



Mandatory CSR (mCSR): Evidence from India's eight-year journey

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Introduction

- What is Corporate Social Responsibility (CSR)?
- Shareholder view Vs Stakeholder view
- Should Corporate Social Responsibility (CSR) be mandated? Whether government should intervene to increase clarity around the responsibilities of corporations and regulate CSR activities and corporations?
- Will it increase socially responsible activities by corporations through a legal mandate? Or it could also lead to numerous ills of regulation, like shading, washing, and lip service, to satisfy the legal mandate?

Voluntary vs Mandatory CSR

- Is CSR a discretionary activity of the firm or it is a legally mandated activity?
- Dichotomous relationship between CSR and Government
- Increasing shift from voluntary to mandatory CSR
- Corporate perspective Vs Regulatory and Enforceability perspective

mCSR - across nations

- Countries such as Indonesia (in 2007), Denmark (in 2008), France (in 2010), Philippines and Spain (in 2011), Argentina and Brazil (in 2012), India and Norway (in 2013), and European Union (in 2014) have enacted CSR regulations.
- The impact of CSR regulation on firm's behaviour.
 - In a study of China, it was found that despite CSR not being mandatory, the requirement to disclose CSR expenditure affected a firm's behavior and positively affected society, primarily related to the environment and pollution.
 - In another study in France the provision of disclosure of CSR spending by companies prompted firms to become more transparent.
 - Indonesia's case is often considered the first mandatory CSR (mCSR) regulation. However, it was observed that despite the CSR regulation mandating 4% CSR expenditure, the business firms in Indonesia still viewed it as philanthropy, and the compliance was low, prompting civil society bodies to lobby for a harder law for CSR in Indonesia
- While France, Germany, and China fall under voluntary CSR regimes, scholars have found that mere obligation to disclose CSR expenditure affects a firm's behavior.

mCSR in India

- India's rich tradition of corporate social engagement/charity/ philanthropy
 - Tata Sons
 - Modi Group
- Liberalization in India and its impact on CSR spending.
- Advent of CGVG, NVG and BRR
- Schedule VII of The Companies Act of India, 2013

Hypotheses

- **Impact of mCSR on CSR expenses**

- *Hypothesis 1a. mCSR regulation will have a significant impact on increasing firms' CSR expenditures.*
- *Hypothesis 1b. CSR expenditure will remain stable despite mCSR regulation*

- **Meeting the contribution threshold**

- *Hypothesis 2a. mCSR would have a nudging effect on firms and would motivate firms to do more than the bare minimum CSR.*
- *Hypothesis 2b. With mandatory CSR, firms prefer adhering to the bare minimum (2%) and not overspending.*

- **Comply and forget**

- *Hypothesis 3a. Firms would "do" more engaging social projects than just "fund" government initiatives*
- *Hypothesis 3b. Firms would prefer to just "fund" government initiatives and not "do" real engaging CSR to ensure minimum compliance.*

Hypotheses

- **Interpreting the mandate**

- *Hypothesis 4a. Private firms would go overboard on mCSR to show their commitment to social responsibility and avoid any regulatory penalties.*
- *Hypothesis 4b. Government-owned firms would be less compliant with mCSR as the state owns them.*

- **Interaction of ownership and kind of work**

- *Hypothesis 5a. Government-owned firms would be more committed to social causes and would spend more on "doing" and "engaging" CSR projects than just "funding" "contributory" government initiatives.*
- *Hypothesis 5b. Government-owned firms have lesser managerial capabilities to do CSR projects and hence would prefer "funding" to "contributory" items than "doing" and "engaging" CSR projects.*

Method

- We analysed two datasets to reflect on the implementation of the first ever comprehensive mCSR globally.
- Population Data: Dataset maintained by Ministry of Corporate Affairs (MCA), Government of India.
- Firm Level Data: Dataset maintained by Indian corporations (i.e., Prime Infobase) listed on the National Stock Exchange of India.
- Dataset I provides high-level information comparing public and private sector CSR expenses and Dataset II makes no distinction between public organizations and private firms.
- We created another dataset with the name Dataset III and extracted data of all the firms from Dataset II that have reported their CSR spending over the last eight years.
- Finally we reached to a sample of 6949 firm-year records for carrying out the public-private difference analysis.

