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# CORPORATE SOCIAL RESPONSIBILITY COMPLIANCE IN EXTRACTIVE INDUSTRIES BEFORE AND DURING COVID-19: EVIDENCE FROM INDIA

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**Abstract**

This study investigated the behavior of companies regarding their CSR spending level as per the 2% CSR spending criteria proposed in Section 135 of the Indian Companies Act 2013. In addition, the difference between the Govt. and non-Govt. firms' CSR spending levels are investigated. Furthermore, the impact of CSR committee attributes and certain firm-level characteristics, such as age, leverage, liquidity, and profitability, on the CSR spending level was investigated. Finally, the impact of COVID-19 on CSR spending levels is also investigated. A sample of 100 companies from the extractive industry listed on the Bombay Stock Exchange (BSE) was chosen to examine the CSR spending level and engagement in CSR activities using content analysis for 2016-2022. The results showed that Govt. owned companies have made more than the required CSR spending. Activities such as "Promoting education and employment enhancing skills among children, elders and women" followed by "Promoting health & sanitation, eradicating hunger & poverty and availability of safe drinking water" are the most common areas for spending CSR budget

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while environmental sustainability is the third most prioritized area. CSR committee independence and cash flow availability significantly influence firms' CSR spending. Furthermore, highly leveraged companies do not exceed the required CSR spending. Regarding the effect of COVID-19, companies with increasing trends have started to identify new avenues for spending on CSR budgets, as there were no policy guidelines available from the government. This study's findings have important implications for policymakers and regulators.

**Key Words:** CSR Spending Level; CSR Engagement Activities; COVID-19; State-Ownership; Companies Act 2013

## 1. Introduction:

A company has a social role and responsibility towards the society in which it works and generates economic benefits. According to Abrams (1951), companies should think about employees, customers, and societies instead of just making profits. A company is answerable to its owners and all external and internal stakeholders. This notion has ancient roots worldwide (Grafström, Göthberg, & Windell, 2008). However, corporate social responsibility (CSR) became a high-profile challenge in the mid-1990s for all industries working in many parts of the world (Hamann, 2003), as CSR is an evolving concept, both in terms of its meaning and practice (Singh & Misra, 2021). Numerous definitions are given to elaborate on the concept of CSR, the most common of which is that CSR is the role of business in attaining sustainability at economic, social, and environmental levels (Jenkins and Yakovleva, 2006). The concept of CSR has been debated for decades (Carroll & Shabana, 2010). In recent years, CSR has gained considerable attention, and academics, researchers, and scholars worldwide have focused on the issues and challenges of implementing effective CSR measures (Aguinis and Glavas, 2012). The large and fragmented nature of CSR literature has motivated researchers to conduct research related to issues in implementing CSR measures.

Globally, companies operate in various industries, affecting the social, economic, and environmental aspects of the industry and the country at large. Industries that use natural resources can harm social and environmental sustainability (Dong et al., 2019). Customers require environmentally friendly products, and organizations should concentrate on the environment (Bhatti et

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al., 2022; Faishal, 2022; Karamaşa et al., 2021; Loi, 2022; Phuoc et al., 2022). Trends promptly change across the world owing to a competitive environment, and they are not sufficient to enhance profitability by concentrating on environmental activities (Arsu & Ayçin, 2021; Badi et al., 2022; Lubis & Pratama, 2022). The success or failure of organizations depends on environmental activities (Al-Tamimi, 2022; Castillo-Acobo et al., 2022). Industries depleting natural resources, such as extractive industries, need to adopt sustainable practices compared to other industries. It is widely acknowledged that these industries are at the forefront of CSR initiatives (Jenkins, 2004; Vintró et al., 2012; Vintró et al., 2014). Industries that utilize natural resources are more likely to have a formal written code of ethics and established environmental policies, as well as a developed sense of social responsibility (Leitão et al., 2021; Reichert et al., 2000) and are more inclined to provide social and environmental disclosures in their financial statements (Jenkins and Yakovleva, 2006). As these industries are significantly depleting natural resources, they are continuously under pressure from social movements, stakeholders, and non-government organizations to adapt to CSR practices and become more socially and environmentally responsible (Kapelus, 2002).

CSR activities are not generic, modified according to the local community's needs (Porter & Kramer, 2011), and aligned with various industrial demands (Apaydin, Jiang, Demirbag, & Jamali, 2021). For instance, a company working in the chemical industry mainly concentrates on environmental conservation and protection; as part of the CSR program, technological educational activities are promoted by companies working in the information technology industry (Van Zile, 2012). Similarly, as extractive companies impact the environment adversely, it is the responsibility of the extractive industry to take CSR initiatives to improve the quality of life of people residing nearby (Frederiksen, 2018). A pre-tax profit of 1 % is normally allocated by extractive companies for local community development initiatives (Bice, 2017) in four key areas: environmental protection, employee relations, development of the local community, and health and safety (Yakovleva, 2017). Extractive companies can effectively promote sustainable growth by allocating 1% of their pre-tax profit to local community development. This strategy supports healthcare and educational programs, skill development, environmental

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preservation, and infrastructure projects. Transparency reporting and stakeholder collaboration positively accentuate the synergy between corporate profitability and community well-being (Das et al., 2023).

Emerging countries rely heavily on extractive industries (Hailu & Kipgen, 2017). Nearly 3.5 billion people in 81 nations depend economically, socially, and politically on extractive industries. Twenty low- and middle-income nations receive 20% of their exports and government revenue from extractive sectors (Halland et al., 2015). The Extractive Dependence Index (EDI) (2017) reveals that all countries that are dependent on extractive resources are developing. Multinational corporations are primarily mining companies. The socioeconomic consequences of emerging nations' dependence on the extractive sector are twofold. Although they have the potential to enhance economic growth, foster job creation, and generate revenue, there are possible disadvantages (Zhou et al., 2023). Economies that rely heavily on a single industry are susceptible to commodity price fluctuations. Furthermore, there may be instances of environmental deterioration and social difficulties. Implementing diversification strategies, adopting responsible corporate practices, and allocating 1% of pre-tax profits for community development can help reduce risks and guarantee long-term socioeconomic advantages in these countries (Das et al., 2023). Furthermore, extractive industries can affect economic development because they generate government revenue, foreign exchange revenue, and direct and indirect local jobs. Extractive industries can worsen or cause environmental and social problems, such as deforestation, pollution, conflict, depletion of nonrenewable resources, and ecosystem upheaval, affecting worker health, safety, and local community well-being.

Extractive industries are under intense global environmental scrutiny. For instance, in India, Sterlite Copper's plant, with an annual capacity of 400,000 tons, was closed because of public resistance as it was polluting groundwater and soil and affecting the air quality ("As Sterlite Plant Expands, a City Erupts in Protest," 2018). Because of their serious environmental and social issues, extractive industries must take initiative through CSR. In response, CSR promotes environmentally friendly activities such as pollution reduction programs and reforestation projects. Initiatives for watershed protection and responsible water use address problems in water resource management (Riaz & Ali, 2023). CSR-driven initiatives to reduce greenhouse gas emissions,

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finance renewable energy projects, and modify operations to account for changing climatic conditions are motivated by concerns regarding climate change (Rau & Yu, 2023). The CSR philosophy is inherently led and characterized by legacy, mission, and principles (Jammulamadaka, 2016). For Indian companies, providing services to stakeholders is more important than increasing shareholder value (Cappelli et al., 2010; Narwal & Sharma, 2008). They participate in voluntary CSR to improve their image among stakeholders and boost visibility among new-generation consumers. Although CSR is voluntary, the Indian Government embraced an inclusive social approach to combining social aims with corporate benefits and legislated that businesses are legally responsible for CSR implementation (Van Zile, 2012). In 2014, India had significant developments that defined a wide range of CSR themes, including rural development, education, gender diversity and empowerment, poverty eradication, malnutrition, environmental sustainability, sports, technology incubation with universities, and the preservation of national heritage and disaster relief. Firms can select themes and design activities relevant to their industries (Singal, 2021). In the Indian context, policy improvements have removed two significant obstacles to CSR implementation: financial resources and implementation skills (Goyal & Kumar, 2017).

