Emerging Structural Response of the Corporate Sector – Early evidence on Mandatory Commitment

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Abstract

The Indian corporate sector witnessed a major structural change in terms of Corporate Social Responsibility (CSR) becoming mandatory through Companies Act, 2013. During the preceding decade, there were detailed debates on social responsibilities of business and a few follow-up actions. These ultimately culminated into CSR becoming mandatory, at least for larger companies that qualify for coverage. Compliance becoming effective immediately communicated the seriousness of policy intent. This study examines the emerging structural response of the Indian private sector on mandatory social commitment. This study is based on the dataset developed using Prowess. The dataset consists of 89 large Indian private, unaffiliated companies with turnover of Rs. 1,000 crores or above during the last financial year. Early evidence suggests that in spite of mandatory provisions in terms of company level policies put in place and director level committee's involvement in overseeing the efforts on social commitment, compliance is far short of the required levels. CSR spend compliance by companies in our study's sample for the recent three-year period in terms of firm-year spend adherence was only at 2/3rd mark. In other words, a third of the firm-year compliances were missing for reasons. Variations were observed around (a) industry, (b) firm size/age, and (c) aggregate performance. This paper presents observed trends around different characteristics, discusses implications and generalizability, and shares future research directions.

Key words: *Corporate Social Responsibility, Mandatory Social Commitment, Policy Reforms, Corporate Response, CSR Compliance*

Introduction

Sustainability is expected to be the essence of antecedents, process and the outcomes of any business. It is a marked change since the oft-quoted statement that social responsibility of business is to increase its profits (Friedman 1970). In line with the globally sweeping attitudinal transformation, the Indian corporate sector too witnessed a major structural shift in terms of Corporate Social Responsibility (CSR) becoming mandatory. This became effective from financial year 2014-15. Prior to this, for close to a decade, there had been debates on social responsibility of business, business' contribution to national development and the facilitating processes to be put in place. These discussions culminated into formulation of National Voluntary Guidelines (NVGs) in 2009, SEBI guidance on business responsibility in 2012 and finally, revamped Companies Act in 2013 with a dedicated section on CSR. The implication for the corporate sector is, for relatively larger companies which get covered for mandatory compliance, the erstwhile voluntary allocation/ voluntary disclosure became, during the intermittent period, as voluntary allocation/ mandatory disclosure, and finally it became mandatory allocation / mandatory disclosure on the CSR front. Preceding this is a fairly long evolution on the social commitment dimension, with more of corporate philanthropy practiced by the owners of businesses and no guiding regulation in place.

Carroll (1999, 268) discussed the definitional nuances around corporate social responsibility. Over the years, broader understanding has developed that CSR is the commitment of business to contribute to sustainable economic development, working with employees and their families, and also the local community / society at large to improve the quality of life. This needs to be both good for business and good for development as well. United Nation's Industrial Development Organization (UNIDO) distinguishes different forms of corporate philanthropy including owner's charity or business sponsorships from corporate social responsibility. UNIDO views CSR as a management concept whereby companies try to integrate social and environmental concerns in their business operations and interactions with their stakeholders. It is more than donating some quantum for any feel-good cause. Over recent years, the understanding is that CSR is generally the way through which any company achieves its balance of financial (economic), environmental (ecological) and social (equity) imperatives. Thus, it is seen as a strategic move to balance along the triple bottom line, addressing the expectations of business' extended stakeholders along with having a positive bearing on the business outcomes. In short, it is an approach of creating a win-win proposition wherein instead of losing value through friction and tension between various stakeholders, it helps all with appropriating certain portions of the value created. In the bargain, the belief is that each one's condition improves.

Over the last century, the general feeling is on the borderline of unrest on the point of the corporate sector drawing from society and the environment, but not “giving back” in a responsible manner. For instance, Adizes and Weston (1973, 112) recorded that there is wide dissatisfaction with the slowness and ineffectiveness of established institutions in meeting social needs in areas such as education, housing and poverty. Such sentiment resulted in a number of voluntary initiatives, codes of conduct and emergence of frameworks. During the last two decades, we witnessed coming into existence of International Organisation for Standardisation's ISO14001 in 1996, Global Reporting Initiative (GRI) Sustainability Reporting guidelines in 1997, and Social Accountability International's SA8000 in 1998. These frameworks contributed immensely to the need of staying aligned with non-business priorities as well. The concept of "shared value" among practitioners too spread with the contribution of Porter and Kramer (2011).