Findings on Dataset I (Population Data)

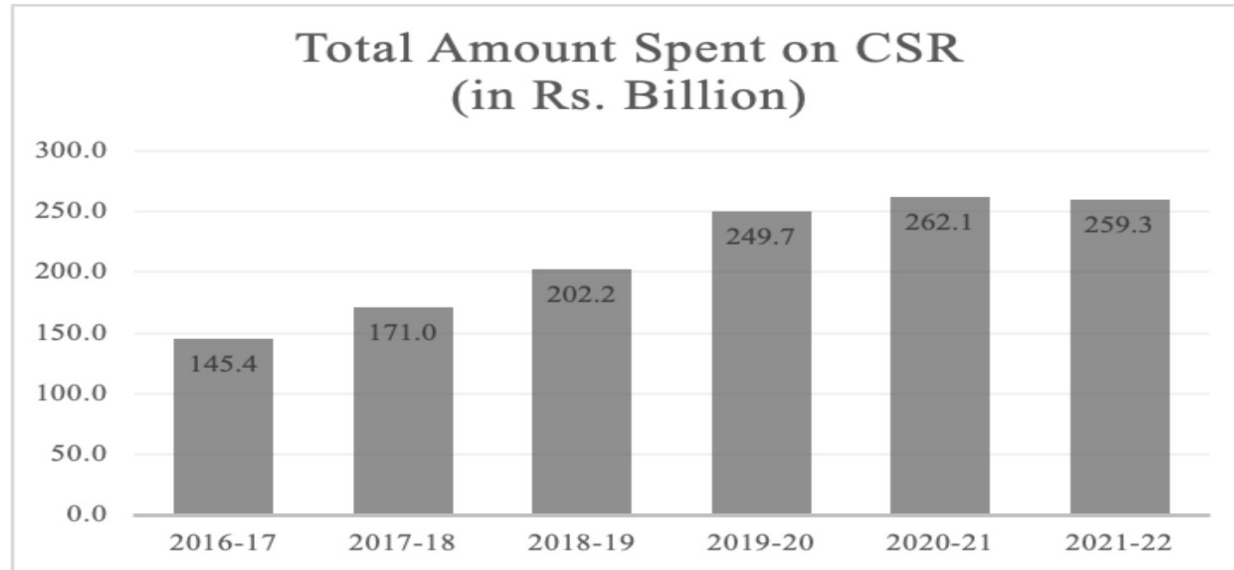
mCSR Reporting

Year-wise CSR expenses reported to the Ministry of Corporate Affairs

Financial Year	Total Number of Companies	Total Amount Spent on CSR (in Rs. Billion)
2016-17	19556	145.4
2017-18	21525	171.0
2018-19	25181	202.2
2019-20	22985	249.7
2020-21	20840	262.1
2021-22	18623	259.3
	Total for six years	1289.7

mCSR Reporting

Figure 1 - Year-wise CSR Expenses as reported to the Ministry of Corporate Affairs



Source: Population Data on CSR <https://www.mca.gov.in/content/csr/global/master/home/home.html>

