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**Implementing mandatory corporate social responsibility in India: assessing progress made by corporates and NGOs**

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## Implementing mandatory corporate social responsibility in India: assessing progress made by corporates and NGOs

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**Abstract:** CSR in India is mandated through Section 135 of the Companies Act (2013), covering the practice and reporting of social responsibility projects. This paper examines India's CSR framework and reports findings on governance, planning, and implementation from a survey of and non-governmental organisations (NGOs). Overall findings reveal several positive aspects and inform us of the challenges that companies and NGOs consider essential. First, an overwhelming majority of companies focused on three investment areas: health, education, and the environment. Second, 88% of companies undertook long-term continuing projects, a positive signal from a social development perspective. Third, 68% reported that their CSR strategy was aligned with their core business strategy. Fourth, a significant majority of the companies have established the required structure for policy development, planning, and periodic monitoring from a governance perspective. Finally, findings on NGOs indicate several elements of preparedness; however, the retention of talented employees is a continual challenge.

**Keywords:** mandatory corporate social responsibility; corporate performance; NGOs; governance; planning; implementation; reporting; accountability; corporate-NGO partnerships.

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## 1 Introduction

Practitioners and academics have widely debated corporate social responsibility (CSR); topics of these debates include motivation, practice, reporting, benefits, and regulation. It is well known that there is a move towards greater regulation with respect to CSR disclosure/reporting, and a recent report on CSR (KPMG, 2017) cautions businesses to be prepared for greater regulation. Indonesia and India are the only two countries that have mandated CSR. The regulations in Indonesia apply only to companies that conduct business in activities related to the natural resources sector (Waagstein, 2011). In contrast, CSR in India is mandated through Section 135 of the Companies Act (2013) and covers the practice and reporting of CSR. This paper examines India's CSR framework and reports the findings from a survey of 100 companies and 100 non-governmental organisations (NGOs) conducted focusing on governance, planning, implementation, and reporting within the context of Section 135.

This paper is structured as follows: Section 2 outlines the mandatory CSR framework in India, Section 3 reviews the literature, and Section 4 presents the research methodology. Sections 5 and 6 present the findings of our study, followed by a discussion and conclusions in Section 7. Finally, Section 8 presents the limitations of the study and offers suggestions for future research.

## 2 Mandatory CSR framework

India's mandatory CSR framework covers four main elements – eligibility, governance, implementation, and reporting (see Figure 1). An eligible company must contribute a minimum of 2% of its annualised average net profit before tax *from the current and previous two years* towards CSR activities within the local area of the company's operations. To be considered eligible, a company must achieve one of three financial metrics:

- 1 net (before tax) profit of at least ₹5 crores (approximately \$672,725)
- 2 minimum sales of ₹1,000 crores (approximately \$134.5 million)
- 3 net worth of ₹500 crores (approximately \$67.3 million) or higher.<sup>1</sup>

Governance requirements include constituting a CSR Committee comprising three or more board of directors, including at least one independent director, and fulfilling its responsibilities of CSR policy development, planning (including recommending the expenditure level), and periodic monitoring. Compliance requires companies to undertake CSR activities within the broad areas identified in Schedule VII of Section 135. Companies may execute selected CSR projects through their foundation or trust or collaborate with qualified NGOs. Finally, the framework specifies annual reporting requirements. Mandating an otherwise voluntary activity (Dahlsrud, 2008) can have both positive and negative consequences; we do not discuss whether mandating is good or bad. Instead, we focus on the experiences, accomplishments, and challenges faced by companies and NGOs with respect to this change based on survey results.