Extractive industries' journey towards CSR has been shaped by changing environmental awareness and societal values. Before the turn of the 20th century, the main motivation behind extractive industries was profit, with little consideration given to their effects on the environment or society (Msosa & Mugova, 2023). A significant change occurred in the middle of the 20th century, when laws addressing ecological impacts were established as environmental awareness increased. Social effects on local communities were recognized in the 1970s and the 1980s, prompting community development and engagement initiatives (Soni et al., 2023). The 1990s heralded a period of globalization that saw multiple stakeholders scrutinize multinational extractive corporations. As sustainable development has gained traction, voluntary codes of conduct and multistakeholder initiatives have emerged (Gonzalez Torres et al., 2023). With the advent of CSR reporting and certification in the twenty-first century, businesses must publish sustainability reports and participate in programs such as the Extractive Industries Transparency Initiative (EITI) (Kinda & Thiombiano, 2024). The emphasis

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widened to include supply chain accountability and human rights, demonstrating a more comprehensive dedication to moral behavior. The focus on combating climate change and utilizing technology for sustainable practices has recently increased (Qiu et al., 2023). There are still issues, such as disputes with nearby communities and enforcement of regulations. Historical development emphasizes the importance of incorporating CSR into the core business plans of extractive industries (Adomako & Tran, 2023). Extractive industries must navigate this new landscape as society increasingly emphasizes sustainability, ensuring that their practices balance economic interests with environmental and social concerns (Bibri et al., 2024).

De Villiers and Marques (2016) study different levels of CSR disclosure in European firms. They find that stakeholders perceive CSR disclosures as more useful in countries where investors can better voice their concerns and where government policies are better regulated and implemented more effectively. There are no sanctions in place for noncompliance (Kapoor and Dhamija, 2017); however, there is a need to conduct a longitudinal study to investigate the spending level of firms in the extractive industry concerning the 2% spending level given in Section 135. Therefore, in the present research, several factors are taken into account. First, the difference between the CSR spending levels of government and non-government firms is investigated. Second, we investigate the impact of CSR committee attributes and certain firm-level characteristics, such as age, leverage, liquidity, and profitability, on CSR spending levels. Finally, the impact of COVID-19 on the behavior of companies regarding CSR spending level was also investigated.

To the best of our knowledge, this is the first study that contributes to the literature on CSR in these dimensions. Therefore, this study aimed at answering the following research questions:

1. What is the level of mandated CSR compliance by companies in India, as per the 2% CSR spending criteria proposed in Section 135 of the Companies Act 2013?
2. How do CSR spending levels differ between government and non-government? companies in India?
3. How do CSR spending levels differ between companies based on CSR committee attributes and firm-level characteristics?

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4. How CSR spending levels differ between companies due to the impact of COVID-19?

## 2. Literature Review:

### 2.1. CSR activities in Govt. & Non-Govt. firms

According to Institutional theory, governments are societal institutions with coercive control to standardize the activities of companies through the implementation of rules and laws (Van Kersbergen & Van Waarden, 2009). Governments control or own critical resources in emerging markets. In India, Social reform regulations have promoted community relationsCSR, especially among government firms (Muttakin & Subramaniam, 2015). Accordingly, the agency theory perspective states that improving financial performance may not be their primary goal; government-owned companies in India are motivated to advocate for excellent social performance (Subramaniam, Kansal, & Babu, 2017). By contrast, non-government-owned companies in India might have less inclination toward CSR initiatives than government-owned companies; rather, they focus on better profitability (Shin et al., 2015) and enhanced shareholder value (Sarkar, 2010). Before pro-market changes in India, when laws and regulations were changed to move the economy from a socialist orientation to a more market orientation (Ahluwalia, 2002), historical considerations led government enterprises to consider the economic and social hubs of local communities and their welfare. This raises the possibility that government enterprises will be more sensitive to external normative demands to continue providing social benefits similar to those offered before the transition (Mohan, 2001) because external pressure groups are more concerned about CSR disclosures (Tilt, 1994).

Government-sponsored CSR initiatives and activities are sensitive and responsive to institutional and societal pressure, ultimately leading to enhanced CSR activity in government-based firms (Kansal, Joshi, Babu, & Sharma, 2018). According to Jenkins and Yakovleva (2006), government agencies are becoming more interested in collaborating with businesses to address common sustainable development concerns and attain sustainability goals (Mitra & Chatterjee, 2020). Government-business relationships appear

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to provide an essential foundation for CSR practices in the extractive industry, based on the number of initiatives identified. Moreover, a proper interplay between the government and companies involved in extractive activities could facilitate the harmonization of CSR initiatives with national development priorities. For example, companies' efforts to invest in infrastructure development, education, and healthcare in underserved communities for the purpose of giving back to society would be guided by the policies of the government, which again serves broader governmental social and economic policy objectives (Jenkins & Yakovleva, 2006). Collaboration can make CSR more efficient in serving the most pressing societal needs.

### 2.2. Section 135 & CSR activities

The concept of CSR in India is regulated in Section 135 of the Indian Companies Act of 2013. The parliament of India passed the Indian Companies Act of 2013, and the Indian president approved it on August 29, 2013. These provisions were applicable on 1st April 1, 2015. Companies with a net worth of INR 5,000 million ($65.84 million) or more, a turnover of INR 10,000 million ($131.67 million) or more, or a net profit before tax of INR 50 million ($0.658 million) or more during any financial year must comply with the CSR standards, according to Section 135 of the Indian Companies Act 2013. Mandatory CSR spending in a particular financial year is at least 2% of the average net profits before the company's tax made during the three immediately preceding financial years (Kapoor & Dhamija, 2017; Singh & Verma, 2014). If a corporation does not spend the required amount of money CSR during a fiscal year, it must explain the reason. Dharmapala and Khanna (2018) investigate the impact of changes in Indian CSR legislation along different dimensions, including firm value and CSR spending.

The results reported a negative effect on firm value, subject to the 2% requirement set by law. Firms that exceeded 2% required spending faced a drop in firm value (Hickman et al., 2021). Dharmapala and Khanna (2018) also measured voluntary CSR expenditure before and after the implementation of Section 135 of the Companies Act 2013 and the related impact of legislation. They found a positive impact of legislative changes made by section 135 on CSR spending; there was an increase in CSR spending among companies under section 135. Similarly, they found that companies

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that initially spent less than 2% of their average profits amplified their spending after implementing section 135. In contrast, while firms that initially spent more than 2% condensed their CSR spending towards that number set by the legislation, this indicates the inclination towards the 2% limit implemented in section 135. Dharmapala and Khanna (2018) discovered that arguments for non-spending CSR money were "not very thorough and often not extremely compelling" in compliance and enforcement. Another study conducted pre-implementation of Section 135 by Sarkar and Sarkar (2015) on CSR activities of 500 Indian listed companies from 2003 to 2011 and reported that the percentage of large, listed companies that were engaged in CSR reporting increased steeply from 7% to about 62%. Hassan et al. (2023) explore the impact of local legislation and regulations on promoting CSR in the energy and extractive sectors within the Kurdistan Region of Iraq. The study reveals that although there are legal regulations for CSR, ensuring compliance is difficult.

