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# Challenges and Loop Holes in CSR Mechanism

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PRACHI HITESH SHAH<sup>1</sup> AND PRAKRITI PUROHIT<sup>2</sup>

## ABSTRACT

*The article discusses the concerns and pitfalls of corporate social responsibility, as well as the loopholes that can be used to avoid CSR. Many businesses believe that corporate social responsibility is a non-essential aspect of their operations, with customer happiness being far more important. They believe that customer happiness is currently purely based on price and service, but they neglect to mention important changes that are occurring around the world that would completely revolutionise the business. The change is referred to as social responsibility, and it is a commercial opportunity. The practical execution of CSR is fraught with concerns and hurdles. An actual analysis of the listed companies reveals the problem and challenges. The primary reason that CSR was formed and regulated in the first place is that it has been reduced to a mere accumulation of profits while having no social impact. The act's goal was to instil business duties toward everyone who isn't affiliated with the company. It's important to remember that social responsibility isn't just about making monetary contributions. The manner in which these businesses make money is as important a notion as the revenues they generate. Firms have been behaving erratically on this front as a result of their non-compliance with CSR rules.*

## I. ISSUES AND CHALLENGES<sup>3</sup>

Many corporations suppose that company social responsibility could be a peripheral issue for his or her business and client satisfaction a lot of vital for them. They imagine that client satisfaction is currently solely regarding worth and repair, however they fail to suggest on vital changes that area unit happening worldwide that would blow the business out of the water. The amendment is called as social responsibility that is a chance for the business. The sensible implementation of CSR is round-faced with loads of problems and challenges. The problem and challenges are found out by empirical study of the listed companies.

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<sup>1</sup> Author is a LLM Student at Ajeenkya DY Patil University, India.

<sup>2</sup> Author is an Asst. Prof. at Ajeenkya DY Patil University, India.

<sup>3</sup> India CSR Network. 2021. *CSR in India: Challenges and Prospects CSR, Lupin, Sitaram Gupta*. [online] Available at: <<https://indiacsr.in/csr-in-india-challenges-and-prospects/>> [Accessed 5 August 2021].

The prime purpose of as well as CSR in company business is to form {the company |the company} business activities in addition because the corporate culture each property in 3 ways: economic, social and environmental. Paying equal quantity of attention to any or all the 3 dimensions, however several corporations suppose that company social responsibility could be a lot of exterior a part of their business, whereas most suppose it to be associate digressive issue for his or her business as satisfying their customers/clients is a lot of vital for them. It's more felt that client satisfaction is simply regarding worth and repair, however concentrating on solely these aspects of business makes them blind doubled towards different vital changes happening worldwide that would blow the business out of the water. The amendment is called as social responsibility that is a chance in itself for the business.

The following are some of the factors that are driving businesses to engage in CSR:-

### **Inefficiency of the government**

In the past, governments have relied solely on legislation and regulation to deliver social and environmental objectives within the sector that has result in bound unsuccessful initiatives.

### **Demands for bigger revelation**

There is a growing demand for company revelation from stakeholders, as well as customers, suppliers, employees, communities, investors, and activist organizations.

### **Increased client Interest**

It has been seen and verified through a survey conducted within the year 2002 in twenty five countries by Environs International<sup>1</sup>, it had been found that quite one third of surveyed shoppers believed that enormous corporations “should do quite provide cash to resolve issues.”

The same study found that just about fifty % of shoppers had thought of hard a corporation supported its social actions, which nearly thirty % had truly avoided a corporation for that reason. More it had been verified that the moral conduct of corporations have a growing influence on the getting selections of consumers.

Increased pressure from the capitalist Investors area unit dynamic the manner they analyse companies' performance, and area unit creating selections supported moral issues too.

### **Change in Worker Behaviour**

Employee's area unit progressively trying on the far side pay checks and advantages and seeking out employers whose in operation practices match their own principles. So as to rent and retain masterful workers, corporations area unit being forced to boost operating

conditions.

These challenges square measure listed below:

- **Lack of Community Participation in CSR Activities:** there's an absence of interest of the local people in collaborating and contributory to CSR activities of corporations. this is often for the most part because of the actual fact that there exists very little or no information concerning CSR within the native communities as no serious efforts are created to unfold awareness concerning CSR and enter confidence within the native communities concerning such initiatives. The case is additional aggravated by an absence of communication between the corporate and also the community at the grassroots.

