1. CHAPTER – ONE: INTRODUCTION

1.1.History of CSR -A Global Context

Corporations are increasingly getting involved in CSR activities during the last few decades. There have been conflicting arguments by authors all over world regarding whether companies should engage in CSR or not?

According to Milton Friedman who advocated stockholder theory or the shareholder theory the sole duty of business is towards its shareholder. He argued that businesses are for earning profits and shareholders are the drivers of the growth of the organisation. And so, the companies are solely socially responsible to its shareholders. Maximizing profits for its shareholders is the sole duty of any business. According to his view only the shareholder should decide whether they want to engage in social activities. In his book Friedman insist that only individuals can decide whether to spend their money on social cause or not. “The stockholders or the customers or the employees could separately spend their own money on the particular action if they wished to do so." (Friedman, 1970). After all, earning profit would benefit the society eventually as many of the shareholders are lower and medium income people who gain from the profitability of the company. One may also argue that making CSR mandatory seems like an attempt to transfer the responsibility of Governments on the private business community.

Contrarily there are many arguments and research which promote CSR as means to achieve social and environmental wellbeing of the community.

The thought that businesses are responsible to the society is not new to the world. In fact, it is possible to trace the business’ concern for society several centuries back (B.Carroll, 2008).A general notion that corporates are responsible towards the society which act as a contributory to the corporate development, acts instrumental in increasing the importance of CSR in business world. Even if the primary goal of business organisations is shareholder’s wealth maximization, they must give due consideration to the welfare of all its stakeholders.

Interestingly economic responsibility of the corporates towards the society is the base of all other responsibilities of the corporate sector. They are expected to be profitable to fulfil other responsibilities towards employees, customers, environment, and the surrounding community.

According to (Chaffee, 2017)the social element present in corporate sector can be identified as early as during the ancient roman laws. Due to the expansion of British rule, it was transferred to the American colonies also. (Smith, 1759) also traces the roots of corporate philanthropy to 1920's in his book The Theory of Moral Sentiments.

H.R. Bowen widely called as the father of CSR was the one to introduce the idea of Corporate social Responsibility in his book 'Social *Responsibilities of Businesses'*(Bowen, 1953).The concept given by Bowen has become a strong foundation for the modern-day CSR in the corporate world. Carroll (1979, 1999a, and 1999b), further built models, formalizing Bowen's arguments, and promoting the idea of CSR. During the decade of 1980s the idea of CSR developed into a wider concept of responsiveness of companies to society and 'corporate citizenship' which over a period of time got converted into the notion of 'Corporate Social Performance'. Many researchers have been interested in the study of the subject since then. The linkage between the social performance of companies and their financial performance was also widely investigated by researchers like Cochran and Wood (1984), Aupperle et al. (1985), Waddock and Graves (1997). Gradually during the decade of 1980s, the idea of corporate social responsibility started evolving in the form of 'the Stakeholder theory 'given by Freeman in 1984 and became the foundation for an increased understanding regarding the linkages between Sustainable Development and CSR during the 90s. During the same period, many countries of the world started drafting regulations and recommendations for corporations for adopting CSR as a best practice. Development of such practices additionally stimulated a new facet of CSR known as the 'Triple Bottom Line' approach which gained importance during 2000s. All these developments gave rise to the present concept of CSR like 'Corporate Citizenship, Corporate Stakeholder Responsibility and Political CSR.' (Sreedhar, 2017)

Several authors have given CSR frameworks which defines the responsibility of corporations towards the society at large. The well know Carroll's pyramid describing the corporates' responsibilities towards society help us to identify what is expected by the society from corporates.

Figure 1.1-1 Carroll's Pyramid

The diagram above depicts that the first and the most important responsibility for a business is “economic responsibility” i.e., earning profit. The next responsibility of businesses is to observes the law and order of the country of its operation. The next responsibility of the business is the “the ethical responsibility” wherein the businesses are expected to be fair and just in its business dealings. The tip of the pyramid refers to the “social responsibility of the businesses” which takes the form of philanthropy. Interestingly according to Carroll Economic responsibility forms the base for the responsibility of the corporates towards the society.

Another theory is the “Stakeholder’s theory” by Edward Freeman in which stakeholders are defined as anyone who are affected by the company and its operation. Freeman advocated that business should be responsible towards all its stakeholders and not just the shareholders.

Figure 1.1-2Edward Freeman’s Stakeholder’s Approach

The above diagram shows the different stakeholders of business viz- shareholders, Customers, Competitors, suppliers, society, government, and creditors. It is a very vast theory which encompasses all the stakeholders of business.

Another theory for CSR is the “Triple bottom line theory”. John Elkington was the first to introduce this idea in his book, "Cannibals with Forks: The Triple Bottom Line of 21st Century Business” published in 1999.

