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CSR: Where are the Companies spending?

ADITI AGARWAL¹

ABSTRACT

Corporate Social Responsibility became a popular concept in the 1990s, advocating a shift from shareholder primacy to a stakeholder-oriented approach, acknowledging that corporations withstand a duty to include larger societal and environmental concerns as a part of their business obligations. The Indian Government, from 2009-2013, issued a series of guidelines to encourage more businesses to take up CSR activities and publish sustainability reports as a voluntary measure towards assuming greater accountability “for the social and environmental issues plaguing the nation”. While schedule VII lists down various social causes that can be taken up to fulfill the mandatory requirement, it doesn’t give a direction as to how the allocation of funds needs to be done. This research thus aims at finding out how the chosen corporates have been allocating their CSR funds over 5 years (2015-2019), consequently suggesting some reforms in the provision that could help encourage more companies to fulfill their CSR obligations.

I. INTRODUCTION

Corporate Social Responsibility became a popular concept in the 1990s², advocating a shift from shareholder primacy to a stakeholder-oriented approach, acknowledging that corporations withstand a duty to include larger societal and environmental concerns as a part of their business obligations. The Indian Government, from 2009-2013, issued a series of guidelines to encourage more businesses to take up CSR activities and publish sustainability reports as a voluntary measure towards assuming greater accountability “for the social and environmental issues plaguing the nation”³. Subsequently, in 2013 an amendment in Companies Act made CSR a mandatory provision under Section 135, thus effectively changing its status from a voluntary disclosure. Coming into effect from April 1, 2014, it mandated all the companies, who either had a “turnover of INR 1,000 crores or more or a net worth of rupees INR 500 crores or more or a net profit of INR 5 crores or more to spend at least 2% of

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² CARROLL & ARCHIE, A HISTORY OF CORPORATE SOCIAL RESPONSIBILITY: CONCEPTS AND PRACTICES 37 (2008).

³ Lucia Gatti et al., Are We Moving Beyond Voluntary CSR? Exploring Theoretical and Managerial Implications of Mandatory CSR Resulting from the New Indian Companies Act, 160 Journal of Business Ethics 961-972 (2018).

the average net profit made during their immediate three preceding years on activities listed under Schedule VII of the act.”⁴

(A) Research Question

While schedule VII lists down various social causes that can be taken up to fulfill the mandatory requirement, it doesn't give a direction as to how the allocation of funds needs to be done. This research thus aims at finding out how the chosen corporates have been allocating their CSR funds over 5 years (2015-2019), consequently suggesting some reforms in the provision that could help encourage more companies to fulfill their CSR obligations.

(B) Literature Review

Researches in this area of the field have been done before. “An Analysis of Corporate Social Responsibility Expenditure in India”⁵ in its paper analyzed CSR expenditure done by the top 200 companies, industry-wise, for the year 2012-13. A report released by the government of India – “Report of the high-level committee on corporate social responsibility 2018”⁶ provided information on how much money was being spent on each sector as a percentage of overall expenditure from 2015-2018. It found a disparity in the allocation of funds and recommended solutions for the same.

(C) Research Methodology

For this research, ten corporates, spanning across five different industries, have been chosen to ensure better sampling data. The selection has been done from the Nifty 50 index to get an insight into the fund allocation pattern followed by the leading companies. The figures regarding the CSR spend and the detailed distribution have been taken from the annual reports of these companies. The data is presented in the form of pie charts and bar graphs to have a clear view of what percentage of budget allocation is given to various focus areas listed under Schedule VII, Companies Act, 2013. The cumulative percentage allocation of the 10 companies towards various activities for different years has been calculated by taking in the following way -

- a) Calculating the percentage of funds, a company has allocated towards different CSR sectors in a particular year.
- b) Adding all the percentages (of the 10 companies) towards a particular sector in that year

⁴ The Companies Act 2013, 135 (2013).

⁵ Sangeeta Bansal & Shachi Rai, *An Analysis of Corporate Social Responsibility Expenditure in India*, 49 EPW (2014).

