Shipping Corporation of India Limited are excluded from the study because of loss accruing in the selected years. Therefore, remaining 14 CPSE Navratna companies is left for the study. The thirteen Navratna companies for the purpose of the study are following:

- Bharat Electronics Limited [BEL]
- Bharat Petroleum Corporation Limited [BPCL]
- Container Corporation of India Limited [CCIL]
- Engineers India Limited [EIL]
- Hindustan Petroleum Corporation Limited [HPCL]
- National Aluminum Company Limited [NACL]
- National Buildings Construction Corporation Limited [NBCCL]
- NMDC Limited
- Neyveli Lignite Corporation Limited [NLCL]
- Oil India Limited [OIL]
- Power Finance Corporation Limited [PFCL]
- Power Grid Corporation of India Limited [PGCIL]
- Rural Electrification Corporation Limited [RECL]

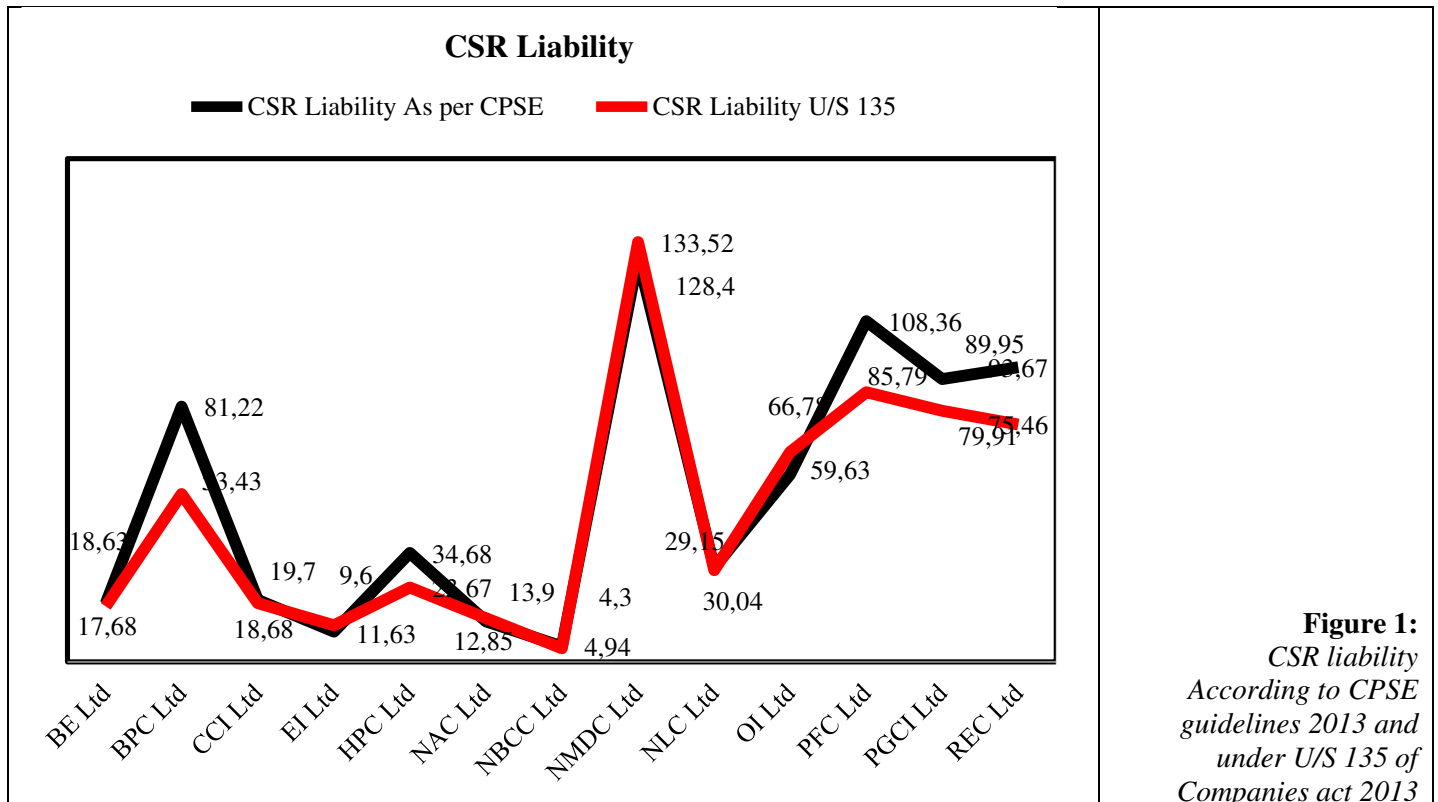
7. ANALYSIS AND INTERPRETATION OF DATA:

Table 2 shows Corporate Social Responsibility liability according to MHIPEs CPSE guidelines 2013 and U/S 135 of companies Act, 2013. All 13 Navratna companies CSR liability is calculated according to MHIPEs CPSE guidelines and under section 135 of companies Act 2013 from Annexure I and Annexure II respectively. It is surmise from analysis of Table 2 that all the Navratna companies jointly have spend Rs. 691.65 Cr. according to CPSE guidelines and Rs. 613.91 Cr. according under section 135 of Companies Act, 2013. Table shows that overall profit spend by Navratna companies on CSR activities as per under section 135 of Company Act, 2013 is less than Corporate Social Responsibility liability according CPSE guidelines 2013. There is a slight difference Rs. 77.75 crores CSR liability according to MHIPEs CPSE guidelines 2013 and under section 135 of company Act, 2013. Table 2 also shows that BPC ltd, HPC ltd, PFCI ltd, PGCi ltd and REC ltd are less CSR liability after implementation of u/s 135 of company act 2013 (i.e. Rs. 27.78, Rs. 11.01, Rs. 22.56, Rs. 10.04, Rs. 18.22 respectively) and on other hand EI ltd, NAC ltd, NMDC ltd, OI ltd are spending addition amount on CSR activities as per U/S 135 (i.e. Rs. 2.04, Rs. 1.05, Rs. 5.12, Rs. 7.16 respectively).

	Navratna Companies	CSR Liability As per		Difference	
		CPSE	U/S 135		
1	Bharat Electronics Ltd	18.63	17.68	0.96	
2	Bharat Petroleum Corporation Limited	81.22	53.43	27.78	
3	Container Corporation Of India Limited	19.70	18.68	1.01	
4	Engineers India Limited	9.60	11.63	-2.04	
5	Hindustan Petroleum Corporation Limited	34.68	23.67	11.01	
6	National Aluminum Company Limited	12.85	13.90	-1.05	
7	National Buildings Construction Corporation Limited	4.94	4.30	0.64	
8	NMDC Limited	128.40	133.52	-5.12	
9	Neyveli Lignite Corporation Limited	30.04	29.15	0.88	
10	Oil India Limited	59.63	66.78	-7.16	
11	Power Finance Corporation Limited	108.36	85.79	22.56	
12	Power Grid Corporation Of India Limited	89.95	79.91	10.04	
13	Rural Electrification Corporation Limited	93.67	75.46	18.22	
	Total	691.65	613.91	77.75	
	Paired 't' calculated value			1.958	
	Paired 't _{0.05, 12} ' critical value			2.179	
	Sig. (2-tailed)			.074	
	Level of Significance (α)			.050	

Table 2:
CSR liability
as per CPSE guidelines
2013 and under U/S 135 of
Companies act 2013

Figure 1 shows Corporate Social Responsibility liability according to CPSE guidelines and under section 135 of Companies Act, 2013. It is inferred from the figure that BPC ltd, HPC ltd, PFC ltd, PGCi ltd, REC ltd CSR liability after the introduce of U/S 135 is less as compare to CPSE guidelines. On other side, increase in additional CSR liability for EI ltd, NMDC ltd, OI ltd compare to CPSE guidelines. And there have no great difference among CSR liability for BE ltd, CCI ltd, NAC ltd, NBCC ltd, and NLC ltd.