As per the theory business organisation should not aim only at earning higher profits but it should aim at earning profits in a sustainable way. Organisation should assess the impact of its activities on 3 P’s: -Profit, People and Planet

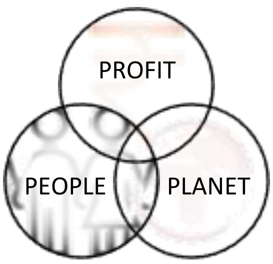

Figure 1.1-3 Triple Bottom Line Theory

<u>Definition of CSR –Global Context:</u>

As per **in hi**s Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental, and social imperatives, while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships, or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that." (UNIDO, n.d.)

According to the **World Bank Group** "Corporate social responsibility is the commitment of businesses to contribute to sustainable economic development by working with employees, their families, the local community, and society at large, to improve their lives in ways that are good for business and for development."(Reference Note-Corporate Social Responsibilty, 2013)

WBCSD states that:

"Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large." (WBCSD, 1999)

According to A. Williams and D.S. Siegel "Actions that appear to further some social good, beyond the interest of the firm and that which is required by law." (McWilliams & Siegel , 2001)

Above definitions indicate that:

- In modern times corporate strategies are prepared considering CSR as one of the dimensions.
- CSR considers influence of the corporates on people, environment along with finance
- Today CSR is not only philanthropy but ensures many strategic benefits to the business.

1.2. History of CSR in Indian Context: -

It has been rightly said by many authors and researchers that India has a long and glorious history of philanthropy. One can trace the idea of CSR to the ethical practices and principles for conducting business emphasised by Kautilya or 'dharmada' as practiced by Hindus or the law of ‘Zakaat’ of Islaam or the ‘Dashaant’ followed by the Sikhs, philanthropy has been at the heart of the Indians and their economic activities.

The essence of the term ‘Corporate Social Responsibility’ is not an alien concept for Indian businessmen. Indian businessmen have contributed in the shaping of the nation since decades in one form or the other. If we study the history of CSR in India, then we should focus on the various phases through which the concept has travelled in India

Prior to Independence:

From 1850 to 1914

Industries like cotton plantation, coal mining, paper, iron, and steel developed during this period which led to the increase in industrialization in India which was under the British control. Philanthropy depended upon the personal and family values of the businessmen and tradition of giving back to the society by helping the deprived. This is the era in which great industrialist like Tata, Godrej, Birla, and Bajaj came forward and contributed to a strong foundation for modern industrialisation. These industrialists focused on health and education initiatives and other poverty removal initiatives which were the demand of that time as India suffered from poverty, illiteracy, malnutrition, and lack of health facilities. Various trusts and foundation were established by theses industrialists to carry on their philanthropic activities.

From 1914 to 1947

India’s freedom struggle was highly influenced by Mahatma Gandhi, who advocated the principle of trusteeship. According to the theory, the rich and affluent should uplift the downtrodden and act as the trustee of the wealth with them and act for the benefit of the society. Inspired by the thought, many industrialists contributed to the cause by setting colleges and other training institutions and trusts in the country. The focus of these institutions was on eradicating social evils, rural development and encouraging women education and empowerment.

Post-Independence

1947 to 1960

The initial stages of freedom of India witnessed extreme poverty and backwardness. Mixed economy, which is the combination of both, the socialist and the capitalist economy, was advocated in India and hence both private and public sector coexisted in India. Obviously during this initial period of independence, the government’s efforts were aimed at socially just economic growth. India also adopted the statist model of CSR in which the responsibilities and boundaries of government and the people were clearly set out. The government set the CSR elements relating to community and labour in the Labour laws and management principles. Thus, CSR during this period was reflected in the laws and rules for business and the growth of companies owned by public sector.

This strategy helped as the public sector units contributed significantly to the process of building the nation and were regarded as the Ratna (Jewels)of our nation. Majority of these PSUs, whether central or state have demonstrated a strong inclination towards CSR. They were a major contributor to the economic growth of our country and contributed towards employment creation, education and health care facilities for its employees and social security to its employees after retirement. The government of India have strategically used various PSUs to remove the imbalance in the regional growth and development of our country. These years may be criticised by many but they we cannot turn a blind eye to the service they have provided to the nation.

In a country like India where rising population, poverty, unemployment, lack of healthcare facilities and illiteracy are the major obstacles for growth and development the PSUs could have been the most befitting solution if the country had not fallen prey to the evil like corruption, incompetent management, unscientific recruitment, and inflation.