**Figure 1** India’s mandatory CSR framework (see online version for colours)



*Source:* Companies Act (2013), KPMG: India's CSR Reporting Survey 2017, created by the authors

### 3 Literature review

The practice of CSR varies significantly among businesses across the world, and these variations are primarily driven by differences in motivation, approach, and resources (Mukherjee and Bird, 2016). Gatti et al. (2018) suggest three perspectives that may motivate organisations to engage in CSR activity: strategic, social, and ethical. The strategic perspective supports the view that investing in CSR is a managerial choice to derive competitive advantage, desired financial and non-financial outcomes (Godfrey et al., 2009; Weber, 2008). The social perspective supports the idea that CSR allows companies to accumulate social power (Becchetti et al., 2008; Cooke, 2010), whereas the

ethical perspective suggests that CSR is the right thing to do for the sake of the common good (Heugens and Kaptein, 2008; Sankar, 2015). Prior literature suggests that CSR can provide an insurance effect to companies when faced with uncertainty (Peloza, 2006; Shiu and Yang, 2017). Moreover, positive moral and social capital have the potential to enhance an organisation's reputation (Irwin, 2003; Nwadiolor and Igwe, 2013).

The 2013 CSR regulation in India has motivated a variety of research. For instance, Mukherjee and Bird (2016) surveyed 223 companies to examine these organisations' drivers, barriers, and perceptions towards CSR. They found that:

- 1 concern for society was a key motivating factor
- 2 inadequate free cash flow and limited human resources were significant barriers to implementation
- 3 smaller companies reduced their CSR spending post-legislation.

Elembilassery and Gurunathan (2018) examined the mode of CSR implementation based on a qualitative study comprising of interviews with functional leaders of nine organisations. Their study suggests that "... there are distinct modes [sic] of CSR implementation, and the rationale for adopting a particular mode is [sic] ingrained in the organisational need and the context of the firm" [Elembilassery and Gurunathan, (2018); p.712]. Jha and Aggarwal (2019) examined the relationship between institutional pressures and CSR implementation and the impact of CSR on firm financial performance using a methodology consisting of surveys and interviews. They found that various institutional pressures significantly influenced CSR implementation and that reputation partially mediates the relationship between CSR relationship and financial performance.

Our study seeks to add to the CSR body of knowledge by presenting the results of a survey designed to examine the dimensions of governance, planning, implementation, and reporting within a mandatory CSR context. A critical gap that we fill is offering the NGO perspective in addition to the corporate perspective.

#### **4 Research methodology**

We conducted our study using survey research. Two separate survey questionnaires were developed, targeting 100 companies and 100 NGOs, respectively; surveys included questions examining preparedness from the governance, planning, implementation, and reporting perspectives. The surveys were pretested with three companies and three NGOs, respectively, six PhD scholars and two academics. An independent (third-party) research services provider collected the data through phone interviews with respondents from a total of 200 organisations. One co-author constantly interacted with the third party on various matters requiring clarification as well as a pilot study.

Our response rates were 24.3% in the case of companies and 29.5% for NGOs. Respondents to the survey included individuals involved in implementing CSR and held various responsibilities within their respective organisations. Our intent in this study was to explore the 'lay of the land' regarding CSR implementation since 2014 rather than examining relationships among a set of variables or developing an assessment score.

## 5 Findings – companies

The study's sample of 100 companies was spread across 14 states, although approximately 40% were based in a single state. We measured size in two different ways:

- 1 number of employees
- 2 sales revenue or turnover.

Our sample consisted of 52 firms with 1,000 or more employees, 41 with 250 to 999 employees, and the remaining 7 with less than 250 employees. With respect to sales turnover, 46% reported a turnover of between ₹1,000 and ₹2,499 crores, 34% were equally split between two sales turnover categories (between ₹2,500 and ₹4,999 crores, and over ₹5,000 crores), and the remaining 20% reported a turnover of fewer than ₹1,000 crores. Our sales-based size classification is keeping in mind the fact that the sales turnover cut-off for Section 135 is ₹1,000 crores, and it essential to note that the 20 companies reporting less than ₹1,000 may still come under its ambit-based on other financial criteria.

Although there are variations in the proportion of companies across the two measures of size, we found a statistically significant positive correlation between the two measures of size ( $\rho = 0.34$ ;  $p \leq 0.00$ ). As such only 24% (8%) of our sample consisted of NIFTY 500 (100) companies<sup>2</sup>.