While integrating social and ecological concerns with business aspects is well recognised, the leading action for different lines is expected to come from different geographies. It was predicted that the European Union shall set the tone for product and environmental regulations, with USA contributing along the governance guidelines, and international NGOs driving efforts around human rights and labour concerns (Davis, Whitman and Zald, 2008). Corporates may supplement governmental and state agencies' efforts in alleviating the societal conditions. In fact, it is said that there are conditions under which CSR may produce higher welfare than public or other private provision channels, otherwise it may only be second best (Kitzmueller and Shimshack 2012, 51).

Social commitment of Indian Private Sector

Modern Indian industrial and commercial enterprises started appearing by the nineteenth century in a limited manner, and from the latter part of the nineteenth century, in a significant manner. With the independence of the country and exiting of overseas interests in erstwhile managing agencies, Indian business communities took greater interest in the commercial affairs and acquired ownership interests (Tripathi and Jumani 2007).

Indian business, from the beginning, practiced corporate philanthropy in different forms and to different degrees. Well known Indian business groups contributed to socially good causes and made an impression on the community's social dimensions including education, health and even religion. This was the philanthropy practiced by the business owners consciously, in many cases with a philosophical bent of mind, and of doing good *karma*. We may accept this as the Indian version of corporate philanthropy, personally practiced by business promoters.

Indian business community took active part in emerging national debates, actions on freeing the nation and setting the post-independence developmental agenda. However, the contribution of business was more monetary, limited to sponsoring the freedom movement in a significant manner, and during the latter period, shaping the developmental thought process. There were significant names like houses of Birla, Bajaj, Lala, etc. whose patriarchs had close association, albeit personal, with the father of the nation, Mahatma Gandhi. Naturally, their business agenda to a certain extent was influenced by the philosophy of Gandhi, his values and the notion of “*trusteeship*”. For the Indian corporate sector, for many years, the “first mile” of contribution came more in the form of money that may be donation to an institution or sponsorship of educational or health event. The “last mile” of execution used to come from the institution that sought the contribution. NGO participation and large Indian private corporates establishing their own “foundations” to carry out CSR-related activities are later and more recent developments.

Recent policy interventions and structural reforms

During the post-independence period, Indian corporates' engagement with the nation's development happened in two ways. First, was in contributing to the national exchequer in the form of taxes to prime the government's developmental effort. This was an indirect way of contributing. Secondly, occasional voluntary philanthropic activities that were carried out either directly or through extended arms like partnering institutes and NGOs. The latter phase of “volunteering” continued for the next half a century.

Government, by the beginning of the 21st century, felt that there is an imperative of formalizing the efforts of the Indian corporates on the development front, making them a holistic partner through desired conduct. This came out in the form of having “National Voluntary Guidelines” (NVG), signed by the Minister of Corporate Affairs in December 2009.

A characteristic feature of these NVGs is near-elimination of “voluntary” nature. The NVG document directed that every business entity should formulate a CSR policy to guide its strategic planning and provide a roadmap for its CSR initiatives, which should be an integral part of overall business policy and aligned with its business goals. The policy is expected to be framed with the participation of various level executives and approved by the company board. To be noted is the word “should” in NVGs, and this set the “mandatory” tone during further discussions.

The NVG document encouraged the actions of the corporates' need to cover six areas viz. multi-stakeholder care, ethical conduct by the enterprises, workers' welfare, human rights, the environment, and finally, activities for social & inclusive development. These, for any general reader, may appear as a genuine concern of the central government to make the corporate sector align better in terms of triple bottom line based functioning and becoming an active partner in nation building through supplementary efforts. Following this was the circular from the market regulator Securities & Exchange Board of India (SEBI) in August 2012, directing large companies to come out with NVG-complying social responsibility report as part of their business disclosures. This act made the disclosures more formal on social expenditure from 2013.

The Companies Act governing the conduct of businesses was amended in the year 2013 and a separate provision has been made on the mandatory aspect pertaining to CSR, to be complied by all eligible companies. Eligible companies are essentially fairly medium & large companies which may meet any of the qualifying criteria of having (a) an annual turnover of Rs. 1,000 crores, or (b) net worth of Rs 500 crores or (c) net profit of Rs. 5 crores during any of the preceding three financial years, which became recently, the immediate preceding year. If the company qualifies or is eligible for the coverage by the above criteria, then 2% of the average of the last three financial years' net profit has to be set aside under a dedicated head for CSR related expenditure. This eliminates any managerial choice around “how much to spend” to gain the required positive posturing. Thus, the proposal from McWilliams and Sigel (2001, 117) that is based on select firm characteristics and context dimensions, an "ideal" level of CSR can be worked out by managers through cost-benefit analysis, is reduced to irrelevance in the Indian context.

