



# Challenges in CSR in India

## PREFACE

The Companies Act 2013 is a landmark legislation which has set India apart from Developed countries of the world. Mandating CSR spending in India is a welcome move and it is a game changer which will infuse new investments and strategic efforts resulting in nation building. CSR is not only about complying with the law but also delivering increasing stakeholder value, providing enhanced goods and services for customers, building trust and credibility in society and leading toward equitable social and economic development.

## INDUSTRY COVERAGE

Many of the corporate pledging for responsible business have been carrying out CSR activities for last several years, however many new companies will now fall under the ambit The Companies Act 2013 resulting in huge spending on CSR activities. It is therefore, imperative to develop effective and need based CSR activities so that such large investment yields intended results. This also poses several challenges for the corporate who so far were not actively involved in CSR.

## INDUSTRY CHALLENGES

Companies would need to develop effective CSR Strategies that are aligned with business objectives and create direct and indirect benefits for the companies such as brand visibility for companies, long term community relations and employee retention. Companies shall encounter challenges within or outside the industry and those shall include:

**a) Capacity Building:** Companies do not have trained manpower and technical know-how to develop effective CSR strategies. Capacity building is required in terms of training organizations to develop effective CSR Policy and Strategies. CSR expenditure is directly linked to CSR policy thus it is imperative that effective and need based CSR policy is made so that CSR expenditure yields intended results..

**b) CSR Assurance:** CSR assurance is required to ensure credibility and transparency in reported CSR information and it help repose faith of stakeholders.CSR assurance also results in improvement of internal reporting system which will strengthen future reports.



**c) CSR Definition:** CSR should not merely be seen as a set of activities on which mandatory spending is required but rather CSR should include social, environmental and economic factors i.e. 'Triple Bottom Line' approach and make it is core to strategic decision making in organizations. Organizations need to be made aware of such wider scope and definition of CSR.

**d) CSR Review:** CSR policy and strategies needs to be evaluated after implementation so as to ascertain whether desired results are achieved. The organizations needs to analyse the impact created on society by the CSR activities that they have implemented. There is a need to train organizations to develop effective CSR performance indicators which can be used to evaluate CSR performance and review CSR policy and strategies for future.

**e) Business case for CSR:** Companies needs to be made aware that embedding of CSR in the business process leads to innovation and ultimately results in competitiveness. Once the organizations realise business case for CSR then it will no longer be seen as a mandatory set of activities that needs to be complied.

**f) Failure to spend CSR amount:** There is a provision that Board of the Company may specify reasons if CSR amount is not spent but what constitutes a valid justification is upto the discretion of the Board. Requirement of having a penalty if CSR amount is not spent may also be deliberated and also whether a company need to include past shortfall in future period may also be deliberated.

**g) Tax Issues on CSR:** CSR expense which is capital in nature is not tax deductible. The essence of Section 37 of Income Tax Act, 1961 is that expenses must be incurred wholly or exclusively for business of tax payer. CSR expenditure is made as a good corporate citizen to earn goodwill and create an atmosphere where businesses can succeed. The issue of tax deduction of CSR expenditure needs to be deliberated.

In summary a massive capacity building is required for corporates and their employees, NGOs and other stakeholders involved in CSR activities so that the intent of this excellent legislation is achieved bridging divide between the privileged and poorer sections of the society.