Consequently, 75% of our sample consisted of companies that are usually not covered by researchers. The remainder of the findings is presented along with the governance, planning, implementation, and reporting dimensions.

### 5.1 Governance

Governance requirements prescribed by the act – establishing a CSR Committee consisting of three directors including one independent director – clearly signal the importance of top management's involvement in CSR. The survey revealed that the CSR Committee in 74% of the companies consisted of up to four directors; similarly, over 75% of the responding companies indicated that their CSR Committee included up to two independent directors. A large majority of the 100 companies confirmed that their organisation's CSR committee fulfills all the three primary responsibilities of policy development (92%), planning (100%), and periodic monitoring (97%). More specifically, 88% indicated that their CSR committees focused on the five activities listed below:

- formulate and recommend a CSR policy to the board
- recommend the expenditure level that the company should incur annually
- monitor the CSR projects periodically
- ensure that the minimum prescribed CSR amount is spent on activities
- ensure compliance and reporting.

However, only 37 out of 88 companies focused equally on all five activities, and the remaining 51 spent unequal proportions of time on the five activities, with eight of them devoting 40% or more time to a single activity. Finally, respondents in three companies

indicated that their CSR Committee did not focus on reporting compliance - presumably, this responsibility is delegated elsewhere in the organisation!

## *5.2 CSR focus areas*

Ninety companies (90%) indicated that they met the criteria specified in Section 135 since implementation in 2014, and all of them invested in CSR as specified by the act. These companies invested in various projects, with 88% indicating that they undertook long-term continuing projects – a positive signal from a social development perspective. Not surprisingly, we found that health, education, and environment were the priority areas of CSR investment, whereas the least opted for the area contributed to the Prime Minister's Relief Fund. The focus on health, education, and environment as priority areas are not surprising as these are important across the globe, although the specific requirements may vary depending upon the contextual environment and needs. We believe that limited attention to contributing towards the Prime Minister's Relief Fund is most likely because the individual company is not in control of the CSR activity or outcome. Besides, although the fund may be used for genuine activities such as assistance during natural and other calamities, it may or may not directly contribute towards environmental and/or social development. Our findings also suggest that, on average, each company implemented just under two projects; of these, roughly 50% were long-term continuing projects. This finding allows us to assert that companies recognised the value of investing in more focused, longer-term projects with greater potential to result in meaningful outcomes for the beneficiaries, aligning with the country's social development agenda.

The study's respondents strongly endorsed the usefulness of Schedule VII, which lists the broad areas within which companies must situate their CSR projects. In particular, 91% of the companies agreed that it helps companies select specific areas for CSR investment. Only 15% reported that it lacks clarity, and this may be because a specific project could be categorised under more than one broad area. Although this may confuse how to report the activity, the specific project itself will likely be valuable in its outcomes. Another 22% believed that it is restrictive rather than suggestive, which implies that, in terms of compliance with Section 135, the government may not recognise CSR projects that cannot be categorised under any one of the broad categories.

## *5.3 Planning*

An important first step in the planning process is establishing direction via policies and guidelines. Not surprisingly, especially given that 98% of the responding companies engaged in CSR before Section 135, 92% of the respondents indicated that their company had a documented CSR policy. Sixty-eight (68%) responding firms agreed that a company's CSR strategy must be aligned with its core business strategy (14% disagreed); however, a slightly lower proportion (58%) agreed that the CSR strategy should be an integral part of the company's business strategy (27% disagreed). The act states that companies must not undertake CSR activities they pursue in ordinary business activity (e.g., priority sector lending by banks). However, only 20% disagreed that companies should choose CSR projects that are closely related to their core business, thereby negating the stipulation in the act.

There is potentially some merit in pursuing CSR activities closely aligned with business strategy, as long as these projects comply with the list in Schedule VII due to the expertise already existing within the company. Integrating social and environmental priorities and processes with business strategy is imperative to creating sustainable shared value (Porter and Kramer, 2011). By choosing CSR projects close to their core business, companies can strongly signal that CSR can and ought to be a strategic and profitable part of their business. Having said that, this may raise other concerns, such as allocation of costs and determining profitability to establish whether a company meets the financial criteria as outlined in Section 135 (Rajeev and Kalagnanam, 2017).