The above is an embedded mandatory feature for financial commitment for CSR and similar mandatory features around execution follow. Modus of CSR implementation effort is also fairly detailed. It is mentioned that there shall be a committee of at least three members of level of directors, at least one of these should be an independent director (aimed at having fairness and transparency), company level policy on CSR, tracking of the efforts by such committee, CSR compliance related information getting notified, and any non-compliance reported. Additionally, information displayed on the website is also indicated for wider reach. To bring in focus and to avoid conflict of interests, the areas which qualify for the spending of CSR funds are specified in clear and unambiguous terms. The underlying thought process appears that by making CSR mandatory for eligible companies, the Indian corporate sector is expected to become an active agent in the multi-pronged national development effort. This may be timely, a desirable objective by any standard, as pure play government actions since independence left a few areas still to be covered, and others not touched to the desired degree. These areas have always been concern-causing viz. poverty, health, women and child welfare among others. Additionally, there are more emerging areas that demand competence and quality of management, which the corporate sector may be better equipped with.

It is said that internalizing the externality might happen either pro-actively or through policy imperative. The current attempt on CSR is through policy intervention. There are dissenting voices too from policy experts, with Maira (2013), then Planning Commission member, observing that mandatory two percent commitment provision is inadequate on the allocation quantum front and also regulating corporate behaviour is anachronistic in nature. Additionally, will there be a "business motivation" for the corporates to focus on CSR? This question needs to be analysed further, given the mandatory provision.

The move of making CSR mandatory may appear timely as the country is at the threshold of demographically taking off. Single handed effort by the governments, how so huge it may be, seems short. The schedule VII that listed "allowed" activities presents a wide scope and aims at leveraging the developmental contribution by corporates. By no stretch of imagination, the corporate sector is going to replace the governmental efforts or can even think of it. This current effort of making the corporate sector a partner is only supplementary at best.

The supplementary action benefits targeted core segments, and there is a secondary impact which often doesn't get the coverage it deserves. By engaging with under-privileged or "bottom of pyramid" sections through the CSR effort, the corporates shall mature from mere economic value creation concept to more holistic shared value notion. This changed perspective, which is reflected in strategic plans and actions of the companies, may lead to a more inclusive and equitable society. This surely benefits businesses further their interests. On the whole, this seems as an implicit win-win plan, though it might not have been so openly articulated along the above lines. Oft quoted adage that businesses can't do well in failing societies should make corporates either pro-actively work towards the aimed objective of more inclusive and equitable society or regulatory nudges force desired actions ensuring "compliances". This work aims at studying emerging firm responses to policy reforms. Firm level responses or outcomes to the policy changes have been studied in the broader context of macro-economic changes (Basant 2000, 813; Upadhyay 2000, 1023; Ainavolu 2009). While these works focused on broader policy transformation, the current study assesses the corporate response to the niche of mandated social commitment. This is also with an intent to study the behavioural response of Indian corporates to the landmark reform of mandatory social commitment. This paper reports the early response of large private Indian companies. Assessing emerging responses and what interpretations can be made from them, emanating from the recent period, is the study's outcome. The recent period's mandated disclosure-based data from Prowess database is used for measuring the "compliance". Here, compliance is in terms of whether the required and allocated amounts that were committed for social usage as per the required schedule under the separate section of the recent, comprehensive law, are spent or not. Here, firm-year wise responses are captured and aggregated period-wise, industry-wise, size-wise and profitability-wise. In other words, firm/contextual factors around which social commitment is checked, served as a fulcrum of analyses. Early responses are analysed from which hypotheses can be generated which can be tested on richer data that shall get accumulated over a period.

Model, Methods and Data

Firms' social commitment and outcomes – An integrated model

Drawing from the extant literature on the subject and synthesizing the thoughts on social commitment, an integrated model is presented here.

Contextual factors: After almost a century of dichotomy of economic action and contextual social factors, it is said that economic actions are embedded in the context (Granovetter 1985, 481). This is true in the case of social commitment as well. The peer pressure which the participating firms may experience in terms of commitments, including on the social front, shall be one of the contextual factors. Similarly, a firm's participating industry shall drive the social and ecological commitments. In other words, if a firm is seen as externalizing its carbon and unclean footprint, it may mitigate the risk of adverse perception by committing in affected areas to get the desired positive visibility. Similarly, a firm seen as affecting community adversely through its presence, may consciously invest on community engagement initiatives. Even the regulatory and policy interventions, as in case of the current paper's context, may make it mandatory overnight. As it is said that public policies are a medium through which governments solve problems of the people, society and nation (Yadav 2016, 23), the firms need to align their actions in line with the changing regulatory landscape.

