CSR Spending Intensity in India's Manufacturing Sector: An Analysis of CSR Expenditure as a Percentage of Net Profit

Amit Arun Sahu
Research Scholars, Dept. of Business Management,
RTMNU, Nagpur

RAMPRAKSH O. PANCHARIYA
Supervisor, Dept. of Business Management,
RTMNU, Nagpur

Abstract

The introduction of the Companies Act, 2013, which obliges corporations to adopt Corporate Social Responsibility (CSR) has transformed the CSR environment in India, and especially among profit making corporations. The paper will assess the level of CSR spending in India manufacturing industry by assessing CSR spending relative to net profit of the selected listed manufacturing firms in five years period between 2019-20 and 2023-24. The research follows quantitative, descriptive-analytical design based on secondary sources of annual disclosure of annual reports and CSR. Descriptive statistics and inferential statistics such as correlation and multiple regression analysis are used to evaluate CSR spending patterns, and also determine the important determinants of CSR spending intensity. The results indicate that the intensity of CSR spending has continually risen during the period of study and majority of the companies have also passed or slightly surpassed the benchmark as outlined in the statute. It is also revealed that firm size and profitability have a positive and significant effect on CSR spending intensity and the leverage has a negative impact. The paper finds that despite the improved minimum CSR participation in the production industry because of mandatory CSRs, firm-specific financial and structural variables are also essential in the question of the strangle of CSR spending.

Keywords: CSR, CSR Spending Intensity, Manufacturing Sector, Net Profit, etc.

Introduction

Corporate Social Responsibility (CSR) has become the key aspect of corporate governance and sustainable development which is the main focus of emerging markets like India. Introduction of Section 135 of Companies act 2013 has been a ground breaking move where the expenditure on CSR is required to companies that fall within a certain predetermined net worth, turnover, or profitability based requirement. Such a statutory obligatory, like forced distribution of no less than two percent of the average net profits of the previous three years of overall corporate profits on CSR activities, have produced significant academic inquiry into the nature of corporate conformity behaviour, strategic impetus and difference in the intensity of CSR expenditure in companies and sectors (Dharmapala et al., 2018).

The manufacturing industry is central to the Indian economy, as it plays an important role in the GDP, job creation, exportations and growth of industries. Meanwhile, manufacturing companies are typically subjected to externalities on the environment, health hazards to employees, and social effects on the community. The traits make the sector especially valuable as far as the analysis of CSR spending behaviour is concerned because companies can now be subjected to more scrutiny by regulating authorities and pressure by the stakeholders (Bhattacharyya, 2019). The comparison of CSR expenditure as percentage of net profit or CSR spending intensity is a standard and comparable measure as it reflects the relative devotion of firms to the concept of social responsibility whilst the variance in profitability is taken into account.

Although aggregate CSR expenditure has risen in India since companies were required to adopt mandatory CSR, there is also some indication that substantial inter-firm and inter-industry dispersion in spending intensity, compliance quality and allocation pattern exists (Aswani, 2021). Manufacturing companies though belonging to the highest category in the absolute terms involving CSR spending, have a varied CSR intensity based on the company size, ownership, financial performance, and governance systems. This research aims at examining the level of spending on CSR by the manufacturing industry in India and to add to the emergent body of empirical evidence on the issue of mandatory CSR using the expenditures in comparison to the net profit instead of the absolute level of spending on CSR.

Review of Literature

The available literature on the topic of CSR in India may be divided into two categories: the literature on the effect of the mandatory CSR regulation and the literature on the firm level factor of CSR spending intensity. Initial empirical evidence on the outcomes of the Companies Act, 2013 suggests that the requirement was a major driver of a reported CSR spending among the eligible firms, though there is no consistency in compliance behaviour across firms (Dharmapala et al., 2018). There are companies that deem CSR as a legal requirement, and there are companies that consider it a part of long-term strategic and sustainability models (Bhattacharyya and Rahman, 2019).