⁶ Government of India Ministry of Corporate Affairs, Report of the High Level Committee on Corporate Social Responsibility 2018 37-42 (2019).

and then dividing it by 10 (as each company's total expenditure on CSR is taken as 100% and there are 10 companies) to arrive at a cumulative figure that denotes what percentage funds each sector has been donated in the chosen year.

This approach has been taken to remain non-biased towards companies who have been spending a larger amount of money due to higher net profits as compared to those who have been spending lesser. The effect remains that rather than showing how much a sector is earning in terms of INR crore, it shows what place does that sector find during when a company is allocating its overall CSR budget.

II. SCHEDULE VII

Schedule VII of the Companies Act, 2013 has listed the following activities as a part of CSR under section 135 -

“(i) Eradicating hunger, poverty, and malnutrition, promoting health care including preventive health care and sanitation including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.

(ii) Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects.

(iii) Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day-care centres, and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.

(iv) Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources, and maintaining the quality of soil, air, and water [including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga].

(v) Protection of national heritage, art, and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts;

(vi) Measures for the benefit of armed forces veterans, war widows, and their dependents;

(vii) Training to promote rural sports, nationally recognized sports, Paralympic sports, and Olympic sports;

(viii) Contribution to the prime minister's national relief fund or any other fund set up by the central govt. for socio-economic development and relief and welfare of the scheduled caste, tribes, other backward classes, minorities, and women;

(ix) Contribution to incubators funded by Central Government or State Government or any agency or Public Sector Undertaking of Central Government or State Government, and contributions to public-funded Universities

(x) Rural development projects

(xi) Slum area development.

(xii) Disaster management, including relief, rehabilitation, and reconstruction activities.”⁷

For this research these sectors have been labelled as under health, education and vocational skills, gender equality and social empowerment, environment, art and culture, armed forces, sports, PM's relief funds & SC&ST welfare schemes, Technology incubators, Rural development, slum area development, and disaster management respectively. The CSR activities which have not been included in the schedule have been labelled as others.

III. ANALYSIS AND FINDINGS

Table 1: List of companies that have been chosen for the research and their CSR contribution from 2015-2019 as per Section 135.

Sector	S. No.	Companies	Year	CSR Contribution		
				CSR Contribution (INR CR.)	% Contribution as part of avg profit from the preceding three years	Avg. Contribution (%)
	1	Asian Paints Ltd.	2015	19.00	1.27%	1.94%
			2016	34.40	2.04%	
			2017	47.80	2.40%	

⁷ The Companies Act 2013, Schedule VII (2013).

Consumer Goods			2018	46.50	2.0 0%	
			2019	52.70	2.0 1%	
	2	Hindustan Unilever Ltd.	2015	82.30	2.0 6%	2.0 4%
			2016	92.00	2.0 0%	
			2017	103.90	2.0 4%	
2018			116.10	2.0 7%		
		2019	126.50	2.0 4%		
Energy Sector	3	ONGC	2015	494.47	1.5 0%	1.8 7%
			2016	406.83	1.3 7%	
			2017	518.51	1.9 4%	
			2018	481.00	1.9 8%	
			2019	614.64	2.5 6%	
	4	Reliance Industries Ltd.	2015	760.60	3.3 5%	2.5 2%
			2016	653.00	2.3 8%	
			2017	674.00	2.1 4%	
			2018	771.00	2.2 9%	
			2019	849.30	2.4 2%	
5	Axis Bank	2015	123.20	1.8 4%	1.7	
		2016	137.40	1.6 9%		