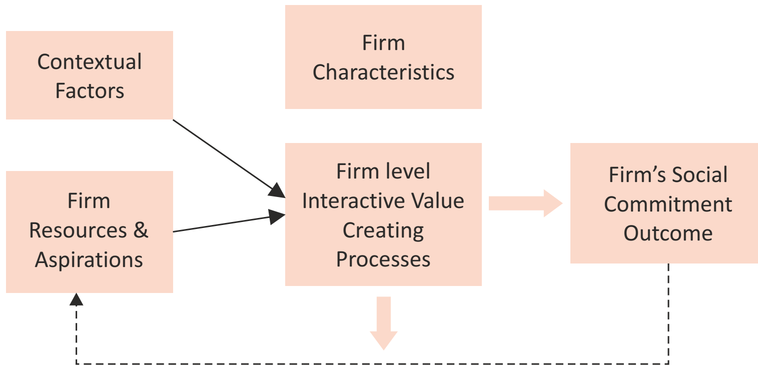

Fig. 1. Integrated model of firm's social commitment

Role of the firm's resources and aspirations: It is intuitive that the firm's economic/financial condition at the time shall have a bearing on its social commitment. Logically, if the firm is struggling on the financial front, it may hardly have any aptitude to invest into non-emergency areas which may not directly have any bearing on its short-term financial survival (McGuire, Sundgren and Schneeweis 1988, 854). Even if the resources of the firm permit the commitment, the firm's long-term commitment to the specific product market may drive its commitment decision on whether to go ahead or not; so also its perception of the strength of the linkage between social commitment and superior future performance through improved social capital.

Firm's characteristics: Social commitment and the outcomes shall be a function of the firm's characteristics. Ownership of the firm in terms of being owned by a patriarchal business family or by a hardnosed corporate investment firm may decide in the beginning whether the firm shall go the social commitment way, in the absence of any compelling regulatory reasons. Similarly, the size of the firm may affect the firm's participation on the social front due to two reasons. First, given the size endowing the visibility on almost direct terms, larger firms may be more compelled to do their bit on social/ecological dimensions than others. Second, being larger of the lot, social commitment may be a smaller share of their budgets than for smaller firms. Thus, the size of the firm may be seen as having a direct bearing on the firm's social commitment.

Another dimension could be the profitability of operations of the firm. The direct relation is easier to appreciate that profitable firms can afford to commit on the social dimension. The reverse relation too is worth exploring. *Ceteris paribus*, whether more responsible firms on the social commitment front stand a better chance of being more profitable, is another relational stream. Similarly, by controlling for other factors, whether more socially active firms have lower stakeholder engagement budgets like marketing promotion, including advertising, is another linkage area. Similarly, as leverage may have a bearing on the value creation (Pandya 2017, 17), a firm's financial leverage position may have a bearing on the social commitment quantum and quality. The reason could be that higher leverage may result in more instability beyond the acceptable threshold and the focus may turn more internal. In the bargain, the social commitment of the firm and quality of outcomes too may suffer.

Firm level interactive value creating processes: Seriousness shall be communicated when a commitment is held as a commitment and implemented, whether on business or social fronts. The firm which is active in terms of driving the managerial commitments on the business front to implementation level shall have a similar passion on the social front, if social is integrated into the business fold. From an organizational controls perspective, whether diagnostic control systems favour efficient value creation on the social front or interactive is better, is an interesting strategy implementation related exploration that needs to be done with deeper, engaging field studies.

Methods

The research questions focus on the firm's compliance and the social commitment outcome variability in terms of firm/contextual level parameters. The research objective is to find out the response of the Indian corporate sector in terms of mandatory compliances of the structural changes in social commitment requirements brought in by the new Companies Act of

2013. Though compliance is expected from the very next financial year viz 2014-15, it is more than a matter of tolerance that a certain period is “allowed” for the reforms to percolate down and get exhibited in the conduct of the participating firms (Ainavolu 2009), and hence, the immediate period is not considered or discounted for the study.

The statute change in 2013 was preceded by dialogue engagement with the corporate sector and industry bodies. This was preceded by NVGs notification in 2009 followed by SEBI circular of 2012 on reporting on business responsibility. Thus, a five-year neutral window period is allowed with this study examining the responses from financial year ending 2017.