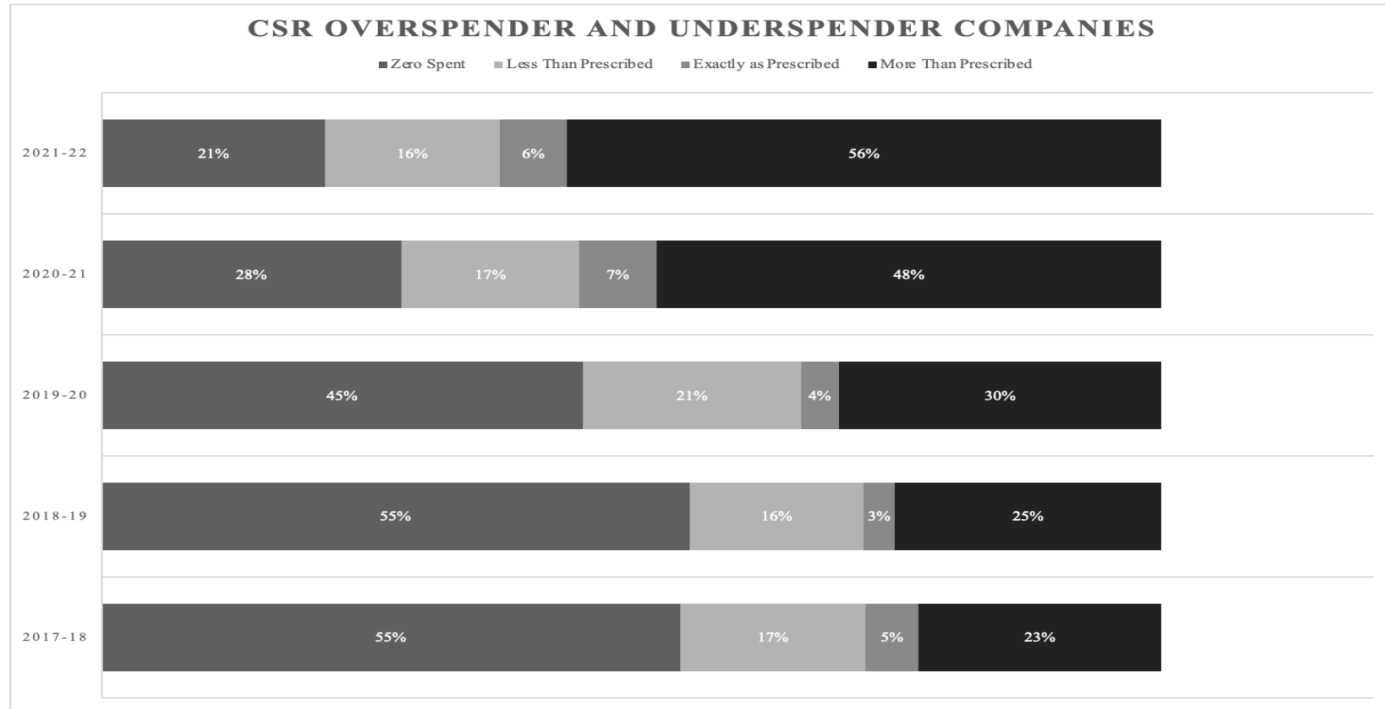
mCSR 2% Compliance

Comparison of prescribed and actual CSR expenses
(No. of firms, Population Data)

Financial Year	Zero Spent	Less Than Prescribed	Exactly as Prescribed	More Than Prescribed	Total Companies
2017-18	11748	3767	1066	4945	21526
2018-19	13976	4130	744	6334	25184
2019-20	10435	4736	810	7004	22985
2020-21	5888	3506	1511	9935	20840
2021-22	3929	3065	1186	10443	18623

mCSR 2% Compliance

Figure 2: CSR Overspending and Underspending Companies (Population Data)

