

Comparison of CSR initiatives in public and private sector FMCG Industry

¹Shreyashi Mitra ²Kavya R & ³Kunika

^{1,2,3}BCom F&A, Department of Professional Studies, Christ University, Bangalore, Karnataka (India)

ARTICLE DETAILS

Article History

Published Online: 10 December 2018

Keywords

Corporate Social responsibility, FMCG Companies, Public sector, Private sector, Profits.

ABSTRACT

Fast Moving Consumer Goods Companies having been contributed a part of their profits towards Corporate Social responsibility for the welfare of the society. We have collected a quantitative secondary data of CSR contribution amounts of four private sector companies and four public sector companies.

The research paper talks about the impact of the CSR contribution in both public and private sector companies in the FMCG industry and the comparison of CSR amount spent by the respective companies in the preceding previous three years. This research also includes the comparison among the four different companies in their respective sectors and also between the contributions made by both the sectors.

1. Introduction

Corporate Social responsibility or Corporate Conscience is a corporate ethic strategy adopted by companies to contribute towards the society by spending on CSR related activities such as education of the financially backward societies, providing for the poor and eradicating poverty. They also spend for curbing the greenhouse gases emitted by them and for countering their carbon footprint by planting of trees and conducting environmental based activities.

The topic of the research deals with Corporate Social Responsibility and how the companies carry out their activities regarding the CSR in both public and the private sector in the telecommunication industry. Corporate Social Responsibility is applicable to companies having the net worth of Rs 500 crores or greater, or companies having turnover of Rs 1000 crores or more, or companies having a net profit of Rs 5 crores or greater. Every company that is required to undertake CSR initiatives as provided in the Companies Act 2013 has to constitute a Corporate Social Responsibility committee of the Board of Directors which shall comprise of at least three directors or more representing the company and at least one them have to be an independent director.

FMCG companies are companies who are aiming to become successful in highly dynamic and innovative FMCG segment. A FMCG company not only has to be acquainted with the consumer, brands and logistics, but also it has to have a sound understanding and knowledge of packaging and promoting. Logistics and distribution systems often require secondary and tertiary packaging to maximize efficiency. Unit or primary packaging protects products and shelf life while providing product information to consumers. The profit margin on FCG products can be relatively small, but they are generally sold in large quantities, thus the cumulative profit on such products can be substantial.

The companies can spend their CSR funds only on the following activities, such as:-

- Eradicating extreme hunger and poverty
- Promotion of education
- Promoting gender equality and empowering women

- Reducing child mortality
- Ensuring environmental sustainability
- Combating diseases and syndromes
- Employment enhancing vocational skills and social business projects
- Contribution to Prime Minister's National Relief fund set up by the central government
- Relief and funds for the welfare of the Scheduled Castes, Schedule tribes, and other backward classes.

All the qualifying companies are required to have a CSR committee and they have to spent at least 2% of its average net profits for the directly 3 preceding financial years on CSR activities. The Companies act 2013 provides a check on such compliances through its provisions. The companies chosen for the purpose of research are in the public sector ITC and NESTLE and for the private sector PARLE and BRITANNIA. These companies are Indian based companies which will show a result of how Indian companies are carrying out its activities in respect of the Corporate Social Responsibility.

FMCG or CPG that is Fast Moving Consumer Goods 'or 'Consumer Packed Goods 'are products that are easily sold and are also relatively low in cost. Due to this reason these companies are one of the highest earnings companies in terms of revenues and turnover. Their contribution towards CSR activities are considered as one of the highest when compared to other sectors. The share of consumer goods companies towards CSR has taken a sharp increase by 57% during the financial year 2014-15, which is in its first year of implementation as required under the Companies Act 2013.

The CSR rules came into force during the year 1st April 2017 under the Companies Act 2013, companies with a net worth of Rs.200 crore or more or revenue of at least Rs.1000 crore or a net profit of Rs.5 crore in a given fiscal year should spend 2% of the profit of the last three years on CSR activities.

