

Pyramid of Socio-Economic Investment of Union Government and Corporate

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Abstract

Social responsibility coexists with the origin of civilization. Empirical studies explicit that Corporate Social Responsibility (CSR) contributes to the development of society and businesses. This study assumes that if the corporate follow the pattern of Indian central government budget, synergetic results in socio-economic development may be achieved. So, this study has compared the budgetary allocation of the central government to social-economic activities specified in 'Companies Act 2013' mandatory for the companies in specified activities. The data of fifty companies listed on Bombay Stock Exchange (BSE) were obtained from annual reports disclosed on websites of companies and the data of union budget was obtained from the central government's website. The study found that companies selected for the study have invested 2.5822 per cent of the average net profit for the years 2014-18 and government have invested 21.5048 per cent of the average central government budget for the years 2014-18. Investment of central government in different activities of CSR in term of the percentage to average total revenue is very high than the investments by corporate sectors. Overall, it is found that preference of central government and corporate sector are not the same as per CSR activities. This study suggests that the country like India where deficit of capital at large scale should make comprehensive planning with corporate at least investment in health and education activities.

KEYWORDS: Corporate Social Responsibility (CSR), Budgetary Allocation, Annual Report, Bombay Stock Exchange (BSE).

1. Introduction

Sustainable growth of companies direct linked with inclusive socio-economic growth of the nation. It is assumed inverted pyramid where most of the population live in good socio-economic

conditions. Here budget of the nations and corporate work in to the same direction for education to people, improvement in health amenities, uplift of backward section of the society; make improve the living and working conditions, overcome on unseen calamity, employments, environment sustainability and development of new technology for creating new opportunities in a equitable manner to people at large scale.

Corporate Social Responsibility Investment Activities

Corporate Social Responsibility (CSR) has had a very long or wide-ranging history. There are formal writings on social responsibility mainly from the 20th century, especially from the past 50 years or so. Before discussing the 1950s, it is useful to set forth what Patrick Murphy (University of Michigan Business Review, 1978) classified CSR into four eras, up to the 1950s was the ‘philanthropic’ era in which companies donated to charities only. The period 1953–67 was classified as the ‘awareness’ era, in which there became more recognition of the overall responsibility of business and its involvement in community affairs. The period 1968–73 was termed the ‘issue’ era in which companies began focusing on specific issues such as urban decay, racial discrimination, and pollution problems. Finally, in the ‘responsiveness’ era, 1974–80 and continuing beyond, companies began taking serious management and organizational actions to address CSR issues. In the present era, different countries have different ways of application of funds and both the business and society have received the benefits. CSR in the United States of America has received benefits in terms of reducing risks, increasing green production and protect the environment (Haslam, 2007). France, South Africa, Denmark and China have a mandatory reporting obligation on the amount spent on CSR activities and make a contribution to improving the social and ethical, governance, labour and environmental conditions of the countries (Zhuang and Wheale, 2004). In the United Kingdom, CSR is a part of corporate governance and also integral part of good governance, for larger companies in particular. Canada’s introduced CSR Strategy, “Doing Business the Canadian Way and building local partnership or network with societies and received benefits of CSR-related service to the business community around the world and reinforcing Canadian excellence or leadership and best practices in the extractives sector. Overall the sustainability and CSR programs continue to rise in the world. According to a report of the Organization for Economic Co-operation and Development, voluntary initiatives in CSR

have been a major development in international business in earlier years. The Government of India (GOI) has also put forward provisions in the Companies Act, 2013. The Clause 135 of this act is concerned with CSR which presents CSR as an obligation, although 2% expenditure of an average of last three financial years of the profit after tax (PAT) is compulsory. The Clause 135 will be applicable to all organizations having a net worth of INR 500 Crores or more, net profit of INR 5 Crores or more and turnover of INR 1000 Crores or more. According to the Act, it is mandatory for organizations to have a board-level CSR Committee consisting of three or more directors with at least one independent director. The formation of the CSR Committee should be disclosed in the annual report under the Board of Director’s Report. This committee looks after the investment in the following CSR activities:

Table: 1 The Schedule VII of Companies Act, 2013 has Covered the Following Areas

1.	Health, eradicating hunger, poverty and malnutrition, sanitation, safe drinking water
2.	Education, livelihood, differently-abled
3.	Gender equality, women empowerment, reducing inequalities, old age homes
4.	Environment, conservation of resources, animal welfare
5.	Protection of national art, heritage and culture
6.	Measures for a benefit to armed forces veterans, war widows and their dependents
7.	Training to support sports
8.	Contribution to PM fund or any other fund
9.	Contribution to technology incubators located within an academic institution
10.	Rural development projects
11.	Slum area projects
12.	Employment
13.	Others

Verma and Kumar (2014) investigated the spending pattern of corporate towards CSR activities based on the results and investigated that such a provision in the Act was compulsory or not in the period of voluntary spending. The study found that the CSR spending has been very low as a percentage of profit and revenue during the period of voluntary spending and insertion this provision is a right step by the regulators to make the corporate more social responsible.

Still, allocations of resources till now are away from pattern of allocations of resources by central government.

Central Government Social Investments Activities

The central government has recognized the importance of social expenditures in its budget. Government has numerous policies to execute in the overall task of performing its functions to meet the objectives and goals of social and economic growth. For implementing these policies, the government has to expend a massive amount of health, education, environment, defence, sports, rural developments, administration, and development, welfare projects and various other relief operations. Investments in the social sector in the form of schools, colleges, hospitals and housing facilities are the basic elements for human growth. The government expenditure on social activities was an important aspect of the development expenditure of a country. The expenditure on social activities is being increasing in India as it promotes the process of development. However, culture of planning from the previous process of development control have to change into development management, this concept is people-focused, positive, proactive, and inclusive, developing problem-solving partnership of corporate and government and delivering development that enhances socio-economic and environmental conditions.

Literature Review of Precedence Activities of Social Investment

Related studies of the CSR activities of different companies in different countries across various sectors and have given explanation on the basis of their results. Narwal and Singh (2013) examined different areas of Corporate Social Responsibility covered by the companies in India and to have a comparative analysis of such practices of Indian companies and MNCs working in India. The analysis shows that there is a little disparity in CSR practices of MNCs and Indian companies that is in terms of covered areas of CSR. Companies are adopting CSR practices of sustainable development, environmental marketing, accountability and transparency or local community support. Govindarajan and Amilan (2013) studied the levels of CSR initiatives covered by the companies and their influence on the performance of the Indian companies. Goyal et al. (2013) examined the relationship between firm performance and sustainability performance. The study shows that most of the research in the area of firm performance and sustainability performance

association examined this relationship in developed countries. The outcome differs in various economic or cultural contexts and there is no commonly accepted route of this relationship. The study found that CSR initiatives score is significant related with stock market performance and financial performance. Bhatia and Chander (2014) study the extent of Corporate Social Responsibility disclosure made by top companies constituting Bombay Stock Exchange SENSEX in India. The result shows that the CSR disclosure by the leading companies in India is low. Anjali Kulkarni (2014) investigated Corporate Social Responsibility activities in the Indian banking sector. The study found that only 3 of the 19 banks had clear CSR policies. The Bank of Maharashtra and State Bank of India (SBI) seem to have a long tradition of development and supporting welfare activities. Sumona Ghosh (2014) investigated the pattern of participation of CSR activities of the Indian private sector and taking the growth rate as a parameter. The study found that the companies had involved mainly in environment, education, rural development, disaster relief, sanitation or drinking water, women empowerment, urban development and some companies had involved in volunteering programmes, raising funds, protection of culture and art, training to support sports. Pravin D Sawant (2014) analysed the CSR practices carried by selected Pharmaceuticals companies and CSR initiatives being taken by the selected Pharmaceuticals companies towards health or rural development, education and investigated the expenditure made towards those CSR activities by selected Pharmaceuticals companies. The study found that Pharmaceuticals companies spend more amounts and other than Pharmaceuticals companies spend low amounts on CSR activities. Rani and Khan (2015) investigated is to know the states of CSR activities in the Indian banking sector. The study found that banks mostly focus in rural development, poverty reduction and credit counseling activities after that banks also more focus on education or women empowerment and not focusing much in the areas of customer and employees welfare.