Our survey asked respondents to rate eight different planning-related challenges using a five-point scale where a higher rating meant 'greater the challenge'. 50% of the respondents identified developing a timeline with specific milestones and preparing a budget as the two most challenging tasks. This finding implies that while most companies have a CSR policy and have picked an area of social investment, decisions that require an in-depth understanding of the local socio-economic contexts like selecting and locating projects where the local communities need them the most, defining the scope of projects, budgeting and establishing timelines for implementation appear daunting. This trepidation probably stems from the fact that according to our survey, 57% of personnel handling CSR are from compliance & H.R. departments, with perhaps little formal training in social development work and managing CSR as an additional responsibility.

#### *5.4 Implementation*

Our survey asked several implementation-related questions that attempted to capture how things are done, as well as the challenges associated with implementation. An essential step in implementation is 'which department/functional area/unit' is tasked with the responsibility of implementing CSR. Eighty-one companies (81%) indicated that their company has a separate CSR department; of these departments, 77% consisted of up to four employees, and the remaining 23% had five or more employees. Close to 90% of the remaining 19 companies that did not have a separate CSR department tasked their H.R. department with the responsibility of 'looking after' CSR projects.

Findings also suggest the prevalence of company-NGO partnerships in implementing projects (as allowed by the act). A critical reason for such partnerships is that NGOs work closely with local communities and are therefore familiar with their needs; additionally, they have the experience and expertise to implement developmental projects. The two most important criteria for selecting partner NGOs are reputation and how long they have been in existence. A large majority of the companies also agreed that partnering NGOs have the capability to execute projects in a timely manner and work independently without much guidance from the company's CSR Committee.

Section 135 requires companies to implement CSR projects in local areas. However, the term local area is ambiguous and may be interpreted in multiple ways. Our survey used the following four interpretations of the term local:

- 1 within 10 kilometres of the corporate office
- 2 within 10 kilometres of a branch office
- 3 anywhere in the state where the corporate office is located
- 4 anywhere the company's products/services are available.



Not surprisingly, our respondents indicated that they use more than one interpretation, although the most popular interpretation is the third one listed above. Applying this interpretation to just our sample highlights a problem. A third of the sample companies are Mumbai-based, and the most popular interpretation of the term local would mean that a large number of CSR activities would take place in a single state. Parochial interpretations of the local area would invariably lead to a concentration of projects and resources in relatively well-developed regions (where many corporate offices are located), to exclude tribal and far-flung areas where the benefits of development are yet to reach. This will increase the level of disparity that already exists in terms of the states that need more social development activity versus those that need less (Rossow, 2015).

### 5.5 Reporting

Previous research suggests significant diversity in CSR reporting, perhaps resulting from various factors such as the motivation to disclose, the extent to which disclosure is mandatory, the industry(ies) within which an individual company operates, diversity of stakeholders, and company size. Over the years, scholars, consultants, and organisations have developed reporting frameworks/guidelines such as the balanced scorecard (Kaplan and Norton, 1996), comprehensive performance reporting framework (Yongvanich and Guthrie, 2006), and G4 sustainability reporting guidelines (<https://www.globalreporting.org/standards>). Regardless of the differences across companies and/or the frameworks and guidelines, every company should consider adopting what we label as ‘responsible reporting framework’, which includes three mutually reinforcing guiding principles: accountability, completeness, and transparency.

