

## Commodity Futures Trade – Dimensions of Corporate Social Responsibility [Special reference to Hapur Commodity Exchange Limited (HCEL)]

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### Abstract

Trade includes two important dimensions i.e. Physical trade and Futures trade. Commodity futures trade is an important part of trade as well as futures trade. Commodity Futures Trading in India has a long history of more than a century having active futures markets as early in 1875. "Corporate Social responsibilities (CSR) refer to the businessmen's decisions and actions taken to reasons at least partially beyond the firm's direct economic or technical interest." In broad sense, CSR when comes into action is called corporate social work. Parties concerned directly-indirectly towards which any organization has to do corporate social work are Society, Government, Employees, Customers, Shareholders, Creditors, suppliers, etc. Hapur commodity exchange limited (formerly known as The Chamber of Commerce, Hapur), one of the exchanges from where the Indian commodity futures trade began, was incorporated on October 1923. It provides an independent, transparent and efficient system regarding trading, clearing and settlement. HCEL fulfils its obligation of corporate social work to the parties concerning with him directly-indirectly. There are many ups and downs in last 3 years in following its CSR by HCEL. Towards Society - Its Charity payable in FY 2014-15 was INR 368,661.20. Its festival expenses shows an increase of INR 10,66,832. Towards Government- HCEL sincerely follows its social duty towards government. There is an increase of INR 3,03,812 in 'Current tax paid' as well as for 'Provision for income Tax' it shows an increase of INR 172,091.00. Towards Customers / shareholders / creditors its Total Guarantee Fund increases by INR 46,67,796.1. Towards Social Audit- HCEL has its own vigilance committee. This is a unique factor. HCEL fulfils its obligation of CSR towards various parties. It seems to be satisfactory. On part of social Audit, after Analysing the Annual Reports of three previous years, it finds that there is not even a single issue comes under vigilance committee. It seems to be non-satisfactory. It is recommended that SEBI should investigate as well as issue guidelines in this context.

**Keywords:** Commodity Futures, Hapur Commodity Exchange Limited, Forward Markets Commission, CSR (Corporate Social Responsibility).

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### PAPER/ARTICLE INFO

RECEIVED ON: 02/03/2017  
ACCEPTED ON: 23/05/2017

Reference to this paper should be made as follows:

Vinayaka Tripathi, Madhusoodan Tripathi, Patanjali Tripathi (2017), "Commodity Futures Trade – Dimensions of Corporate Social Responsibility [Special reference to Hapur Commodity Exchange Limited (HCEL)]", *Int. J. of Trade and Commerce-IIARTC*, Vol. 6, No. 1, pp. 216-225

## 1. INTRODUCTION

Trade includes two important dimensions i.e. Physical trade and Futures trade. Commodity futures trade is an important part of trade as well as futures trade. Commodity Futures Trading in India has a long history of more than a century. India is perhaps the only country in the world besides USA and UK, which could boast of having active futures markets as early in 1875 in a large number of primary commodities and their products.

As on July 2014, Governmental agencies regulated 17 trillion worth of commodity trade in India.<sup>\*1</sup> Before September 2013, commodity futures trade was overseen by Forward Markets Commission (FMC), Ministry of Consumer Affairs, Food and Public Administration, India. On 28<sup>th</sup> September 2015 Forward Markets Commission was merged with Securities and Exchange Board of India (SEBI).<sup>\*2</sup>

Commodity trading is performed in 146 Commodities. At present, 22 exchanges are recognized / registered for the futures trading in commodities, of which 6 are national and rest are regional commodity exchanges. Futures trading in commodities is performed through future / forward contract, which is a legally enforceable agreement for delivery of goods or the underlying asset on a specific date in future at a price agreed on a date of contract.

There is a three tier regulatory system for futures trading in existence in India, namely Government of India, Securities and Exchange board of India (SEBI), Commodity Exchange.<sup>\*3</sup>

## 2. REVIEW OF LITERATURE

Various researches have been carried out in commodity derivatives. They have explained analysis of various commodities in different exchanges in different countries. However, very less studies have been carried out in context of CSR activities in Hapur commodity exchange limited. Some of the studies are reviewed as under:

- Highlights/important developments for the fortnight from 1.07.2014 to 15.07.2014, Forward Markets Commission, Mumbai, Ministry Of Finance, Govt. of India.
- Finance minister unveils merger of FMC with SEBI, PR no. 237/2015 dated September 28, 2015, SEBI, Ministry of Finance, Govt. of India.
- FAQ on Commodity Derivatives- Forward markets Commission Govt. of India.