2. Review of literature

a)CORPORATE RESPONSIBILITY: BOTTOM LINE PROFITS – MURRAY AND SARAH

While today, few self-respecting companies are without corporate responsibility programmes and mission statements, many have struggled to establish a tangible business case for the investment in these programmes. "The employee audience has really become a major driver of this," says Robert Davies, chief executive of the International Business Leaders Forum, which works with corporations to promote responsible business practices. "And large numbers of corporations are looking at how they can ensure that employees are engaged in the activities that they're involved in." The most recent ranking for the biennial Beyond Grey Pinstripes awards which track MBA programmes incorporate social and environmental issues found that, in participating schools, the number requiring students to take one or more courses in ethics, corporate social responsibility, sustainability or business and society rose to 54 per cent up from and 34 per cent in 2001. The activities of leading business figures such as Bill Gates whose foundation is tackling global health problems such as the spread of HIV/Aids have also increased the desire on the part of workers to see their employer's takesome action on some of the world's social and health problem.(Murray & Sarah, 2007)

b) UNDERSTANDING THE INFLUENCE OF THE BOARD OF DIRECTORS ON CORPORATE SOCIAL RESPONSIBILITY IN U.S. PUBLIC COMPANIES THAT ARE RECOGNIZED AS CSR LEADERS - KAREN A. SMITH BOGART

Corporate social responsibility is the continuing commitment within a business to behave ethically toward larger society and their shareholders. It embodies the core tenets of sustainability. The latter seeks "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". This study explores whether the Board of Directors influences corporate social responsibility efforts in U.S. public companies that are recognized as CSR leaders. Attention centers on board understanding of corporate social responsibility, assessment of fit to corporate governance responsibility, business objectives, integration in practice, and related actions. Stakeholder theory is used to examine the public company board role, responsibility, and influence in CSR efforts. This is appropriate as stakeholder theory is the principal perspective affecting current legal, business, political, and social understanding of the firm. It establishes expectations for business practice, performance, and governance. It shapes the standards for board accountability, structure, transparency, and openness. Corporate social responsibility, corporate governance, and leadership influence literature are also explored as they expand understanding of the board's role and expected impact.(KARENA, 2011)

c) ROLE OF FMCG COMPANIES TOWARDS CORPORATE SOCIAL RESPONSIBILITY (INDIAN INSIGHT) – Dr. VINEET SINGH

This research paper talks about the areas where the FMCG companies have spent on their CSR activities. It highlights the importance of CSR and the role that the leading FMCG companies have to play while contributing towards it. It also states the main initiatives taken by these respective companies in spending towards CSR. The first review done is of the company HUL followed by other leading companies such as ITC, Dabur, Britannia and Amul. The main CSR related

activities are strive for a greener environment, concentration on health and hygiene education, women empowerment, eradication of poverty, educational services, creation of trusts and NGO's, helps in curbing diseases, etc.

These were the overview of the few CSR initiatives taken by some well recognized FMCG companies playing a very important role in the field of social welfare successfully. Though, the list of leading FMCG companies never ends here. Himalaya, (Sharma & Sharma)Godrej and others have their appreciable contribution in respect of CSR is not ignorable at all. All these companies are not just a successful business houses but are the trend setters and somewhat the charming face of the Indian Economy. (Singh D. V., (2016))

d) EVALUATION OF CORPORATE SOCIAL RESPONSIBILITY OF FMCG COMPANIES – POOJA SHARMA AND PALLAVI SHARMA

This research is responsible for finding the relation of sales with the CSR and evaluate how it depends on does not depend on the amount of contribution made towards it. It has studied the various companies in the FMCG sector and has found out the activities it undertakes to carry these out and how does it reflect on the financial aspects such as the Profit and Loss Statement or how it effects the cash flows by checking the Cash Flow Statement.

In this paper they have personally inquired about the facts and numbers regarding their research and then used the tools of regression, correlation and others and have finally arrived at their conclusion that CSR deserves more attention by the respective companies selected by them, which were mainly consisting of the leading companies from the FMCG sector.

It also pointed out that this field though increasing in its importance are given much attention to and consider it to be a mere for of obligation more than a responsibility. With this attitude towards CSR there will be a real concern in the future, but as past records states that this has been improved and hopefully will continue doing so in the future. (Sharma & Sharma, Evaluation of CSR in FMCG companies)

3. Research Design

The research conducted has its source of data as secondary source of data from the following sites :-

- **Ministry of Corporate Affairs** – Reports such as the Annual Report of the companies
- **Registrar of Companies** – The compliance guidelines and also Publications and Journals from such sites
- **Audit Reports of Companies** – The profit and sales value of the Public and Private sector FMCG companies.
- **Sustainability reports of companies** – The value of CSR contribution of Public and Private sector FMCG companies.
- **CSR Policy Reports** – The policy for contribution towards CSR and also the purpose of such contribution made by the specific Public and Private sector FMCG companies.