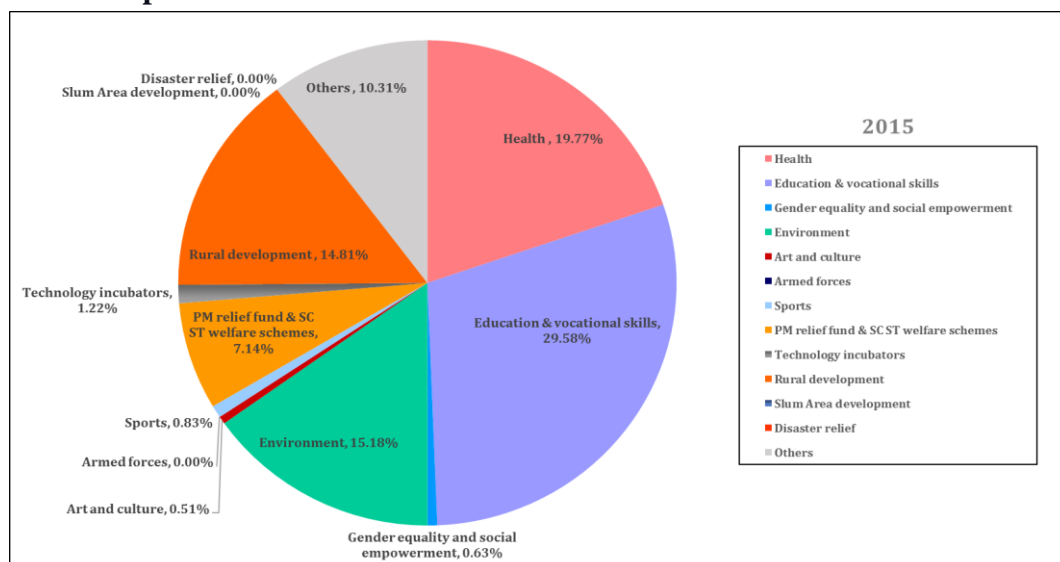
Financial Services			2017	135.80	1.3 8%	0%
			2018	133.70	1.4 3%	
			2019	137.60	2.1 5%	
	6	HDFC Bank	2015	118.60	1.2 0%	1.1 1%
			2016	128.60	1.0 4%	
			2017	177.50	1.1 7%	
			2018	205.50	1.1 3%	
			2019	222.80	1.0 1%	
	Information Technology	7	Infosys Ltd.	2015	243.40	2.0 1%
2016				202.30	1.5 8%	
2017				289.40	2.0 1%	
2018				312.60	2.0 2%	
2019				342.00	2.0 1%	
8		TCS Ltd.	2015	217.50	1.5 3%	1.6 2%
			2016	294.20	1.6 4%	
			2017	379.70	1.7 0%	
			2018	400.00	1.6 1%	
			2019	434.00	1.6 0%	
			2015	20.10	5.0 4%	

Metals and Mining	9	Coal India Ltd.	2016	78.90	8.0 2%	9.3 6%
			2017	129.20	18. 95 %	
			2018	24.20	6.1 4%	
			2019	28.00	8.6 3%	
	10	JSW Steel	2015	43.40	1.9 0%	2.2 4%
			2016	51.40	2.0 0%	
			2017	42.90	2.3 0%	
			2018	53.00	3.0 0%	
			2019	63.00	2.0 0%	

From 2015-2019, Coal India Ltd. has been the highest contributor towards CSR in terms of % contribution whereas HDFC bank has contributed the least, even falling short of fulfilling the mandatory 2% requirement.

