

CORPORATE SOCIAL RESPONSIBILITY: AN INDIAN PERSPECTIVE

Abstract

Corporate social responsibility (CSR) rules are applicable to companies in India with a net profit of over ₹ 5 crore or net worth of over ₹ 500 crore or turnover of ₹ 1000 crore. Company faces challenges from issues relating to long-term goals of stakeholders vis-à-vis fulfilling objectives of triple bottom line requirements. The government strategies for tackling inequality and addressing social impact have a fundamental role in any economy. This agenda is now taken care in a significant manner by CSR mandate. CSR is a business model used by Indian companies to give back to society what they have earned over a period of time. This has been enabled as part of legislation under Section 135 of the Companies Act, 2013. This chapter examines the CSR from global and Indian context. It primarily identifies the issues and challenges, CSR during Covid pandemic and the provisions as per the Act. Further, the benefits of CSR have been highlighted from employees, customers, investors, Government and company perspective.

Keywords: Corporate social responsibility, triple bottom line, environmental, governance.

Authors

Dr. Leesa Mohanty
Assistant Professor
School of Commerce
XIM University, Bhubaneswar.
Harirajpur, Odisha, India.

Dr. Vijaya Batth
Assistant Professor
School of Commerce
XIM University, Bhubaneswar.
Harirajpur, Odisha, India.

I. INTRODUCTION

In today's world an enormous significance has been found by companies to bring in focus on social responsibility. In simple words, it signifies a firm's obligation towards long-term goals for triple bottom stakeholders namely people and planet and shareholders. Corporate social responsibility (CSR) has been viewed as important indicators of companies commitment to society at large and its own financial performance and position. The activities for CSR can be in the form of projects and empowerment of individuals. This way both internal and external stakeholders are benefited. Recently it has been seen that corporates undertaking works relating humanitarian projects like construction of roads to the alleviation of poverty including Environment, Social and Governance goals. Additionally, these endeavors have also been found to positively impact employee satisfaction (Dhanesh, 2014) and stakeholder trust and support (Dean, 2003).

II. CORPORATE SOCIAL RESPONSIBILITY (CSR)

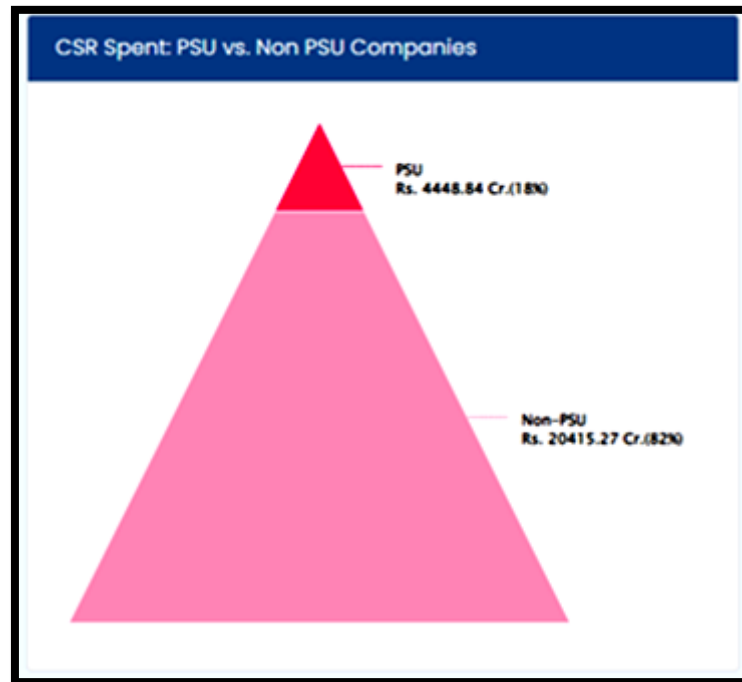
CSR is seen globally as well as in the Indian context as responsibility of enterprises towards social, environmental, human rights and consumer at large. Business operations have been framing core strategies to meet this commitment and bringing out an improvement in the quality of life of community and society at large.

- 1. Corporate social responsibility – global context:** Many definitions exist on CSR in the global context. It has been found that a common factor among them measures the impact that businesses have on society at large and the societal expectations of them. It has also been understood that CSR implies philanthropic activities (such as donations, charity, relief work, etc.). The concept of CSR has evolved embracing other related concepts like triple bottom line, corporate citizenship, strategic philanthropy, corporate sustainability and business responsibility.