*Accountability* represents an obligation to provide an account and explanation. Two important questions that arise are ‘to whom’ and ‘regarding what’. The ‘to whom’ question focuses on the target audience of the report (or stakeholders), which can also provide insight into the ‘regarding what’ question, i.e., the content of the report. Examples in terms of content include CSR policies, plans, key decision-makers, decision framework, activities/projects (including beneficiaries), outputs, outcomes, and impact. Moreover, content should be appropriate for the context within which the organisation operates to enhance its relevance to users of the report. Once the content is determined, the next question is ‘how much to report?’ or ‘how much information to provide?’. This question emerges from the second principle of *completeness*, which pertains to comprehensiveness or the extent of coverage. A word of caution here is that comprehensiveness must not come at the expense of conciseness! Finally, *transparency* represents truthfulness and clarity; information must be presented such that it is easily understood and the reader is reasonably convinced that ‘nothing is hidden.’ Adopting the suggested framework has the potential to enhance the credibility of CSR reports.

Section 135 prescribes a format for the annual reporting of CSR activities within the board’s report that requires companies to disclose the following details:

- 1 CSR policy
- 2 composition of CSR committee
- 3 mode of implementation of CSR activities
- 4 monitoring framework

- 5 treatment of surplus arising from CSR programs
- 6 administrative expenses beyond the maximum 5% of the total amount spent
- 7 reasons for failing to spend the required 2% (if that is the case)
- 8 responsibility statement confirming that the implementation of CSR activities and monitoring compliance with the company's CSR objectives and policy.

The reporting requirements outlined above have several implications, especially for relatively new companies to CSR regardless of where they are located and the nature/extent of CSR regulation governing them. The standardised reporting format and an outline of the specific contents provide a good *starting point* for such a company and enhance reporting credibility. Information regarding the composition of the CSR committee and the monitoring framework specifically addresses the governance aspect of CSR both at the senior management and ground levels. Establishing a formal monitoring framework can then lead a company to develop specific indicators to assess progress, outcomes, and impacts. In addition, the existence and reporting of the CSR committee and monitoring framework may signal the company's seriousness and commitment towards CSR, thereby enhancing the principles of 'completeness' and 'transparency' in the responsible reporting framework. Accountability is integrated within Section 135 by mandating the CSR Committee to include a responsibility statement within the annual CSR report attesting to the company's compliance with the section.

More than a third of the respondents found monitoring and reporting of CSR initiatives challenging in our survey. While developing process controls proved difficult, personnel managing CSR appeared to be struggling with deciding what long-term project outcomes to expect, which, in turn, making it difficult to establish goals with respect to individual projects. Activities like meeting NGO partners regularly and getting updates from them that should have been smoothed out by now were still reported as being problematic.

## **6 Findings – NGOs**

The study's sample of 100 NGOs consisted of small and large organisations spread across 17 states in India. Respondents to the survey included individuals in executive roles (founder, CEO, president, executive director, chairman – 44), managerial roles (operations, regional, finance, resource generation – 19), and other roles (secretary, coordinator – 31). Our results provide some reasons to conclude that NGOs are displaying many elements of preparedness, such as having a mission and vision statement, setting up governance, and impact measurement processes. However, a major limitation is the availability of talented employees and their retention. The detailed findings are presented along relevant dimensions highlighting the readiness, or lack thereof, among NGOs in implementing Section 135 CSR projects.

### *6.1 Governance*

A significant majority of the NGOs surveyed indicated that they had established a robust governance mechanism to ensure smooth operational functioning (94% agreeing), ensure effective financial management (91% agreeing), and avoid fraudulent activities (95%

agreeing). There is a strong correlation across these three elements of governance ( $p \leq 0.000$ ). We invited respondents to elaborate on their governance mechanisms; transparency, the existence of policy manuals, monitoring/oversight mechanisms, and financial controls were the most commonly reported elements. With respect to financial controls, one single-location NGO, with 25-99 employees and an annual budget of ₹100 lakhs or more, mentioned that it does not accept any donations over ₹10,000 in cash. Among the NGOs which indicated that they lacked strong governance, two stated lack of funds and good monitoring systems/technology as reasons.