The Kurdistan Regional Government occasionally utilizes CSR for political validation, while international oil companies primarily emphasize CSR in their reports to enhance the perception of their shareholders rather than having a significant impact on local communities. In general, this study indicates that CSR has limited efficacy in tackling social and environmental problems in the area. On the other hand, mandatory CSR spending argues that it ensures the contribution of businesses toward social welfare with respect to various issues such as poverty, education, and environmental sustainability. Section 135 has such a legal provision and is, therefore, one of the much-needed steps toward bringing about CSR practices into mainstream in countries like India, where voluntary CSR is not enough. Therefore, this mandate could help integrate and homogenize CSR across sectors, ensuring that all companies in a position to do so give back a minimum amount of their resources towards societal development (Dharmapala and Khanna, 2018). By contrast, mandated businesses that spend on CSR undermine business efficiency and profitability. They further argue that compulsory CSR can, therefore, be considered a subtle form of taxation, which may further amount to "box-ticking" rather than instances of bona fide social responsibility. Another concern regarding mandatory CSR is that it may not bear any relation to the strategic objectives of a company or the particular needs of the communities they serve, hence

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proving ineffective from the resource use perspective. The second point that critics put forward is that, whereas mandatory CSR would be a one-size-fits-all measure, it is bound to engender suboptimal solutions due to suppressed innovation against voluntary CSR, which can be much more tailored to the firm's capabilities and stakeholder expectations (Hickman et al., 2021).

### 2.3. Firm characteristics & CSR activities

#### 2.3.1. Firm Age

CSR spending differs based on various dimensions; for instance, the impact of CSR spending differs according to the geographic location of the operation (Adams, 2002; Bird et al., 2012; Turcotte & Lachance, 2023), age, ownership (Oh, Chang, and Martynov, 2011), and industry (Russo and Fouts, 1997). Talha, Christopher, and Karthikeyani (2016), in their study of 100 companies listed on the Bombay Stock Exchange (BSE), reported that a firm's age positively impacts the level of CSR disclosure. According to Owusu-Ansah (1998), three elements may be at play: competition, the cost of acquiring and processing information, and the inadequacy of information to be reported, as newly established businesses may not have carried out many socially significant actions (Santos et al., 2024). Flamholtz (1986) argues that older firms are open to less competition and are well established, so they are keen to report more on CSR activities. Al-Gamrh and Al-Dhamari (2016) conducted a study on Saudi non-financial companies and reported that firm age is positively associated with CSR activities.

#### 2.3.2. Leverage & CSR activities

Purushothaman et al. (2000) argued that companies with high leverage voluntarily participate in CSR activities. Similarly, Ho et al. (2021) study Chinese companies and report a significant and positive relationship between CSR activities and leverage. In contrast, a study by Chi, Wu, and Zheng (2020) on public and private firms reported that public firms are older and larger in comparison to private firms and are less levered in comparison to private firms. Therefore, public firms, as a result of low leverage, report more on CSR activities. Similarly, a study by Nuvaid, Sardar, & Chakravarty (2017) on 176 firms listed on the Bombay Stock Exchange found that the leverage of the firm has a negative relationship with CSR spending.

#### 2.3.3. Liquidity & CSR activities

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A study by Mukherjee, & Bird (2016) on 223 corporations working in India found that one of the major reasons for not undertaking CSR expenditures is that companies are constrained for cash. Similarly, Abd-Elsalam and Weetman (2003) discovered that organizations with high liquidity report more information on corporate social responsibility in their annual reports to distinguish themselves from enterprises with low liquidity. This is frequently performed to meet stakeholders' information needs. Firms that manage their short-term funds well are more likely to be involved in CSR activities (Abd-Elsalam & Weetman, 2003). Moreover, Uyar et al. (2022) conducted a study on 60 countries and reported that firms with high liquidity engage in more CSR activities than companies with low liquidity.

**2.3.4. Firm earnings & CSR activities**

Companies that make higher profits are more vulnerable to government interference, so they begin to reveal more about their societal activities. Managers of well-known companies that make high profits report their commitment to society to show that their shareholders' money is spent well. Belkaoui and Karpik (1989) find that firms with higher profits report more about their CSR activities and initiatives, increasing their CSR spending. In contrast, Garg and Gupta (2020) reported that firms that comply with mandatory CSR expenditure have lower performance in terms of profitability. Aswani, Chidambaran, & Hasan (2021) reported in their study that the mandatory CSR regime negatively impacts Industrial firms and firms with high capital expenditures. Moreover, it is crucial to acknowledge that the effectiveness of CSR programs goes beyond adherence to regulations and the act of revealing information. The genuine significance of CSR lies in the concrete measures undertaken to tackle societal issues, promote sustainable practices, and generate mutual benefits for all parties concerned (Koch et al., 2024). Therefore, although profitability and legal demands might impact CSR reporting procedures, the true indicator of success is the significant contribution that firms make towards creating a more ethical, fair, and ecologically aware society (Dharmapala & Khanna, 2018).

**2.4 COVID-19 & CSR activities**

COVID-19 harmed firms' earnings, thereby reducing the cushion for CSR spending. Economic depression may be unavoidable due to COVID-19 (Barua, 2020). According to the United Nations Conference on Trade and

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Development (UNCTAD, 2020), the world's top 5000 multinational firms have lowered their earnings predictions owing to COVID-19 effects, with a 9 percent average fall in earnings worldwide; Asia is projected to take the worst blow, with a -18 percent fall in earnings. COVID-19 has negatively impacted India's economy, which is one of Asia's worst-affected countries. COVID-19 has affected various major macroeconomic parameters in India, including consumption, goods supply demand, unemployment, purchasing power, and markets (Joshi, Bhaskar, & Gupta, 2020). Kamdem, Essomba, & Berinyuy (2020) reported that COVID-19 has a strong causal link with commodity price behavior, which may be extrapolated to explain the continual reductions in oil prices. The mandatory 2% contribution to CSR activities by firms working in India is likely to shrink due to COVID-19 (Begum, 2021). By contrast, Manuel and Herron (2020) reported that businesses have taken a wide range of charitable CSR acts in response to the demands of internal and external stakeholders during the pandemic, possibly influenced by both utilitarian and deontological reasons. According to Rakshit and Basistha (2020), CSR initiatives can mitigate the effects of COVID-19 significantly. The pattern of CSR expenditure and the change in the level of CSR expenditure by Indian companies since the inception of the Companies Act of 2013 were studied. The results reported that voluntary CSR expenditure toward COVID-19 relief exceeded mandatory requirements (Bhatia & Dhawan, 2021).

