



# Corporate Social Responsibility In India: Current Landscape, Challenges, And Future Directions

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## ARTICLE INFO

## ABSTRACT

Corporate Social Responsibility (CSR) has emerged as a significant aspect of business operations globally, aligning economic objectives with social and environmental concerns. In the Indian context, CSR has evolved from ancient ethical principles to modern legal mandates. This paper examines the historical evolution, present state, challenges, and proposes a way forward for CSR in India. Tracing its roots to ancient scriptures and the Independence movement, CSR gained momentum with the liberalization policies of the 1990s. The Companies Act of 2013 mandated CSR spending, marking a significant shift towards inclusive growth. Presently, CSR encompasses economic, legal, ethical, and philanthropic dimensions, becoming integral to business strategies. Despite progress, several challenges hinder effective CSR implementation. These include a narrow view of CSR, lack of transparency, and alignment with shareholder interests. Green washing and skewed fund distribution further complicate matters. Additionally, issues such as faulty execution, community participation, and strategic planning pose hurdles. To address these challenges, the paper proposes a multifaceted approach. This includes increasing SME involvement, creating public awareness, and fostering long-term visions for CSR activities. Emphasizing rural and urban poverty alleviation, sensitizing youth, and fostering collaborations between corporations and NGOs are also recommended. Furthermore, aligning CSR objectives with sustainable development goals and integrating technology and innovation are crucial steps forward. Ultimately, CSR should be integrated into core business strategies, addressing structural issues for lasting societal impact. By adopting a comprehensive and strategic approach, India can harness the full potential of CSR to drive sustainable development and foster a more equitable society.

**Keywords:** Corporate Social Responsibility (CSR), Current Landscape, Challenges, Future Directions, Sustainable Development.

## Introduction:

*"Creating a strong business and building a better world are not conflicting goals – they are both essential ingredients for long term success" – Bill Ford*

With this opening statement, let us now delve into the discussion around the concept of 'CSR', its evolution, framework and way forward.....

## History and Evolution of Corporate Social Responsibility

The concept of Social Responsibility is not a novel idea to the Indian ideology. The scriptures are a witness to this and so are the folklore, tales, phrases, idioms as well as the mythology abundant in the many virtues of charity. It draws reference to ancient scriptures as old as Arthashastra by Kautilya as an ethical issue. This shows that this concept has a long and illustrious history. As a part of the Independence movement, Mahatma Gandhi promoted the concept of Trusteeship through building 'Temples of India' for furthering the values of education, eradication of poverty, rural welfare, upliftment of backward classes and the like.

After India gained independence, the responsibility of ushering in a more equitable society was laid on the public sector understandings. This was not a very effective move and hence the private sector was given a push to contribute in this matter. There were high taxes on private corporations to aid and channelise public spendings and bring about equitable growth opportunities for the struggling population. Over the years, the tax rates have rationalised and the noticeable bend was observed when the LPG movement gained momentum with its principles strongly rooted in stakeholders' theory. Businesses have apprehended and progressively recognised their role in shouldering the burden of social overheads. They are now viewing this as a participation in improving environment by conducting the business in a manner that is gainful to the business and the society at the same time. The concept of 'Inclusive Growth' has been set on the roll by India being the global first in formalising and legislating the spend on CSR in April 2014 by modifying the provisions of Companies Act, 2013.

### **Objective of the Study:**

1. To investigate the framework of CSR as defined by the Companies Act of 2013.
2. To assess the current landscape of CSR activities in India, including sectors targeted, geographical distribution, and fund allocation.
3. To identify and analyse challenges faced by corporations in implementing CSR initiatives.
3. To propose actionable strategies for enhancing CSR effectiveness in India.

### **Research Methodology:**

This research is based on a qualitative analysis of secondary data obtained from various sources, including academic literature, government reports, industry publications, and reputable online databases. The research methodology can be summarized as follows:

**Literature Review:** The research begins with a comprehensive review of existing literature on corporate social responsibility (CSR) in India, covering historical evolution, legal frameworks, current practices, challenges, and future directions.

**Data Collection:** Secondary data is collected from a diverse range of sources, including scholarly articles, reports, case studies, and government publications. The sources are selected based on relevance, credibility, and authority in the field of CSR in India.

**Data Synthesis:** The collected data is analysed thematically to identify key trends, patterns, and insights related to CSR practices in India. The analysis focuses on various dimensions of CSR, including economic, legal, ethical, and philanthropic aspects.

The research paper presents a detailed discussion of the findings, highlighting the key themes, issues, and trends identified through the analysis. Based on these findings, actionable recommendations are proposed to address the challenges and enhance the effectiveness of CSR practices in India.