- **Journals and Publications** – Previously done research on such similar topics
- **Companies Website** – Activities undertaken by such companies in doing CSR and the personals in charge of such CSR activities.

a) Research Objectives

1. To find out the impact of the CSR activities on bottom line of private company
2. To find out the impact of the CSR activities on bottom line of public company
3. To determine the difference in the impact of CSR on public and private company
4. To evaluate the difference in CSR activity in the private and public sector company.
5. To check whether the selected private and public companies are making any contribution towards CSR even if they are incurring losses in any such particular year.
6. To examine the relationship existing between the CSR contributions made by the company for various different years.

b) Statement of the Problem

The problem that is addressed in this research is to find out the contribution of CSR by the public and private sector companies and the activities undertaken by such companies. It also addresses the issue of the sources of such funds that is being contributed towards the purpose of conducting CSR activities for which such funds are contributed. It also sees if there is any contribution towards the same even if they are making losses for any such particular financial year.

The comparison of the amount contributed towards CSR by the public and private sector FMCG companies and how they differ in their impact on the company's bottom line profits. This shows that if there is any similarity in the rate of contribution made by the selected public and private sector FMCG companies.

c) Sources of the data

The research data is collected from the secondary sources which are as follows :-

- Harvard Business Review
- Money Control.com
- Specific Public company's websites such as: ITC and NESTLE websites
- Specific Private company websites such as: PARLE and BRITANNIA websites
- Audit Reports of ITC from Deloitte Haskins And Sells
- Audit Report of NESTLE from A.F. FERGUSON & co.
- Audit Report of PARLE from AJMERA AJMERA & ASSOCIATES FIRM
- Audit Report of BRITANNIA from B S R & Co. LLP
- Books, Journals and Articles regarding the research topic

d) Expected Outcome

1. Expectation through this research is to ensure that the private sector and the public sector companies are

contributing at least a minimal amount i.e. at least 2% of their average net profits.

2. To see if the public sector company's contribution is higher when compared to the private sector companies, and if so then what is the impact of the same.
3. If there is any positive evaluation on the CSR activities conducted by both public and private sector companies, if any and their respective differences.
4. Whether the contribution towards CSR is being used for the specific purposes as mentioned in company law.
5. To check whether the contribution towards CSR is made out of the net profits or not.
6. To check the amount of CSR contribution made by FMCG companies in both public and private sectors.
7. To compare the data regarding CSR between both the sectors and interpret its impact on the companies bottom line.

e) Limitations of the problem

- Difficulty in finding data of the private sector companies in FMCG industry.
- No direct impact of CSR initiatives on the bottom line profits of the selected companies.
- There is no relation existing between the CSR contribution made in the current year and the previous year.
- The amount contributed towards CSR differs based on the net profit earned each year. There is no fixed rate of CSR contribution that is to be made every year, though a minimum rate of 2% has been specified under the Companies Act 2013.

4. Data Analysis

I. PRIVATE SECTOR COMPANIES

BRITANNIA (Values in '000)

Particulars	2015-16	2016-17
Net Profit	(14,17,647)	18,77,922
CSR Contribution	1,04,600	1,58,000
Ratio	7.38%	8.41%

HUL (Values in '000)

Particulars	2015-16	2016-17
Net Profit	24,79,432	19,30,665
CSR Contribution	82,300	35,000
Ratio	3.32%	1.81%

ITC (Values in '000)

Particulars	2015-16	2016-17
Net Profit	14,48,30,000	15,52,60,000
CSR Contribution	21,40,600	32,07,000
Ratio	1.48%	2.07%

NIRMA (Values in '000)

Particulars	2015-16	2016-17
Net Profit	58,95,000	43,13,800
CSR Contribution	40,000	12,000
Ratio	0.68%	0.28%

II. PUBLIC SECTOR COMPANIES

HINDUSTAN NEWS PRINT
(Values in '000)

Particulars	2015-16	2016-17
Net Profit	934,493	615,063
CSR Contribution	30,000	39,700
Ratio	3.21%	6.45%

