

Research Article

Corporate Social Responsibility in India: Present Status, Challenges and Solutions

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A B S T R A C T

With the Companies Act of 2013, India became one of the first nations in the world to put a statutory requirement on firms to engage in Corporate Social Responsibility (CSR). Perhaps the only nation requiring reporting on CSR pledges as well as expenditures is India. The government has also underlined that CSR spending is not only charity or non-monetary gifts. The government has also made a determined effort to ensure that CSR legislation remains consistent with India's commitment to the Sustainable Development Goals (SDGs). In India, the landscape of corporate social responsibility (CSR) has grown dramatically; an increasing number of businesses are now actively fulfilling their societal duties. However, various difficulties must be addressed in order to improve the efficacy of CSR initiatives in promoting sustainable and equitable development. The current study article seeks to examine the current state of CSR in India. It was also explored what issues corporations and governments face in terms of CSR. Finally, several suggestions/solutions are offered.

Keywords: Rural Development, Corporate Social Responsibility, Incubators, Sustainable Development Goals, Social Welfare

CSR

In order to incorporate social and environmental issues into their business operations and stakeholder interactions, firms use the idea of CSR, as defined by the United Nations Industrial Development Organization (UNIDO). CSR is a business model in which corporations contribute to the greater good. CSR is built on a company's sense of duty to the community and the environment in which it operates.

ESG (Environmental, Social, and Governance) and sustainability—which creates value for the economy, society, and environment—are strongly related to it. A typical definition of corporate social responsibility (CSR) is the process by which a business balances the demands of shareholders and stakeholders with the needs of the economy, environment, and society (also known as the "Triple-Bottom-Line-Approach").

Evolution of CSR

Corporate Social Responsibility (CSR) was perceived as a social duty in the 1950s. The idea changed to be seen as a bridge connecting business entities with society by the 1960s. Definitions of corporate social responsibility (CSR) expanded to encompass a wide range of additional elements during the 1970s and 1990s, including stakeholders, ethics, voluntarism, philanthropy, environmental stewardship, and the Triple Bottom Line—people, planet, and profit. A significantly wider range of subjects are included by the notion of corporate social responsibility in the twenty-first century, including improving people's quality of life, defending labor and human rights, environmental concerns, problems with corruption, and problems with accountability and transparency.

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Framework of CSR in India

- **Legal Basis:** Section 135 and Schedule VII of the Companies Act, 2013 and the Companies (CSR Policy) Rules, 2014 govern the notion of corporate social responsibility in India. The Rules specify how a company must apply and report on its CSR practices, in addition to what qualifies it for CSR. One of the most intricate CSR implementation plans and methods has been established under the Act and the Rules.²
- **Criteria:** Certain corporations are required to engage in CSR initiatives by the Companies Act. The Act requires companies having a net worth of at least INR 5 billion (500 crore), a yearly revenue of at least INR 10 billion (1000 crore), or a net profit of at least INR 50 million (5 crore) to allocate 2% of their average net earnings for the preceding three years to corporate social responsibility (CSR). Before then, firms may choose to include a CSR clause in their contracts, but they had to tell shareholders about the money they spent on CSR. Every company to whom CSR standards apply must have a Corporate Social Responsibility Committee. The CSR Committee shall have three or more directors, including at least one independent director. The actions to be carried out as part of CSR are specified by the government in Schedule VII of the Companies Act.
- **Penal Provisions:** A fine of INR 50,000 to INR 25 lakh will be imposed on a corporation that violates the regulations of CSR spending, transfers, and use of the unspent funds. Officers in charge of CSR face up to three years in prison or a fine of INR 50,000-5 lakh, or both.
- **Amendment in 2019:** Prior to the modification, a business could carry over any unused CSR monies into the following fiscal year in addition to the funds allocated for that year if they couldn't be used entirely in that year.

Companies must deposit any unspent CSR payments into a fund specified in Schedule VII of the Act by the end of the fiscal year, according to the modified Act. This sum must be used within three years after the transfer date, or the fund must be deposited in one of the listed funds.³

Current Scenerio of CSR in India

In India, CSR expenditure has increased from INR 10,065 crore (2014-15) to INR 24,865 crore (2020-21).^{4,6}

Table I. Financial Year 2020-21, CSR Development Expenditure: Sector-Wise

Sector	Total CSR Expenditure
Rural Development	1818.38 Cr.
Animal Welfare, Environment, Resource's Conservation	1273.38 Cr.
Prime Ministers National Relief Fund	1656.4 Cr.
Clean Ganga Project	13.36Cr.
Encouraging Sports	240.9 Cr.
Others	282.65 Cr.