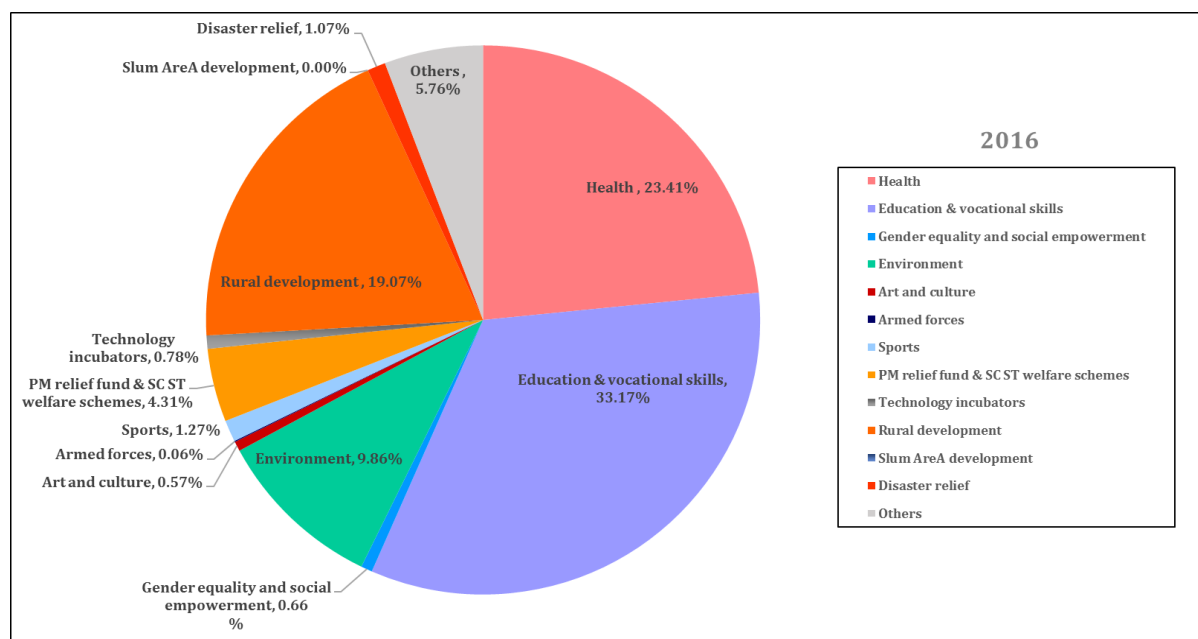
Figures 1-5 shows the % of the budget allocation funded to various CSR activities for years 2015-2019 respectively by the selected 10 companies.

Figure 1: Percentage of funds allocated to various CSR sectors for the year 2015 by the selected 10 companies



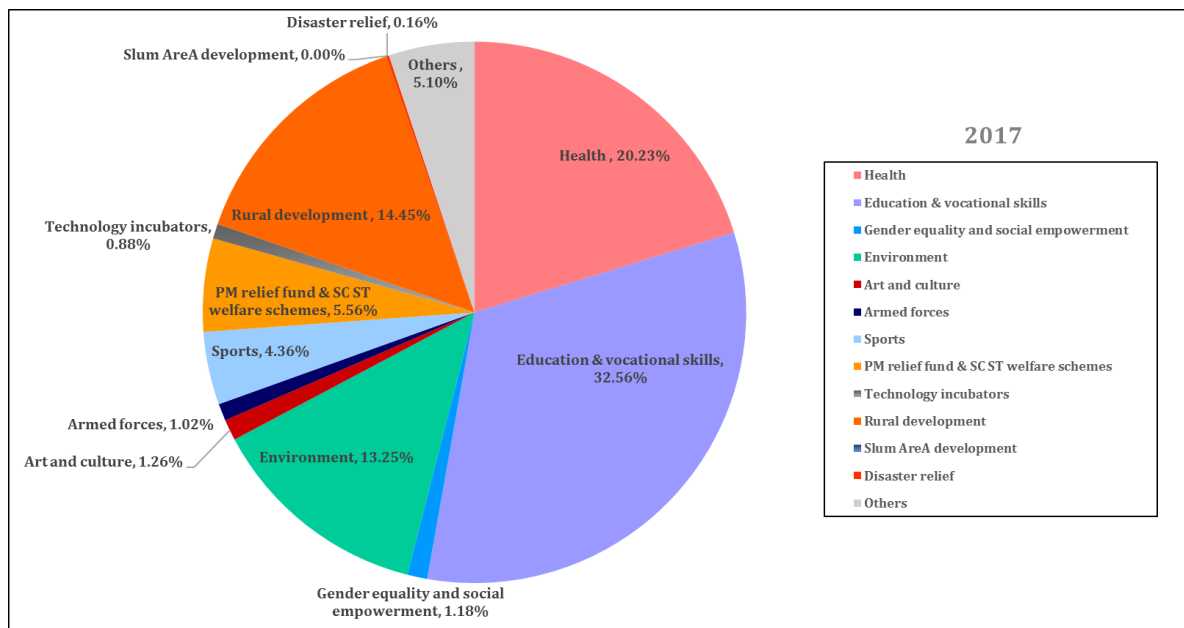
In 2015, the maximum budget allocation has been made towards the education and vocational skills sector at 29.58%, followed by the health sector at 19.77%, the environment at 15.58%, Rural Development at 14.81%, PM's relief fund, and SC&ST welfare schemes at 7.14% and Others. A very low percentage of funds have been allocated to preservation of art and culture, promotion of sports, gender equality/ social empowerment, Technology incubators/ academic research with no funds being spent on slum area development, the benefit to armed forces, and disaster relief.