1960 to 1990-91

The public sector suffered from a very sluggish growth rate and heavy failure due to incompetency and was unable to bear the overburden of Government expectations. The requirement of licence and system of quota which existed to maintain the dominance of public sector and heavy taxation harmed the growth of private sector during this period.

Amidst this scenario an effort was initiated to instil the sense of corporate responsibility among the corporate sectors. During the year 1965 and 1966 two seminars on CSR were conducted by various academicians, political parties, and industrialists. The seminars instilled an interest in the concept of CSR and a declaration was adopted wherein CSR was defined as responsibility of the businesses towards its customers, workers, shareholders, itself, and the community in which it operates. (Minitry of Corporate Affairs, 2018)

1991 to 2013

In 1990-91 the Government of India was compelled to introduce economic reforms as the country experienced rising rate and an unmanageable balance of payment. Economic reforms of 1991 prevented a major collapse of Indian economy by opening its boundaries for business in the form of Privatisation, liberalization, and globalisation. The Licence system was abolished, and the import duties were reduced thereby opening the economy for direct investment by foreign investors. Slowly India became one among the most vibrant economies in the world.

The process of globalisation brought many multinational companies (MNCs) to do business in India. Initially these MNCs took resort to many activities which were detrimental to the consumers and the general population of the country. But slowly as the awareness regarding human rights and consumer awareness increased the MNCs were forced to consider the importance of all the stakeholders rather than only the shareholders. These MNCs started integrating CSR into their business strategies.

During this period, many private sector enterprises also initiated their CSR activities and started considering them as a strategic move towards brand building, increasing reputation and hence creating a competitive edge for themselves.

1.3. Voluntary Guidelines on CSR during the year 2009:

The Ministry of Corporate Affairs set out voluntary guidelines for businesses to focus on while carrying on their affairs in India. While preparing these guidelines the developmental issues Infront of the Indian Government along with the expectation of the society were taken into consideration. (Ministry of Corporate Affairs, 2009)

These guidelines were based on one basic principle that said "Each business entity should formulate a CSR policy to guide its strategic planning and provide a roadmap for its CSR initiatives, which should be an integral part of overall business policy and aligned with its business goals. The policy should be framed with the participation of various level executives and should be approved by the Board."

It was suggested that CSR initiatives by organizations should cover various core elements like:

- It should consider all the stakeholders and not just the shareholders
- Ethics should form the foundation of functioning of the corporate sector
- All the rights and welfare of the workers should be taken into consideration and human Rights should be recognised.
- Environment should not be harmed in the process of carrying on the business or the harm should be minimal which must be compensated by taking corrective actions.
- The businesses were expected to carry on activities targeting social & Economic Development.

Implementation Guidance:

The guidelines for implementation of CSR initiatives were as under:

- An implementation strategy should be provided for in the CSR policy of the business entity.
- The guideline suggested that in order to carry on the CSR initiatives companies can collaborate with local governments, civil society or non-government organisations and other business alliances.
- Businesses were advised to motivate the employees for volunteering hours for social development.
- Need assessment and impact assessment system should be established by the corporates to decide the proper CSR initiatives for a particular region according to its need.
- The guideline suggested that independent evaluation should be done for implemented projects and initiatives for the period of implementation.
- The companies should prepare CSR budgets with specific amount for CSR initiatives selected. Such budget amount should be calculated either based on profits after tax or the implementation cost of the CSR initiative planned to be implemented or any other criterion suitable for the same.
- According to the guidelines the organisations should share their experiences and strengthen their network with other similar organizations.
- The CSR policy should be displayed in a structured manner on the website and annual reports of the company and also other communication media so that the people become aware about it.

1.4. Mandatory CSR -Post 2014 – A 'paradigm shift' in the idea of 'Corporate Social Responsibility'

Worldwide India was first to introduce mandatory CSR through the amendments in "The New Companies Act 2013" effective from the month of April of the year 2014.According to the provisions of the Section 135 companies with certain turnover and profitability are mandated to spend 2% of their average net profit of preceding three years on CSR.

After independence, successive governments of the country have tried to address the developmental and welfare issues of the country through various approaches as seen earlier. However, in a large country like India governmental efforts complimented by corporate partnership can give better results in terms of development, social welfare, and environmental protection.

India has become a testing ground for such mandatory provisions of CSR. Many benefits from CSR have been presumed while making it mandatory. Corporate Social Responsibility was conceptualised as a tool for achieving comprehensive growth in the country.

An overview of clause 135 as given by The Act would enable us to understand the existing problem:

The provisions would be applicable to-

- Companies having a yearly turnover of amount equal to or greater than INR 1,000crore or
- A net worth of an amount equal to or greater than INR 500 crore, or
- An amount of net profit greater than equal to INR 5 crore.