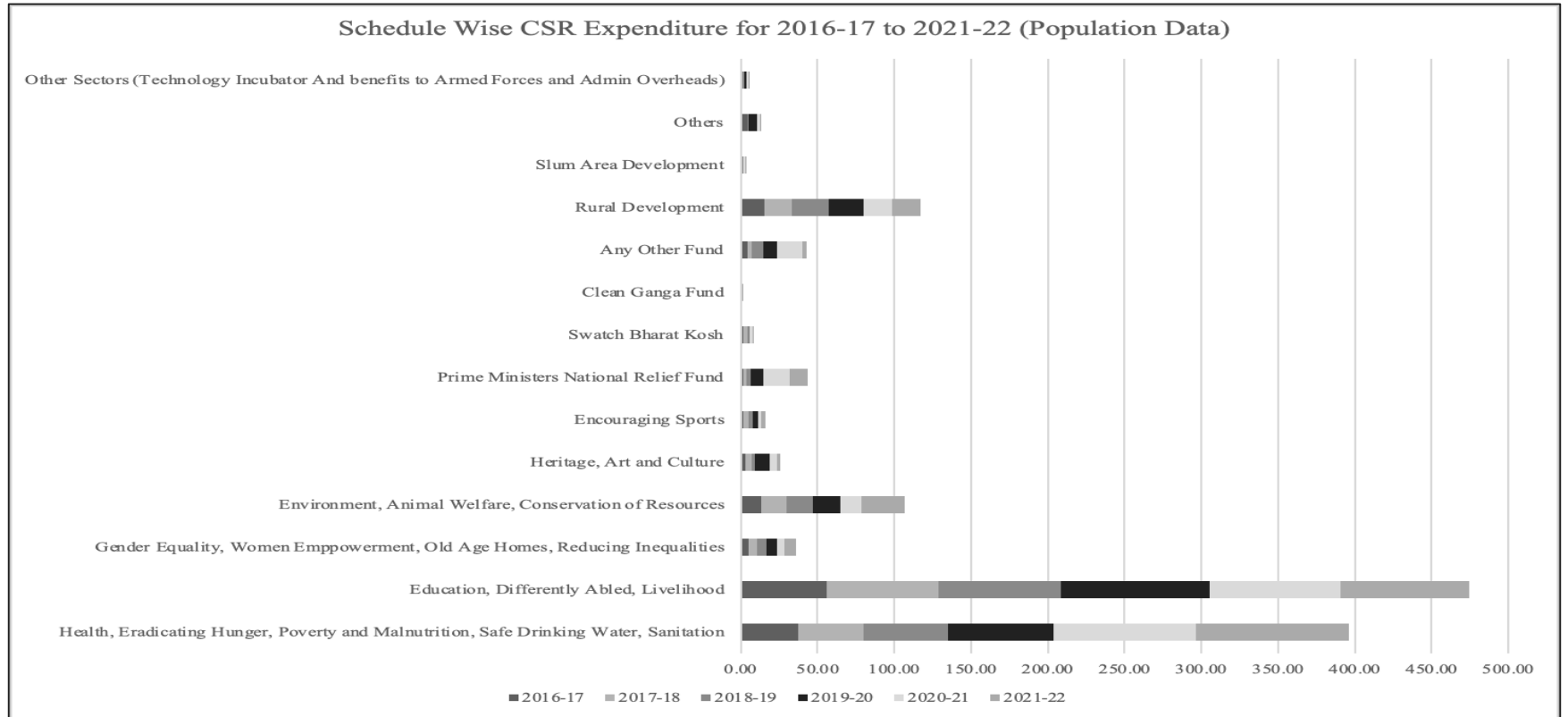


Source: Population Data on CSR <https://www.mca.gov.in/content/csr/global/master/home/home.html>

mCSR Schedule and Sectoral spending

Schedule VII Item	Development Sector/Schedule VII Item	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
1	Health, Eradicating Hunger, Poverty/ Malnutrition, Drinking Water, Sanitation	37.13	42.70	55.48	68.41	92.76	99.87
2	Education, Differently Aabled, Livelihood	55.98	72.82	80.04	96.35	85.59	83.82
3	Gender Equality, Women Empowerment, Old Age Homes, Reducing Inequalities	4.91	5.82	5.73	6.95	5.23	7.07
4	Environment, Animal Welfare, Conservation of Resources	13.26	16.60	17.05	18.05	13.37	28.37
5	Heritage, Art and Culture	3.06	3.95	2.26	9.34	4.93	2.41
7	Encouraging Sports	1.97	2.85	3.10	3.04	2.43	2.87
8	Prime Minister's National Relief Fund	1.59	2.00	3.22	7.98	16.98	11.91
8	Swachh Bharat Kosh	1.84	2.72	0.96	0.53	1.61	0.33
8	Clean Ganga Fund	0.24	0.34	0.08	0.07	0.13	0.54
8	Any Other Fund	4.20	2.93	7.31	9.32	16.18	3.03
10	Rural Development	15.73	17.24	24.34	23.01	18.51	18.01
11	Slum Area Development	0.51	0.39	0.51	0.43	0.89	0.58
12	Others	4.37	0.15	0.88	5.03	2.03	0.01
6&9	Other Sectors (Technology Incubator / Armed Forces / Admin Overheads)	0.63	0.46	1.22	1.16	1.47	0.50
	Total CSR spent	145.43	170.99	202.18	249.66	262.11	259.33