We asked all 100 NGOs whether they have a mission and vision to guide their development and growth; 93% of the NGOs agreed to the statement 'Our NGO has a clear mission and vision to guide our development and growth'; only 3% disagreed. We also asked whether their 'NGO undertakes externally funded CSR projects regardless of their alignment with its mission.' Although 52% of the NGOs did not agree, 27% agreed, and the remaining 21% neither agreed nor disagreed. This suggests that our sample is split in terms of accepting projects that align with their respective mission and vision *despite the fact that 93% of these NGOs stated that they had a clear mission and vision*. This finding may raise the question 'why', and one response may be that many NGOs see Section 135 as a new funding source that they would like to tap into. Additionally, our findings did not vary based on size, nor did they differ between the CSR and non-CSR NGO subsets.

One potential implication of accepting assorted projects regardless of alignment with mission and vision is that it distorts focus. Second, it potentially encourages companies to push marginal CSR projects for implementation by NGOs. A third implication is that managing a diverse range of projects may result in various stakeholders leading to different stakeholder priorities, accountability, and controls, thereby requiring the need to introduce additional governance mechanisms.

Like the above findings, 81% of the NGOs agreed to the statement 'Our NGO accepts only those CSR projects in line with our organisational values'; only 11% disagreed, and the remaining 8% neither agreed nor disagreed. We further found that a greater proportion of the CSR NGOs agreed compared to the proportion of non-CSR NGOs; this difference was marginally statistically significant ( $\chi^2 = 8.95$ ;  $p \leq 0.06$ ). Additionally, we found a positive and marginally statistically significant relationship between 'alignment of CSR projects with NGO mission' and 'alignment of CSR projects with NGO values' ( $\rho = 0.18$ ;  $p \leq 0.07$ ). Values that guide the NGOs in their day-to-day decision making and actions were therefore important in the choice of CSR projects.

## 6.2 Implementation

The introduction of Section 135 has the potential for significant growth in CSR activity across the country. We asked our respondent NGOs to share their thoughts on two important variables to manage the anticipated growth: structure and capabilities.

### 6.2.1 Structure

We asked respondents whether the introduction of Section 135 resulted in their NGOs having to alter their structure significantly; 31% said yes, and the remaining 69% said no. We further found that a more significant proportion of the NGOs with multiple locations stated that they significantly revised their structure than those NGOs that did not; this

difference in proportions based on the number of locations was statistically significant ( $\chi^2 = 10.81$ ;  $p \leq 0.013$ ). We allowed respondents to elaborate on the changes further. Responses included the following types of changes:

- 1 increase in fieldwork
- 2 increasingly working with professionals (this may include consultants or members of the sponsoring company's CSR committee)
- 3 establishing a project level committee for each CSR project
- 4 professional style of working, with greater coordination, timely and regular communication with stakeholders, timely reporting to the partnering organisation
- 5 transparency in work and finance-related information, as well as in hiring practices.

Our findings suggest that respondents interpreted the term structure to mean 'functioning structure' rather than the more traditional 'organisational structure.' Regardless, these changes could be ascribed to the increased scale of operations and greater expectations of professionalism and timeliness that are imperative while working with companies.

### 6.2.2 *Capabilities*

Managing significant growth in CSR activity requires NGOs to develop the capabilities required to manage this growth. Eight-one NGOs (81%) agreed to the following statement: "in the current context (of Section 135), it is imperative to have leadership development programs to identify and groom future leaders for our NGO". Such recognition is the first step towards action to be taken! Developmental programs for NGO personnel are now beginning to be integrated into the curricula of management institutions in India (Rajeev and Kalagnanam, 2017).

Forty-four (44%) responding NGOs agreed to the statement that their NGO is facing the challenge of retaining talented employees, with 47% disagreeing and the remaining 9% neither agreeing nor disagreeing. Similarly, 40 NGOs (40%) agreed that their NGO is facing the challenge of developing the right strategies to manage the significant growth in a short time- frame, with 42% disagreeing and the remaining 18% neither agreeing nor disagreeing. The findings with respect to employee retention and developing strategies being important challenges were significantly correlated with one another ( $\rho = 0.37$ ;  $p \leq 0.000$ ). One potential implication of this correlation is that turnover causes disruptions in strategy formulation, which is a critical managerial task when faced with growth. Neither of the findings correlated with any of the three measures of size. The finding with respect to strategy development (with respect to managing growth) is somewhat surprising, considering that 94% of the NGOs indicated that they had established policies, strategies, and guidelines to guide their development and growth.