The size of firms has always proved to be a potent predictor of CSR spending. The intensity of resources, their greater publicity, and the presence of more pressure on the stakeholders and regulators contribute to larger firms having a higher CSR spending intensity (Ali et al., 2017; Behal and Kumari, 2023). Through the Indian manufacturing environment, the big listed corporations and business group affiliates tend to exhibit orderly CSR programmes and special CSR committees, a factor that has a positive impact on spending and disclosure levels.

The correlation in profitability and CSR spending intensity is inconclusive. Although certain studies show that there is a positive association indicating that financially endowed companies devote more of their profits to CSR practices, others indicate weak or insignificant relations after taking into consideration of the mandatory thresholds (Panicker, 2020; Mitra, 2020). This vagueness suggests that the level of spending on CSR activities under a mandatory regime does not necessarily remain entirely reliant on the existence of excess profits but rather on both compliance factor and image related incentives.

The CSR research has also paid considerable attention to ownership structure and corporate governance. Research indicates that companies that are more institutional or foreign are more likely to be more manifest in CSR transparency and, in other instances, are more likely to spend as a result of improved monitoring and congruence with international sustainability standards (Ghosh, 2021; George et al., 2023). Promoter dominated companies, on the other hand, can display selective CSR based on reputational effects on the company and strategic goals. In manufacturing companies, group-level CSR initiatives also add further difficulty to firm-level measurement of CSR intensity.

Specific to the industry, it has been found that the manufacturing companies deploy the CSR resources in the majority related to the community development, environmental sustainability, health-related, and skills development efforts, both due to the regulatory demands and societal expectations (Bergman, 2019). Sub-sectoral disparities within manufacturing industries have also been witnessed like chemicals, metals, automobiles and pharmaceuticals because of the variability in environmental risks and stakeholders scrutiny (Yadav and Soni, 2022).

Another dominant theme has been the relationship between the intensity of CSR spending and the performance of the firm. The empirical data on India show a range of outcomes: some studies demonstrate neutral or short-term negative implications on the accounting profitability, and others reveal positive correlations with the value of the firm, credit ratings, and financial stability in the long term of CSR strategic alignment (Oware and Mallikarjunappa, 2022; George et al., 2023). These results indicate that serviceability and reliability of the CSR engagement could be equally as crucial as the level of spending.

Although there has been an increasing literature in field-specific studies of CSR spending intensity, there are still gaps in the literature. Few other studies isolate the manufacturing industry with firm level panel information in order to understand CSR spendings against net profit during the post-mandate era. It is critical to fill this void in terms of understanding the influence of industrial nature and financial considerations that work together in influencing CSR behaviour in a compulsory regulation structure.

Objective:

The main goal of the current research is to evaluate the level of CSR expenditure in the manufacturing industry of India by observing the CSR spending as a rate of net profit among the sampled manufacturing firms. In particular, the research aims at determining the level of adherence to the companies act 2013 mandatory CSR requirements, and the differences in the intensity of CSR spending by companies. It also focuses on the role of such firm-specific variables like size, profitability, leverage, and ownership structure on the intensity of CSR spending, hence offer sector-specific empirical evidence of corporate CSR behaviour in the Indian manufacturing industry.

Methodology:

The research design is quantitative and descriptive analytical with the use of secondary sources which include the reports listed as an annual report and CSR disclosure reports of the sampled listed manufacturing companies in India over the five years period, 2019-20 to 2023-24. The sample will include companies that are subject to the compulsory CSR of the Companies Act, 2013. The variables used as explanatory variables include the size, profitability, leverage, and ownership structure; CSR expenditure in percentage of net profit is used as the intensity of CSR expenditure and the explanatory variables.

Data Analysis and Interpretation

The sample is analyzed on a sample of 30 listed manufacturing companies in India which fulfilled the CSR applicability provisions of Companies Act, 2013 at the period 2019-20 to 2023-24. CSR spending intensity will be defined to be CSR spending divided by net profit.