**(Kondhar, SangHyun, Clairmont, and Zhang, 2015)** discusses the definition and reasons for CSR activities through review of relevant CSR literature. From three UK based companies: Barclays, The Royal bank of Scotland and Tesco, the evidence of CSR reporting were presented by them. In addition to traditional annual financial reports, CSR reports are now annually prepared and are relevant to demonstrate how caring companies have been and how they intend to continue to be even more so in future periods. **(Soundarya)** gives an insight of the current scenario of CSR and its contributions towards sustainable development. Through social responsibility tries to emphasize the scope of corporate sustainability. **(Albareda, Lozano, Tencatti, Midtun, and Perrini, 2008)** aims to understand the role of government in promotion of CSR. They focuses on drivers and responses of government three European countries: United Kingdom, Norway and Italy as well as compare the public policies and CSR initiatives of these countries. However, they also focus on the differences between the three governments when applying CSR public policies. These divergences are based on the previous cultural and political framework, such as the welfare state typology, the organizational structures and the business and social and cultural background

in each country. (Chaudhri, 2016) examined the communication imperative for corporate social responsibility (CSR). Based on in-depth interviews with CSR managers in large domestic and global corporations in India, the study made efforts to situate communication as central to the enactment of socially responsible behaviour. Participant discourses suggest an important and multi-dimensional role for communication, emphasize the need for subtlety and balance in communicating CSR, and point to the role of the media as a potential (dis)enabler for “getting the word out.” It also reflects on the inter sections and departures between scholarship and practice of CSR communication.

### **3. RESEARCH GAP**

No Doubt, the reviewed literature highlighted various strategies evolving in the country’s commodity market in various commodities. The six nation-wide commodity exchanges and sixteen other regional commodity exchanges have gained respect and admiration but it can further be raised up to a greater extent. The reviewed literature does not spell the CSR activities in Hapur commodity exchange limited (HCEL). CSR is dealing in commodity trading, fulfilling of CSR by HCEL. In past 3 years, element of Social Audit is also fulfilled by HCEL. This study arms at to seeks to bridge the gap.

### **4. OBJECTIVES OF THE STUDY**

- To study the dimensions of CSR in Trade,
- To analyze the CSR by HCEL,
- To study the Social Audit element in HCEL during last three years.

### **5. RESEARCH METHODOLOGY**

The study is descriptive in nature. It is based on secondary data. Secondary data regarding commodities are collected for the previous three years from various annual reports of HCEL; Various Annual Income & Expenditure Statement of HCEL; Various Auditor’s reports of HCEL, SEBI, commodity market bulletins, various internet sources etc.

#### **5.1 Analysis and Interpretation**

Dimensions of CSR in trade

“Social responsibilities refer to the businessmen’s decisions and actions taken to reasons at least partially beyond the firm’s direct economic or technical interests.”<sup>4</sup>

In broad sense, CSR when comes into action is called corporate social work. On the basis of above definition, following features of CSR can be identified:

- The CSR contains three types of behaviour- Positive, neutral and negative. The negative and neutral aspects of behaviour are as important as positive.
- Every person in the society has a social obligation to fulfil. However, the emphasis is on CSR of management as a group because it is in a position to use the resources of the society in the way it likes. Therefore, it must be conscious about its CSR.
- CSR fulfilling obligations to various parties concerned with the functioning of an organization. Some of these parties are concerned directly, others may be concerned indirectly.

- These parties are Society, Government, Employees, Customers, Shareholders, creditors, suppliers, etc.
- The standard fixing the fulfilling obligations to various parties are to be decided according to corporate social norms and expectations. Therefore, these obligations may vary from society to society.

