The Future of CSR in India: Moving Beyond Compliance to Strategic Impact

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ABSTRACT

This article makes an attempt to through light on the historical evolution of Corporate Social Responsibility (CSR) in India, the Salient features of Section 135 Companies Act, 2013, Innovations and Emerging Trends in CSR and Future Trends. This is an attempt to understand how the companies whose primary focus was profit making, used to do Charitable, Philanthropic activities occasionally were made to do it mandatorily. Which became their Moral obligation and made them to think about giving back to the society what they take. This also tries to throw light on how Public- Private partnership is building the development gaps and contributing to sustainable growth.

Keywords— Corporate Social Responsibility, Section 135 Companies Act, 2013, Public- Private partnership, Emerging trends, Future trends.

INTRODUCTION

UN Millennium Development Goals(MDGs), 2000 tried to address the prevalent problems by 2015. The eight goals were aimed to reduce extreme poverty, improve education, promote gender equality, and ensure sustainable development. These goals were succeeded by United Nations Sustainable Development Goals(SDGs) introduced in 2015. The 17 goals aim to achieve a better and more sustainable future for all by 2030. India is also one of the country which has taken remarkable initiatives to address the pressing needs of the country and align its policy and programmes to contribute to MDGs and SDGs.

But magnitude of the problem and population made it realise that government alone cannot do this. CSR became an effective tool to address these issues. Hence, the Bill which mandates the CSR for corporate was introduced, section 135 was incorporated in The Companies Act, 2013, which mandated CSR for the companies who fulfils the criteria mentioned in the Act. This made CSR Boardroom Activity which was earlier a Backroom Activity.

Section 135, Companies Act, 2013

Corporate Social Responsibility (CSR) refers to the obligations of businesses towards society and the environment. While it was once viewed as charity, its scope has expanded to include the responsibilities companies have to the broader world. In India, the Ministry of Corporate Affairs (MCA) issued the CSR Voluntary Guidelines 2009, stating that businesses should develop a CSR policy aligned with their goals, focusing on stakeholders' welfare, ethical practices, human rights, and environmental responsibility. The MCA later released the 2011 National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities, which encouraged businesses to address various stakeholder interests.

The Securities and Exchange Board of India (SEBI) made it mandatory for listed companies to include a Business Responsibility Report (BRR). The MCA introduced CSR policy rules in 2014, following Section 135 of the Companies Act 2013, mandating CSR spending and the adoption of CSR policies, effective from April 1, 2014.

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Salient Features of Section 135

Applicability: Section 135 applies to companies with:

- A net worth of ₹500 crore or more, or
- A turnover of ₹1000 crore or more, or
- A net profit of ₹5 crore or more during the immediately preceding financial year.

CSR Committee: Every qualifying company must form a CSR Committee, consisting of three or more directors, with at least one independent director.

CSR Policy: The company's CSR Committee must develop and recommend a CSR policy, which must be approved by the Board. This policy should outline the activities for CSR engagement, detailing the objectives and implementation processes.

CSR Spend: The company is required to spend at least 2% of its average net profits over the last three financial years on CSR activities. The calculation is based on the average net profit as defined under Section 198 of the Act.

CSR Activities: The CSR activities must align with the Schedule VII of the Companies Act, which includes areas like eradicating hunger, promoting education, healthcare, environmental sustainability, rural development, and more.

Unspent CSR Funds: If the company fails to spend the allocated CSR funds, it must disclose the reasons in its annual report. Any unspent funds must either be transferred to a specific fund (such as the Prime Minister's National Relief Fund) or be used for CSR projects in the next financial year.

CSR Reporting: Companies must disclose their CSR activities in their annual report. This includes a detailed report on the projects undertaken, funds spent, and outcomes achieved.

Penalty for Non-compliance: If a company fails to comply with CSR provisions (i.e., fails to form a CSR Committee or spend the required amount), penalties can be imposed.

CSR Contribution to Trusts and Foundations: The funds allocated for CSR activities can be contributed to registered trusts or non-profit foundations that are engaged in similar CSR activities. The CSR committee must ensure these organizations are meeting the criteria laid down in Schedule VII.

Thematic Areas Mentioned in Schedule VII

1. Eradicating hunger, poverty and malnutrition, promoting health care, sanitation and safe drinking water.
2. Promotion of education, special education and vocational skills
3. Gender equality, women empowerment, senior citizens and economically backward groups
4. Ensuring environmental sustainability, ecological balance, wildlife and natural resources conservation
5. Protection of National heritage, art and culture
6. Benefits to armed forces, veterans, war widows
7. Rural sports, Paralympic and Olympic sports
8. PM Cares, PM National Relief fund and any other fund set up by the central Government for Social and economic development and welfare of SC/ST, OBC

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9. Technology incubators within academic institutions

10. Rural Development projects

11. Slum Development

12. Disaster Management including relief, rehabilitation and reconstruction activity

In activity (1) contribution to Swach Bharat Kosh set-up by Central Government for promotion of sanitation is added.