The finding regarding employee retention may not be very surprising because 30 NGOs (30%) agreed that the availability of qualified and competent personnel is the main challenge they are facing, with 58% disagreeing and the remaining 12% neither agreeing nor disagreeing. The findings regarding the availability and retention of talented employees were significantly correlated ( $\rho = 0.39$ ;  $p \leq 0.000$ ). We followed up with a question to explore whether the lack of a professional work culture may attract talented people; 21 NGOs (21%) agreed to this statement, with 63% disagreeing and the remaining 16% neither agreeing nor disagreeing. As expected, this finding is significantly

correlated with the previous findings regarding retention and availability of talented employees ( $\rho = 0.47$  and  $0.41$  respectively;  $p \leq 0.000$  for both correlations). Going forward, one of the implications of growth in CSR activity is that NGOs may have to look for and recruit talented employees actively. In addition to offering competitive compensation packages, NGOs must offer a professional work culture and a positive work environment (refer to Table 1).

**Table 1** Correlations between employee retention, professional work culture and various elements of a professional and/or positive work culture in NGOs (n = 100)

	<i>Retention of employees</i>	<i>Professional work culture</i>	<i>Career path</i>	<i>Work ethic</i>	<i>Performance management system</i>	<i>Empowerment</i>	<i>Freedom</i>
Retention of employees	1.00	0.412*	0.24*	0.21**	0.34*	0.18	0.09
Professional work culture		1.00	0.27*	0.31*	0.29*	0.20**	0.15
Career path			1.00	0.54*	0.51*	0.53*	0.41*
Work ethic				1.00	0.72*	0.60*	0.53*
Performance management system					1.00	0.59*	0.62*
Empowerment						1.00	0.60*
Freedom							1.00

Note: \* $p \leq 0.01$ ; \*\* $p \leq 0.05$ .

### *Corporate-NGO partnership*

Our survey results indicate that 69% of the companies currently partner with or intend to partner with NGOs to implement their CSR projects; similarly, 57% of NGOs (what we refer to as CSR NGOs) mentioned that they are currently partnering with a company in implementing Section 135 CSR project. However, given the large number of registered NGOs operating all across the country, finding a qualified NGO can prove to be a difficult task. Generally, the larger NGOs are more visible, and more information is available regarding them; however, this is not the case with smaller NGOs that may be known only within their communities. Eighty-six NGOs (86%) agreed that there is an acute need for accrediting NGOs who could be the implementation partners for many businesses that have not established their foundations or trusts. A related issue is branding and visibility in the eyes of companies seeking NGO partners; 84% of the CSR NGOs strongly or somewhat agreed that marketing and branding exercises are essential for creating strong visibility among companies and both current and prospective employees.

Anecdotal evidence obtained from conversations with NGOs and small businesses, and workshops organised by local management associations, suggests that many companies have a limited understanding of the community’s needs or society in general. Besides, they do not have the expertise to implement CSR activities, an observation confirmed by other scholars (Gupta, 2014; Rondinelli and London, 2003). Our survey results confirm these observations – 84% of the CSR NGOs agreed that many companies

lack an understanding of the needs in the community or society, and 72% agreed that many companies lack the capability to implement CSR projects on their own. Partner NGOs can also contribute by serving as an enabling mechanism for the pooling of corporate resources, thereby avoiding duplication of effort and the dilution of impact.