**Society-** Organization exists within a social system and gets facilities from the system. Therefore, they owe obligations to the society as a whole. It is the obligation of management to protect the interest of society because management process goes a long way in determining the life in the society. In this context, management should behave in the following ways-

- Management should maintain fair business policies and practices.
- It should set up socially desirable standards of living and avoid ostentation and wasteful expenditure.
- It should play a proper role in civic affairs.
- It should provide and promote general amenities and help in creating better living conditions in general.
- It should set examples for others how developmental programmes can be taken for the benefits of the society.\*<sup>4</sup>

**Keith Davis (1984).** "The meaning and scope of Social Responsibility," in Joseph W. McGuire (ed.), contemporary management, Englewood, Cliffs, NJ: Prentice Hall, p.631

**Government:** Government is very closely related with the business system of the country. It provides various facilities for the development of business. No doubt, government exercises controls over business, but these controls are meant for overall development of business. Management can discharge its obligation to government in following ways-

- Management should be law-abiding citizen.
- Management should pay taxes and other dues fully, timely and honestly.
- It should not corrupt public servants and democratic process.
- It should not buy political favour by any means.

**Employees:** Employees have direct interest in organization because by working there, they satisfy their needs. The traditional economic concept of organizational functioning does not give employees their proper share in the distribution of income. In the present context, it is the management's responsibility to protect the interest of employees in the organization. This can be done by the management in following ways -

- Management should treat employees as another wheel of the cart.
- Management should develop administrative process in such a way that promotes cooperative endeavour between employers and employees.
- The management should adopt a progressive human resource policy based on recognition of employees rights-participation in management, creating a sense of belongingness and improving their working conditions.
- Management should pay fair and reasonable remuneration and other financial benefits to employees.

**Customers:** A customer may broadly be defined as a person who has a favourable impression of a company and its products. Thus, a person may be categorized as customer even though he may

not have committed the act of buying; he may be only a potential customer. Management owes a primary obligation to give a fair deal to customers. This can be done in the following ways-

- Customers should be charged a fair and reasonable price.
- The supply of goods and services should be of uniform standard and of reasonable quality.
- The distribution of goods and services should be widespread so that customers do not face any problems in procuring them.
- Management should not indulge in profiteering, hoarding or creating artificial scarcity.
- Management should not mislead the customers by false, misleading and exaggerated advertisement.

**Creditors, suppliers and others-**Creditors, suppliers and other groups affect the organization in various ways. Therefore, management is responsible to fulfil its obligations to them. This can be done in the following ways-

- Management should create healthy and cooperative inter-business relationships between different businesses.
- Management should provide accurate and relevant information to creditors and suppliers.
- Payments of price of materials, interest on borrowings and other charges should be prompt.

**Shareholders:** The first responsibility of business is to protect the interest of shareholders. The interest of majority of shareholders and large minority of shareholders are generally well protected through either direct participation in the management actions or they have real power to intervene, if necessary. However, large number of shares of minority shareholders are not such in position. Therefore, management is expected to use the resources provided by them effectively and to protect their interests. They should be informed about the functioning of the organization adequately and timely. Though the provisions of the Companies Act provide safeguard to the investment made by shareholders, whether minority or otherwise, management can find loopholes in these. Therefore, management has responsibility to provide proper safeguard to the money invested by shareholders.

**CSR by HCEL:** Futures Trading perform two important functions of CSR-

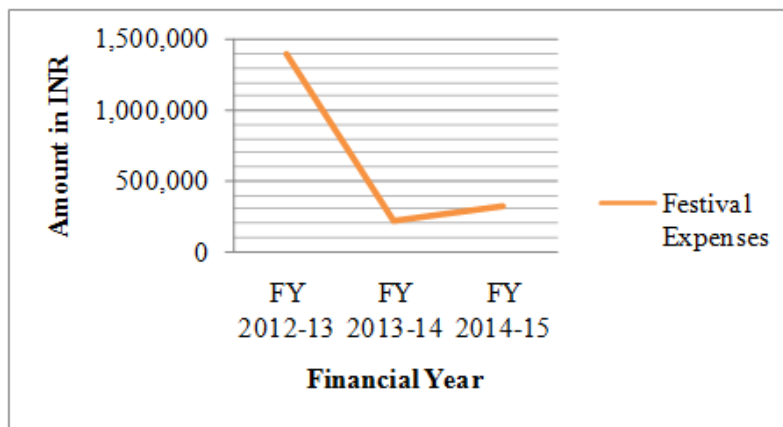
- Price discovery and
- Price risk management with reference to the given commodity<sup>45</sup>.