The eligibility criteria for mandatory CSR coverage lists either of the three conditions in either of the preceding three years. The criteria are (a) having a turnover of Rs. 1,000 crores, or (b) having a net worth of Rs. 500 crores or (c) a net profit of Rs. 5 crores during any of the three preceding years, which now stands as 'during the immediate preceding financial year'. Focusing on the operational firms which are relatively large in terms of their operations, this study chose and adopted the first criterion given above, of having a turnover of thousand or more crores of Indian currency during the recently ended financial year.

Against the qualifying criterion for inclusion under CSR compliance eligible companies, the funds allocated and actually spent during the financial year by the studied companies are noted. Annual compliance is recorded using Corporate Harmonized Annual Social Commitment & Compliance Index (CHASCCI), an index that is being developed by the author. In other words, for the considered companies qualifying by turnover criterion for CSR compliance, and in such cases where the data exists, the allocated amounts and expenditure incurred were recorded for each of the three financial years of 2016-17, 2017-18 and 2018-19. This firm-year compliance is noted and patterns studied for its variability along the various dimensions.

Data

To explore the subject of social commitment of Indian private sector enterprises that are not affiliated to any business family, specific dataset is constructed from the secondary database of Prowess. Prowess database is from Centre for Monitoring Indian Economy (CMIE). It provides historical information on over fifty thousand companies in India. The companies in the Prowess database are classified on ownership lines. Of the total companies, the government sector accounts for close to 1,200 companies. As the focus of the study is around private sector's response on mandatory CSR compliance, companies belonging to the government sector are not considered.

Among the private corporates, there are two distinct streams in the Indian business context. First are the companies owned by business families, known as “Business Groups” and secondly, those that are not owned by business groups. These are termed Private Indian and are commonly known as “Unaffiliated” companies. There has been a tradition of business groups involving themselves in corporate philanthropy and case studies on top-of-mind recall include names such as Tata group, Birla group, etc. There is evidence in the literature that the social commitment behaviour may differ between unaffiliated and family-owned firms, and the attitudinal and conduct differences between family and non-family-owned companies may be pronounced. It was found that in comparison to non-family firms, family firms disseminate a greater variety of CSR reports and are less likely to be compliant with CSR standards (Campopiano and Massis 2015, 511). For such reasons and to retain the focus, only the compliance behaviour of large unaffiliated companies is considered for the study.

For the financial year ending March 2019, over 2,000 companies have accounting data available in the database. Filtering by the turnover criterion of Rs. 1,000 crores or above during the recently concluded financial year, a total of 161 unaffiliated companies qualified for the study. Of these, on the condition of year-on-year mandatory data availability for the full study period, it got further truncated with only 89 companies qualifying for inclusion. The criterion of mandatory data availability for each year is imposed to generate a common sample for the study period, which is aimed at controlling any firm level variations over the study period. In other words, the dataset for the study has 89 companies, each of which with at least rupees thousand crores annual turnover during the recent financial year 2018-19 and having necessary CSR related data for each of the three financial years. The description of the eighty nine companies in the developed dataset is tabulated in the following section.

Few of the sample corporate names from the dataset are Amararaja (batteries), Avenue Supermarts (Dmart), Ballarpur, Berger (Paints), Biocon, Future (Big Bazaar), Havells, Infosys, Interglobe (Indigo), J Kumar Infra, Kribhco, Mindtree, PVR, Shopper's Stop, and Teamlease, presented here in alphabetical order. Quick appreciation can be had that these represent wide industry lines and cover both product and service sectors, the traditional division line. These companies are definitely larger among their peers in the Indian corporate sector, and fairly represent the private Indian sector.

Early results and emerging patterns

The dataset covers fairly large companies by Indian standards as an annual turnover criterion of rupees thousand crores is imposed. On the total assets front too, these prove to be large companies with average asset size of rupees three thousand crores. Average profitability hovers around eleven percent in both asset and turnover terms during the first two financial years. Average CSR allocation ranged from Rs. 72 crores to Rs. 91 crores with the recorded CSR spend ranging from Rs. 65 to 80 crores.

Financial Year	Avg Turnover	Avg Total Assets	Avg Net Profit	Avg CSR Mandate	Avg CSR Spend	Broad Compliance	Turnover Profitability	Total Assets Profitability
FY 16-17	3,082	3,172	353	72	65	90.3%	11.4%	11.1%
FY 17-18	3,453	3,486	397	78	74	94.5%	11.5%	11.4%
FY 18-19	3,927	3,858	372	91	80	88.8%	9.5%	9.6%

Table 1: Dataset description of the sample of 89 companies.
Non % Figures are in Rs. Crores.