Figure 2: Percentage of funds allocated to various CSR sectors for the year 2016 by the selected 10 companies



In 2016, the maximum budget allocation still sides with the education and vocational skills sector and has even increased from the previous years' 29.58% to 33.17%. This is followed by the health sector which has also shown an increased apportionment from the earlier 19.77% to 23.41%. Rural development has climbed up to the third most expended sector at 19.07%, while the allocation towards the environmental sector has gone down to 9.86%. While there has been a decrease in the allocation towards PM relief funds and welfare towards SC and ST schemes, allocation towards some of the sectors such as Sports, Art and Culture, Gender, Disaster relief, gender equality, and social empowerment has increased marginally. However, they remain at the very bottom. Apart from that allocation towards Technology incubators has also declined to be even lower and Slum Development still has no allocation of funds.

Figure 3: Percentage of funds allocated to various CSR sectors for the year 2017 by the selected 10 companies



In 2017, while the maximum appropriation of funds is still towards Education and Vocational sector it has dropped by a percent to 32.56%. Following this health, the sector has also shown a drop to 20.23%. While Rural development has received a lower allocation, it remains higher than the environment at 14.45% compared to 13.25%. Allocation towards PM's relief fund has increased from the previous year to 5.56% as well as contribution towards the sports sector which has jumped up considerably from earlier years' 1.27% to 4.36%. Other sectors have also shown marginal improvements such as Sports, Art and Culture, Gender, Technology incubators, gender equality, and social empowerment except for disaster relief fund allocation, which has declined from the previous year. Slum Development still finds no place in budget allocation.

Figure 4: Percentage of funds allocated to various CSR sectors for the year 2018 by the selected 10 companies

In 2018, the health and education sector have decreased the differences in allocation between them. While allocation towards the Educational and vocational sector has declined to 28.22%, the allocation in the health sector has increased to 24.91%. A massive increase in the area of allocation towards Rural development can also be seen at a staggering 21.57% while the allocation towards the environment remains relatively stable. Appropriation towards PM's relief fund and SC & ST welfare schemes has declined and so has the allocation of funds towards other sectors. Slum development still has 0% fund allocation.