A significant majority of the 57 CSR NGOs also agreed that they have the human resource capacity required to execute projects on time (98.2%), tools and/or capacity required to monitor progress (93%), tools and/or capacity required to monitor cost information (93%) and the capability to work independently without much guidance from the partnering company's CSR committee (91.2%). Maya Vengurlekar, Chief Operating Officer of CRISIL Foundation, stresses the mutuality of the partnership when she describes NGOs as natural allies well versed with local needs and expertise in project execution (<https://www.crisil.com/en/home/newsroom/press-releases/2018/03/more-corporates-outsourcing-csr-spending-to-ngos.html>)

### 6.3 *Impact measurement*

The desired outcome of Section 135 is that the CSR projects undertaken by corporates must create a meaningful and lasting impact on social development. 92% of NGOs reported having a sound process for assessing the impact of their projects, and 82% opined that such an assessment was critical for their credibility with the industry. These two aspects were at least marginally significantly correlated ( $\rho = 0.19$ ;  $p \leq 0.06$ ).

## 7 **Discussion and conclusions**

Both the practice and reporting of CSR's vary significantly across companies. The new Section 135 in India's Companies Act, which mandates CSR, raises interesting questions, provides opportunities, and poses challenges. Our study offers a 'lay of the land' Analysis with respect to governance, planning, implementation, and reporting within the context of Section 135 from the viewpoints of companies and NGOs. Our overall findings reveal several positive aspects as well as highlighting many challenges that companies consider essential.

An important finding on the governance side is that a significant majority of the companies have established the required structure and fulfil the primary responsibilities of policy development, planning, and periodic monitoring. Concerning implementation, our study's findings suggest the prevalence of corporate-NGO partnerships. Health, education, and environment were identified as the primary focus areas for CSR activity. Survey respondents also identified several challenges in planning, implementation, and reporting; while planning and monitoring project implementation and reporting are yet to be adequately done, the most daunting challenge is finding an adequate number of qualified and experienced personnel to implement CSR projects.

With respect to the NGOs, our findings suggest that over half of them already partner with companies in implementing their Section 135 CSR projects. A significant finding is that over 90% of the NGOs indicated that they have:

- 1 a clear mission and vision to guide their development and growth
- 2 established policies, strategies, and guidelines to guide their development and growth

- 3 established governance mechanisms to ensure smooth operational functioning, ensure effective financial management and avoid fraudulent activities
- 4 a sound process to assess the impact of their projects on the target community.

The most crucial challenge pertained to the recruitment and retention of talented employees.

Regardless of the country, a common purpose is an environmental and/or social development, although the degree of development may vary globally. Although mandating CSR may contribute towards enhancing environmental and social development, mere compliance can never be sufficient. One provision in Section 135 to enable meaningful development is that it allows companies to collaborate on developing and implementing CSR projects. The next step would be to establish a few national-level developmental goals and modify, as necessary, the provisions of Section 135 to enable significant development. A large majority of the study's participants agreed that it would be helpful to establish a national-level body that can serve as a coordinating agency to (1) develop well-defined objectives for social improvement (77%) and assist companies to work collaboratively on large projects to achieve substantial social and/or environmental change (75%). Another vital step is enhancing formal training in social work/development; this can be achieved in partnership with educational institutions that offer various academic programs.

## **8 Limitations and future research**

Our study has several limitations, the first of which is sample size both in the case of companies and NGOs. Clearly, a sample of 100 is not representative of the population of companies or NGOs in India. Additionally, our sample is biased because 43% of the companies are from a single state, and the remaining 57% are spread across 13 states. Similarly, 38% of the 100 NGOs are from just two states, and the remaining 62% are spread across 15 states. However, time and resource constraints restricted us from expanding our sample size. Our second limitation pertains to the survey methodology, which allows the researcher to capture data only at a certain point in time. Besides, the researcher must balance the types of questions to ensure that it does not consume too much of the respondent's time. For future directions, longitudinal case studies with a few companies and NGOs will provide valuable details regarding challenges and coping mechanisms. It would also be helpful to repeat a similar survey every five years to assess the landscape, the outcomes and impacts created by Section 135, and the extent of NGO involvement in realising these benefits.

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## **Notes**

- 1 USD Equivalents as on August 10, 2021 (source: <https://www1.oanda.com/currency/converter/>).
- 2 NIFTY 500 (100) companies are the 500 (100) largest firms based on market capitalisation.