Testing of Hypothesis: There is no significant difference between amount to be spend on Corporate Social Responsibility by Navratna companies as per CPSE guidelines and Section 135 of Companies Act 2013

Now, here need for testing of hypothesis whether the difference in the Corporate Social Responsibility liability for the Navratna companies is statistically significant or insignificant. To find out the significance between CSR liability as per CPSE guidelines and U/S 135, Paired 't' test is employed. The Paired 't' statistics calculated value is 1.958. And Paired 't_{0.05, 12}' critical value is 2.179. It is inferred from table that calculated Paired 't' value falls in acceptance region at 5% level of significance and 12 degree of freedom. So, null hypothesis "There is no significant difference between amount to be spend on Corporate Social Responsibility by Navratna companies as per CPSE guidelines and Section 135 of Companies Act 2013" is accepted and alternate hypothesis is rejected. There have slight difference in the amount to be spent on CSR activities according to CPSE guidelines and under section 135 but the difference is not statistically significant.

8. CONCLUSION :

Corporate Social Responsibility liability under the CPSEs Corporate Social Responsibility and Sustainability is calculated on only previous year profit for financial year but in case of CSR liability under section 135 for financial year is calculated on base of average profits of preceding three years. Section 135 on new companies Act is more flexible as compare to CPSE guidelines. It is also concluded from the study that company losing profits in preceding years less CSR liability. Taking into account of section 135 CSR liabilities for companies like BPC Ltd, HPC Ltd, PFC Ltd, PGCI Ltd, REC Ltd is less compare to CPSE guidelines. It also concluded from the study that there is great difference Rs. 77.75 crores CSR liability according to CPSEs CSR guidelines 2013 and section 135 of company Act, 2013 but statically not significant. Finally, it concluded that under section 135 CSR liability for Navratna companies is less and flexible.

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(Rs in Crores)

	Navratna Companies	Net Profit 2013-14	2% of Net Profit	
1	Bharat Electronics Ltd	931.62	18.63	
2	Bharat Petroleum Corporation Limited	4,060.88	81.22	
3	Container Corporation Of India Limited	984.76	19.70	
4	Engineers India Limited	479.76	9.60	
5	Mahanagar Telephone Nigam Limited	1733.77	34.68	
6	National Aluminium Company Limited	642.35	12.85	
7	National Buildings Construction Corporation Limited	247.14	4.94	
8	Nmdc Limited	6,420.08	128.40	
9	Neyveli Lignite Corporation Limited	1,501.88	30.04	
10	Oil India Limited	2,981.30	59.63	
11	Power Finance Corporation Limited	5,417.75	108.36	
12	Power Grid Corporation Of India Limited	4,497.42	89.95	
13	Rural Electrification Corporation Limited	4,683.70	93.67	Annexure-I: CSR Liability As Per CPSE Guidelines

(Rs in Crores)

	Navratna Companies	Net Profit			Average Profit	2% Of Average Profit	
		2013-14	2012-13	2011-12			
1	Bharat Electronics Ltd	931.62	889.83	829.90	883.78	17.68	
2	Bharat Petroleum Corporation Limited	4060.88	2642.90	1311.27	2671.68	53.43	
3	Container Corporation of India Limited	984.76	940.03	877.88	934.22	18.68	
4	Engineers India Limited	479.76	628.58	636.32	581.55	11.63	
5	Hindustan Petroleum Corporation Limited	1733.77	904.71	911.43	1183.30	23.67	

6	National Aluminium Company Limited	642.35	592.83	849.50	694.89	13.90	
7	National Buildings Construction Corporation Limited	247.14	207.50	190.17	214.94	4.30	
8	NMDC Limited	6420.08	6342.37	7265.39	6675.95	133.52	
9	Neyveli Lignite Corporation Limited	1501.88	1459.75	1411.33	1457.65	29.15	
10	Oil India Limited	2981.30	3589.34	3446.92	3339.19	66.78	
11	Power Finance Corporation Limited	5417.75	4419.60	3031.74	4289.70	85.79	
12	Power Grid Corporation Of India Limited	4497.42	4234.50	3254.95	3995.62	79.91	Annexure-II: CSR Liability U/S 135 of Companies Act 2013