According to the report of Ministry of Corporate Affairs, total CSR expenditure for the year 2020-21 was INR 7490.84 crore in India.

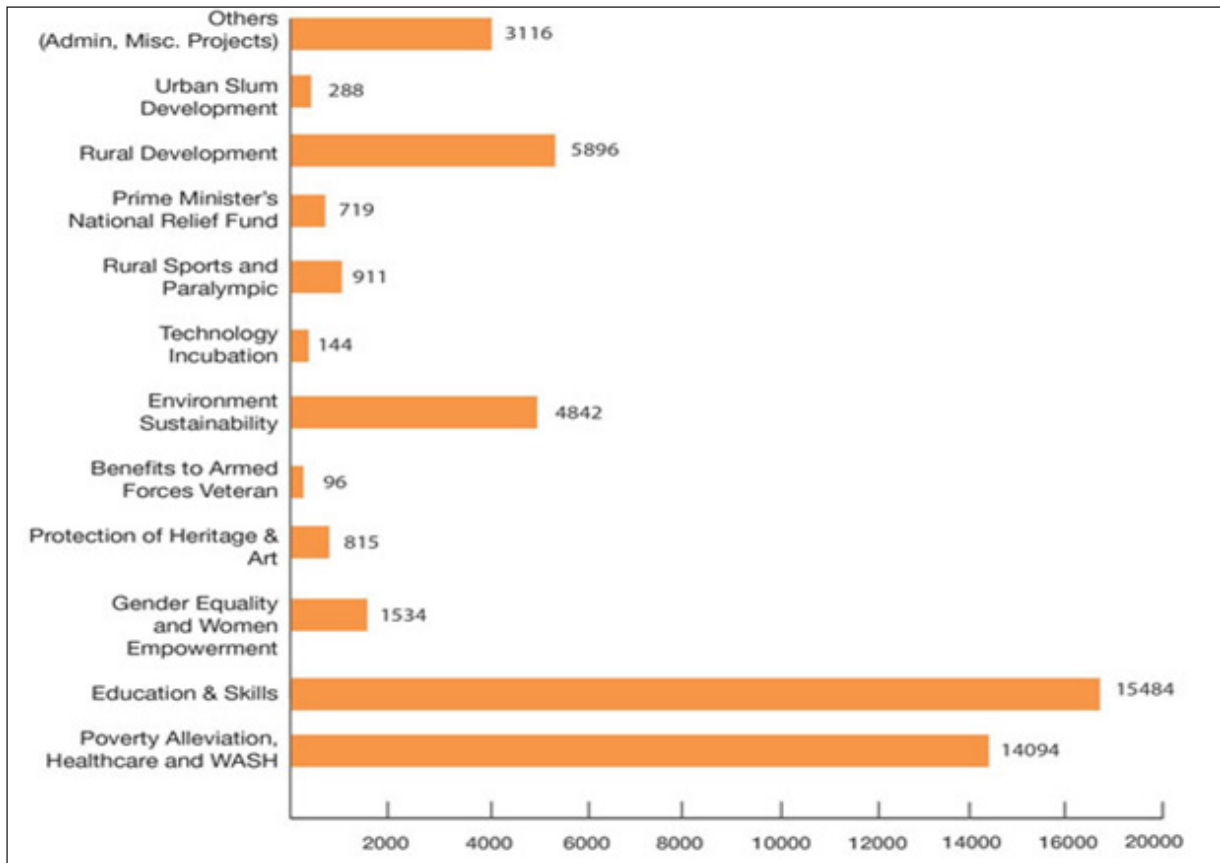
Companies that did not spend any money on corporate social responsibility (CSR) increased from 3,078 in 2015–16 to 3,290 in 2020–21. Of these, 2,926 companies spent zero dollars on CSR in 2020–21. The number of enterprises participating in CSR has also decreased, from 25,103 in FY2019 to 17,007 in FY2021.