According to the United Nations Industrial Developmental Organization (UNIDO), "Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders". While triple-bottom-line approach looks at the expectations of shareholders and stakeholders, reporting relating to business and sustainability addresses legal and compliance issues of the company. Further, it is essential to draw a line of difference between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. On one hand CSR brings out a valuable contribution to poverty reduction, indirectly it also enhances the reputation of a company and strengthens its brand.

- 2. Corporate social responsibility – Indian context:** CSR is not new to India. Over the last four centuries, the scope and definition of CSR have shifted dramatically. In the Indian context corporates have started realizing CSR activities and importance of integrating it with business. The primary goal of CSR is to maximize the company's overall impact on the society and stakeholders. Companies have become increasingly aware of the significance of CSR for society benefits. It is their duty to demonstrate responsibility of corporate citizenship. This comes with a growing realization that they, as an integral part of this society themselves, can contribute to its upliftment and empowerment of the entire country in turn. The following chart indicates the amount spent by Public Sector

Undertaking (PSUs) and Non PSUs. In year 2021, PSU companies spent around ₹4448.84 crores while Non-PSUs spent ₹ 20,416.62 crores on CSR activities.

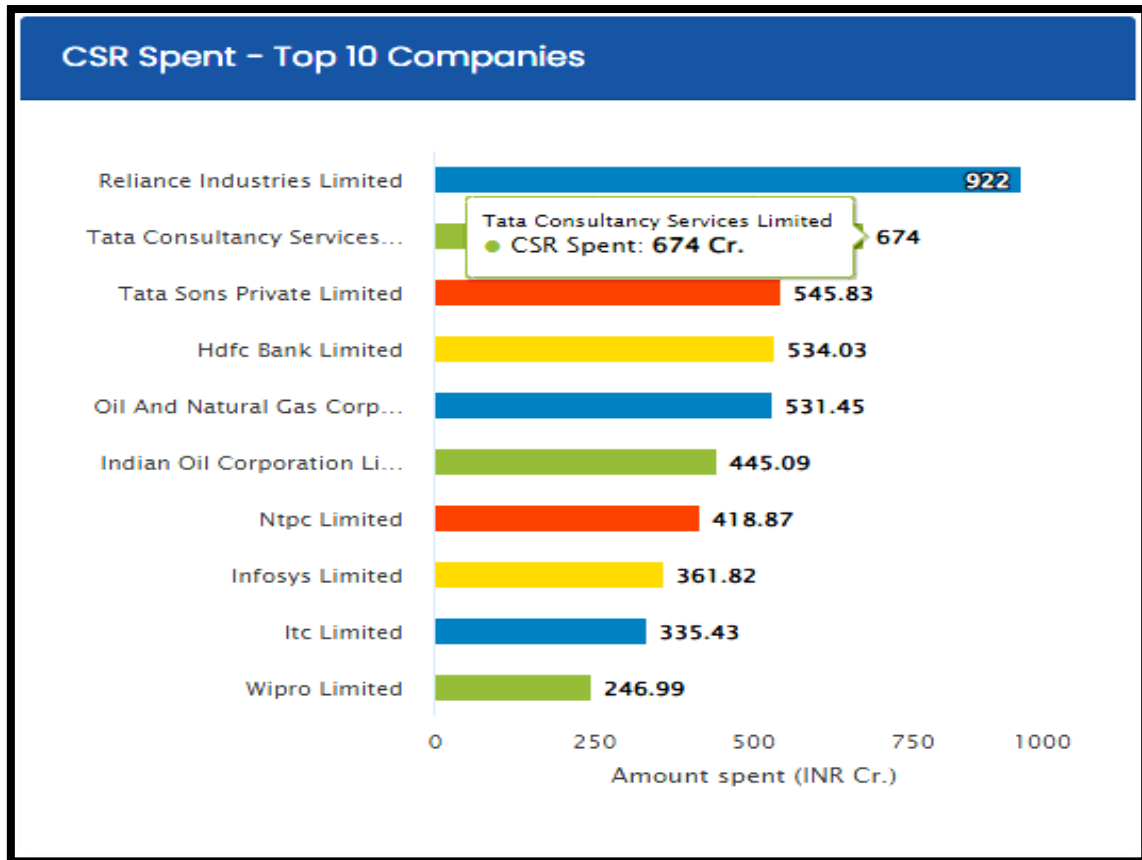


Source: National CSR Portal

As seen, companies (both PSUs and Non-PSUs) now are setting up specific verticals to develop policies, procedures and objectives. Further they are also allocating separate budgets to support them. They are also preparing well defined methods to discharge CSR responsibilities and at the same time align them with the companies' business domain. These activities relates to community development, education, environment and so on.