Table 1

Year-wise Average CSR Spending Intensity of Manufacturing Companies (2019– 20 to 2023– 24)

Financial Year	**Average Net Profit (₹ Crore)**	**Average CSR Expenditure (₹ Crore)**	**Average CSR Spending Intensity (%)**
2019–20	312.4	6.01	1.92
2020–21	287.6	5.74	1.99
2021–22	341.8	7.08	2.07
2022–23	368.9	7.89	2.14
2023–24	392.5	8.62	2.20

The table shows that there is a progressive growth in the intensity of CSR spending within the five years. Even though profitability has decreased in 2020-21 because of the effects of the pandemic, the intensity of CSR has slightly risen, indicating that firms still have obligations to the CSR. Since 2021-22, the intensity of CSR spending indicated a better level of compliance and adoption of CSR into corporate strategies in the manufacturing sector, at 2021-22.

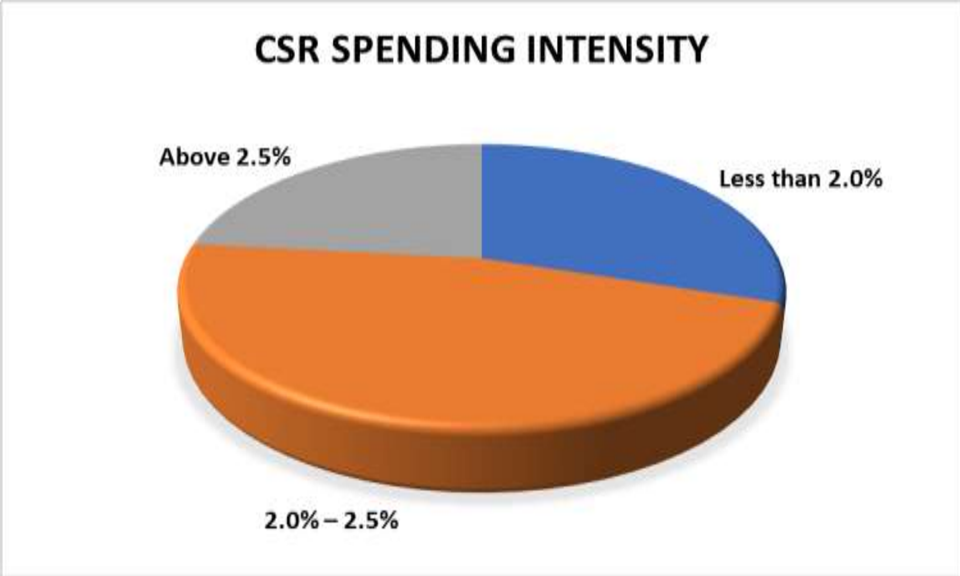

Fig. 1 CSR Spending

Figure 1 demonstrates that approximately 70 percent of the companies had to put in 2 percent or more of their net profit on CSR which means that the companies have a significant adherence to the statutory CSR norms. Nevertheless, 30 percent of the firms did not sustain the required level, implying inconsistency in enforcement, financial limitations, or the rise in importance of CSR. Remarkable (23.3 percent) percentage is above the legal minimum, and it shows active CSR practice among some manufacturing companies.

Table 2

Descriptive Statistics of Key Variables

Variable	Mean	Standard Deviation	Minimum	Maximum
CSR Spending Intensity (%)	2.06	0.42	1.21	3.18
Firm Size (Log of Total Assets)	7.84	0.61	6.71	8.92
Profitability (ROA %)	8.37	2.94	2.10	14.85
Leverage (Debt– Equity Ratio)	0.68	0.29	0.12	1.41

The average CSR expenditure intensity of 2.06 percent proves the general adherence to CSR provisions. The standard deviation is moderate which shows inter firm behaviour in CSR behaviour. The level of variation in profitability and leverage is significant, indicating that the financial structure might be a level of influence on CSR spending decision making, thus need of deriving more inferences.