### **The Current Landscape of Corporate Social Responsibility:**

The concept of CSR is built on four pillars viz. – economic, legal, ethical and philanthropic stewardship. It has now occupied an inescapable priority in the business operations. (Majumdar, 2008) The companies which are socially responsible try to weave sustainable business structures as a part of their routine operations. This brings about automatic integration of economic and environmental objectives. As a result, they not only build sustainable brands but also create visibility by gaining competitive advantage. The stakeholders' theory, voluntariness of the corporates and their willingness to build environmentally sound ecosystems go a long way in their growth stories. Corporates can contribute to nation building by identifying the contemporary issues faced by the business and social environment. Collaborative studies to identify areas which have been long overlooked and unaddressed need to be pinned down for better justifying CSR spends (Prieto-Carron). This will in turn develop better impact assessment mechanisms. This will aid in identifying drivers of the mandatory CSR spending ensuring focused and guided growth as a nation. Some of the factors driving this growth are mentioned as under (Grand Thornton International Business Report, 2014):

- Cost Management
- Tax Relief
- Brand Building
- Customer Demand
- Staff Recruitment / Retention
- Government Pressure
- Value Shift
- Social Media
- Public Pressure
- Investor Pressure
- Ecological Sustainability

Insistence on re-orienting efforts and attitudes for effective and efficient implementation of CSR will go a long way in building and nurturing a cohesive business model in terms of commercial and social success parameters. (M., 2010)

### **CSR Spending Integration with the Income Tax Act, 1961:**

As we mature as a country, India has seen the tax rates rationalise over the years. They were exorbitant immediately post-independence but are now reasonably lowered. The law has also tried to bring in provisions incentivise the donations by bringing in Section 80-G of the Income Tax Act in order to lower the tax incidence. Separate provisions are incorporated for individuals who contribute to charitable intentions. Donations can be extended as per individual preferences, liking and thought process. The beneficiary organisations have to be recognised as charitable organisations with specific objectives to receive the donations. Charitable objectives have been defined in Section 2 (15) of the Income Tax Act as follows to cover:

- a. relief of the poor,
- b. education,
- c. medical relief,
- d. preservation of environment (including water sheds, forests and wild life)
- e. preservation of monuments or places or objects of artistic or historic interest and
- f. any other object of public utility

Upon closer observation, it can be derived that the above objectives and CSR goals stated in Section 135 of the Companies Act as well as with the Sustainable Development Goals are more or less similar. The donations given by the individuals are not of very significant amounts. The charitable organisations that usually work in the vicinity of the individual usually benefit from the same. These two issues actually beat the purpose of bringing about a wholesome integration of the charitable objective and thus become a constraint to the whole incentivisation idea. Corporates are not incentivised in any way and hence the donation amounts are not as large.

### **CSR and Industry:**

Over the last few decades, the corporates have grown exponentially. Earlier, the corporate world was still finding its feet owing to the restrictions of licence raj, highly tumultuous business world, labour strikes, and multiple mitigating factors which rather adversely impacted the steady revenue generation capacity of corporates at large. With this background, CSR was at its nascent stage with many a times the philanthropy being carried out as a part of personal goal/ vision of the business owner. There were no tax incentives for CSR spends. This dissuaded them to contribute to this purpose. Since personal taxation gave some small amount of benefit, CSR spends got restricted to channel small funds towards charitable purposes.

However, 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).

Predominantly in India, the spending seems to focussed around the following areas:

- Alleviation of poverty, malnutrition and hunger
- Education
- Gender Equality
- Rural Development
- Environment
- Contribution to PM's Relief Fund

This can be observed and collaborated with the following published statistics:

**The following table illustrates the CSR spending in the F.Y. 2021-22 by 301 domestic companies:**

<b>Thematic Spend</b>	<b>Number of companies</b>	<b>Percentage of CSR Fund</b>
Eradicating Hunger, Poverty and Malnutrition, Promoting Health Care, Sanitation & Safe Drinking Water	263	35.87%
Promotion of Education, Special Education and Vocational Skills	271	25.3%
Rural Development Projects	134	8.89%
Ensuring Environmental Sustainability, Ecological Balance, Wildlife & Natural Resources Conservation.	174	6.96%

Contribution to the Prime Minister's National Relief Fund, (PM-CARES) or any other funds setup by the Central Govt. for Socio economic Development & Welfare of SC/ST/OBC	49	6.86%
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\*Report on CSR Analysis of 301 listed companies – November 2022

### Some Noteworthy Observations:

- The analysis suggests that the companies might want to spend for purposes where the implementation is visible and better controllable. Also, the concentration of industrial development directly affects CSR spends.
- Education is a key to better livelihood and most importantly employment as compared to Agriculture. Thus, imparting good quality education has been the focus of the country. This makes the spend on educational initiatives an all-time favourite of corporates.
- Identification of the most appropriate CSR activities, modalities and methods seem to be a mystery for many. It is possible that the CSR being mandatory is seen as a hindrance or a waste of time and hard-earned money.