CSR in India has gained immense importance in recent years. This is because there is numerous areas like poverty, education, primary health care, etc. which needs lot of focus and resource deployment. In an economy where over 51 percent of India's population is poor CSR can help to solve these issues. This will further contribute to bring out inclusive growth and sustainable development. Sometimes government's welfare schemes may not reach the bottom of the pyramid but CSR activities can supplement this. In FY 2020-21, Reliance Industries Limited spent the highest amount on CSR i.e. ₹922 crores followed by Tata Consultancy Services and Tata Sons Private Limited amounting to ₹ 674 crores and ₹ 546 crores respectively. The CSR expenditure for FY 2021 by top 10 companies is depicted hereunder:

CSR Spent by Top 10 Companies in FY 2020-21.



Source: National CSR Portal

III. ISSUES AND CHALLENGES

Several issues are challenging the effectiveness of CSR despite the fact that it has made significant progress in the Indian context. Some of the challenges faced by CSR include lack of proper understanding of CSR, availability of authentic data, and lack of specific information, particularly about CSR coverage and policy, etc. In addition to it, coaching and undeveloped staff are also creating problems that lead to a reduction in CSR initiatives.

- **Lack of initiative interest:** There's an absence of interest of the area people in participation and contribution to CSR activities.
- **Need to create local capacities:** This initiative is way needed to make awareness at local levels and thus local capacities have to be built.
- **Lack of transparency:** As per the varied surveys, it's noted that transparency has been dead and hence has been very essential that CSR needs to maintain transparency.
- **Role of media:** The need is to bring out good CSR initiatives and sensitize the local population about various ongoing CSR initiatives of companies.

IV. CSR DURING THE COVID PANDEMIC

The year 2021 highlighted the ability of India to deal with the pandemic. Despite series of challenges India proved to the world that our people come first. This was possible because of several precautionary initiatives with health and safety being the priority. India proved the solidity of the COVID-19 strategy. Firstly the vaccination coverage addressed many challenges that India could take up. This was demonstrated by the availability of vaccine thereby proving that proper planning and streamlining the supply chain reached to the last level.

The Indian companies drive profitability by enhancing quality of the business. During the year 2022, India needs to continually launch new initiatives and economic relief to Covid-19 affected people and businesses. Although the Indian economy performed well during 2021-22, it also maintained requirements of people, society and business. Government initiatives to meet Covid-19 challenges were supported by businesses with the maximum priority for community wellbeing. Throughout 2021, the country emerged stronger wheeling out of the pandemic. Here the CSR initiatives played a major role to ensure the health and safety of the people.

V. CSR PROVISIONS AS PROVIDED IN COMPANIES ACT, 2013

Section 135 of the Indian Companies Act, 2013 lays down matters relating to Corporate Social Responsibility (CSR) that needs to be followed by Companies. These legal provisions are explained hereby:

1. To whom does it apply?

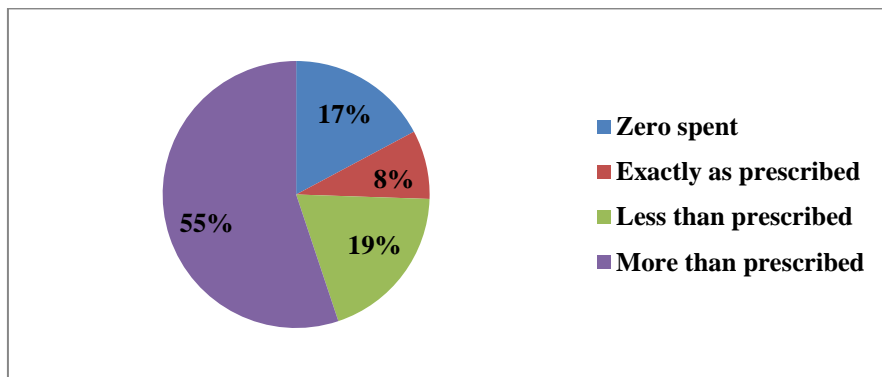
- **Net worth:** Rupees five hundred crore or more; or
- **Turnover:** Rupees one thousand crore or more; or
- **Net Profit:** Rupees five crore or more.

All the above is during any financial year.

2. How much is the quantum of contribution?

- The requirement for the applicable companies is **at least two per cent** of the average net profits.
- This profit relates to the profit of three immediately preceding financial years.
- The quantum is to be spent in every financial year.