It is useful to all segments of economy. It is useful to the producer because he can get an idea of the price likely to prevail at a future point of time and, therefore, he can decide between various competing commodities, the best that suits him. It enables the consumer in that, he gets an idea of the price which the commodity would be available at a future point of time. He can do proper costing and also cover his purchases by making forward contracts. The futures trading is very useful to the exporters as it provides an advance indication of the price likely to prevail and thereby helps to the exporter in quoting a realistic price and thereby secure export contract in a competitive market. Having entered into an export contract, it enables him to hedge his risk by operation in futures market. Other dimensions of commodity futures trading as CSR are-

- Price stabilisation – in times of violent price fluctuations, this mechanism dampens the peaks and lifts up the valleys i.e. the amplitude of price variation is reduced.
- Leads to integrated price structure throughout the country.
- Facilitates lengthy and complex, production and manufacturing activities.

- Ensures balance in supply and demand position throughout the year. **Futures Trading & Its Prospects, Document issued by Forward Markets Commission, Govt. of India, page 3.**<sup>5</sup>
  - Encourages competition and acts as a price barometer to farmers and other functionaries.
- HCEL fulfils its obligation of CSR to the parties concerning with its directly-indirectly – **Society** – HCEL runs various hospital cum clinics, avail its seminar hall and chamber’s guest house to the society on discounting rates for marriage-reception and other anniversary functions. Its Charity payable in FY 2014-15 was INR 368,661.2.
- Its festival expenses in FY 2014-15 are INR 327,897.00 which was INR 217,713.25 in FY 2013-14 and INR 1,394,729.00 in FY 2012-13 (as shown in **Figure 1**). It shows an decrease by 10,66,832 INR.

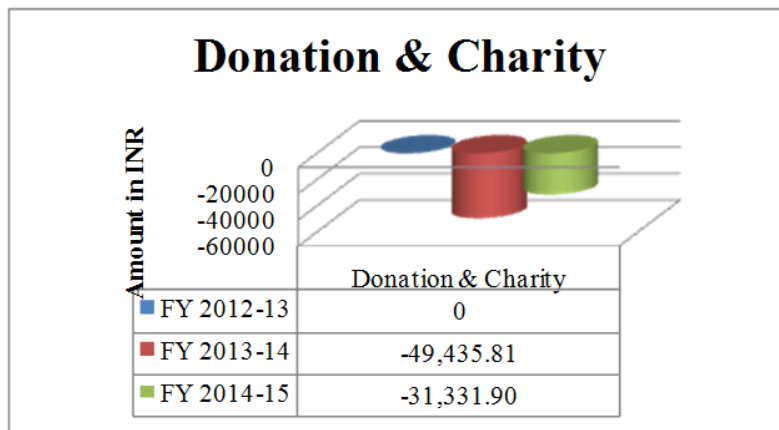
**Figure 1: Decline in Festival Expenses of HCEL**



Source – Annual Reports & Income – Expenditure Statements of various years of HCEL

The amount spent on donation and charity in FY 2014-15 was INR (31,331.90), INR (49,435.81) in FY 2013-14 and nil in FY 2012-13 (as shown in **Figure 2**).

**Figure 2: Growth/Decline in Donation & Charity of HCEL**



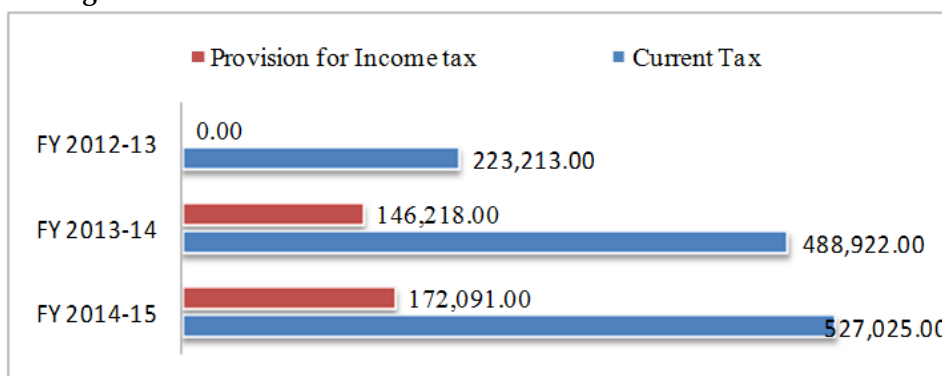
Source – Annual Reports & Income – Expenditure Statements of various years of HCEL

**Government-** HCEL sincerely follows its social duty towards government. The Current tax paid for FY 2014-15 was INR 527,025.00, for FY 2013-14 it was INR 488,922.00 and INR 223,213.00 for the FY 2012-13.