**2.5 Theoretical Framework**

Legitimacy theory is a well-known theory that is used to describe and forecast a company's social reporting activities (Guthrie and Parker 1989; Adams, Hill, & Roberts, 1998; Moerman and Van Der Laan 2005; Tilling and Tilt 2010; Cho, Michelon, Patten, & Roberts, 2015; Kansal et al., 2018). According to the legitimacy hypothesis, firms disclose CSR to portray socially responsible images (Branco and Rodrigues 2006). This highlights that businesses will respond to community expectations and may be obliged to change and communicate their actions to align with social norms (Deegan, 2002b). Furthermore, Stakeholders are an important factor for a firm to engage in CSR activities, allowing firms to legitimate and sustain their reputation with their stakeholders (Deegan, 2002b; Gray et al., 1995b). Within the legitimacy theory framework, a company's age may impact its CSR initiatives. Older organizations may be more motivated to participate in socially responsible

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practices to uphold their reputations and legitimacy (Branco & Rodrigues, 2006). CSR activities can be influenced by leverage, liquidity, and firm earnings since companies may strategically devote resources to CSR efforts to improve their reputation and credibility with stakeholders (Deegan, 2002a; Gray et al., 1995a). Furthermore, companies with greater debt may experience a need to participate in CSR to reduce perceived financial risks and enhance their credibility (Branco & Rodrigues, 2006). Corporations with more profits and financial resources are more likely to allocate funds toward CSR initiatives. This in turn can enhance their credibility and acceptance among stakeholders, as stated by (Peng & Yang, 2014). CSR gained importance in India following the implementation of section 135 of the Companies Act 2013, which required companies to invest 2% of their net income in social activities. According to Wen (2009), focusing on CSR can help enterprises gain legitimacy and reduce business risks, which may bring institutional investors investment premiums and result in long-term benefits. CSR is now a legitimate demand rather than a mere formality for Indians. Considering this theory, it will be interesting to examine how businesses respond to CSR before and during COVID-19.

From the above literature, most previous studies have reported on the level of CSR disclosure in light of Section 135 of the Company's Act 2013 (Sekhon & Kathuria, 2019). However, this study examined CSR expenditure and engagement in CSR activities. Furthermore, actual CSR spending is compared with budgeted CSR spending to determine whether companies have made greater, equal, or less than the required spending on CSR activities.

## 3. Research Design

### 3.1. Data & Sample

To analyze compliance regarding corporate social responsibility with Section 135 of the Companies Act 2013, this study used a data sample for the period from 2016-2022. Section 135 was implemented in April 2015. Therefore, the corresponding financial year was 2016. The data were collected from 2016 to 2022. Furthermore, these years have been crucial for checking the impact of COVID-19. Extractive firms are selected because they heavily pollute the environment and are regulated under Section 135 (Hickman et al., 2021). The reason for selecting this seven-year study period is to analyze the long-term behavior of companies in the extractive industry in India regarding

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compliance with Section 135, which deals with mandated expenditure on corporate social responsibility. As mentioned, this section requires companies in India to allocate at least 2% of the average profit of the last three years preceding to corporate social responsibility activities. Furthermore, companies are required to spend this allocated CSR budget on a certain class of CSR activities in the same year. Suppose these companies fail to spend their allocated CSR budgeted amounts in the same year. In that case, the section requires companies to carry forward this unspent CSR budgeted amount for the next year and provides a strong reason for not spending this amount. Therefore, considering this requirement in Section 135, it is necessary to consider longitudinal data to analyze companies' long-term compliance with mandated CSR spending requirements.

**Table I Sample of Companies**

| Sr. No. | Sectors | Numbers |
|---|---|---|
| | Aluminum | 12 |
| | Coal | 04 |
| | Exploration | 07 |
| | Integrated Oil Gas | 03 |
| | Iron & Steel Products | 37 |
| | Mining | 08 |
| | Refinery | 07 |
| | Zinc | 01 |
| | Oil Marketing & Distribution | 09 |
| . | Iron & Steel Interim Products | 66 |
| | **Total Companies in the Sample** | **154** |
| | Less companies eliminated due to delisting | 05 |
| | Less companies eliminated due to non-availability of annual reports | 04 |
| | Less companies eliminated due to not meeting CSR spending criteria | 45 |
| | **Final Sample** | **100** |
| | **Govt. Owned Companies** | **15** |
| | **Non-Govt. Owned Companies** | **85** |

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This study uses an initial sample of all companies listed on the Bombay Stock Exchange (BSE) from the extractive industry in India. A total of 154 companies from ten sectors belong to the extractive industry in India. of these 154 companies, five were eliminated because they were delisted from the Bombay Stock Exchange (BSE), and four were eliminated because of the non-availability of annual reports. Furthermore, forty-five companies out of this total sample were eliminated because they did not meet the criteria for mandatory CSR spending as per Section 135 of the Companies Act 2013. Thus, the final sample consisted of 100 companies. The details relating to the sample companies are also given in Table 1, and the geographical distribution of the companies is given in Table 2.

Data on all sample companies from the extractive industry were collected from annual reports for seven years. Section 135 of the Companies Act 2013 requires all companies to disclose a separate section with the name 'Report on CSR Activities' in the annual report containing information about all CSR-related requirements.

**Table 2 Geographical Distribution of Companies**

| Name of State | No. of Companies |
|---|---|
| Madhya Pradesh | 20 |
| Gujarat | 18 |
| Karnataka | 10 |
| Odisha | 10 |
| Chhattisgarh | 9 |
| Andhra Pradesh | 8 |
| Rajasthan | 7 |
| Tamil Nadu | 7 |
| Maharashtra | 6 |
| Jharkhand | 3 |
| Telangana | 3 |
| ***Total*** | ***100*** |

### 3.2. Variables measurement

#### 3.2.1. Measurement of CSR

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Previous studies have used many bases to measure corporate social responsibility (Turker, 2009). Content analysis is one of the most popular methods used in literature (Unerman, 2000). Similarly, some studies have used CSR scores as a proxy to measure CSR (Cho et al., 2019). Considering the applicability of mandated reporting on CSR expenditures and activities, this study uses actual CSR spending and engagement in CSR activities to measure CSR (Dharmapala & Khanna, 2018). Furthermore, the actual level of CSR spending is also compared with the budgeted level of CSR spending to determine whether companies have made greater, equal, or less than the required spending on CSR activities.

### 3.2.2. CSR committee effectiveness

Schedule VII of the Companies Act 2013 prescribes lists of CSR activities that companies in India can undertake while spending on CSR (Gatti et al., 2019). These activities include promoting education, empowerment of women, improving health, environmental sustainability, national heritage, art and culture protection, promotion of rural sports, and rural development projects (Hickman et al., 2021). It is the full discretion of the management to identify the number of CSR activities on this list. Section 135 of the Companies Act mandates that all companies constitute a CSR committee that should be responsible for identifying CSR activities and recommending CSR activities and projects as per the CSR policy of the company. The CSR committee's effectiveness in undertaking CSR activities may depend on the independence of the CSR committee chairman and overall committee members' independence (Dharmapala & Khanna, 2018). Moreover, the dimensions used to measure the effectiveness of the CSR committee include independence, measured by the chairman's and members' independence, meeting frequency, and expertise, understood in terms of relevant experience in the area of each member. Independence was measured as the percentage of independent directors on the committee. Meeting frequency was measured by the number of annual meetings. Expertise is reflected in the proportion of members with relevant CSR experience. These dimensions are informed by the extant literature, which emphasizes that independent and well-informed committee meetings are better at guiding CSR activities. This multi-faceted approach

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enables us to rigorously assess the committee's ability to influence effective CSR outcomes (Husted & de Sousa-Filho, 2019; García-Sánchez et al., 2021).