In activity (4) contribution to Clean Ganga Fund set-up by the Central Government for rejuvenation of River Ganga is added.

CSR Schedule VII expanded in October 2019 and March, 2020.

Contribution to incubators funded by central government or state government or any agencies or public sector undertaking of central government or state government and contributions to public funded universities Indian Institute of Technology (IITs); National Laboratories and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defence Research and Development Organisation (DRDO); Indian Council of Agricultural Research (ICAR); Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals.

CSR Spending Trends

CSR Box has released India CSR Outlook Report, 2024 based on its study of 301 leading companies in India. This report speaks about many aspects of CSR. This section provides information about spending trends, key focus areas within CSR, funding priorities for CSR in India mentioned in CSR Box report.

Table No. 1 Year-wise Analysis of Prescribed and Actual CSR Spending: Trends from FY 2014-15 to FY 2023-24

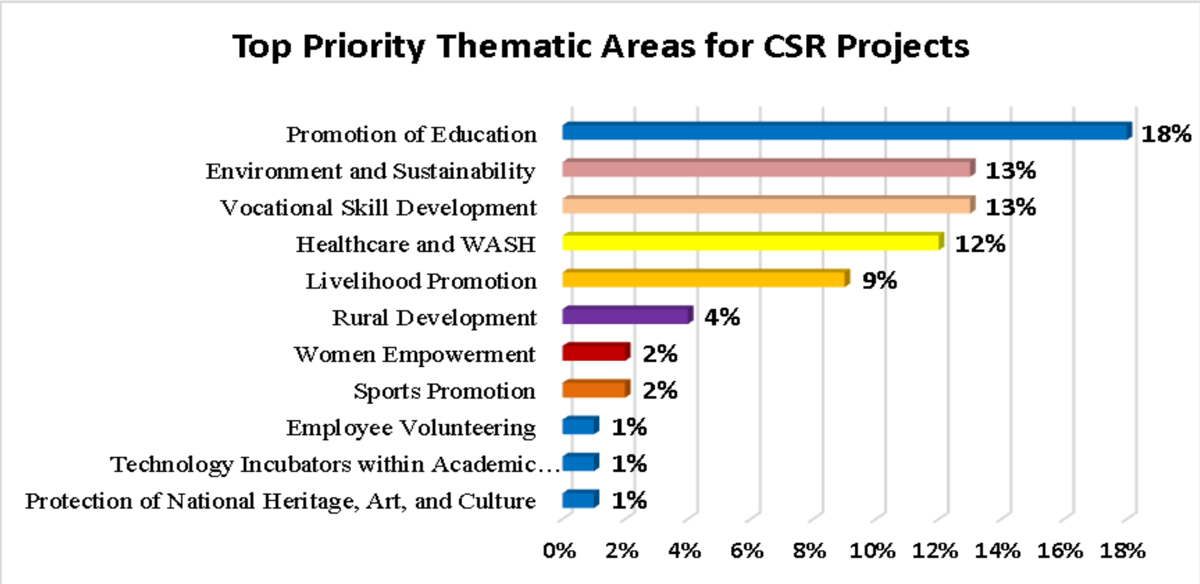
Financial Year	Prescribed CSR Amount (in INR Cr.)	Actual CSR Spent (in INR Cr.)	Difference in %
2014-15	7040	5563	-20.98
2015-16	7143	6578	-7.91
2016-17	9275	8446	-8.94
2017-18	9543	8875	-7.00
2018-19	10866	10904	0.35
2019-20	10595	11564	9.15
2020-21	11660	12180	4.46
2021-22	12119	12260	1.16
2022-23	13426	12890	-3.99
2023-24	14267	14003	-1.85

Source: CSR Box, India CSR Outlook Report (2024)

The data shows an increase in the Prescribed CSR amount and fluctuation in spending CSR amount, with a general trend of under spending in earlier years (2014-2018) and over spending in 2018-2022. The difference in CSR spending ranges from a -20.98% shortfall in 2014-15 to a 9.15% surplus in 2019-20.

This trend can be generalized, as the report indicates that the average actual CSR spend per company rose to INR 54 Cr in FY 2023-24, compared to INR 22 Cr in FY 2014-15.

Figure No. 1. Top Priority Thematic Areas for CSR Projects



Source: CSR Box, India CSR Outlook Report (2024)

Data collected from 250 listed companies highlights the priorities in their CSR efforts. Education stands out as the top priority, receiving the highest focus at 18%. Both Environment and Sustainability, as well as Vocational Skill Development, are also significant areas, each accounting for 13%. Healthcare, which was a major focus during the pandemic, now holds less importance, reflecting a post-COVID shift in priorities. Other areas, such as Livelihood Promotion (9%) and Rural Development (4%), receive moderate attention. Women Empowerment (2%) and Sports Promotion (2%) are given relatively less emphasis.