mCSR Schedule and Sectoral Spending



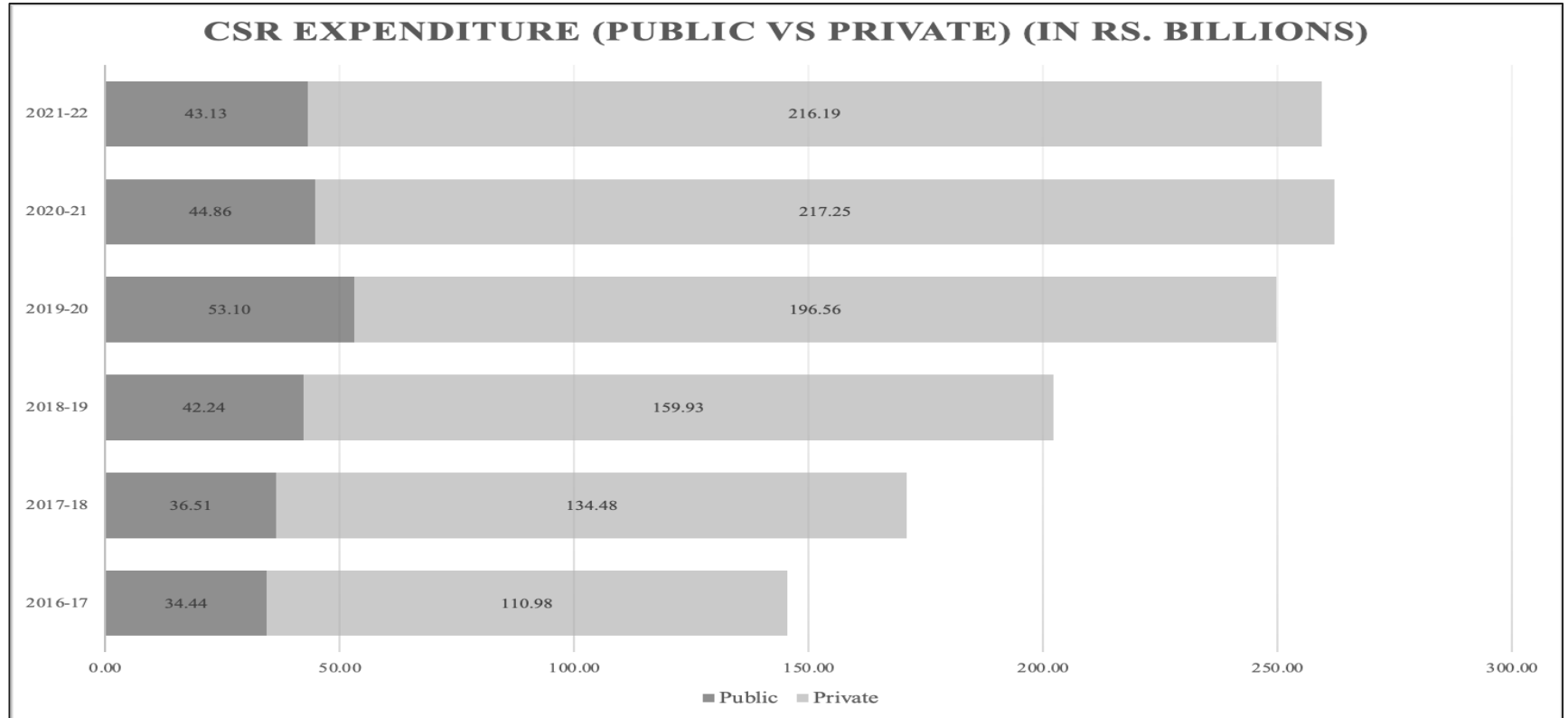
mCSR Public vs Private

Table 4: CSR Expenditure Public Vs. Private (Population Data) *(in Rs. Billions)*

Financial Year	Public	Private	Total
2016-17	34.44	110.98	145.43
2017-18	36.51	134.48	170.99
2018-19	42.24	159.93	202.18
2019-20	53.10	196.56	249.66
2020-21	44.86	217.25	262.11
2021-22	43.13	216.19	259.33

Source: Population Data on CSR: <https://www.mca.gov.in/content/csr/global/master/home/home.html>

mCSR Public vs Private



mCSR Analysis at Firm Level (Dataset II/III)

- **Impact of mCSR on CSR expenses**
 - An increase in firms reporting CSR expenses
 - An increase in the total amount of CSR expenditures
- **Meeting the contribution threshold**
 - Compliance ratio has increased from 28% of companies in 2016-17 to 62% of companies spending more than or equal to the prescribed limit
- **Comply and forget**
 - Health and sanitation and Education and livelihood contribute to two-thirds of the total CSR expense (62% to 79% in the eight years)
 - Firms are found to be "doing" more engaging projects than just "funding" government initiatives.
- **Interpreting the mandate**
 - The private sector's share of the CSR expense has been between 69% and 75% in all eight years
- **Interaction of ownership and kind of work**
 - Public sector undertakings tend to spend more on engaging sectors such as Health, education, and the environment. Thus, they are "doing" more than just "funding" CSR

Discussion

- Reflections on how mCSR expenditure has evolved
 - A significant number of firms reporting CSR expenses even above the 2% stipulated levels
 - Almost all firms creating CSR committees, and regular reporting happening on the provided formats.
 - In eight years, India demonstrated a robust mCSR regime in operation.
- Exploring the mCSR in India
 - Over 18,000 Indian firms have quantified over Rs 250 billions of CSR expenses
 - With over 30,000 CSR projects documented, there is clear evidence that CSR activities have become projectivized
 - Most firms have appointed CSR committees, bringing in accountability.
- Move from voluntary to mandatory
 - The Indian CSR mandate was not only the first but was brought in place when there was significant ambiguity about whether it was the right thing to do. Our hypothesis suggest that there has been a significant change in the CSR spending over the course of eight years.
- Future Directions and Limitations
 - mCSR violations by firms and the government's treatment of the same to build a better understanding of who fails to meet mCSR obligations.
 - Why firms fail to meet mCSR obligations, and what kind of penalties can be imposed on public organizations and private firms to coerce them into making mCSR contributions
 - Investigate if public and private are treated differently

Thank you!