#### 3.2.3. Firm Characteristics

Section 135 of the Companies Act 2013 mandates that all companies spend at least 2% of the average profit in the last three years of CSR activities. However, it is at the discretion of companies that may spend on CSR activities than this minimum requirement. This behavior of companies regarding spending on CSR activities may depend on firm-level characteristics such as liquidity, firm age, leverage, and profitability. These firm-level characteristics are also considered in this study to determine whether they affect companies' behavior regarding spending on CSR activities.

#### 3.2.4. CSR spending level vs. disclosure

In our study, the levels of CSR spending have been measured as actual financial expenditure on CSR activities by the companies, as mandated in the Indian Companies Act, 2013, through Section 135. This approach aligns with past studies: spending is usually a direct, measurable indicator of a firm's level of commitment to CSR (Dharmapala & Khanna, 2018; Hickman et al., 2021). The reason for using spending as a principal variable is premised on the legislative requirement that firms spend a minimum of 2% of their net profits on CSR activities. A normative requirement of this nature has an established measure, and therefore, a measurement threshold to be evaluated for compliance and participation in CSR. On the other hand, the level to which and quality of the information reported by firms in their reports regarding their CSR activities is referred to as CSR disclosure. Disclosure, in contrast, is tested by the content in the annual reports examining if the reporting content is comprehensive in explaining what is reported as well as transparent (Cho et al., 2019). The primary difference between spending and disclosure values is that spending is the actual disposition or utilization of resources, while disclosure is communication and transparency to stakeholders about such utilization. Prior research indicates that spending is a pure indicator of CSR activity, but disclosure is a tool for legitimacy and stakeholder management (De Villiers & Marques, 2016; Branco & Rodrigues, 2006).

## 4. Results and Discussion

### 4.1. Descriptive Statistics for CSR Spending

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This section compares the average actual CSR spending with the required CSR spending over seven years from 2016-2022. As per the results of Panel A of Table 3, the overall mean value shows that sample companies from the extractive industry have performed quite better as the overall mean actual CSR spending is INR 38.45 crore compared to the required CSR spending of INR 35.04 crores. Considering the CSR performance of companies regarding yearly CSR spending, similar results have been found that companies have made actual spending on CSR activities marginally better than the required CSR spending (Panel B, Table 3). Even in the post-COVID-19 years, the results show that companies have performed even better than previous years in terms of spending on CSR activities. Panel C of this table compares the CSR performance of govt. owned companies with non-government owned companies. The results indicate that govt. owned companies have a much larger CSR budget than non-govt companies. owned companies. However, on average, non-govts. Owned companies performed marginally better than government-owned ones in terms of social performance.

**Table 3 Descriptive Statistics for CSR Required versus Actual Spending**

| | Mean | Min | Max | Std. Dev. |
|---|---|---|---|---|
| **Panel A: Overall CSR Spending** | | | | |
| Overall CSR_Rspend | 35.04 | 0 | 874.95 | 106.69 |
| Overall CSR_Aspend | 38.45 | 0 | 908.71 | 110.05 |
| **Panel B: Year-wise CSR_Rspend** | | | | |
| **CSR_Rspend** | | | | |
| 2016 | 27.65 | | | 9.73 |
| 2017 | 29.71 | | | 11.43 |
| 2018 | 33.08 | | | 12.48 |
| 2019 | 35.84 | | | 13.65 |
| 2020 | 42.55 | | | 15.04 |
| 2021 | 38.55 | | | 15.55 |
| 2022 | 37.92 | | | 16.23 |
| **CSR_Aspend** | | | | |
| 2016 | 28.06 | | | 10.82 |
| 2017 | 30.33 | | | 11.81 |
| 2018 | 34.04 | | | 12.60 |

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| | | |
|---|---|---|
| 2019 | 37.33 | 14.00 |
| 2020 | 45.58 | 15.32 |
| 2021 | 46.62 | 15.74 |
| 2022 | 47.21 | 15.92 |
| **Panel C: Govt. Vs. Non Govt. Companies** | | |
| **Overall CSR_Rspend** | | |
| Govt. Companies | 92.65 | 15.51 |
| Non-Govt. Companies | 22.38 | 6.21 |
| **Overall CSR_Aspend** | | |
| Govt. Companies | 91.35 | 14.75 |
| Non-Govt. Companies | 24.88 | 6.75 |

### 4.2. Analysis of the level of CSR Spending

According to the Companies Act 2013 mandates regarding CSR spending, companies can spend CSR activities equal to, greater than, or less than the required level of CSR spending. Therefore, this section studies the behavior of sample companies from extractive industries regarding the level of CSR spending. As per the results of Panel A of Table 4 regarding the actual spending on CSR activities by companies across years, it has been found that there are no large variations among companies regarding making the exact required spending on CSR activities over seven years. Considering the trend of companies' spending on CSR activities over seven years, it has been found that 49% of companies were involved in making less than the required CSR spending in 2016, followed by a decreasing trend over the seven years. In 2020, 42% of the sample companies from the extractive industry made more than the required spending on CSR activities despite the disruption of business operations due to COVID-19. Finally, considering the spending levels between the pre-COVID-19 and post-COVID-19 periods, the results show that companies have continuously made equal to the required spending to meet stakeholders' expectations.

Panel B of this table analyzes and compares the behavior of sample companies regarding the level of spending on CSR activities across the government. owned versus non-govt. companies. The results indicated that, within the govt. owned company sample, the majority govt. Owned companies (52%) are involved in making CSR spending greater than the required level. Only 24% of

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government-owned companies have been making less than the required level of CSR spending over the past seven years. In contrast, only 35% were non-govts. owned companies have made more than the required CSR spending, followed by 45% of non-govt firms. owned companies were those that could not achieve the required level of CSR spending. Thus, the social performance of govts. owned companies were found to be much better than non-govt companies. owned companies over seven seven-year period. These results are supported by (Muttakin & Subramaniam, 2015; Subramaniam et al., 2017).

**Table 4 Analysis of the level of CSR Spending**

| Panel A: CSR Spending Level across years | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Year | | | | | | |
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| **CSR Spending Level 0** | 10 (15%) | 10 (16%) | 20 (29%) | 16(21%) | 17(23%) | 20 (27%) | 24(32%) |
| **1** | 33(49%) | 27(43%) | 24(35%) | 33(44%) | 26(35%) | 25(33%) | 24(32%) |
| **2** | 24(36%) | 26(41%) | 25(36%) | 26(35%) | 32(42%) | 30(40%) | 27(36%) |
| Total | 67 (100%) | 63 (100%) | 69 (100%) | 75 (100%) | 75 (100%) | 75 (100%) | 75 (100%) |

| Panel B: CSR spending Level across Govt. vs. Non-Govt. companies | | |
|---|---|---|
| | **Govt. Companies** | **Non-Govt.** |

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| | | Companies | |
|---|---|---|---|
| CSR Spending Level 0 | 15(24%) | 58(20%) | |
| | 15(21%) | 58(79%) | 73(100%) |
| 1 | 16(25%) | 127(45%) | |
| | 16(11%) | 127(89%) | 143(100%) |
| 2 | 33(52%) | 100(35%) | |
| | 33(25%) | 100(75%) | 133(100%) |
| | 64 | 285 | |

### 4.3. Analysis of Unspent CSR Budget Amount & Mode of Spending

This section explores the behavior of those companies involved in making less than the required CSR spending and thus carries forward the unspent CSR budget to the next year. The Company's Act of 2013 has made it mandatory for all companies to meet CSR spending criteria to make at least 2% of the average profit of the last three preceding years as required spending on CSR activities in the current year. If companies fail to make the required CSR spending in the current year, then the unspent CSR budget amount will be carried forward to the next year, and companies must explain the reason for not spending on CSR in the current year. This study found that 53 sample companies in the extractive industry either did not spend on CSR or spent less than the required CSR spending in a particular year. Further, going into it more deeply, study results report that 24 out of 53 companies have carried forward unspent CSR amounts consecutively for at least four years, which is not good practice.