The broader measure of aggregate funds spent compliance percentage moved from ninety percent to a high of ninety four percent, to return again to the original level. Visible correlation exists between the fall in the CSR spend compliance and the drop in the profitability of the 89 companies in the dataset. In other words, during the first two financial years when profitability was recorded at over eleven percent and marginally improved, the compliance % increased from 90% to 94%. However, during the last financial year when the profit ratios fell by two percentage points, the average level of broad compliance dropped to less than 89%, lower than even the original level.

Discussion and implications

This study examines the Private Indian sector's emerging response on mandatory aspects of social commitment. Annual broad compliance of common sample of 89 large Private Indian companies which are unaffiliated to any business group is studied over the recent three-year period. Early results indicate two-third level broad compliance at a macro level with wide variations within. Emerging response of the Indian corporate sector, as indicated in terms of study sample's aggregate spend, has a compliance of close to ninety percent. In other words, of the aggregate CSR amount for all the 89 companies, close to ninety percent of aggregate CSR funds were spent. However, zooming further to the firm level, the compliance indicates wide variance, as measured by the used index CHASCCI, based on firm-year compliance.

In terms of firm-year compliance, which the index captured, the percentage of compliance is much lower. For 89 companies of our common sample dataset, for each of the 3 years, only 175 companies registered compliance out of 267, which is a little less than the two-thirds (2/3) mark. It is worth noting that even after a decade of social responsibility debates, issuance of National Voluntary Guidelines, SEBI guidance on social responsibility disclosures and Companies Act which made social commitment mandatory, even very large companies registered only a two-third level firm-year compliance. It is surprising that given the mandatory aspects pertaining to compliance with expected noise being generated around publicized non-compliance, company level policy framework put in place, director level committee's involvement, the compliance levels are not any higher. Corporate India may be testing waters on fallout of non-compliance and hence, currently not being fully compliant, is one view. Another view can be companies are re-aligning, recalibrating their roll-out structure and systems, and this definitely needs more time than what the statute gave for preparation. And, the truth may be somewhere in between.

During the initial two financial years, compliance in terms of firm-year expenditure compliance was on the increase. This is in line with an earlier observation by Bansal and Rai (2014) who studied reporting trends around impending changes in the CSR regulations with an outcome observation that the reporting trend is on an ascending curve. However, the trends of spending and compliance need to be observed over a longer time frame, as there could be one-off fluctuations that need to be viewed by controlling for other events. An occasional spurt in spending could be due to certain external triggers as Tilcsik and Marquis 2013, 111) noted that philanthropic spending fluctuated with mega-events like natural or man-made calamities leading to a sudden increase in otherwise relatively stable patterns of giving by local corporations.

Observation from the study is, during better time periods, indicated by better profitability in terms of both total assets and turnover ratios, the broad compliance percentage is better. There appears to be a relation between profitability and CSR compliance; during better periods, recorded compliance is better. This is in line with an earlier observation that studied CSR expenditure at the threshold of the mandatory aspect implementation and found that there is a relationship between CSR expenditure and profits of the firm, and firm size is likely to positively affect this relationship (Bansal and Rai, 2014). Historically, firm profitability and social commitment have mixed observations with Cochran and Wood (1984, 42) finding a correlation between social commitment and financial performance even after controlling for the age of the company. However, McGuire, Sundgren and Schneeweis (1988, 854) found that prior performance, along with stock-market returns and accounting-based measure dimensions as well, is more closely related to corporate social responsibility than subsequent performance. Hence, good economic performance may be an antecedent, but not necessarily the outcome of social commitment, can be the inference.

In a subsequent period work, McWilliams and Sigel (2001, 117) concluded that there is a neutral relationship between CSR and financial performance. The evidence can be mixed and qualified as well, as Servaes and Tamayo (2013, 1045) found that corporate social responsibility and firm value are positively related for firms with high customer awareness. This relation is either negative or insignificant in other cases was their observation; poor prior reputation can even reverse the relation.

The logic examined is that during the initial stabilizing periods, social commitment, which may be incorrectly seen as separate from business commitment, may take a backseat and it may pick up over the years. This is based on the evidence from Cochran and Wood (1984, 42) on age affecting in a moderating way the social behaviour and economic performance relation of corporates. The dataset segregated companies into newer and older firms based on age; younger companies are those that are in existence for less than 25 years while older companies are those in existence for more than 25 years. The observation is, there is a noticeable difference in the annual firm-year compliance record. Newer companies in the dataset have recorded compliance that is five percentage points above that of older firms.