CSR initiatives would include (however not be limited to) the following:

i. Initiatives, programs and projects mentioned in Schedule VII of the Act or
ii. Initiatives planned to be undertaken by the Company Board in pursuance of recommendations by the CSR Committees per the declared policy of the company with subject to the condition that such policy will cover issues focused in Schedule VII of the Act

1.4.1. Significant Points related to CSR as given in the New Act:

- The new provision became applicable in India from the year 2014-15 whereby the above category companies were mandated to devote minimum 2% of their average net profit of the preceding three years, on CSR initiatives.
- As per the CSR Clause companies should form a "CSR committee "within the board in order to observe and keep track of the CSR activities of the company and suggest amounts to be spent on such initiatives.
- The Act required that the committee should have at least three directors of which minimum one must be an "independent director" (defined in Clause 149(6) of 'The Act'. The composition of the CSR committee must be given in the yearly report of the company board.
- Net Profit was defined as profit before excluding taxes as per the books of the company but must not include any profit of the branches outside India.

- List of activities eligible under CSR is provided by the Act which further clarifies that such activities should be carried out in India only.
- Initiatives solely for the benefit of employees and/or their families, would not be considered as CSR activities.
- The company has to provide the details of CSR spending on each activity in its report and specify the reasons for not spending the mandated amount. The report should also contain a statement of responsibility regarding having a CSR policy and implementing it properly. It should also specify the monitoring process regarding the policy. ChiefExecutive Officer or managing director must sign such report. Alternatively, a director of the company can also sign such report.

1.5. Companies Rules regarding CSR as issued in 2014

The important aspects of the Rules are as follows:

- ✓ While calculating Net profit for CSR dividend income received due to investment in Indian companies and profits from operations outside India should be excluded.
- ✓ A company which is private or public company which is not listed does not require to have an independent director on the committee for CSR as in normal circumstances such companies do not have an independent director,
- ✓ The company’s CSR activities should include activities decided by the Board of Directors in line with the CSR policy of the Company. However, the activities should be in the conformity of Schedule VII.
- ✓ The rules require companies to clearly differentiate between activities undertaken in the normal course of business and CSR initiatives. This implies that expenditure on normal business initiatives of a company do not qualify as CSR expenditure.
- ✓ The rules clarify that foreign companies should also spend on CSR activities in India. The amount of CSR spending shall be calculated based on their profits earned from their business operations in India This is because branches of foreign companies in India and their project offices in India are also covered under CSR provisions. Such companies should also form a CSR committee and frame a CSR policy to fulfil the requirements of the New CSR rules. Such companies should spend their CSR amount only on projects or activities in India.
- ✓ Once the companies are covered under CSR provisions, they can stop complying with the provisions regarding Crony when 3 consecutive years have passed, where the provisions are not applicable to them.

- ✓ In case of companies belonging to the same group it is specified that they can setup a registered trust, society or a section 8 company, to implement CSR activities. The rules further clarify that companies can undertake projects jointly in collaboration with other companies. Additionally, such companies can report separately on such projects which are carried jointly. This provision would enable companies to take projects on a large scale jointly.
- ✓ The total expenditure on CSR can include spending on capacity building up to 5% of the total CSR expenditure during the year. Such initiative can be undertaken by their own employees or through implementation agencies
- ✓ Any contribution whether direct or indirect, to any political party would not qualify as CSR spending.
- ✓ If there is any surplus from CSR activities then it would not amount to profit from business of the company provided it is reinvested in CSR activities.
- ✓ The CSR policy of the Companies and the details of the projects carried out by the company and the amount spent should be available on the website of the Company.

1.6. Schedule VII The Act.

The CSR activities as per the CSR policy may be designed to fulfil any of the objectives as specified in Schedule VII of the Companies Act 2013, the various objectives as envisioned in the schedule are:

1. Eradicating hunger, Poverty, and malnutrition, promoting preventive health care and sanitation and making available safe drinking water.
2. Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects
3. 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.
4. Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, Agro forestry, conservation of natural resources and maintaining quality of soil, air, and water

5. 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 arts and handicrafts
6. Measures for the benefit of armed forces veterans, war widows and their dependents
7. Training to promote rural sports, nationally recognized sports, paralympic sports and Olympic Sports
8. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities, and women.
9. Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government.
10. Rural development projects(Shah, 2021)

1.7. Clarifications provided by Ministry of Corporate affairs:

The Indian government laid down rules for smooth implementation and understanding of Sec 135 (CSR) of the Companies Act 2013 on February 27,2014. However, from time-to-time businesses and people engaged in CSR expressed their doubts and demanded explanation on some of the key provisions. Hence, the MCA provided clarifications on the issues raised by issuing a circular, the main points of which are discussed below:

1. One of the important clarifications given by the ministry was that any company that reaches the financial thresholds given in the Act in *any one of the three financial years immediately preceding FY2014-15* will be liable to comply with the provisions of section 135.
2. The clarification circular also mentions that companies which want to develop CSR programs can interpret the focus areas listed in Schedule VII of the *Act* liberally. Thus, essence of Vit[i] schedule is important as compared to words used. Activities which the companies were already carrying out before the implementation of the Act can be continued if they follow the essence of the activities mentioned in schedule VII. A few points would clarify the same: -
    - Those programs which are related to road safety, creation of awareness among consumers, encouraging technology incubators outside academic institutions and which has approval of the Science & Technology Department would be eligible to considered as CSR programs.