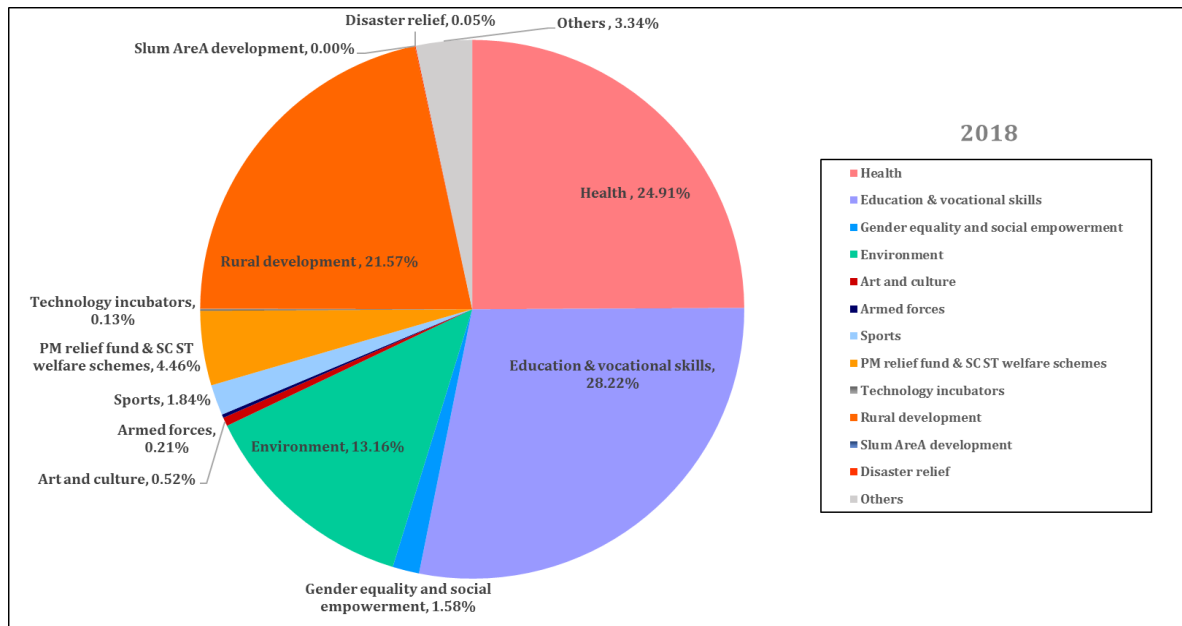


Figure 5: Percentage of funds allocated to various CSR sectors for the year 2019 by the selected 10 companies

In 2019, the health sector has taken over the highest space in budget allocation with a 28.35% allocation being committed towards it as compared to the education and vocational skills sector, which is allocated a 27.69 % of the budget. While the distribution of funds towards rural development has declined, they remain at a high 17.39% followed by environmental inclusion in the budget at 12.01%. While there has been a decline in fund allocation towards Art and Culture, Sports, PM fund relief, and welfare schemes, there has been a rise in allocation towards Gender Equality and social empowerment, armed forces, technology incubators, and disaster relief. Slum area development shows no sign of receiving any funding from the corporates even in 2019.