- **Need to build native Capacities:** there's a necessity for capability building of the native non-governmental organizations as there's serious dearth of trained and economical organizations that may effectively contribute to the continued CSR activities initiated by corporations. This seriously compromises scaling from CSR initiatives and after limits the scope of such activities.

- **Problems with Transparency:** Lack of transparency is one amongst the key problems brought forth by the survey. There's associate degree expression by the businesses that there exists lack of transparency on the part of the native implementing agencies as they are doing not create adequate efforts to disclose data on their programs, audit problems, impact assessment and utilization of funds. This reported lack of transparency negatively International Conference on Technology and Business Management March 28-30, 2011 one hundred and five impacts the method of trust building between corporations and native communities, that may be a key to the success of any CSR initiative at the native level.

- **Non-availability of Well Organized Non-governmental Organizations:** it's additionally reported that there's non-availability of well-organized nongovernmental organizations in remote and rural areas that may assess and establish real wants of the community and work at the side of corporations to make sure palm implementation of CSR activities. This additionally builds the case for investment in native communities by manner of building their capacities to undertake development comes at native levels.

- **Visibility Factor:** The role of media in light sensible cases of palm CSR initiatives is welcome because it spreads sensible stories and sensitizes the native population concerning numerous current CSR initiatives of corporations. This apparent influence of gaining visibility and disapproval exercise usually leads several nongovernmental organizations to involve themselves in event-based programs; within the method, they usually miss out on purposeful grassroots interventions.

- **Slim Perception towards CSR Initiatives:** Non-governmental organizations and Government agencies sometimes possess a slim outlook towards the CSR initiatives of corporations, usually shaping CSR initiatives additional donor-driven than native in approach. As a result, they realize it onerous to make a decision whether or not they ought to participated in such activities in any respect in medium and end of the day
- **Non-availability of Clear CSR Guidelines:** There are not any clear cut statutory pointers or policy directives to offer a definitive direction to CSR initiatives of corporations. It's found that the dimensions of CSR initiatives of corporations ought to rely upon their business size and profile. In alternative words, the larger the corporate, the larger is its CSR program.
- **Lack of accord on Implementing CSR Issues:** there's an absence of accord amongst native agencies concerning CSR comes. This lack of accord usually ends up in duplication of activities by company homes in areas of their intervention. This ends up in a competitive spirit between native implementing agencies instead of building cooperative approaches on problems. This issue limits company's skills to undertake impact assessment of their initiatives from time to time.

## **II. <sup>4</sup>LOOP HOLES OF DODGING RESPONSIBILITY**

Companies in our country have found ways in which during which and means to dodge their responsibility and avoid disbursement of their funds towards CSR activities. To avoid paying towards CSR many companies across industries have convoluted property with their business strategy. They have strategically developed ways in which during which combine property, their social obligation with their business ideas. The thought behind this is {often this can be} often to not accelerate the growth of the society but to simply increase their profit margins. Geographical region Unilever (HUL) was seen following identical strategy to deceive the purchasers. They spent tons of money inside the underdeveloped rural areas to create awareness amongst them regarding sanitation and additionally the wish of fantastic hygiene. At face value this activity done by them would represent to be degree act that complied with the CSR laws but extremely, it's a façade. The CSR rules of the companies Act, 2013 would not take such activities below the compass of CSR. The society reach activities by HUL were thought-about to be activities undertaken in their ancient course of business and not as CSR activities. It was loads of a promoting strategy. The sole drive behind such activities was profit making. This was as results of HUL derived direct monetary have the good thing about

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<sup>4</sup> LLP, T., 2021. Failure of CSR in India. [online] TaxGuru. Available at: <<https://taxguru.in/company-law/failure-csr-india.html>> [Accessed 5 August 2021].