- Initiatives related increasing Financial Literacy would be considered as CSR activities. The ministry has also specified that these programs can be through print and audio-visual electronic media.
- The expenditure incurred on studies and carrying research regarding any one or all focus areas covered mentioned in VII th Schedule will also be included as CSR spending,
- The circular defines the term ‘Rural development’ as projects for developing rural India. This means a very wide range of programs can be carried out under this focus area.

3. The circular specifically disregards single time events like awards, marathons, advertisements and sponsorships given to TV programs and charitable contributions as CSR spending. It means that the CSR initiatives should take the form of well-designed programs and projects to qualify as CSR spending.
4. The amount of CSR spending can include the salaries of employees involved in CSR and the value of employee volunteering in terms of money. The money value of volunteering can be calculated on the basis of employees’ time spent specifically on CSR activities.
5. In case of a foreign company spends on CSR in India by routing through its subsidiary in India then such amount spent by the holding company on CSR initiatives in India qualifies to be considered as CSR spending of the subsidiary.
6. If any company contributes towards a corpus of a trust/society/section 8 company then such contribution will qualify as CSR expenditure, only if the corpus is created solely for the focus area of CSR as covered in Schedule VII of the Act.

1.8. Amendments to the rules on CSR

The ministry of Corporate Affairs have made some amendments regarding CSR Rules vide Companies Amendment Act 2019,Companies Amendment Act, 2020 & Companies (CSR Policy) Amendment Rules, 2021.The following points are an attempt to throw light on the recent amendments in CSR

i. An amendment was made to the section 135-5 according to which companies which have not finished the period of three financial years till 2014-15 will have to spend 2% of immediately preceding financial year.

ii. Originally the CSR spending was in principle voluntary as companies had to spend or explain the reason for not spending. However. Now the amendments make it mandatory and suggest penalty for not complying to the provisions.

iii. Effective from 1st April 2021, those organisations which carry out CSR activities would have to file an e-form namely CSR -1 with the Registrar of the Companies and get a Unique Registration number. If the agencies implementing the CSR initiatives do not get themselves registered, then they would not remain eligible to carry on CSR activities as an implementing agency.

iv. According to the amendments made to the CSR rules following activities will not be considered as CSR activities: -

  a) Initiatives undertaken in normal course of business will not be considered as CSR. However, an exception is given to COVID 19 related research activities. Hence if such research is done in the normal course of business, subject to certain condition, they will be considered as CSR.
  b) Initiatives outside India other than training Indian sportsmen representing India nationally or internationally.
  c) Contribution to any political party u/s 182 of the Act.
  d) Activities benefitting the employees, defined under clause K of section 2 of Code on Wages, 2019 (29 of 2019);
  e) Sponsorship activities by company which are undertaken to gain marketing benefit.
  f) Any other activities which are carried on by the company in fulfilment of any other law or Act of the country.

v. The amendment to the CSR rules specifies that a company can carry on CSR activities on their own or through implementing agencies. These implementing agencies can be Section 8 company; a registered public trust or a registered society formed by the company individually or in collaboration with other companies or by the state or central government or under an Act of Parliament or state legislature. Additionally, such implementing agency should also mandatorily register under section 12A & 80 G of the Income Tax.

vi. To design, monitor and evaluate the CSR programmes of companies the CSR rules were amended to allow appointment of any international organisation (only those notified by the Central Government) Such organisations can also be appointed for capacity building of the CSR personnel of the companies.

vii. The amendment made to the rules also clarified the definition of administrative overheads. Administrative Overheads would include only those expenses which are incurred by the company for general management and administration of Corporate Social Responsibility activities. Any expense related to designing, implementing, monitoring, and evaluating a CSR project would not be considered as administrative overheads. The amount of spending on administrative overheads which can be considered as CSR expense was capped at maximum 5% of total CSR expenditure.

viii. The companies are supposed to form an annual action plan which must be in accordance with its CSR policy. Additionally, the CSR policy of the companies must include outlook of its directors while considering the recommendations of the CSR committee and the guiding principles while selecting and implementing a CSR project. An annual action plan should be formulated aligned to its CSR policy.