S.N.	Dimension	Number of companies	Total firm-year number	Actual compliance	% of Compliance
1	Newer set of companies	32	96	66	68.8%
2	Older companies	57	171	109	63.7%

Table 2: Compliance variance around the dimension of age

This phenomenon needs further examination as it may appear counter-intuitive to "stabilizing first" logic. However, if we perceive that newer firms may be under higher influence of overseas firms than the traditional older ones and hence, might have shown greater sensitivity, the observation is justified. It is also in line with Mun and Jung (2018, 409) who observed that the presence of global companies or global institutional investors may influence and bring convergence on practice lines on CSR.

Another dimension around which variance was observed is size of the firm, with larger firms in the dataset recording lower compliance. The segregation criteria are - of the eighty nine companies in the dataset, twelve recorded over five thousand crores turnover during the recent financial year 2018-19 and others are lower than this cut-off mark. The compliance, broadly in terms of firm-year tick on expenditure of the required funds, recorded distinct variance. Over the three-year period, the compliance trends are tabulated here, with smaller companies in the sample recording five percentage points higher than the larger companies in the dataset.

S.N.	Dimension	Number of companies	FY 16-17	FY 17-18	FY 18-19	% of Compliance
1	Smaller companies	77	52	52	49	66.2
2	Larger companies	12	8	7	7	61.1

Table 3: Compliance variance around the dimension of size of the firm

One of the improvement areas is reporting. The reporting needs to be streamlined with various streams around which the expenditure is to be planned, compliance or non-compliance on each should be recorded, so also the reasons for the latter must be detailed in terms of usefulness for any study with normative and managerial implications. Towards this end, harmonization of reporting standards must be done to help corporates and others involved as it did in case of standardized financial reporting (Tschopp and Nastanski 2014, 147). In the absence of standardized reporting, any comparisons become difficult and even meaningless.

This study has also revealed industry level variances in the firm-year compliances. This is in line with earlier observations on the possibility of industry related variations (King and Lenox 2000, 698). Similar variances are observed along various fronts too with a few responding pro-actively and others lagging. Compliance observed in case of different industry lines where more than one firm existed in the current dataset is tabulated here.

S.N.	Industry	Firm-Year Number	Firm-Year Compliance	% of Compliance
1	Dairy products	6	6	100
2	Storage batteries	6	6	100
3	Retail trading	12	11	92
4	Plastic furniture, floorings & miscellaneous items	6	5	83
5	Pesticides	9	7	78
6	Computer software	12	9	75
7	Other Automobile ancillaries	27	19	70
8	Infrastructural construction	12	8	67
9	Readymade garments	9	6	67
10	Other chemical products	6	4	67
11	Wholesale trading	6	4	67
12	Drugs & pharmaceuticals	24	15	63
13	Vegetable oils & products	9	5	56
14	Cloth	6	3	50
15	Cosmetics, toiletries, soaps & detergents	6	3	50
16	Gems & jewellery	6	3	50
17	Organic chemicals	6	3	50
18	Wires & cables	6	2	33
19	Steel pipes & tubes	6	1	17
20	Industrial construction	6	0	0

Table 4: Compliance variance around the dimension of industry participation

It may be appreciated that given the embeddedness of the social commitment in the context and firm level factors, and the diversity in value creation processes that exist inside the organizations, the outcomes may vary. Additionally, potential moderation of the CSR process efficacy by firm level variables may result in different social commitment outcomes for different companies. As the social commitment and related plans are strongly incorporated and entwined with the firm's business strategy, the social commitment outcome needs to drive better business outcomes for the firm, which need to get reflected in improved firm resource position or higher orbit targeting aspirations of the firm, including diversification. Taking this model forward and using the data that shall get built over a period of time, with disclosure now mandated post Companies Act of 2013, enriched discussions can happen through hypotheses testing around the linkages discussed here.

Future research directions

This study examined the emerging structural response in terms of compliance of large private Indian companies that are not affiliated to any business group. On a common sample basis, it has observed the companies' policy response over a period of three financial years. There are observed variances in the compliance behaviour around size, age and financial performance of firms. There is a wide compliance variability around participating industries, with select industries recording better compliance behaviour.

Future research may focus on each of the observed variance dimensions, and over a longer period. For example, what is the relationship between financial performance and compliance behaviour? Is it true that during better times, compliance is expected to be better? Extrapolating it further for normative implications, does better compliance behaviour lead to superior financial performance or is the relation unidirectional?

Similarly, what is the relation between compliance behaviour and size of the firm? Is it true that larger firms have greater visibility and hence, the pressure to comply may be higher? Or alternatively, larger companies have the wherewithal to manage the context better and hence, for these, the social commitment compliance may not be a desperate necessity.