Advantages of CSR

- **Sustainable Development Goals:** Due to their capacity for innovation and creativity, businesses are seen as the driving forces behind the SDGs. The opportunity to create a connected paradigm for long-term growth between CSR and SDGs is huge. Many companies are aligning their CSR focus areas with the SDGs in order to fulfill their CSR mandate. Enhancing women's livelihoods via skill development, for instance, helps achieve SDGs like gender equality and the abolition of poverty.

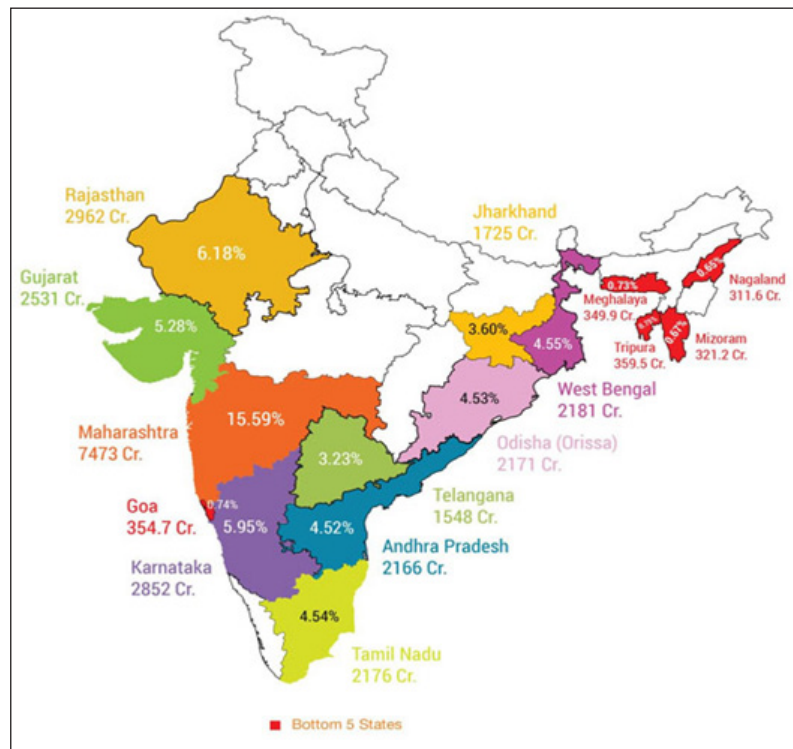
Initiatives included under CSR (Schedule VII, Companies Act, 2013)

- **Eradicating hunger**, poverty and malnutrition, promoting health care and sanitation.
- **Promoting education**, employment enhancing vocation skills and livelihood enhancement projects.
- Promoting **gender equality**, empowering women, setting up homes/hostels for women and orphans; setting up old age homes, measures for reducing inequalities faced by socially/economically backward groups.
- Ensuring **environmental sustainability**, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources including contribution to the Clean Ganga Fund.
- Protection of **national heritage, art and culture**; setting up public libraries; promotion and development of traditional art and handicrafts.
- Measures for the benefit of **Armed Forces**, CAPF veterans, their dependents and widows.
- Training to **promote sports** (rural, paralympic and olympic sports).
- Contribution to the **PM's National Relief Fund/PM CARES Fund** or any other fund set up by the Union Govt.
- Contribution to **incubators** or **R&D projects** in the field of **science, technology, engineering and medicine**, funded by the Union/State Governments or PSUs; Contributions to public funded Universities;
- **Rural development projects** and Slum area development.
- **Disaster management**, including relief, rehabilitation and reconstruction activities.



Source: csr.org.

Figure 1. For 2014-2019, Sector-Wise Expenditure of CSR



Source: csr.org.