ix. Further an amendment to Section 135-9 removes the requirement of a CSR committee if the prescribed amount of CSR to be spent by a company does not exceed INR Fifty lakhs. It clarifies that in such cases the Board of Directors would discharge all the duties of CSR committee.

x. The annual action plan of companies should include the list of projects approved, the execution plan, the manner of fund utilisation and schedule of implementation of programmes. It should also contain the monitoring and reporting pattern. The plan may be altered by the board if advised by the CSR committee.

xi. The amended CSR rule 4 (5-6) states that the Board of Directors would be the responsible for proper utilisation of the CSR funds i.e., it is in accordance with the manner approved by the board. Similarly, the board should monitor progress of the project according to the timeline and modify the timeline if required. It would be necessary for the Chief Finance Officer or any other person in charge for financial management to provide a certificate regarding utilisation of funds.

xii. The term ‘Ongoing projects’ was also defined in the amendment to CSR rules- “An ongoing project would mean a project having a timeline of more than one year but not exceeding three years excluding the financial year in which it was commenced”. Single year projects can be converted into multiyear projects only if the board has proper and reasonable justification for the same.

xiii. Section 135-6 was amended to include certain provision regarding treatment of unspent amount of CSR. Following treatment has been prescribed for the unspent amount: -

a) If the unspent amount is not related to Ongoing Projects, then the board shall report the reason for not spending the amount in its report. Secondly it is provided that within a period of six months from the date of end of financial year the unspent amount should be transferred to a fund specified in schedule VII.

b) In case amount unspent is related to any ongoing project, then the company has to transfer the unspent amount to an account specially opened by the company for the same purpose during that financial year in any of the scheduled bank and the account should be named Unspent Corporate Social Responsibility Account (UCSRA). This transfer must be done before 30 days from the end of the financial year.

c) If the amount so transferred as per b) above is not used within three years than the company must transfer such unspent amount to a fund as specified in the schedule VII within a period of thirty days from the date of completion of the third financial year.

xiv. Amendment to Section 135-7 states that if the company defaults in transferring the amount unspent according to sub-section 5 and 6 as stated above, it would attract a penalty of double the amount which was required to be transferred by the company to the fund specified in schedule VII or the UCSRA (as the case may be) or INR 1 crore; whichever is less. Additionally, every officer in default will be penalised with 10% of the default amount or rupees 2 lakhs whichever is less. Earlier the default was planned to be considered as criminal offence. However, the amendment clearly considers default as civil liability offence.

xv. According to the amendment to the CSR rule 7 sub rule 3 if any company during a financial year spends more than the specified requirement 2% on CSR activities then the excess amount would be allowed to be set off against the amount of mandatory Suspending as per section 135 (5). This can be done up to immediate succeeding three financial years. However, such amount shall not include any surplus which arise out of CSR initiatives as specified in sub rule 2of rule 7. The board of directors is required to pass a resolution regarding the same.

xvi. Amendment to CSR rule 7 sub rules 2 clarifies that any surplus arising from CSR activities of the company should not be included in the business profit of the company. Such surplus should be: -

a. ploughed back into the same project or
b. transferred to the Unspent CSR Account and spent in pursuance of CSR policy / Annual action plan of the company or
c. transfer such surplus amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year

xvii. Amendment to CSR rule 7 sub rule 4 states that if a company has acquired or constructed a capital asset using the CSR funds then the following would hold such capital asset:

a. A section 8 company, registered society or registered public trust which have charitable objective and CSR registration number under rule 4 sub rule 2 or

b. Those Self-Help Group (SHG), collectives or entities which are the beneficiaries of the CSR project.

c. Any public authority

Any CSR asset created prior to these Rules, are required to comply within a period of 180 days (Board may extend this period by 90 days).

xviii. For the financial years commencing on or after 1st April 2020, the amendment has specifically prescribed an 'Annexure II' for Annual CSR report for. This Annexure II requires additional disclosures related to impact assessment, set off amount, amount spent on ongoing projects and projects other than ongoing projects, unspent amount on ongoing projects and projects other than ongoing projects, administrative assets, and details about capital assets.

xix. If the prescribed amount for any company as per section 135 (5) is INR 10 crore or more then the company will have to undertake impact assessment. Such impact assessment should be done by an independent agency regarding CSR projects having an outlay of INR 1 crore or more and which have completed one or more than one year before undertaking the impact study. The impact assessment reports should be placed before the board and should be in the form of an annexure to the annual CSR report.

xx. Impact assessment expenditure for a financial year shall not exceed five percent of the total CSR expenditure for that financial year or fifty lakh rupees, whichever is less.

xxi. The companies are required to make disclosures on its website regarding CSR committee constitution, CSR projects and CSR policies

xxii. The Central Government shall constitute a National Unspent CSR Fund for the purpose of transferring the amount unspent by companies, which shall be then used for activities outlined in Schedule VII. Until such fund is created unspent CSR amount in terms of provisions of sub--section (5) and (6) of section 135 of the Act shall be transferred by the company to any fund as specified in schedule VII of the Act. The schedule VII specifies certain funds like the Prime Minister's Relief Fund, Swachh Bharat Kosh and Clean Ganga Fund.