Odior Ernest (2011) examined the indirect and direct effects of union government policy on health and its impacts on cyclical growth in the long periods in Nigeria. The study showed that the positive impacts of government expenditure on health and economic growth. Kundu (2016) examined the impacts of government spending on health and education sectors on the GDP of Brazil. The study found the government spending on health and education has not been able to

exert and impact on GDP. Throat et al. (2000) estimated the indirect and direct effects of various types of government expenditure on rural poverty and productivity growth in India. The study found that in field of rural poverty, the Indian government gives highest priority to agricultural research and rural roads. Berman and Ahuja (2008) evaluated the government expenditure on health in India. The found that the goals of government health expenditure by the states and centre are not achieved and the resources needed to achieve these goals are largely lacking. Ahmed and Hong (2009) investigated the impacts of government expenditure on public goods, such as education or health and basis infrastructure affects per capita GDP or poverty reductions at the state level. The study found that government expenditure has large and positive impact on per capita GDP growth and expenditure on health or education positive contribution to poverty reduction. Papanicolas et al. (2018) examined the patterns of health care spending among United States and High-Levels income countries (US Kingdom, Canada, Germany, Australia, Japan, Sweden, France, Netherlands, Switzerland and Denmark). The study found that the United States spent nearly twice as much as these high income countries.

These studies have taken the same independent variable and analysed their impact on financial performance, profitability, cost reduction and image building the involvement of activities and stock pricing. This study analysed company-specific characteristics, comparative impact in making expenditure in different mandatory activities and see the investment in these activities are in consonance of national budgetary allocation. But, the study of Berman and Ahuja (2008) pointed out that central and state government not achieved health improvement goal due to lack of resources. It is serious one, to take this present study try to see, what is the direction of the resources allocation to socio-economic activities?

2. Research Methodology

This study is based on descriptive research design as per the nature of data and mentioned analytical techniques. In this study, secondary data were used. Total 50 companies were selected and data were obtained from annual reports and website of the companies for 4 years from 2014-15 to 2017-18. Average of net profit after tax of four years is taken with the conjecture that a

business cycle period is generally completed in four years instead of three years. Data have been analysed through percentage. The companies were divided into ten sectors for comparison.

Following terms were defined as:

I. Net Profit

Net profit is calculated by adding up a business total expenses and subtracting that from its revenues.

Net profit = Total Revenue - Total Expenses

II. Percentage of social activities investment (PSAI) to average net profit for 2014-2018

PSAI = Total investment of per activities \times 100 / Average net profit

Average net profit = Total net profit of 2014 to 2018 / 4

III. UNION BUDGET

According to article 112 of the Indian Constitution, the union budget of a year also referred to as the annual financial statement, is a statement of estimated receipts and expenditure of the government for the particular year.

IV. Average Central Government Budget

Average Central Government Budget = Total budget of 2014 to 2018 / 4

V. Others Activity

Others include an amount that is not segregated under defined activities.

4. Data Analysis and Presentation of Results

Percentage method was used to analyze the budgetary allocation of the central government to social-economic activities specified in 'Companies Act 2013' mandatory for the companies in specified activities of sample companies. The data were collected from 50 companies with the help of 'IBM SPSS 23.00' and companies are divided into ten sectors for comparison.