The following graph shows the number of companies who have contributed the 2% mandatory requirement during the year 2021-22. It can be noted that during the FY 2021-22, 55% of companies that were required to contribute have actually spent more than the prescribed amount.

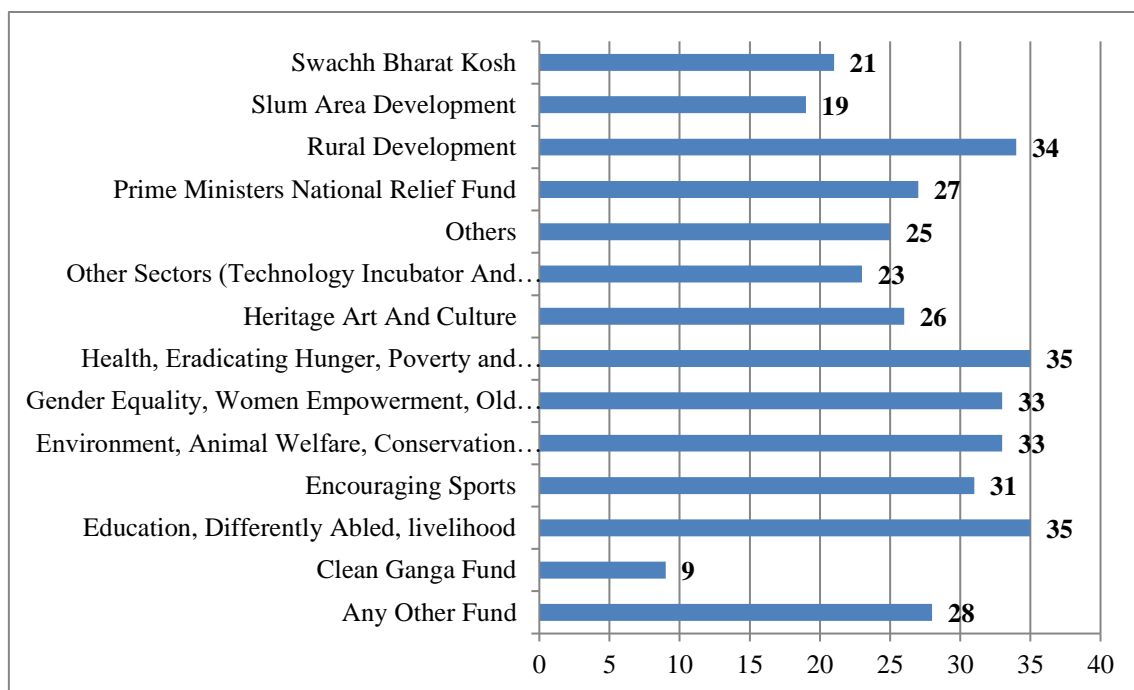


Source: National CSR Portal

3. What are the areas for spending?

- As per the Corporate Social Responsibility Policy prepared by the Board.
- Preference to local areas;
- Preference to areas around where the company operates.

The following chart shows the Amount of CSR (in INR crores) spent for different purposes in FY 2020-21. It is noted that out of total spending of INR 379 crores the maximum spending (INR 35 crores) during the FY 2021 is on Health, Eradicating Hunger, Poverty and Malnutrition, Safe Drinking water, Sanitation and Education, Differently Abled, livelihood.



Source: National CSR Portal

4. Is there any need for mandatory committee of the Board?

- The applicable companies firstly have to form a Corporate Social Responsibility Committee of the Board
- The constitution of the committee should be three or more directors, out of which at least one director shall be an independent director.

5. What are the reporting requirements?

- Such companies as mandated will have to furnish a report in their Board of Director's report which is part of the Annual Report.
- The mandatory committee's composition should also be disclosed.

6. What are the responsibilities of the CSR Committee?

- Recommend the CSR policy to the Board;
- Indicate activities to be undertaken;
- These activities to be undertaken should be in alignment with Schedule VII;
- Recommend the amount of expenditure to be incurred on the activities;
- The policy so recommended should be monitored from time to time.