Regarding the Companies Act 2013 requirement to explain why not spending the required CSR amount in a particular year, several reasons have been provided in the annual report. There are 12 companies from extractive industries that have not given any reason for not spending on CSR activities.

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In contrast, the rest of the companies from extractive industries have given some reasons for not making the required spending on CSR activities. For these reasons, most companies have stated that this unspent CSR budget will be carried forward and spent in subsequent years. Some companies met the CSR eligibility criteria for the first time in a particular year but reported that they did not have a suitable avenue for making CSR expenditures. Other companies in this category have reported a CSR policy focusing only on the areas around their operations. Thus, they do not have the opportunity to spend time in local areas.

Two companies from the "Exploration sector" mentioned reasons such as cash flow strain, liquidity pressure, and current year's loss for spending less than required on CSR activities in a particular year. Likewise, there were four companies, e.g. two from the "Exploration Sector" and two from "Iron & Steel Products", which could not spend as per requirement on CSR activities due to the delays caused by COVID-19. Furthermore, three companies from extractive industries have used procedural delays such as non-availability of land and sand for civil-related projects and pending approval from local Panchayat to construct school buildings as reasons for spending less than required on CSR activities during a particular year. One company from "Iron & Steel Interim Products" reported that it is in the process of dialogue with NGOs and CSR agencies, and thus the unspent CSR amount will be utilized in the coming year. One company named "Gulf Oil Lubricants" from the "Oil Marketing & Distribution" sector has said the reason for its failure to make CSR spending is as per the rule that it has been experiencing the second year of its demerger and thus will identify a meaningful project in the coming year. Considering the post-COVID-19 years of 2021 and 2022, many companies have identified the potential areas for CSR spending to provide major relief to the COVID-19-affected people of the community. Thus, a major change was found in which many companies started spending on the COVD-19 related activities rather than traditional CSR activities. Finally, there was one company from the "Oil Marketing & Distribution" sector named "Petronet LNG", which received notice from the Ministry of Corporate Affairs (MCA) regarding non-compliance with the provisions of corporate social responsibility under Section 135 of the Act.

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As mentioned above, the Companies Act 2013 has made it mandatory for companies to explain why they do not spend on CSR activities in a particular year and to carry forward that amount in the next few years. The study results report that the majority of companies under the category of unspent amount on CSR activities have carried forward the unspent amount in the next year but have not accounted for this unspent amount in the subsequent years for spending by giving detailed disclosure under the section titled Unk Annual Report on CSR activities." This practice of non-disclosing of unspent CSR amounts in subsequent years under "Annual Report on CSR activities" has made it confusing for the readers of the annual report. A similar behavior was also observed in the post-COVID-19 periods of 2021 and 2022.

Regarding the mode of spending on CSR activities, the Companies Act of 2013 allows companies to engage in CSR spending either directly or by establishing a foundation. The results report that 39% of companies have been making CSR spending by establishing a foundation, followed by 36% directly spending on CSR activities. Finally, the rest of the companies (25%) have been spending CSR directly and establishing a foundation.

### 4.4. Analysis of CSR Disclosure Index

As mentioned in the previous section, schedule VII of the Companies Act 2013 lists the prescribed number of CSR activities, and companies must spend their CSR budget only on these prescribed CSR activities. Table 5 shows the descriptive results of the CSR disclosure index regarding these CSR activities, which the sample companies can undertake to spend the CSR budgeted amount. Panel A of this table shows that the overall mean CSR disclosure index is 0.3379 over the seven years, which means that sample companies from the extractive industry have been undertaking only 33.79% of the prescribed CSR activities to spend the CSR budget. However, considering the post-COVID-19 years 2021 and 2022, the results indicate that this mean CSR disclosure index value decreased to 32.54. This is because many companies have started to spend their CSR budget on COVID-19-related activities, which are not listed in Schedule VII of the Companies Act 2013. Taking into account engagement in individual CSR activities by sample companies, Panel B of this table shows that the most prioritized area for spending CSR budget amount is related to "Promoting education and employment enhancing skills among

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children, elder and women" followed by "Promoting health & sanitation, eradicating hunger & poverty and availability of safe drinking water". Environmental sustainability is the third most prioritized area for spending the CSR budget for sample companies from extractive industries, as only 50% of companies consider the environment when spending CSR budgets. Considering the environment as a sample company, the third most prioritized area is not good practice, even though the extractive industry exposes the environment due to its business operations. Finally, the most ignored area for spending the CSR budget amount by sample companies is "Slum area development" followed by "Contributions to technology incubators located within academic institutions."

**Table 5 Descriptive Statistics for CSR Disclosure Index**

| | | Mean | Min | Max | Std. Dev. |
|---|---|---|---|---|---|
| **Panel A: Overall CSR Index** | | | | | |
| CSR Mean Index | | 0.3379 | 0.00 | 0.82 | 0.1972 |
| **Panel B: Activity Wise CSR Index** | | | | | |
| | | | Frequency | | Percent |
| CSR Activity (i) under Schedule VII of the Companies Act 2013 | 1 | | 263 | | 78.3% |
| | 0 | | 73 | | 21.7% |
| CSR Activity (ii) under Schedule VII of the Companies Act 2013 | 1 | | 293 | | 88.5% |
| | 0 | | 38 | | 11.5% |
| CSR Activity (iii) under Schedule VII of the Companies Act 2013 | 1 | | 127 | | 39.3% |
| | 0 | | 196 | | 60.7% |
| CSR Activity (iv) under Schedule VII of the Companies Act 2013 | 1 | | 164 | | 50% |
| | 0 | | 164 | | 50% |
| CSR Activity (v) under Schedule VII of the Companies Act 2013 | 1 | | 86 | | 26.2% |
| | 0 | | 242 | | 73.8% |
| CSR Activity (vi) under Schedule VII of the Companies Act 2013 | 1 | | 14 | | 4.4% |

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| | | | |
|---|---|---|---|
| | 0 | 307 | 95.6% |
| CSR Activity (vii) under Schedule VII of the Companies Act 2013 | 1 | 98 | 30.5% |
| | 0 | 223 | 69.5% |
| CSR Activity (viii) under Schedule VII of the Companies Act 2013 | 1 | 26 | 8.1% |
| | 0 | 295 | 91.9% |
| CSR Activity (ix) under Schedule VII of the Companies Act 2013 | 1 | 5 | 1.6% |
| | 0 | 316 | 98.4% |
| CSR Activity (x) under Schedule VII of the Companies Act 2013 | 1 | 168 | 52.3% |
| | 0 | 153 | 47.7% |
| CSR Activity (xi) under Schedule VII of the Companies Act 2013 | 1 | 1 | 0.3% |
| | 0 | 320 | 99.7% |