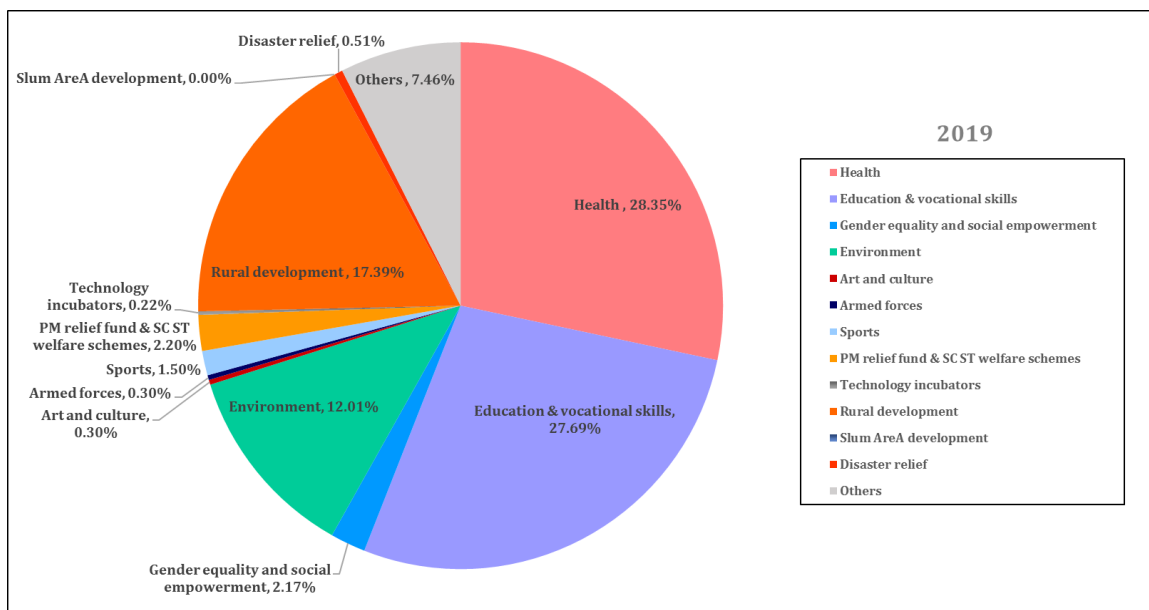
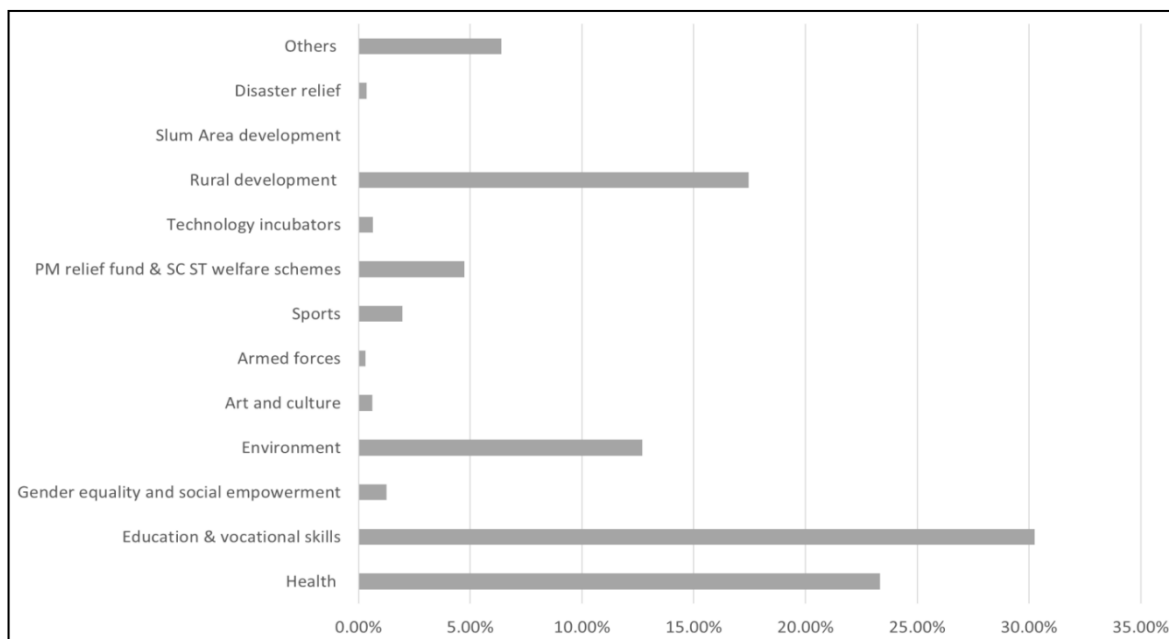


Figure 6: Cumulative allocation (%) towards various CSR activities performed by the 10 selected companies over 5 years (2015-2019)



Over 5 years, the maximum allocation of funds has been done towards Education and vocational skills, followed by health, rural development, and environmental sectors. In comparison to this, sectors like disaster relief, technology incubators, PM relief fund & SC&ST welfare schemes, sports, armed forces, art and culture, and gender equality and empowerment have been unpopular with the leading companies when it comes to allocating their resources for mandatory CSR. Slum Area development remains at an all-time low with no funds expended on it at all.

IV. KEY OBSERVATIONS

- 1) It can be observed from the data that there is a huge disparity in budget allocation when it comes to spending on certain sectors. Sectors like Health, Education, Environment, and Rural Development have been receiving the highest budget allocation.
- 2) There has been 0% allocation towards Slum Area development by the 10 companies since the time mandatory CSR came into being.
- 3) The budget allocation on other activities, which includes mostly overheads and administration expenditures, has been more than the listed sectors.