Table 3

Correlation Matrix

Variables	CSR Intensity	Firm Size	Profitability	Leverage
CSR Intensity	1.000			
Firm Size	0.54**	1.000		
Profitability	0.39*	0.46**	1.000	
Leverage	−0.31*	−0.28	−0.41**	1.000

*Significant at 5%; **Significant at 1%

The intensive of CSR spending has a moderate positive relationship with the size of these firms and their level of profitability, thus, larger and more profitable manufacturing firms are more likely to use a higher percentage of profits on CSR activity. Leverage is coupled negatively with the intensity of CSR giving a perception that highly indebted firms might limit discretionary social spending because of financial costs.

Table 4

Multiple Regression Results (Dependent Variable: CSR Spending Intensity)

Independent Variable	Coefficient (β)	t-value	p-value
Constant	0.87	2.91	0.006
Firm Size	0.28	3.84	0.001
Profitability	0.17	2.41	0.022
Leverage	−0.21	−2.73	0.011
R^2	0.49		
Adjusted R^2	0.45		
F-statistic	12.63		0.000

The regression model shows that it can be used to explain CSR spending intensity as it explains good part of the variance which is 45 percent. Firm size and profitability have a positive and strong effect and leverage has a negative, although significant impact on intensity of CSR expenditure. Such results indicate that bigger and strong manufacturing companies are more likely to adhere to and go beyond the compulsory CSR provisions given that they have sufficient financial resources, but the debt restricts CSR spending.

The summary of the analysis shows that the intensity of CSR expenditure in the manufacturing sector of India has been on the increase in the production level, as most of the companies comply with and surpass the stipulated requirements. The financial traits of firms have a major impact on CSR behaviour, and this is the reason why the idea of mandatory CSR, which is of a regulatory nature, is also determined by the economic capacity and the corporate structure.

Overall Findings

The research indicates that the intensity of CSR spending in the manufacturing sector of India has maintained an upward trend over the period between 2019-20 and 2023-24, showing better performance on the compulsory requirement of CSR provisions of the Companies Act, 2013. In general, manufacturing companies incurred a bit higher, although not by far exceeding the established average of 2 percent of net profit, of CSR activities, which is indicative of the gradual transition of statutory compliance with its more well-organized and sustainable programs of corporate social responsibility.

The results also show significant inter-firm differences in the intensity of CSR spending with most firms satisfying or surpassing the required amount of spend, and still a sizeable minority remained below the required amount. One of the factors is firm size where larger manufacturing firms proved to have greater CSR spending intensity as they have more resources, greater visibility and pressure of stakeholders. Profitability was also discovered to exert a not only positive but an also significant effect on spending intensity CSR which implies that more financially robust firms would manage better to channel funds to social causes.

On the other hand, leverage had shown negative correlation with CSR spending intensity, which suggests that firms with high leverage have a low level of CSR spending out of limit due to a lack of sufficient funds and the focus on debt service. In general, the results indicate that although the mandatory CSR regulation has been successful in increasing the minimum level of CSR expenditure in the manufacturing industry, the financial and structural-specific features of firms still play a determining role in determining the level of CSR activity.

Conclusion

The paper finds that the presence of the compulsory CSR regulation as per the Companies Act, 2013 has been successful in increasing the intensity on the expenditure of CSR in the Indian manufacturing sector, where most of the companies comply with or slightly exceed the recommended amount of CSR expenditure as a percentage of net profit. The analysis shows that the CSR spending behaviour does not have a consistent behaviour but rather it is very much affected by firm-specific characteristics. The bigger and more lucrative manufacturing businesses present greater levels of the intensity of CSR spending, which means better abilities to incorporate CSR within their corporate policy. Conversely, companies that are more leveraged have a relatively lower level of CSR spending which is indicative of lack of funds to spend on discretionary basis. On the whole, it is possible to state that although the regulatory intervention has helped to ensure the institutionalization of the CSR practices, the level and extent of the CSR involvement is still heavily endowed by the financial power as well as structural characteristics of the firms.