7. What are the responsibilities of the Board?

- Approve the CSR policy;
- The director's report to contain the contents of the policy.
- The policy to be available in the company's website;
- Ensure activities specified in the policy are actually undertaken;

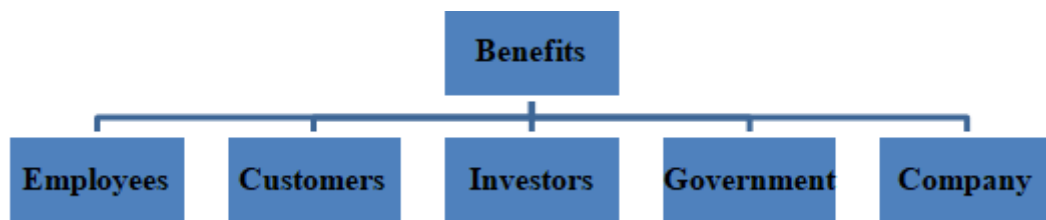
VI. OTHER RELATED MATTERS

- 1. Comply or explain provision:** Initially the legislation gave a small window for escape to companies by providing that if they are unable to comply then they can mention the reasons in the Director's report. This was known as "*comply or explain*". However, there is a shift from this aspect to making it penalty driven. Hence, it is now "*comply or pay fine*".
- 2. Ongoing projects concept:** This concept helps a company to retain the earmarked CSR amount for projects after identifying them as ongoing project. It means the project is a multi-year project (not longer than 3 years). The amount required to be retained should be put in a bank account named "unspent CSR account" within 30 days from end of the financial year.
- 3. Carry forward:** Whenever a company spends more than the mandated 2% it can carry forward the excess amount and spend it in the next three years.
- 4. Activities that are not CSR:** There is a prescribed list of activities which are needed to be within the scope of CSR. The important ones are :-
 - Activity should not be in the normal course of business.
 - Activity not pursued outside India.
 - Activity not towards any political party.
 - Activity not for own marketing benefit.
 - Activity not a statutory obligation.
- 5. CSR vs. income tax:** The Income tax Act 1961 regulates the law relating to payment of corporate tax. Section 37 of the Act stipulates the inadmissibility of certain business expenses. In this category, it has been specified that expenditure on CSR activities by a

company will not be treated as business expenditure. This is disallowed on the ground that the CSR expenditure is not exclusively incurred for the purpose of the business.

- 6. Social impact assessment:** Companies are required to justify the social impact created out of their CSR activities. This is required for every company with a CSR obligation of INR 10 crores or more (average in three immediately preceding financial years) to carry out a social impact assessment. This assessment needs to be done of CSR projects with an outlay of INR 1 crore or more through an independent body.

VII. BENEFITS OF CORPORATE SOCIAL RESPONSIBILITY



1. Employees

- positive work environment
- increase employee morale
- sense of belonging
- attract better talent

2. Customers

- win consumers' confidence
- branding
- retain customers by creating trust
- engage with customers
- Indirect form of advertising and reach out

3. Investors

- Investors get confidence as they find more accountability and transparency
- Depicts corporate culture
- Signifies ethical corporate behavior

4. Government

- Poverty reduction
- Meeting environmental objectives
- Employment opportunity

5. Company itself

- Enhances Reputation
- Brand building
- Gain employee confidence

VIII. CONCLUSION

India is the first country in the world to legislate CSR provisions in the companies Act. Many sectors of the economy have gained and corporates have also found a structured way to discharge their triple bottom line agenda. However, statistics have indicated that in FY 17-18, about 9,753 companies failed to spend and report despite being mandated. In FY 19-20, Indian companies spent about INR 9,000 crores on CSR, setting the tone for more spending. Presently, more and more companies have become conscious about their social responsibility. Further, the mandated Section 135 of the Companies Act 2013 has been amended from time to time bringing in more clarity and regulatory procedures to this noble endeavor. CSR has come to stay and the benefits are visible to the Indian diaspora as a whole.

REFERENCES

- [1] Kolk, A. and van Tulder, R. (2010), "International business, corporate social responsibility and sustainable development", *International Business Review*, Vol. 19 No. 1, pp. 119-125.
- [2] The Companies Act, 2013
- [3] Annual Report, Indian Tobacco Company (ITC), 2021-22
- [4] Dawkins, J. (2004), "Corporate responsibility: the communication challenge", *Journal of Communication Management*, Vol. 9 No. 2, pp. 108-119.
- [5] Nielsen, A. and Thomsen, C. (2009), "Investigating CSR communication in SMEs: a case study among Danish middle managers", *Business Ethics: A European Review*, Vol. 18 No. 1, pp. 83-93.
- [6] Dhanesh, G.S. (2014), "CSR as organization-employee relationship management strategy: a case study of socially responsible information technology companies in India", *Management Communication Quarterly*, Vol. 28 No. 1, pp. 130-149.
- [7] Dean, D.H. (2003), "Consumer perception of corporate donations: effects of company reputation for social responsibility and type of donation", *Journal of Advertising*, Vol. 32 No. 4, pp. 91-102.