CSR funds are usually employed by corporations to give back to the economies and communities on which they depend. Businesses should exercise umpteen amount of prudence while selecting community-supported clauses. The corporate strategies should be delicately crafted and combined to ensure that the vision and mission of the company are distinct. Businesses which remain pro-active in the CSR spending, recognise the vulnerabilities and opportunities to adopt social and environmental responsibilities. The concept of Economic, Social, Governmental (ESG) should be woven into corporate policies for strategizing rules to channelize CSR spending.

### Issues and Challenges:

#### 1. Failure to consider CSR's holistic view

Companies have not yet developed a holistic view for CSR. They still have a very narrow approach and perception. This misaligns the Stakeholders' theory for CSR and negatively impacts society and economy. Businesses should tap newer opportunities to create a 'shared vision' to integrate business objectives with sustainability and social objectives. This will help to define priority of investment.

#### 2. Lack of Transparency

In today's business landscape, stakeholders spanning consumers, suppliers, employees, investors, and local community organizations are placing growing emphasis on transparency and accountability from the companies they engage with. It's not just about adopting effective business practices for data management and reporting financial activities; it's also about prioritizing the collection and analysis of Corporate Social Responsibility (CSR) data for the projects companies undertake. This prioritization is essential for fostering trust between corporations and their stakeholders.

#### 3. Harmonising the company's development goals with shareholder's interests

Creating shared and sustainable value by reconciling social responsibilities and economic performances of businesses is a very challenging task.

#### 4. Lack of Consensus

Different local agencies and corporate entities garner unwarranted competitive spirit dividing the main objective of creating value for the society. This tendency should be corrected to avoid wastage of precious resources.

#### 5. Greenwashing

The Indian Legal system does not have coercive enforcement mechanism to reduce inequalities in the country. CSR is not very transparent about its spending either. This creates a greenwashing effect on a national scale and is a huge challenge.

#### 6. Lack of financial resources, local capacities and infrastructure

Companies must properly plan and prioritise the huge CSR spendings to avoid any issues. Also, a lack of infrastructure and local capacities is observed. There is a dire need of Governmental and Non-Governmental organisations to be a part of the CSR story of India.

#### 7. Lack of Strategic Planning

Companies often fail in making a mark after spending fortunes in CSR activities due to lack of strategic planning, proper experimentation, innovative ideation. They fail to yield effective results. Understanding of Citizen's woes will help the corporates to strategize in a better fashion.

### **8. Faulty Execution and Implementation**

Companies fail widely when it comes to long term projects with the compromises made in the execution and implementation of the CSR strategies. A close and tight monitoring and continuous review and correction will help in bringing to light the deviations and take corrective actions wherever necessary.

### **9. Lack of participation by Communities**

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 and instil confidence in the local communities about such initiatives. The situation is further aggravated by a lack of communication between the company and the community at the grassroots.

### **10. Skewed distribution of CSR funds**

There is a lack of consensus amongst local agencies regarding CSR projects. This lack of consensus often results in duplication of activities by corporate houses in areas of their intervention. This results in a competitive spirit between local implementing agencies rather than building collaborative approaches on issues. This factor limits company's abilities to undertake impact assessment of their initiatives from time to time.

Now, as ever, the only certainty in business is uncertainty. What's working today can quickly become a plan for disaster in the blink of an eye, as the world quickly discovered in the wake of the COVID-19 outbreak that fundamentally altered the world's economy and the lives of people all over the globe. True corporate responsibility requires a plan to address your company's approach to not only current hot button issues, but the challenges that lie on the horizon. However, analytical approach towards correcting the skewed distribution of funds across geographical areas is not yet seen.

### **11. Non-availability of multiple platforms for identifying Non-government/Not for Profit organisations**

There is almost a non-availability of multiple platforms that can identify well-organized organizations 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. There are no easily tapped resources to ensure the genuineness of these arms that carry out social charitable activities.