1.9. CSR scenario in India since 2014 (post mandatory provisions)

The Ministry of Corporate Affairs provides all the information regarding CSR by the companies in India which report it's CSR spending on India's National CSR portal (https://www.csr.gov.in). According to the data there has been constant increase in the amount of CSR spending , number of companies spending on CSR ,States and UT covered by CSR activities, number of projects initiated and the developmental sectors entered into by the companies. The chart below shows the total amount of CSR spending by all the companies reporting on the CSR portal from 2014-15 to 2020-21.

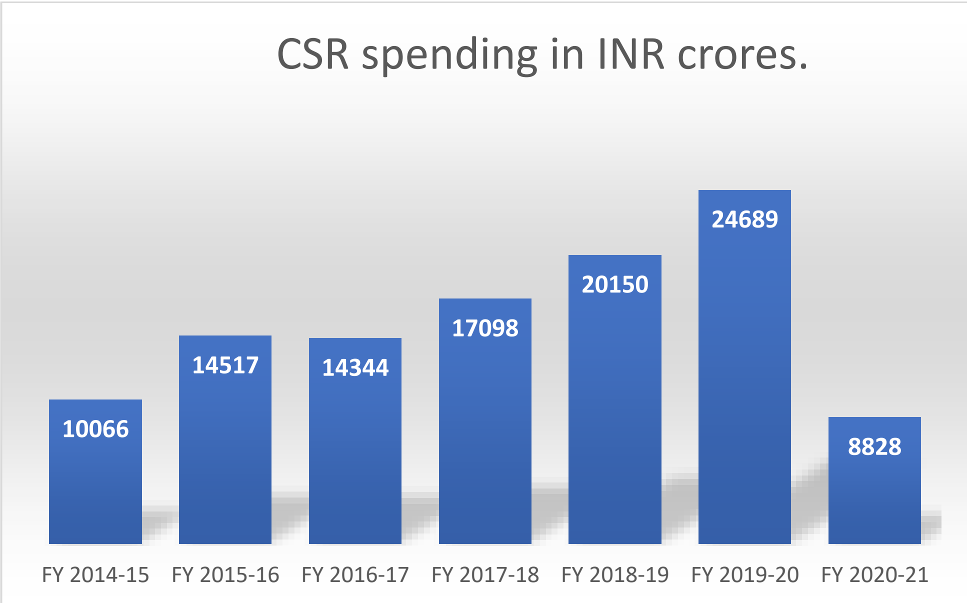

Figure 1.9-1Total CSR spending by Companies in India as reported by the National CSR Portal.

From 2014-15 to 20-21 a period of 7 years has passed since the enactment of mandatory CSR. The CSR expenditure by the corporate sector of our country has increased by 14623 INR crores in 2019-20 as compared to 10066 INR crores in the year 2014-15 i.e., an increase 145.27%. The year 2020-21 also saw a drastic fall in CSR spending from INR 24689[1] crores in 2019-20 to INR 8828 in 2020-21 i.e., a decrease of INR 15861 crores, a decrease of around 64.24%.

The below data indicate that the number of companies implementing CSR according to the national CSR portal increased from 16548 companies to 25099 companies in 2018-19 however declined to 22531 in 2019-20 and further drastically declined to 1619 in 2020-21. The number of CSR projects also increased from 9365 in 2014-15 to 32284 in 2018-

[1] The figures are revised as per the latest update available on the National CSR Portal as on 16/01/2022https://csr.gov.in

19 but declined to 8009 in 2020-21. This may be since the country had to face the adversities of the corona pandemic and obviously the corporate sector was one of the worst sufferers.