Finally, Table 6 shows the effect of state ownership and spending mode on level of engagement in CSR activities. Panel A of this table shows that there are significant differences between the groups. owned versus non-govt. owned companies regarding their level of engagement in CSR activities (P value < 0.01). Furthermore, govt. owned companies have been spending significant amounts of CSR budgets on more prescribed CSR activities than non-govt companies. owned companies. However, considering the effect of state ownership on prescribed CSR activities in the post-COVID-19 years, it was found that both types of companies ( govt. or non-government) engaged in CSR spending on COVID-19-related activities. Likewise, considering the effect of spending mode on the level of engagement in CSR activities, Panel B reports that spending mode also significantly affects the behavior of the sample companies regarding engagement in CSR activities (P < 0.01). This result shows that companies spending CSR budgets directly and establishing a foundation can target more prescribed CSR activities than companies that have been spending CSR only directly.

**Table 6 Effect of State Ownership & Spending Mode on CSR Activities Engagement**

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| | Number | Mean Rank | Sum of Ranks |
|---|---|---|---|
| **Panel A: State Ownership Effect on CSR Activities Engagement** | | | |
| Non Govt. Company | 280 | 152.64 | 42738.50 |
| Govt. Company | 64 | 259.40 | 16601.50 |
| **Man-Whitney U Test** | | | |
| | **3398.50*****| | |
| **Panel B: State Ownership effect on CSR Activities Engagement** | | | |
| Direct Spending | 81 | 124.48 | |
| Through Agency | 95 | 130.63 | |
| Mixed | 167 | 218.58 | |
| **Kruskal Wallis Test** | | | |
| | **73.354***** | | |

### 4.5. Analysis of company characteristics on CSR spending level

The level of CSR spending by the sample companies can also be affected by certain firm-level characteristics and CSR committee independence. The results show that firm characteristics such as leverage and availability of cash flows significantly affect the behavior of companies in deciding the level of spending on CSR activities ($P < 0.01$). Thus, highly leveraged firms from extractive industries are more likely to spend less than required on CSR activities. These findings are supported by (Chi et al., 2020; Nuvaid et al., 2017). Likewise, the availability of sufficient cash flow has also been found to be an important factor in deciding the spending level on CSR activities (Mukherjee, & Bird, 2016). Finally, regarding the effect of CSR committee independence on the level of CSR spending, the results show that the independence of the CSR committee chairman and CSR committee members simultaneously has a positive significant effect on the firm's CSR policy regarding spending level on CSR activities. These results are supported by those of a study conducted by Husted and de Sousa-Filho (2019).

**Table 6 Effect of Company Characteristics on Level of CSR Spending**

| | **Number** | **Mean Rank** |
|---|---|---|
| **Panel A: Cash Ratio** | | |

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| | | |
|---|---|---|
| CSR Spending Level Equal | 73 | 184.71 |
| Less than | 143 | 159.26 |
| Greater than | 133 | 186.59 |
| **Kruskal Wallis Test** | 5.914* | |
| **Panel B: Leverage** | | |
| CSR Spending Level Equal | 73 | 144.47 |
| Less than | 143 | 191.28 |
| Greater than | 133 | 174.26 |
| **Kruskal Wallis Test** | 10.417*** | |
| **Panel C: Return on Assets (ROA)** | | |
| CSR Spending Level Equal | 73 | 164.18 |
| Less than | 143 | 177.18 |
| Greater than | 133 | 178.59 |
| **Kruskal Wallis Test** | 1.301 | |
| **Panel D: Firm Age** | | |
| CSR Spending Level Equal | 73 | 170.02 |
| Less than | 143 | 174.78 |
| Greater than | 133 | 177.97 |
| **Kruskal Wallis Test** | 0.294 | |
| **Panel E: Independence of CSR_Committee** | | |
| CSR Spending Level Equal | 73 | 182.38 |
| | 143 | 171.34 |

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| | | |
|---|---|---|
| Less than | | |
| | 133 | 174.88 |
| Greater than | | |
| **Kruskal Wallis Test** | 0.610 | |
| **Panel F: Independence of CSR_Committee Chairman** | | |
| CSR Spending Level | 73 | 156.66 |
| Equal | | |
| | 143 | 181.60 |
| Less than | | |
| | 133 | 177.96 |
| Greater than | | |
| **Kruskal Wallis Test** | 4.308 | |
| **Panel G: Overall, Independence of CSR_Committee** | | |
| CSR Spending Level | 73 | 152.06 |
| Equal | | |
| | 143 | 180.78 |
| Less than | | |
| | 133 | 181.38 |
| Greater than | | |
| **Kruskal Wallis Test** | 5.172* | |

### 4.6. Impact of COVID-19 on Engagement in Corporate Social Responsibility

This section analyzes how sample companies from extractive industries in India have responded to COVID-19 to meet their social obligations toward society. The COVID-19 pandemic may create hurdles for companies to complete their long-term corporate social responsibility projects or new avenues for meeting social obligations towards different stakeholders in society. The study results report that there were two companies from the "Exploration Sector" and one company from the "Iron & Steel Products Sector" which had made less than the required spending on CSR activities in the year 2020 (e.g., the COVID-19 pandemic), and all three companies mentioned that the reason for the long-term CSR project was delayed due to the COVID-19 pandemic. Finally, one company in the "Iron & Steel Interim Products Sector" stated that it was not able to make CSR spending in the year

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2020 because it incurred a loss this year, and the company's financial position was not good due to COVID-19. These results were supported by the findings of Joshi et al. (2020).

As mentioned above, Schedule VII of the Companies Act 2013 lists several activities that companies can undertake as part of their corporate social responsibility strategy. The results report that there was a total of 18 companies in the sample from extractive industries in 2020, which had been motivated by the impact of COVID-19 and hence use this pandemic as an avenue to explore new ways of meeting corporate social responsibility. However, this number surprisingly increased in the post-COVID-19 years of 2021 and 2022 when other companies from the extractive industry also started to target their CSR spending budget on COVID-19-related activities. There were a total of five companies out of this sample from the "Oil Marketing & Distribution Sector", which had made CSR spending on activities such as support under COVID-19 in terms of supporting hospitals with medical equipment and other supplies, food, and essentials to daily wage earners, migrant laborers, and other communities around their plant (Zhang et al., 2023). They also provided financial support for procuring and distributing PPE for healthcare workers treating COVID-19 patients. Finally, one company in this sector provided health insurance to COVID-19 workers. Considering the other sectors of the extractive industry, there were three companies from the "Iron & Steel Interim Sector" and two from the "Iron & Steel Products Sector", which made either contributions to PM or CM funds to helping COVID-19 affected people or direct contributions to these families during the spread of COVID-19. One company from the "Mining Sector not only contributed financial assistance to COVID-19-affected people but also created an awareness campaign about the COVID-19 pandemic by providing displays and posters in public places around its projects. These results state that, irrespective of the fact that the Ministry of Corporate Affairs (MCA) has not provided any guidelines for companies in India regarding their engagement in COVID-19-related CSR activities, many companies on their own have considered the COVID-19 pandemic as an avenue to meet social obligations towards different stakeholders. These findings are supported by (Rakshit & Basistha, 2020; Manuel & Herron, 2020).

