



## Corporate Social Responsibility - A Strategic Endeavour

This editorial is based on "[Corporate Social Responsibility Is A Strategic Endeavour](#)" which was published in Indian Express on 02/06/2022. It talks about why compliance to Corporate Social Responsibility is significant for the companies and what can be the possible challenges in complying to CSR.

**For Prelims:** Corporate Social Responsibility, Companies Act 2013, ESG Compliance

**For Mains:** Corporate Social Responsibility - Significance, Challenges to Compliance

The term "[Corporate Social Responsibility](#)" in general can be referred to as a corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare.

With nearly two-thirds of India still living in poverty by today's quality-of-life standards and the climate situation worsening day by day, the importance of CSR can't be overestimated. Companies should take compliance to CSR more seriously and responsibly.

### Corporate Social Responsibility (CSR)

#### Does the CSR have a Legal-backing in India?

- In India, the concept of CSR is governed by **clause 135 of the [Companies Act, 2013](#)**.
  - **India is the first country in the world to mandate CSR spending** along with a framework to identify potential CSR activities.
- The CSR provisions within the Act is **applicable to companies with an annual turnover of 1,000 crore** and more, or a **net worth of Rs. 500 crore** and more, or a **net profit of Rs. 5 crore** and more.
  - The Act requires companies to **set up a CSR committee** which shall recommend a Corporate Social Responsibility Policy to the Board of Directors and also monitor the same from time to time.
- The Act encourages companies to **spend 2% of their average net profit** in the previous three years on CSR activities.

#### What Activities can be Undertaken by A Company under the CSR?

- Specified under Schedule VII of the Companies Act 2013, these activities include:
  - Eradicating extreme **hunger** and **poverty**
  - Promotion of **education, gender equality** and **empowering women**
  - Combating **HIV-AIDS** and other diseases
  - Ensuring **environmental sustainability**
  - Contribution to the **PM's National Relief Fund** or any other fund set up by the Central Government for socio-economic development and relief.

## What is the Significance of CSR Compliance?

- CSR is increasingly being leveraged to **build a positive brand identity for corporations** and help their [ESG compliance](#).
  - Brand image has gained importance as stakeholders have become more aware and involved in social issues.
- Since the onset of the Covid-19 pandemic, the number of India's philanthropic collaboratives has more than doubled, mobilising an array of funding from foreign and domestic philanthropy, high-net worth individuals, CSR funders, private capital, etc.
  - Through these varied streams, the amount of collaborative **funding for improving people's lives** has increased significantly.
- As funding levels have risen, so too have **innovative financing approaches to drive social impact**, including pay-for-outcomes models such as development impact bonds in education and health, and other blended financing mechanisms.

## What are the Issues Pertaining to CSR Compliance?

- **Finding Right Partners:** Despite growing awareness about the significance of CSR compliance, the challenges remain in **identifying the right partners and projects**, as well as in **selecting projects that are long-term impactful, scalable**, and are **self-sustaining**.
- **Lack of Community Participation in CSR Activities:** There is a **lack of interest of the local community** in participating and contributing to CSR activities of companies.
  - This is largely attributable to the fact that **there exists little or no knowledge about CSR within the local communities** as no serious efforts have been made to spread awareness about CSR.
  - The situation is further aggravated by a **lack of communication between the company and the community** at the grassroots.
- **Issues of Transparency:** There is an expression by the companies that there exists lack of transparency **on the part of the local implementing agencies** as they **do not make adequate efforts to disclose information** on their programs, audit issues, impact assessment and utilisation of funds.
  - This reported lack of transparency **negatively impacts the process of trust building** between companies and local communities, which is a key to the success of any CSR initiative at the local level.
- **Non-availability of Well Organised NGOs:** There is non-availability of well organised NGOs **in remote and rural areas** that can assess and identify real needs of the community and work along with companies to ensure successful implementation of CSR activities.

## How can the CSR be made more Effective?

- **Role of Companies:** Beyond just allocating funds, the companies shall conduct **regular reviews on progress of CSR compliance** and put in place some measures for a **more professional approach** towards the same. Also, they should **set clear objectives** and **align all the stakeholders** with them.
  - It is equally important to **let their NGO partners know of their business needs**.
    - The latter should know that companies which award money from their CSR budgets are sincere about the causes they pick.
  - The Companies must also **refresh the roles of Board, CSR Committee, CFO** and **set-up new SOPs** including a **defined process for fund utilisation**, determine **applicability of impact assessment**, prepare a detailed checklist of processes with the owners and timelines and formulate an annual action plan.
- **Role of Government:** The government must ensure that the activities included in the CSR Policy of a company are implemented by it.
  - It is also the responsibility of the government to **address the issues of non availability of the NGOs and create awareness** in the society about the significance of the CSR and its activities.
  - The government plans to use technology tools such as Artificial Intelligence and Machine Learning to do data mining of the mandated reports to bring changes to its policy on CSR.

- Leveraging technology to improve the oversight of India Inc is welcome, but this should be applied to the financial and governance aspects of companies before moving on to their social obligations.

## What are the Suitable Areas where CSR Investments can be Diverted to?

- **Technological Innovation:** The key to a non-linear scale-up of any project lies in leveraging technology and solving societal problems is no exception.
  - A policy environment that encourages CSR investments in technology-led solutions has made sustainable and scalable solutions a reality.
  - Additionally, **collaborations with local bodies** and the **establishment of governance and community engagement structures** can ensure these projects become self-sustainable in the long run.
- **Higher Education:** CSR can be used to meaningfully **support the tertiary education sector** in a number of ways.
  - Funds can be channelled into the implementation of **socially relevant projects conceptualised by faculty members**, or for **supporting scientific research** that will unravel the answers to key scientific questions underlying social problems.
- **Incubators Management:** Such grants can also be given towards **government-recognised incubators, setting up new incubators, supporting existing incubators** to hire more people through internships and fellowships, and **providing seed funding for start-ups**.
  - The fact that the government's CSR policy allows a company to choose to intervene at any point in the end-to-end tech value creation process is a great enabler.
- **Environment Friendly Projects:** Creating **sustainable construction materials** that are affordable and recyclable, developing **India-centric greening options** such as **novel heat and power management systems** and addressing socio-technical issues (such as **flood management systems**) by carrying out in-depth risk analytics on relevant parameters.
  - Projects such as these **enabled through CSR funding and led by higher education institutions** would accelerate the transition from laboratory to actualisation and serve communities in innovative ways.

### ***Drishti Mains Question***

“With nearly two-thirds of India still living in poverty by today's quality-of-life standards and the climate situation worsening day by day, the importance of Corporate Social Responsibility (CSR) can't be overestimated. It is the responsibility of both the companies and the government to ensure a more stringent compliance to CSR.” Analyse.