TABLE: 1. PERCENTAGE OF SOCIAL ACTIVITIES INVESTMENT TO AVERAGE NET PROFIT FOR 2014-2018 AND AVERAGE CENTRAL GOVERNMENT BUDGET

	IT Sector	Banking Sector	Pharma Sector	Power Sector	Automobiles Sector	Cement Sector	Finance Sector	Electricals Sector	Fertilizers Sector	Real Estate Sector	Total	Average Central Government Budget allocation (2015-18)
Average Net Profit	40586.5725	15083.0725	5017.8225	12759.16	3379.5175	2193.7625	4903.9395	1732.1482	1083.97	1132.3	87872.2652	1917781.2375
1.	149.005 (0.3671)	33.2725 (0.2206)	43.2775 (0.8625)	148.715 (1.1655)	27.77 (0.8217)	5.8675 (0.2674)	20.23 (0.4125)	28.355 (1.6369)	10.68 (0.9852)	12.6975 (1.1214)	479.57 (0.05461)	129311.575 (6.7427)
2.	197.4975 (0.4866)	127.4275 (0.8448)	6.64 (0.1323)	86.407 (0.6772)	125.16 (3.7035)	12.4275 (0.5665)	41.65 (0.8493)	21.38 (1.2343)	8.9175 (0.8227)	1.8325 (0.1618)	629.3425 (0.7162)	72027.59 (3.7558)
3.	1.7625 (0.0043)	0.5625 (0.0037)	0.6625 (0.0132)	0.8375 (0.0065)	8.93 (0.2642)	1.2625 (0.0575)	0.7425 (0.0151)	0.1250 (0.0072)	0.4925 (0.0006)	0.1475 (0.0130)	15.525 (0.0191)	18209.5125 (0.9495)
4.	118.425 (0.2918)	14.1875 (0.0940)	1.3225 (0.0264)	36.005 (0.2821)	36.6825 (1.0854)	2.3 (0.1048)	5.9325 (0.1210)	4.00 (0.2309)	1.308 (0.1207)	2.7875 (0.2462)	222.9505 (0.2537)	14200.405 (0.7405)
5.	11.465 (0.0282)	0.00	0.00	6.4475 (0.0505)	1.2425 (0.0368)	2.5875 (0.1179)	2.1275 (0.0439)	0.045 (0.0026)	0.00	2.0175 (0.1782)	25.9325 (0.0295)	2221.905 (0.1158)
6.	7.365 (0.0181)	1.375 (0.0091)	0.00	0.2975 (0.0023)	0.195 (0.0058)	0.01 (0.0001)	0.00	0.00	0.025 (0.0023)	0.0125 (0.0011)	9.28 (0.0106)	73868.8725 (3.8518)
7.	0.00	0.125 (0.0008)	0.6325 (0.0126)	3.55 (0.0278)	1.74 (0.0515)	0.62 (0.0282)	0.1275 (0.0026)	0.4275 (0.0247)	0.005 (0.0005)	0.015 (0.0013)	7.2425 (0.0082)	1451.5825 (0.0757)
8.	169.2775 (0.4171)	26.1975 (0.1737)	0.245 (0.0049)	0.8075 (0.0063)	15.5575 (0.4603)	5.4175 (0.2470)	4.5625 (0.0930)	1.3725 (0.0792)	0.57 (0.0525)	0.0625 (0.0055)	224.07 (0.2550)	0.00
9.	0.00	0.00	0.00	0.0525 (0.0004)	0.0625 (0.0018)	0.00	0.00	0.00	0.025 (0.0023)	0.00	0.14 (0.0001)	7198.7175 (0.3754)
10.	33.455 (0.0824)	291.7625 (1.9344)	14.765 (0.2942)	22.67 (0.1777)	20.695 (0.6124)	10.55 (0.4809)	0.965 (0.0190)	0.965 (0.0557)	5.8275 (0.5376)	3.13 (0.2764)	404.786 (0.4606)	87062.845 (4.5398)
11.	0.00	0.00	0.00	0.085 (0.0006)	0.00	0.00	0.00	0.00	0.00	0.00	0.085 (0.0001)	0.00
12.	1.59 (0.0039)	7.1575 (0.0475)	1.4575 (0.0290)	1.2925 (0.0101)	5.9575 (0.1763)	1.4025 (0.0639)	93.4525 (1.9057)	24.64 (1.4225)	0.08 (0.0074)	0.005 (0.0004)	137.035 (0.1559)	6199.2925 (0.3232)
13.	20.5625 (0.0507)	77.6695 (0.5149)	0.00	12.105 (0.0949)	2.37 (0.0701)	0.3925 (0.0179)	0.00125 (0.0001)	0.0125 (0.0007)	0.00	0.00	113.1137 (0.1287)	663.3225 (0.0346)
Total	710.40 (1.7503)	579.235 (3.8436)	69.0025 (1.3751)	319.2775 (2.5022)	246.3625 (7.28999)	42.5375 (1.9390)	169.7938 (3.4502)	81.3225 (4.6948)	27.9315 (2.5725)	22.645 (2.0054)	2269.0727 (2.5822)	412415.625 (21.5048)
Mean	54.6467	44.5960	5.2864	24.5612	18.9513	3.2721	13.0603	6.2562	2.1496	1.7467	174.5511	31724.2788
Standard Deviation	74.60950	83.46172	12.14543	44.49271	34.04493	3.08420	26.95899	10.71776	3.76205	3.49253	209.43722	43294.91241