Provision for income tax was INR 172,091.00 as at 31.03.2015, 146,218.00 as at 31.03.2014 and nil as at 31.03.2013 respectively.

As per **Figure 3**, It Shows an increase in 'Provision for Income Tax' by INR 1,72,091 INR whereas increase by INR 3,03,812 in 'Current Tax'.

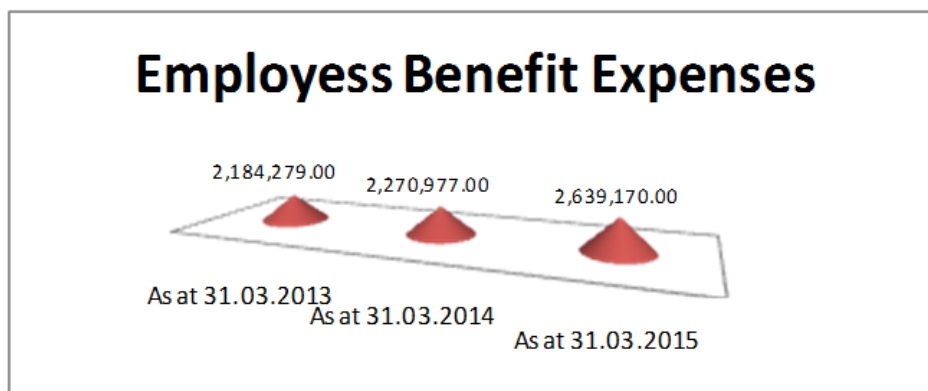
**Figure 3: Growth in Provision for Income Tax & Current Tax of HCEL**



Source – Annual Reports & Income – Expenditure Statements of various years HCEL

**Employees-** The social work and fair treatment of HCEL goes smoothly for their employees.

**Figure 4: Growth in Employees Benefit Expenses of HCEL**

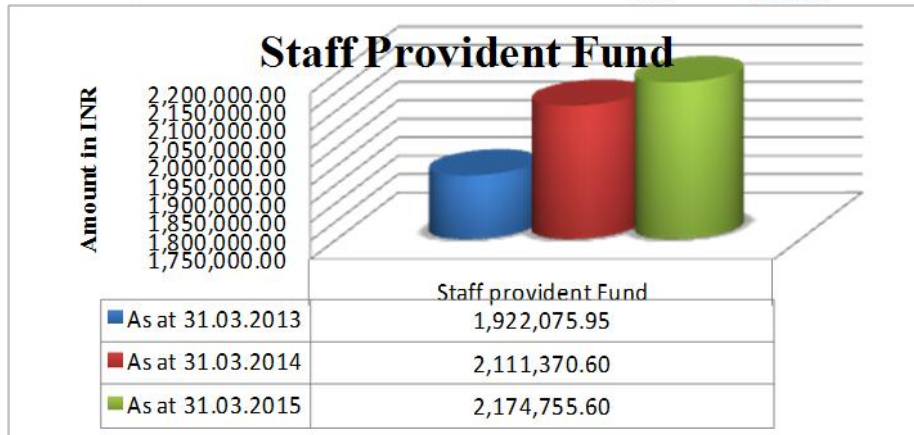


Source – Annual Reports & Income – Expenditure Statements of various years of HCEL

As per **Figure 4**, the Employees Benefit Expenses as at 31.03.15 was INR 26,39,170.00 , INR 22,70,977.00 as at 31.03.14 and INR 21,84,279.00 as at 31.03.2013. It shows an increase of INR 3,68,193.00 in year 2014-15 and increase of INR 86,697 in 2013-14. It shows an Increase by INR 454,891.