The Role of Csr in Business Sustainability and Competitive Advantage

With the amendments in the Companies Act, 2013, and the receptiveness of the businesses towards building economically and socially sustainable business structures, strategic spending towards CSR activities is gaining momentum. Ironically stated, businesses seem to have realised that apart from profits, even the other two P's - People and Planet are of equal, if not of more importance. In case these two P's (People and Planet) get adversely affected then there won't be any chance to earn the third P (Profit) (Saxena, 2016). The companies now have dedicated teams to fulfil their (company's) CSR commitment – by way of developing specific objectives/ projects, strategies and goals. This also seems to coincide with the global understanding that CSR = sustainability by integration of stakeholders' objectives, which is popularly called as 'triple bottom-line approach' (economic, environmental, social) (PWC, 2013).

CSR is not just a legal commitment but it plays major role in building image of the company, helps to maintain good relationship with the stakeholders. A positive image built by the company through its CSR initiatives will definitely makes it standout from other companies in the market, which will in turn attract more customers.

Employees are one of the stakeholders of the company. Companies responsible behaviour towards society and environment plays greater role in attracting talented workforce who are impressed by the contributions of the company towards society. It will also improve company's relationship with business partners and community.

Following the legal compliance will save company from penalties, legal actions and damage to its reputation. By taking up CSR activities related to sustainability, the companies can greatly contribute to environment protection.

Innovations and emerging trends in CSR

Before the government made CSR mandatory for eligible companies, many were already involved in philanthropic and charitable activities. It was more of religious endeavours. When CSR became mandatory, majority of the companies faced problem in selecting the projects suitable for their respective location and skilled manpower to implement it. But we can see the hold of companies in a short span of time on implementing CSR activities effectively. This was done by establishing their own corporate foundations, hiring skill manpower or partnering with Non-Government Organizations(NGOs) to implement their CSR activities. This also opened door for Innovations. A Scientific approach was adopted to identify the issues to be addressed through CSR activity, technology was used to gather, analyse, present data, geo-tagging were used to track Project areas and structures developed like pond, check dams, school buildings, etc.

Policy recommendations to encourage businesses to go beyond compliance

Section 135 of Companies Act, 2013 mandates CSR activities for eligible companies. Most of these companies implements their CSR activities within a 10 to 20 kms. radius of their entity. They feel it is necessary to build their image and maintain good relationship with neighbouring community, whose resources they use to run their profit making business. Somewhere it is hindering the broader aim of CSR Act, as development gaps exist beyond these geographical limits. As where these companies are already established, people around that will be benefitted directly or indirectly from the existence of the companies, through job opportunities or others.

But there are many cities and villages which don’t have any such companies and other companies will not come forward to invest their CSR money there.

To address this imbalance, Government could make policies that bridge this gap. It can work on the module through which this regional and development disparity can be addressed. The companies with larger CSR budget can go beyond their geographical boundaries and implement their CSR activities in areas which really deserve it. The Government could identify these regions and recommend them to companies for targeted CSR investments.

The India CSR Outlook Report 2024 by CSR Box reveals that 30% of companies have no female representation on their CSR committees. This gap must be addressed through policy reforms, as the perspectives and expertise of women are essential and cannot be overlooked.

Future trends in CSR

The future trends in CSR is going to be heavily depended on Technology and innovation, Partnerships, Involvement of Stakeholders and UN Sustainable Goals.

The use of Artificial Intelligence, data analytics are going to be used to identify critical issues needs to be addressed, monitor impact. Innovations in renewable energy is also going to become part of CSR.

Partnerships are going to play major role as companies are realising that collaborations are an essential part of CSR. The collaboration is not only restricted to implementing agencies but they can collaborate with academicians, researchers, other companies to pool resources, to share knowledge, get experts opinion, which is essential to address complex social, economic and environmental issues.

Involvement of Stakeholders is going to be a major trend in future CSR. To address the needs of the people, to take their opinion this is very much essential. More inclusive approach will definitely bring more impact. The stakeholders can play an important role in all stages of CSR from identifying the need to assessing the impact and making suggestions to make it more impactful.

Aligning CSR activities with UN SDGs is need of the hour. Which is not only going to address the issues pertaining to India, it is also going to address the global challenges like climate change, poverty, health, etc.

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CONCLUSION

CSR in India has evolved significantly, transitioning from voluntary philanthropy to a strategic, boardroom-driven priority under Section 135 of the Companies Act, 2013. It plays a crucial role in business sustainability and stakeholder relations while addressing social and environmental challenges. Innovation, partnerships, and the alignment with global goals like the UN SDGs are essential for CSR's future impact. By encouraging businesses to go beyond their immediate areas and addressing regional disparities, CSR can contribute to both local and global development. Ultimately, CSR initiatives must be strategic, impactful, and aligned with broader sustainability goals for lasting change.

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