such degree activity. By creating awareness amongst the targeted shoppers, they were indirectly increasing the demand of the merchandise they primarily prohibited – toiletries and detergents. All such expenses would be counted as business promotion expenditure. They could not amount to CSR expense. Whereas considering the case of HUL, it had been jointly set that the CSR activities below taken by a department among the company would not qualify as CSR activity below the companies Act. Moreover, the new act has created it imperative for the companies to show out the CSR activities administered by them, internally into a separate distinct entity registered as a trust or a society or a not for profit company. CSR does not allow shared value propositions. Activities that profit the employees of the company on with their families can't be thought-about as CSR activities in accordance of Section 100 thirty 5 of the Act. Activities like marathons, T.V support programs, charitable contribution; advertisements would not be qualified as CSR expenditure. The Finance Act, 2014 provides that any expenditure incurred by a corporation towards its CSR initiatives mentioned in Article 100 thirty 5 of companies Act, 2013 shall not be deemed as degree expenditure incurred inside the standard course of their business. A very strong argument utilized by most companies to justify their economical towards CSR activities is that they are ineffectual to identify the proper comes or organization to return with. However this excuse can't be taken into thought once four years of the enactment of the Act in 2014. With the surfeit of specialists and observe agencies at their disposal, these problems can merely be resolved. Most companies pay the required CSR amount on NGO's that they have been associated with. However, this outlay has not been transformational, as they're doing not pay the stipulated amount. This below outlay might jointly mean that they're doing not build enough efforts to seek out worthy comes or attempt to nurture grassroots level NGOs. To boot to this, most companies that are in dire need to meet with the CSR demand want NGOs whereas not labour correct diligence. This lure of money leads them to unethical practices. CBI had really recently filed a criticism against degree NGO, Advantage Republic of Bharat, primarily based in metropolis for misusing the CSR funds given to them by a corporation. City police had really recently uncovered CSR funding scam whereby the suspect had solid the documents of Hex aware Technologies and approached varied NGOs and charitable funds across the country with a proposal to provide them CSR funds worth over 100 cores. Such malpractices defeat the complete purpose of incorporating and mandating the CSR provision. Companies in Bharat therefore on avoid paying money for CSR activities, follow poor revealing standards once it involves revealing the most points of their commercialism on the CSR initiatives. This was confirmed by a report created by the Institutional capitalist

consolatory Services. Keep with the report, fifty one companies listed on the metropolis Stock Exchange's Sensex defaulted beneath this category. The report says that therefore on pay however what is required on CSR initiatives, the companies do not appear to be really forthcoming once it involves sharing the most points of their CSR commercialism. As associate degree example, Bajaj automobile followed identical strategy. It did not alone conceal the amount spent on CSR activities but to boot did not mention whether or not or not the amount unexpended inside the given twelvemonth was carried forward inside succeeding year. the companies (Amendment) Bill 2019 introduced some rules to tighten the CSR laws of the country.[19] The projected amendment required the companies to transfer the unused funds meant for CSR activities terribly} very specific year towards a fund known of by the government. The fund is prepared up for a much better and a cost-effective utilization of resources for public welfare. The foremost aim of the amendment was to increase responsibility and build the total procedure loads of clear. CSR money is being happy towards the pursuit of individual growth rather than fulfilling the broader goals of society. Governmental officers and senior staffs in PSUs have constantly been engaged in laundry of CSR money for his or her own profit. Such practices are well documented before the CSR provision was created obligatory. Defalcation of CSR funds become easier as there is very little oversight on CSR commercialism. Redesigning involves kind them look CSR friendly by abusing the flexibility of position, facilitates the act of dodging the CSR provisions. samples of this might be the NALCO case in 2012 where cores of money was happy towards a personal university, accusation created against the previous Steel Minister Beni Prasad Verma for having exploited SAIL's CSR funds. Most of its CSR funds were utilized for hiring choppers for the ministers and for his or her advertisements activities. Revealing of economic accounts could also be a really rare incidence for the PSUs. Non-compliance to the CSR laws does not alone happen once the funds unit of measurement exploited. It to boot happens by misgoverning and misdirecting funds. A perfect example of this might be donations created to the Prime Minister Relief Fund and any another similar central government funds. Such donations unit of measurement apparently thought-about as a section of CSR. For several companies amusing funds towards any such theme becomes a simple reply through that they will get on the proper side of the CSR rules. It provides them an identification whereas not even devoting overtime and investment in usurping actual CSR comes of their own and internalizing its true conception. Companies therefore on fabricate CSR commercialism produce use of charitable trusts. The money given is funneled back to the company. Routine for this is {often this can be} often really straightforward. the company