Apart from playing a mere moderating role as recorded in the literature, whether age of the firm has any relation with the compliance behaviour? Can there be a hypothesis that, as the firm ages (akin to human aging), the competitive processes would have been taken adequate care of (and stabilized) and hence, the commitment to larger stakeholders may set in? If this has to come true, older firms in any dataset have to display stronger compliance behaviour than the younger lot, unlike what is observed in the current study. This needs to be validated over a larger sample and controlling for context.

Another interesting question to probe shall be, with greater granularity of data along the reporting dimensions, whether a relationship is uncovered between the nature of investment and industry in which the company participates. Is it likely that companies belonging to polluting industries invest more in ecological interest areas? Similarly, do companies belonging to socially embedded industries (that require huge tracks of land etc. which affects the neighbourhood communities adversely) invest into more socially relevant areas?

The differences in social commitment and compliance behaviour of business groups, affiliated and unaffiliated, shall be one useful area of exploration. With historical community orientation and significant evidence of social investments, whether Indian business groups and their affiliated companies fare better than unaffiliated ones in terms of compliance behaviour can be investigated.

With mandatory provision imposed at least for larger companies, how the social commitment behaviour of those that are not "covered" is affected shall be another area of interest that shall have managerial and policy implications. Once again, whether "voluntary" works or not, can be tested. Additionally, with two percent of average net profits of the recent three years being the indicative amount, are there any set of companies that are committing more than the required amount? If yes, what motivates their positive social commitment behaviour? Can the organizational characteristics and the commitment behaviour dimensions linkage be established?

Moving forward, mandatory social commitment compliance shall happen along different dimensions leading to a generation of richer, more granular data. When data shall get accumulated over the next few years, questions on quantum of sub-allocations, areas of sub-allocations, spends along each of these, reasons for non-compliance, effective vehicle of execution or last mile delivery, and efficacy of different implementation mechanisms can be explored with higher accuracy. Thus, using richer data on corporates' social commitment and companies' behaviour, the aggregate studies and company level observations shall lead to rich findings to serve as policy making inputs and also with useful managerial implications.

Applicability and Generalizability

The emerging response of the Indian corporate sector to structural changes encountered on mandatory social commitment is studied, and trends observed based on recent period are documented. Early results are analysed for broader applicability and potential managerial implications. The specific trigger for such a research study is the revamped Companies Act which mandated the social commitment from qualifying companies operating in India. The qualifying criteria on three dimensions of either/or of turnover, net worth and net profits makes it almost certain that all large and medium sized firms get covered. The reason a company may escape from firm commitment of two percent of their average profits of the recent three-year period is, it had been in deep losses. Else, firms shall get covered and tracked for implementation of the expected social commitment.

The above contextual change and corporate sector response to the structural change gives us insights on the happenings and potential application in similar or comparable contexts. First of such questions is, whether the mandated route is the only sure approach of enlisting the corporate sector's commitment on social/ecological fronts that shall have a broader beneficiary list than the typical 'I-me-myself'. Whether corporate philanthropy, which earlier was witnessed occasionally on occasions of distress (Tilcsik and Marquis 2013, 111) can get streamlined in non-distress situations, without any external trigger may be studied in similar contexts.

Emerging economies that witness similar socio-economic situations and whose governments, in spite of their best efforts, are not able to cover all priority areas or cover these adequately, may stand to gain by seeking corporate sector's participation in the country's developmental journey. Here, the corporate sector is of great use in supplementing the government's efforts. The corporate sector's commitment beyond mere sharing of the economic resources with government or implementing agencies will be required. Capacity building of the implementation agencies, which most often are small and not so professionally endowed, needs to be done. Sometimes the very departments of the government shall be in urgent need of the mind-set change and capacity building. In addition to the hard resources which the corporate sector may voluntarily share, or through mandated route, made to share, the softer aspects too need to be built around.

The running threads from the organization's strategy to the priority areas where it intended to commit socially and/or ecologically, and the efficacy with which it is able to achieve this engagement, shall enable one to internalize certain externalities. The learning shall be that in a few areas, the corporate sector is better in dealing directly than through the governmental agencies. Through this route, the value for money derived by the corporate is much higher than channelizing the spending through government or authorized agencies. This can be the policy recommendation from the outcome of such studies.

These learnings shall be equally relevant and applicable for both emerging and developed parts of the world. With more proactive response, the corporate sector shall elevate itself from being a cautious, reactive fringe player to a more catalytic agent. Then, it shall be seen as a willing and passionately contributing stakeholder to the achievement of the sustainable development goals which aim to see the world as a better place for all.

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