HINDUSTAN PAPER CORPORATION
(Values in '000)

Particulars	2015-16	2016-17
Net Profit	248,853	207,227
CSR Contribution	25,900	15,727
Ratio	10.41%	7.59%

HOOGLY PRINTING COMPANY
(Values in '000)

Particulars	2015-16	2016-17
Net Profit	835,790	273,857
CSR Contribution	50500	46500
Ratio	6.04%	16.98%

NAGALAND PULP AND PAPER COMPANY
(Values in '000)

Particulars	2015-16	2016-17
Net Profit	(700,391)	(723,938)
CSR Contribution	55,091	65,325
Ratio	7.87%	9.63%

5. Findings and Suggestion

For data analysis we have taken two years data of 4 public and 4 private company. We have calculated profit to CSR ratio to understand the impact of CSR on companies bottomline and also to compare the CSR contributions between private and public sector companies

Private sector

- Most of the companies have complied with the minimum requirement of contributions but we see little initiative from them to contribute sum over and above the CSR minimum limit
- As the profits has increased we see a trend that companies do increase their contribution towards CSR.
- The quantum of profit has no direct relationship with CSR contribution. The companies with maximum profits are not the highest contributors in proportion to their profits.
- Over the most companies have increased their the percentage of contribution.
- The CSR undertaken by private sector companies are varied ranging from education, sanitation, environment stability and disaster relief funds.

Public sector

- Most of the companies have complied with the minimum requirement of contributions as per the companies Act 2013.

- We observe that most companies take initiative and contribute over and above the minimum requirement of contribution. Some companies have contributed over 15% towards CSR.
- Companies with losses have also contributed generously towards CSR. Even exceeding the minimum requirement of contribution.
- Over the years we see a steady increase in the Percentage of contribution irrespective of change in profits.
- Most of the activities conducted by the companies circle around Contribution to Prime Minister's National Relief fund set up by the central government and Relief and funds for the welfare of the Scheduled Castes, Schedule tribes, and other backward classes.

6. Data Interpretation

- We see that with increase in profits over the years there is an increase in CSR contribution from both the public as well as private sector companies.
- In both the sectors we notice that higher profits doesn't translate to higher CSR contribution. As companies with maximum profits are not the highest contributors in terms of percentage of contribution
- We observe that public sector companies are more willing to contribute towards CSR as most of them have contributed above the minimum requirement of contribution and have increased their contribution over the years whereas private sector companies are contributing far lesser than public sector companies
- Here, it should be noted that public sector companies have lesser profits compared to public companies and hence in terms of amount of contribution both the sectors are almost on par.
- Public sector companies are mostly contributing towards funds established by government of India. Whereas public companies are more diversified in terms of the contribution and activities undertaken.

We suggest that more awareness regarding the importance of CSR has to be created. Management of both the sectors should understand their responsibilities towards the society and take more initiative in terms of CSR contribution. Government should encourage companies to contribute more towards CSR by giving incentives and other benefits such as tax exemption to a certain extent. We need to also monitor how the contributions are utilized.

7. Conclusion

We observe that most of the companies are increasing their corporate social responsibility contribution over the years but still a lot of initiatives has to be taken by the companies. Companies are complying with the law in place but a better monitoring system has to be established to ensure that the contributed are properly utilized.

We find that public sector companies are contributing more in terms of proportion of profits compared to private sector companies. But private sector companies are contributing to a varied range of activities whereas public

sector companies are contributing mostly to government owned funds and relief funds.

We need to educate the management regarding the benefits that a company achieves by CSR contribution. CSR may reduce the profits of the company but it helps to achieve a better brand image and customer loyalty.

References

1. Murray, & Sarah. (2007). Bottom line benefits. *Corporate social responsibility*.
2. KARENA, B. (2011). UNDERSTANDING THE INFLUENCE OF THE BOARD OF DIRECTORS. *CORPORATE SOCIAL RESPONSIBILITY*.
3. Singh, D. V. ((2016)). *ROLE OF FMCG COMPANIES TOWARDS CORPORATE SOCIAL RESPONSIBILITY (INDIAN INSIGHT)*. IAEME Publication.
4. Sharma, P., & Sharma, P. (n.d.). *Evaluation of CSR in FMCG companies*. Bhopal.
5. (n.d.).