Figure 2. For 2014-2019, State-Wise Distribution (In India) of CSR Expenditure

- **Corporate Social Responsibility for Technology Incubators:** In an effort to support India's R&D and innovation ecosystem, the government broadened the definition of corporate social responsibility (CSR) in September 2019. Contributions to incubators financed by governments/public sector organizations or to research and academic institutions have been included in the CSR.
- **Responsible Business Reputation/Customer Loyalty:** Investing in corporate social responsibility helps establish a company's reputation as a responsible one, which can provide it a competitive edge. Companies frequently choose suppliers with responsible policies since it reflects how their customers see them. It has been shown that improving a company's image through CSR can enhance consumer loyalty and public trust, allowing enterprises to profit from these characteristics.
- **Costs Savings:** Reduced resource consumption, waste, and emissions will help the environment while saving money. A corporation may be able to cut their utility bills and save money by taking a few simple actions.
- **Employee Retention:** Many factors, such as job happiness, the corporate culture, and promising futures, contribute to employees' decision to stay in their current positions. Being a responsible, long-term organization may make it easier to acquire new employees or retain existing ones. Employees may be encouraged to stay longer, reducing the costs and inconvenience of recruitment and retraining.
- **Green washing:** CSR is still mostly seen by many businesses as a legal requirement. They participate in unnecessary activities that have no discernible influence on communities or the environment. They do, however, communicate misleadingly before making an effort to sway the opinions of their stakeholders and the broader public. We've called this "green washing." Such events are becoming more widespread in the absence of forceful enforcement methods.

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Lack of Consensus and Cooperation: Diverse municipal authorities and corporate entities are at odds with one another, which causes businesses to duplicate their CSR activities. This unwarranted competition among the businesses undermines the primary goal of creating value for society.

Lack of Community Participation: Numerous businesses are spearheading CSR initiatives from the top down, with minimal participation from the target community. As a result, there is a schism. Companies end up pursuing activities that they deem vital rather than those that benefit communities.

Lack of Strategic Planning: Companies are unable to significantly impact their CSR because they lack sufficient experimentation, involvement, and strategic planning. They are unable to find optimal investment initiatives and, as a result, cannot deliver high-impact results. Corporate entities must first comprehend the difficulties that their citizens face and then invest appropriately.

Challenges to CSR in India

- **Regional Disparity:** Most CSR spending occurs in states like Gujarat, Karnataka, Maharashtra, Tamil Nadu, etc. Between 2014 and 2019, 32% of all funding was allocated to these states. The spending in these four states is 54%, according to a more recent analysis from Ashoka University's Centre for Social Impact and Philanthropy. With their huge populations and scarce resources, the populous states of Madhya Pradesh and Uttar Pradesh get significantly less.
- **Sectoral Disparity:** An examination of CSR spending from 2014 to 2018 shows that, despite the fact that extractive industries like mining have a negative environmental impact in many States, only 9% of CSR spending went toward the environment. The majority of spending went toward health and sanitation (29%) and education (37%).
- **Lack of Transparency and Information:** A lot of corporations don't try hard enough to reveal important information. This becomes a barrier to establishing trust between corporations and communities. Transparency is essential for any CSR program to succeed. According to the Standing Committee on Finance, information on corporate CSR spending is scarce and difficult to get.

Required Steps to Resolve these Issues

- **Centralized Platform:** A centralized national platform might be curated by the Ministry of Corporate Affairs (MCA). On the site, all states can post possible CSR-admissible projects. Companies can use this to determine where their CSR funds will have the greatest impact across India. The 'Corporate Social Responsibility Projects Repository' available on the India Investment Grid (IIG) by Invest India could serve as a guide for such endeavors. Under the government's Sansad Adarsh Gram Yojana, this methodology would be very helpful in supporting worthy initiatives in the 112 aspirational districts and projects selected by MPs.
- **Sectoral Balance:** Businesses in the region where they operate should prioritize environmental restoration and set aside a minimum of 25% for environmental regeneration. This is getting more important as the effects of climate change become visible in many parts of India.
- **Community Participation:** Communities, district administration, and public representatives should all be actively involved in the selection and implementation of all CSR programs.

- **Enhanced Monitoring:** To enhance the monitoring and assessment system, the 2018 suggestions of the high-level committee ought to be incorporated into the current CSR framework. Among the suggestions are the following: (a) requiring independent third-party impact assessment audits; and (b) including CSR into statutory financial audits by include information about CSR spending in a company's financial accounts. Making measures to stop fraud and duplication is essential. There has to be more direct oversight and monitoring of business expenditures by the MCA and line divisions.
- **Coordination with NGOs:** Companies and non-governmental organizations must pool their resources and create synergies in order to undertake CSR initiatives more efficiently and effectively.

Conclusion

India's current problems could be drastically changed by the commercial sector taking a more active role in CSR. Since the passage of the Companies Act in 2013, the contribution has grown exponentially. Addressing implementation gaps can improve the effectiveness of corporate spending. This could be a big factor in making sure that India's growth narrative becomes more inclusive and sustainable.

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