therefore on come with the CSR law writes a cheques in favor of the trust that works in any of the ten necessary field of activities (Healthcare, education, environmental protection) as prescribed by the law. The trust, once deducting its commission, reverts the money on to the company or its promoters or directors, in cash. At that really instance, white money is regenerate to black money, the impact of that's adverse on the economy. Most of the times, politicians and created businessmen establish these trusts therefore it provides them with associate degree dodging for the entire unaccounted CSR fund. Money flows into these trusts through legitimate banking channels but unit of measurement eventually came back to the company in cash. this is {often this can be} often the foremost favored route to launder CSR funds, as a result of it is not really meticulously monitored by the government and there exists a inadequacy of a centralized repository which may administer the activities of such trusts. All this is {often this can be} often through with the sole real intention of deceiving its customers and evading the CSR law wants. In 2017-2018, the obligatory CSR expenditure beneath Section 100 thirty 5 of the companies Act was rupees 10,000 crore, keep with the PRIME info groups Analysis of 1627 NSE listed companies. The companies did not meet such a requirement. To dodge CSR laws, most companies advance money towards any major project started or a subject enforced by the organization in power. These funds unit of measurement created accessible for the extra fund commercialism of the government. The underlying motive behind this to create sure that the government provides these companies a protective shelter against any proceedings which will get instituted against them for non-compliance of the CSR law. It's primarily a give and take policy that is being practiced by these affluent business tycoons and additionally the governmental officers. It leads to a crying misuse of the CSR funds. This observes could also be understood by yearning the report analyzed by Good era, a CSR property management platform. As per the report, in FY16, only 46.51 cores were spent, whereas 2107 saw a surprising shoot inside the commercialism to Rs 100 fifty 5.78 cores. This happened as results of five of the foremost necessary PSUs – ONGC, HPCL, BPCL, IOCL and Oil Bharat restricted, on contributed Rs 146.83 cores towards BJP's pet project, the Statute of Unity in Gujarat. These funds were elect for CSR beneath the preservation of national heritage category. To boot to this, fourteen completely different companies from Gujarat to boot contributed to this project, inside the name of CSR. Former Steel Minister, Benin Prasad Vera was suspect for misusing CSR funds by finance quite 1/2 it in two state districts below him. CSR funds unit of measurement obtaining accustomed extra the political goals of the government in power. There has been a recent trend where the companies are seen amusing their CSR funds towards animal welfare. The

PRIME info report shows that forty one listed companies have created seventy three separate donations between 2015-2018 to cover primarily based activities and for the establishment and administration of Gaushalas. Companies like Genus Power Infrastructure and Paisalo Digital have spent around nineteen.5 million towards activities engaged toward protection and successfulness of cows. The Schedule VII of the Companies Act, though' mentions animal welfare together of the categories on it the CSR money are going to be spent, it does not expressly illustrate the protection of cows. This will be used a tool to duck the CSR laws. The statutory provisions of CSR rules has created it necessary that the activities undertaken by the companies need to be in pursuance to the topics mentioned in Schedule VII of the Companies Act, 2013. though' the topics mentioned inside the schedule unit of measurement meant to be browse liberally and unit of measurement created broad enough to cover an honest vary of activities, the foremost motive behind the aforesaid provision mustn't wander away amidst all this. It's amusing to look at but these companies neglect loads of pressing concerns inside the society and channelize all their resources towards the protection of cows and various animals. They're cynically familiarizing their activities to suit the political concerns of the government negating truth objective of the Act. Most companies sometimes justify their non-spending or below commercialism towards CSR activities by claiming that they have already spent the required amount whereas hiring personnel fully for implementing the CSR activities. The CSR Policy Rules, 2014, disregard less of those claims created it very clear that the salaries paid to the CSR employees would be a district of the chief overheads of the company. This expenditure mustn't exceed 5% of the total CSR expenditure as per Rule 4(6) of CSR policy, Rules 2014.

The fact that no tax exemptions are extended to CSR expenditure as per Finance Act, 2014, extra discourages the companies from endeavor activities which may go with the CSR laws. The angle that nearly all companies have towards CSR laws is not very favorable. They are antipathetically to its provisions. For them it's merely an extra burden to boot to the taxation that they pay annually. there is not any specific tax exemption for any CSR expenditure, but there unit of measurement certain subjects mentioned among the VII Schedule like scientific research, rural development comes, ability development comes, agricultural extension programs that fancy exemptions below wholly completely different sections of the taxation Act, 1961.

### **III. CONCLUSION**

CSR has been reduced to a mere accumulation of comes whereas not creating any social

impact, the foremost reason that it completely was developed and mandated among the first place. The aim of the act was to infuse business responsibilities towards all and sundry that's neutral among the business. Social responsibility mustn't be equated with money contributions only. The style these firms unit making profits is as necessary an idea as they are commerce the profits created by them is. Firms' area unit seen behaving harum-scarum throughout this front to boot to their non-compliance with the CSR laws. Firms unit victimization the scarce resources of the economy, therefore they have to be compelled to behave responsibility towards its development. Instead of focusing only on cash contributions they have to even remember of providing shopper price which is able to serve the society throughout an extended run.

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