FOR 2015-18.

(Amt. in crores)

Source: Secondary.

The table reveals that in term of amount IT sector invested of Rs 710.40 crores while the Automobiles sector made the investment of Rs. 246.3625 crores in the CSR activities. Further, in

term of percentage, average profit results elicited that Automobiles and IT sector have 7.2899 and 1.7503 per cent investment respectively. Besides this, analysis shows that different sectors have given preference to second activities i.e. Education and livelihood with an investment of Rs. 629.3425 crores; it was 0.7162 per cent to total average net profit during of 2015-18 of all the sectors. Total expenditure percentage of the central government is 21.5048 this is more than 2.5822, total average investments in specified activities in the companies act 2013 by selected corporate sectors. Besides this, the study found that investment of central government in different activities of CSR in term of the percentage to average total revenue are very high than the investments by corporate sectors. Further, it is found that the central government gives preference to health, eradicating hunger, poverty and malnutrition, safe drinking water, sanitation, while, corporate sectors give preference to education, differently-abled, livelihood activities. Contrary to this, both, central government and corporate sectors are equally giving preference to rural development project at second order of preference.

v. Conclusions

The central government preferred activity at Sr. No. 1st i.e. health, eradication hunger, poverty and malnutrition, safe drinking water, sanitation for the social activities. While, the corporate sector expenditure into social activities in the activity at serial number i.e. education, differently-abled, livelihood. It is also found that the real estate, power and electrical sector sectors have invested at the same pace as the central government. Percentage of average net profit investment of automobile sector was found higher side in comparison to other sectors. It is also found that investment of total average net profit of this sector in the second specified activity of CSR was approximately was equal to an investment of central government budget allocation in the same. Further, in term of percentage, the study revealed that this sector has more invested in third activity i.e. environment, animal welfare, the conservation of resources. Overall it is found that preference of corporate sector and central government are not the same as per CSR activities.

Suggestions

Berman and Abuja (2008) pointed out that central and state government not achieved health improvement goal due to lack of resources. It is suggested that government should direct the Ministry of Corporate Affairs, investment in CSR activities should follow same pattern as central

or states governments make investment in socio-economic activities. It is also found that expenditure on health and education by government are not at same order studies of Ahmed and Hong (2009) and Papanicolas et al. (2018) shows that health and education both activities impact positively in reduction of poverty and other problems. It is suggested that country like India where deficit of capital at large scale should make comprehensive planning with corporate at least on these twin activities.

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