If we look at the comparative data on the portal, we get the following summary:

Table 1 Comparative CSR data on National Level

Year	Total No. of Companies	Amount in INR cr.	States & UT covered	Total CSR Projects	Development Sectors Entered
FY 2014-15	16548	10066	36	9365	29
FY 2015-16	18292	14517	36	18468	29
FY 2016-17	19552	14344	36	23076	30
FY 2017-18	21517	17098	36	26858	29
FY 2018-19	25099	20150	36	32248	29
FY 2019-20	22531	24689	36	34828	29
FY 2020-21	1619	8828	36	8009	29

Source: National CSR Portal

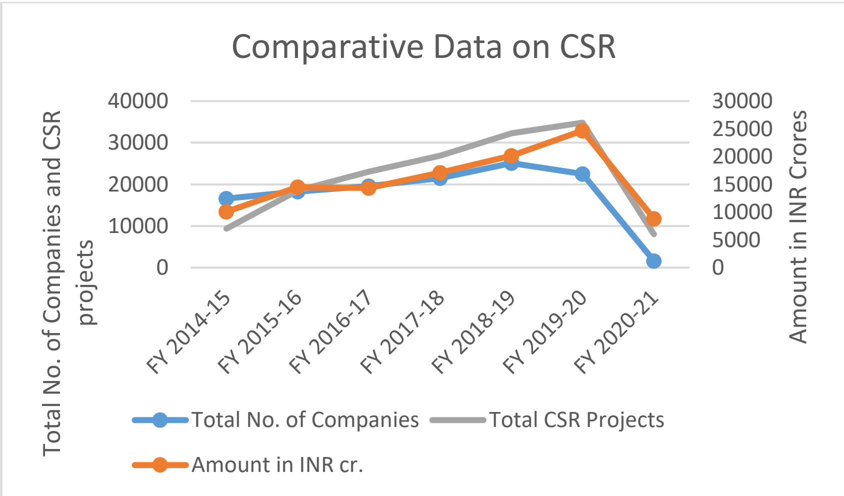

Figure 1.9-2: Total No. of companies reporting, projects and CSR spending Companies in India as reported by the National CSR Portal.

1.10. Issues considered in the present research

While the 2nd chapter would explain in detail the reasons for investigation and the gaps in existing studies it would be fruitful to mention the matters or issues which would be the main aim of the present study.

A period of seven years has passed since the mandatory provision has come into existence. India has witnessed certain changes like change in government and in its business policies and environment. The government in 2014 was very optimistic while enacting the mandatory CSR provisions. It had anticipated inclusive growth in the country with the assistance of business world. However, while fulfilling the government ambition of overall development the mandatory CSR would bound to have some impact on the financial outcomes of the companies practicing CSR. There have been studies indicating a positive relationship between CSR and the financial performance of the company and on the other hand many studies find negative impact of CSR on financial performance of the company.

In the present research a specific attempt has been made to examine the relationship between the CSR spending of a company and its financial performance. The research would also focus on the post mandatory period and analyse the increase in the CSR spending of sample companies after 2014-15 in various focus areas. Secondly the present thesis also attempts to analyse the impact created by the CSR spending of selected sample company on the society in terms of facilities created in Education (including special education and vocational training), Health (including sanitation and clean drinking water0 and Rural Development (including sustainable development)

1.11. Chapter Plan

The focus of the present thesis is to analyse the financial and societal impact of CSR spending by selected private sector companies. Financial impact has been studied with reference to impact of CSR spending on the profitability of the companies as reflected by its PAT, EPS, ROA, and ROE. In this research thesis Societal Impact means the reach of the CSR spending in terms of people benefited from it. The present research is a descriptive analysis which aims at studying the enhancement in the outreach of the CSR programmes of the selected private sector companies from the year of implementation of mandatory CSR till 2019-20.

For presentation purpose the thesis is divided into 5 chapters-

The ***first Chapter*** discusses the background of the present studies by referring to the history of CSR in global and Indian context. It also mentions the legal aspects of CSR in India, provision of the New Companies Act regarding CSR and latest amendments made to the CSR rules and section 135 of Companies' Act. The chapter also outlines the issues discussed in the thesis and chapter plan.

The ***second chapter*** describes the literature reviewed related to the topic of research. The review has been classified as general review, review of literature regarding CSR and financial performance and review of literature regarding societal impact. Finally, the chapter point out the research gap in the existing literature.

The ***third chapter*** describes the objective of the present study and the research questions to be answered. The chapter also constructs the hypothesis to be tested to answer the research questions. Finally, it discusses the significance of the study, its limitation, and delimitations.

The ***fourth chapter*** analyse the impact of CSR spending on the financial performance of the sample companies. The indicators of financial performance considered in the present thesis are PAT, EPS, ROE and ROA.

The ***fifth chapter*** analyse the societal impact of CSR spending by the selected private sector companies. The chapter describes the various CSR projects undertaken by the companies and analyses the change in the outreach of these CSR programmes.

The ***sixth chapter*** includes the summary, finding and conclusions of the studies. It also mentions the scope for further studies in the concerned CSR thrust area. The six chapters are followed by bibliography and Annexures.

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