Recommendations

According to the results, policymakers and regulatory bodies are advised to reinforce mechanisms of CSR implementation through promoting reporting in terms of outcomes, more transparency in reporting on CSR reports and especially in the manufacturing industry. Firms that manufacture products, particularly when their profitability is moderate or when they are more leveraged should be advised to plan the CSR activities in long term, strategically, but not on a short-term and compliance-based expenditure. Also, knowledge sharing and best practices could be enabled by industry associations and assist the smaller and financially challenged firms to improve their CSR effectiveness. In terms of management, a combination of CSR goals with the fundamental business activities such as the environment sustainability, development of skills and the welfare of the community may enhance the social economic benefits with the corporate image hence enhancing the long-term worth of CSR investments.

References

- Ali, W., Frynas, J. G., & Mahmood, Z. (2017). Determinants of corporate social responsibility disclosure in developed and developing countries: A literature review. *Corporate Social Responsibility and Environmental Management, 24*(4), 273– 294. https://doi.org/10.1002/csr.1410

- Aswani, J. (2021). Mandatory corporate social responsibility and firm performance: Evidence from India. *Journal of Business Ethics, 173*(3), 587– 604. https://doi.org/10.1007/s10551-020-04565-0
- Behal, V., & Kumari, P. (2023). Corporate social responsibility spending and firm characteristics: Evidence from India. *Social Responsibility Journal, 19*(4), 612– 629. https://doi.org/10.1108/SRJ-02-2022-0076
- Bergman, M. M. (2019). Corporate social responsibility in India: A thematic analysis. *Sustainability, 11*(12), 1– 17. https://doi.org/10.3390/su11123456
- Bhattacharyya, A. (2019). Mandatory CSR expenditure and firm performance: Evidence from India. *Journal of Business Research, 101*, 332– 340. https://doi.org/10.1016/j.jbusres.2019.04.021
- Bhattacharyya, A., & Rahman, M. L. (2019). Mandatory CSR and corporate philanthropy: Evidence from India. *Journal of Accounting and Public Policy, 38*(3), 1– 15. https://doi.org/10.1016/j.jaccpubpol.2019.05.001
- Dharmapala, D., Khanna, V., & Raghuram, R. (2018). The impact of mandated corporate social responsibility: Evidence from India’ s Companies Act of 2013. *International Review of Law and Economics, 56*, 92– 104. https://doi.org/10.1016/j.irle.2018.07.001
- George, A. K., Suresh, P., & Reddy, Y. V. (2023). CSR expenditure and financial performance nexus: Evidence from Indian firms. *Journal of Cleaner Production, 385*, 135658. https://doi.org/10.1016/j.jclepro.2022.135658
- Ghosh, S. (2021). Ownership structure and corporate social responsibility: Evidence from India. *Corporate Governance: The International Journal of Business in Society, 21*(5), 897– 913. https://doi.org/10.1108/CG-09-2020-0415
- Oware, K. M., & Mallikarjunappa, T. (2022). Mandatory CSR expenditure and firm performance: Evidence from emerging markets. *International Journal of Finance & Economics, 27*(2), 2103– 2118. https://doi.org/10.1002/ijfe.2254
- Panicker, V. S., & Mitra, S. (2020). Determinants of CSR expenditure in India: A firm-level analysis. *Vision: The Journal of Business Perspective, 24*(4), 412– 423. https://doi.org/10.1177/0972262920956814
- Yadav, R., & Soni, S. (2022). Industry-wise analysis of CSR spending patterns in India. *Asian Journal of Business Ethics, 11*(1), 45– 63. https://doi.org/10.1007/s13520-021-00137-4