V. DISCUSSION AND CONCLUSION

Under Section 135, CSR has been placed in such a manner that it is detrimental to the interests

of the companies, who do not get any other incentive apart from building a good reputation amongst the community. According to the policy⁸ CSR would exclude all the “activities undertaken in pursuance of its normal course of business”⁹. In other words, no direct profits can be accrued out of any CSR activities undertaken by the companies. In addition to this CSR has been excluded from the purview of tax exemption. “As per Explanation 2 to section 37(1) of the”¹⁰ Income tax “Act, any expenditure incurred by the assessee on the activities relating to CSR referred to in section 135 of the Companies Act, 2013 shall not be deemed to be an expenditure incurred by the assessee for the purpose of business or profession”¹¹. This further de-incentivizes the companies to follow up with the mandatory expenditure as is clear from Table 1. When it comes to the allocation of funds, the aim of the companies towards receiving indirect benefits and building a better reputation in the community can become a possible reason for the observed disparity.

“The CSR law is vague and open to interpretations by managers and corporate leaders. So whatever fits into the strategic priority of the company and scheme of thought of the managers is what gets implemented through the CSR schemes”¹². For example, spending on preventive health care, as well as safe drinking water and sanitation, would lead to a healthier workforce and population in general. Contributing to the initiative of Swachh Bharat Abhiyan could lead to the building of reputation. Similarly, with the increasing awareness regarding climate change, companies might be interested in presenting themselves as environmentally friendly. Apart from that, the disparity can also be accounted for due exceptions in the Income Tax Act. This includes “activities like rural development, skill development, agricultural extension projects, contribution to Prime Minister’s National Relief Fund, etc.”¹³ receiving tax exemptions under Section 80G, 35AC, 35CCD “subject to fulfilment of any other specified conditions”¹⁴.

Mandatory CSR had been imposed in order to promote “stakeholder activism in nation-building”¹⁵, keeping in line with the attainment of Sustainable Development Goals. A huge disparity in the allocation of funds towards some SDG while ignoring others creates an

⁸ Companies (Corporate Social Responsibility Policy) Rules, 2014., 4(1) (2014).

⁹ *Id*

¹⁰ The Income-tax Act, 1961, 37(1) (1961).

¹¹ *Id.*

¹² Corporate Accountability: Bridging Disparity Between Rich and Poor | CSR Mandate, Csrmandate.org (2020), <http://www.csrmandate.org/corporate-accountability-bridging-disparity-between-rich-and-poor/> (last visited May 6, 2020).

¹³ *Supra* note 5.

¹⁴ *Id.*

¹⁵ National CSR Portal, Csr.gov.in, <https://www.csr.gov.in/about-us.php> (last visited May 6, 2020).

atmosphere of inequality. Since there is no centralized or methodological way in which the funds are utilized, it leads to excessive expenditure on particular activities leaving behind others. To have balanced development in all areas, one possible approach could be to have a partnership between the companies and the state government to ensure a directed approach towards the spending of funds in the lacking areas. This would also enable a reduced fund allocation towards administrative expenditures, as the companies would no longer need to spend on strategizing their CSR spending. Apart from this, another possible solution could be to make all CSR activities eligible for receiving tax exemption. While this solution is not favored by the government due to it resulting in “subsidizing of around one-third of such expenses by way of tax expenditure”¹⁶, exempting tax would not only result in decreasing disparity due to all activities looking equally lucrative, including sectors such as slum area development which have received no funds at all, but also encourage more companies to take up CSR. Lastly, allowing CSR activities to be taken as a part of normal course of business could also prove to be beneficial in terms of increasing commitment. Currently, CSR is only looked as a legal obligation to be complied with. Any moral appeal to the argument has long been taken by making the compliance compulsory. Thus, if CSR has become a way for government to delegate their responsibilities, the companies would be much more willing to perform them in a better manner if they are able to earn profits for doing so. Taking all the benefits while leaving the companies high and dry is the current modus operandi of the government when it comes to the CSR legislation. From a long term perspective, mere increase in sanctions, forcing the companies to oblige to CSR requirements would only create more dissatisfaction. In light of this, the government should work towards adopting an approach which is beneficial for them as well as the companies falling under the legislation.

¹⁶ Nitisha Malpani, Deduction of CSR expenses under Income Tax Act, 1961 TaxGuru (2016), <https://taxguru.in/company-law/deduction-of-csr-expenses-under-income-tax-act-1961.html> (last visited May 6, 2020).

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