### 4.7. Companies making voluntary CSR spending

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Eighteen sample companies from extractive industries did not meet the CSR spending criteria as per Section 135 of the Companies Act 2013. However, these sample companies have been voluntarily spending on CSR activities during the seven-year study period. The study results show that the average voluntary spending on CSR activities made by these sample companies during the seven-year study period was 5.65 Crore Indian rupees. The main reasons for voluntary spending on CSR activities differ greatly. One company from the "Aluminum sector" has committed to meeting CSR obligations as part of its central CSR policy. Likewise, some companies have made continuous voluntary CSR spending on CSR activities over a seven-year study period to continue CSR projects as good corporate citizens. Some other companies in the sample met the CSR spending criteria as per Section 135 in the first two years, but not in the subsequent years. As these companies had undertaken long-term CSR projects, they voluntarily spent on CSR activities in subsequent years to continue these CSR projects.

## 5. Conclusion

The primary objective of this study was to investigate mandatory corporate social responsibility compliance in the extractive industry under Section 135 of the Companies Act of 2013 before and during the COVID-19 pandemic. The results show that in terms of mandatory spending on CSR activities, companies have significantly improved over the period. Govt. owned companies from extractive industries have performed significantly better by making greater than required CSR spending than non-govt companies. owned companies. Regarding the flexibility provided to companies to carry forward unspent CSR budget amounts in the following years by providing a reason for not spending it in the current year, the study found that most companies have used this flexibility and postponed mandatory CSR spending intentionally without providing any reason. Although some companies have given reasons for procedural delays for not spending on CSR activities in the current year, the majority of companies have given these reasons, which are under the control of management, and thus can be managed well in order to enable companies to make mandatory CSR spending in the current year. Thus, the Ministry of Corporate Affairs must revisit this policy, allowing companies to carry forward unspent CSR budget amounts for any period. Likewise, most

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companies have not properly accounted for this unspent CSR budget amount in the subsequent "Annual Report on CSR activities."

Regarding the engagement of companies in CSR activities as prescribed under schedule VII of Companies Act 2013, study results document that only two activities as "Promoting education and employment enhancing skills among children, elder and women" followed by "Promoting health & sanitation, eradicating hunger & poverty and availability of safe drinking water" are the most common areas for spending CSR budget amount. Environmental sustainability is the third most prioritized area for spending the CSR budget for sample companies from the extractive industry, as only 50% of companies have been considering the environment for spending CSR budgets. Considering the environment as the third most prioritized area by sample companies is not a good practice, even though extractive industries very much expose the environment due to their business operations regarding ownership effect. Owned companies have been targeting more prescribed CSR activities than non-owned ones. owned companies. The main reason for their engagement in a larger number of prescribed CSR activities was most of this government. Owned companies have been spending CSR directly and establishing a foundation. In that case, they were able to identify the target areas for CSR spending more conveniently.

Study results regarding the effect of firm characteristics and CSR committee independence on the level of CSR spending found that the overall level of CSR committee independence and cash flow availability are factors that determine a firm's level of spending on CSR activities. Furthermore, highly leveraged companies in extractive industries were found not to exceed the required level of CSR spending. Regarding the effect of COVID-19 on CSR compliance, the results found that the Ministry of Corporate Affairs (MCA) has not issued any revised guidelines for companies to identify new areas for spending CSR budget amounts in response to the pandemic. Rather, some companies have identified new avenues for spending CSR budget amounts, such as supporting hospitals with medical equipment and other supplies, food, and essentials to daily wage earners, migrant laborers, and other communities around their plant, and creating awareness campaigns about the COVID-19 pandemic. Finally, regarding voluntary spending on CSR activities in India, our results show that some companies have not met the mandatory CSR spending criteria.

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However, these companies continued to engage in voluntary CSR spending as socially responsible corporate citizens.

The findings of this study have important implications for stakeholders, government, and regulatory authorities. First, the level of social performance and compliance with Section 135 of the Companies Act 2013 is quite remarkable in the case of govts. owned companies compared with non-govt companies. owned companies. There is still confusion and shortcomings regarding the guidelines for carrying out the unspent CSR budget. The Ministry of Corporate Affairs (MCA) has made it mandatory for companies to provide a strong reason for not spending their CSR budget in the current year. However, some companies have no reason for this carry forward, while others have given symbolic reasons. In this situation, the Ministry of Corporate Affairs (MCA) must rethink these carry-forward guidelines and monitoring procedures to provide reasons for carrying forward. Third, we found rigidity from the Ministry of Corporate Affairs (MCA) while specifying only the prescribed number of CSR areas that companies must consider at the time of spending the CSR budget. Any spending by companies outside these CSR areas will not be considered admissible CSR expenditures. Companies must be provided with the flexibility to identify and target CSR areas based on the nature of their business environment and operations.

Fourth, the Ministry of Corporate Affairs (MCA) has not revisited CSR guidelines because of a change in the business environment created by the COVID-19 pandemic. This is why some sample companies have spent their own CSR budgets on new avenues created through the COVID-19 pandemic. Finally, certain firm-level characteristics and CSR committee effectiveness cannot be overlooked when evaluating compliance with the mandated CSR spending under Section 135 of the Companies Act 2013. Thus, overall, there is a need to rethink the requirements of Section 135 of the Companies Act 2013 and provide some flexibility to companies in deciding their CSR policy by considering firm-level characteristics and industry practices. The findings of this study can be applied only to companies operating in extractive industries. Future studies should consider the moderating role of govt. Ownership of the value relevance of mandatory CSR spending.

This study has several limitations that should be considered. Initially, the sample size, consisting of 100 companies from the extractive industry listed

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on the Bombay Stock Exchange, may not sufficiently reflect the wider corporate environment in India. Furthermore, the analysis only examines the allocation of resources and initiatives related to Corporate Social Responsibility (CSR from) to 2016-2022, which may inadvertently disregard any shifts or advancements in CSR practices that have occurred over the years. This study investigates the impact of CSR committees and firm-level features on CSR spending levels. However, they do not completely consider other unobserved variables or external factors that could potentially complicate this relationship. Establishing a causal relationship between CSR spending and firm characteristics requires a thorough examination of potential biases. Moreover, the study acknowledges the lack of policy guidance from the Government during the COVID-19 period. However, future studies could further explore the impact of this absence on CSR spending decisions and consider a wider regulatory framework.

## 6. Limitations and future directions

The focus is on 100 companies in the extractive industry listed on the Bombay Stock Exchange. Thus, there could be limitations in generalizing the findings to other sectors. In addition, the research is geographically limited to India, meaning that the results may not be relevant to other countries with varying regulatory environments. Although valuable, the method of content data analysis used may never succeed in capturing all CSR activities, especially those that are not well documented. Future research may involve generalization across other industries or international comparisons to yield broader applicable insights into CSR practices. Longitudinal studies beyond 2022 can be used to establish whether the trends experienced during the pandemic are permanent. Further research in CSR committee characteristics and CSR impact on financial performance, together with qualitative research in CSR strategies, would go a long way in adding more depth to this study. Finally, studying post-pandemic CSR strategies and the impact of regulatory changes would be useful in understanding the changing scene of CSR.

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