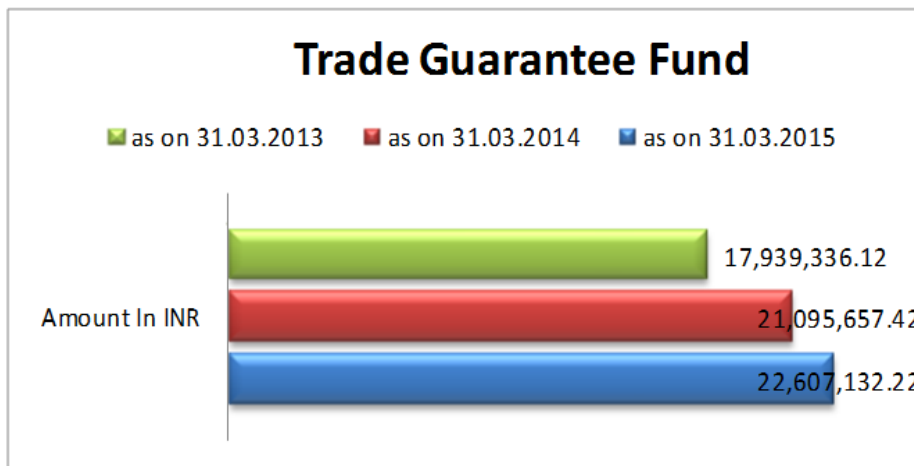
The Staff provident Fund as at 31.03.2015 was INR 21,74,755.60 and as at 31.03.2014 INR 21,11,370.60 and INR 19,22,075.95 as at 31.03.2013. As per **Figure 5**, there is an increase in amount of Staff Provident Fund by INR 2,52,679.65.

**Figure 5: Growth in Staff Provident Fund of The COC, Hapur**



Source – Annual Reports & Income – Expenditure Statements of various years of The COC, Hapur  
**Customers/shareholders/creditors, etc.**-The safety and protection of investor’s investment as a CSR is always a primary concern for HCEL.

**Figure 6: Growth in Staff Provident Fund of HCEL**



Source – Annual Reports & Income – Expenditure Statements of various years of HCEL  
 Its Total Guarantee Fund increases by INR 15,11,474.80 in 2014-15 and increases by INR 31,56,321 in 2013-14. The total Trade Guarantee Fund as on 31.03.2015 was INR 2,26,07,132.22; INR 2,10,95,657.42 as on 31.03.2014 and INR 1,79,39,336.12 as on 31.03.2013 (as shown in **Figure 6**). It shows a total increase by 46,67,796.1 INR.

It is Evident from **Figure 1, Figure 2, Figure 3, Figure 4, Figure 5 and Figure 6** that except decline in Financial Expenses(which seems to be recovered), there is growth rate towards all the parties (i.e. government, employees, customers, shareholders, suppliers, etc). Hapur commodity exchange limited fulfils its CSR effectively and efficiently.



### **Social Audit in HCEL**

**Social Audit-** When an organization undertakes social activities, it must also evaluate to the extent which these activities are performed effectively. Social audit is primarily aimed to measure the effectiveness of these activities. Bauer and Fenn have defined social audit as follows-

“Social audit is a commitment to a systematic assessment of and reporting on some meaningful, definable domain of the company’s activities that have social impact”<sup>6</sup>

Apart from Securities and Exchanges Board of India (SEBI) vigilance committee, HCEL for social audit has its own vigilance committee. This is a unique factor.

As a part of social Audit, its own vigilance committee exists in HCEL. After Analysing the Annual Reports of last three years, it finds that there is not even a single issue comes under vigilance committee. It seems to be non-satisfactory.

**R.A. Bauer and D.H. Fenn, “What is a corporate Social Audit?” Harvard Business Review, January-February, 1973, p. 38.\*<sup>6</sup>**

### **6. CONCLUSION**

HCEL fulfils its obligation of social work and fair treatment towards various parties such as society, government, employees, customers, shareholders, etc. concerned directly or indirectly. It seems to be satisfactory.

As a part of social Audit, its own vigilance committee exists in HCEL. After analysing the annual reports of three consequent previous years, it finds that there is not even a single issue comes under vigilance committee. It seems to be satisfactory that HCEL is involving in CSR.

### **7. RECOMMENDATIONS**

HCEL has fulfilled all of its obligations of CSR. It is recommended that SEBI should focus on the fulfilment of CSR in all exchanges of India which directly or indirectly helps in awareness towards CSR.

It is recommended that SEBI should investigate the non satisfactory issue of vigilance committee of HCEL. Issue necessary guidelines as well as take corrective measures-action in this context.

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#### ABBREVIATIONS

- [1]. HCEL – Hapur Commodity Exchange Limited
- [2]. SEBI – Securities and Exchange Board of India
- [3]. FY – Financial Year
- [4]. FMC – Forward Markets Commission
- [5]. CSR – Corporate Social Responsibility