### **12. Apathy or downright ignorance towards CSR Initiatives**

CSR initiatives tend to be more donor-driven than voluntary in approach. As a result, the corporates have an onus in identifying their own vision and carry out this vision by funding CSR initiatives. It is hard to decide whether they should participate in such activities at all in medium and long run or simply contribute to an already formed fund. More importantly, the corporates may have found it difficult to shift their focus from commercially driven projects to balanced projects that balance out the social as well as economic responsibilities.

The tediousness of this task, especially mandatory nature of CSR, coupled by the inevitable cross roads (commercial and philanthropic objectives) that the corporates find themselves may just lead to complete apathy towards the charitable activities.

Achieving alignment across all business units within a company can be challenging, particularly when each unit has distinct priorities and objectives. While these priorities may support corporate financial goals, they may not always align with the company's Corporate Social Responsibility (CSR) initiatives.

### **Propelling CSR Practices for Sustainable Development in India:**

Given that India is a developing economy with widespread inequality, CSR will play a pivotal role in steering the social objectives of the nation. CSR space is a comparatively young and dynamic one. There is lots of scope to evolve and contribute meaningfully to cultivate socially responsible businesses in the coming future. The businesses have now accepted the facts that this spending needs to be inherently woven into its strategic initiatives and need not be considered only if were mandated. Doing the greater good will not only ensure the creation of value for the business by branding it but will also take care of its sustenance.

Some suggestions that may contribute in taking this daunting task ahead are mentioned below:

- a. Increase the involvement of SME's – SME's being the backbone of the Indian manufacturing domain, they are in direct proximity of locals. This can be capitalised on through collaborating with professional help and handholding to contribute to long-term social objectives for impeccable execution and implementation.
- b. Creating awareness about CSR in general public.
- c. For effective and efficient implementation of CSR activities, it is essential to build a long-term vision and sustainable CSR activity chart. This will integrate all stakeholders' intentions.
- d. Equal focus should be kept on alleviation of rural and urban poverty and upliftment and empowerment of underprivileged citizens.



- e. Sensitisation of young population from early ages will help to create awareness and will permanently imbibe the importance of being socially responsible individuals for a wholesome society. Such initiatives can be a part of CSR policy.
- f. Pooling of resources and building symbiotic advantages by collaborating of companies and non-governmental organisations for efficient and effective utilisation of CSR funds.
- g. Recognition and rewards for corporates running on the forefront for taking up meaningful social initiative and contributing to nation building.
- h. Certain CSR objectives as defined in section 135 of Companies Act, come sustainable development goals are not defined or included in the objectives of the charitable organisation as per Income tax Act. Harmonising the same would be a way forward in channelizing the funds to all the goals.
- i. Integration of technology and innovation to generate more value by streamlining execution of CSR projects.
- j. Corporations investing in Green Technologies rather than looking for carbon credits.
- k. Localisation of markets and supply chain to benefit local communities as well as produce profits for companies.
- l. CSR should be integrated into the core business strategy of companies, rather than being treated as a separate activity to ensure that CSR is aligned with the overall goals of the company to have a meaningful impact on society.
- m. CSR initiatives should focus on dissolving basic structural issues that underwrite the social and environmental problems. This will require companies to take a more rounded and longstanding slant to CSR.

### **Conclusion:**

Corporate Social Responsibility (CSR) has evolved from ancient ethical principles to modern legal mandates, playing a significant role in aligning economic objectives with social and environmental concerns globally. In India, CSR has witnessed a transformative journey, propelled by historical influences and legislative reforms like the Companies Act of 2013. Presently, CSR encompasses economic, legal, ethical, and philanthropic dimensions, becoming integral to business strategies and contributing to inclusive growth.

Despite significant progress, various challenges hinder effective CSR implementation in India. These challenges include a narrow view of CSR, lack of transparency, alignment with shareholder interests, and issues related to execution and community participation. However, addressing these challenges requires a multifaceted approach, combining increased SME involvement, public awareness, and long-term vision for CSR activities.

Moreover, initiatives focusing on poverty alleviation, education, gender equality, and environmental sustainability have been predominant in CSR spending in India. However, the skewed distribution of funds, lack of strategic planning, and non-participation of communities remain areas of concern.

Moving forward, it is imperative to integrate CSR into core business strategies, emphasizing the dissolution of structural issues underlying social and environmental problems. Leveraging technology, innovation, and collaborative partnerships will be crucial in driving meaningful CSR outcomes and fostering sustainable development. Furthermore, harmonizing CSR objectives with sustainable development goals and aligning with Income Tax Act provisions can streamline CSR spending and maximize impact.

In conclusion, by adopting a comprehensive and strategic approach to CSR, India can harness its full potential to drive sustainable development, promote inclusive growth, and foster a more equitable society for future generations.

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