How mandatory corporate social responsibility can help governments with development goals

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Abstract

Many governments seek the private sector to meet their development goals. One possible means to enlist this support is to impose mandatory or 'hard' corporate social responsibility (CSR) requirements on large companies. To shed light on how mandatory CSR could be helpful in this regard, we study the case of India, where the government has required large companies to spend a fraction of their income towards development as CSR since 2014. We analyzed the expenses of leading Indian companies and found statistically significant similarities among these companies in their spending pattern across the different categories, which we interpret as isomorphism. By looking for the government's motivation and the companies' motivations – both perceive the priorities in unmet social needs – we present a conceptual model to explain this isomorphism in CSR expenditure across different categories. The model suggests that governments may find mandatory CSR helpful to direct corporations in achieving development goals.

Keywords: Development goals, mandatory CSR, India, isomorphism, conceptual model

1. Introduction

Whether or not to legislate mandatory corporate social responsibility (CSR) remains an open question for governments, especially in developing countries. These governments have development goals to address "poverty, inequality, climate change, environmental degradation, peace and justice", as captured by the 17 United Nations Sustainable Development Goals (SDG). One approach for a government is to let industry act independently in response to consumer pressure (PwC, 2015, for instance), with voluntary guidelines, also called 'soft' CSR. Another approach is 'hard' or mandatory CSR, which is particularly attractive for developing countries and has already adopted by India, Indonesia, and Mauritius. However, mandatory CSR can become just an additional tax on corporations or lead to imperfect solutions by companies through box-ticking exercises. The governments' question therefore is whether or not mandatory CSR is a practical approach. Isaakson and Mitran (2019) believe that the arguments for and against mandatory CSR are likely to increase. Given the questions around mandatory CSR, we seek to contribute to the debate with the research question: *How do mandatory CSR requirements work in enlisting the private sector's efforts for the government's development goals*?

To this end, we focus on mandatory CSR in India, where the government required large companies in 2014 to spend 2% of their annual profit on CSR (as defined by the government). Furthermore, CSR regulation in Indian stipulates that companies do not spend the money in their supply chains – thus being different from sustainability efforts of western companies -- and that they report the expenditure in categories recommended by the government (Ministry of Corporate Affairs, 2014).

We studied the top fifty leading companies in India to build a conceptual model of mandatory CSR to answer our research question in two main steps. *First*, we analyzed companies' percentage CSR expenditure in different categories and looked for patterns in their expenditures across various categories. *Second*, we sought to conceptualize any patterns to develop a picture of how, if at all, leading companies are responding to government policy. The conceptualization includes understanding the motivation of senior managers from published interviews by way of priorities as regards their CSR efforts.

Our findings are: (1) Leading Indian companies are similar in their CSR reporting (chosen categories), which is not surprising as the government has provided categories. (2) More surprisingly, the pattern of their CSR expenditure across different categories is statistically similar, despite flexibility for companies for compliance as the government does not dictate priorities, only categories. Moreover, the spending appears to be very much in line with the government's social priorities. We interpret this similarity across companies as *isomorphism*. (3) The government and companies both perceive the same priorities in development efforts, potentially explaining the similarity among companies in actual expenditure. Therefore, our study suggests that unmet social needs motivate both the government and companies to shape these companies' CSR efforts towards the government's development goals.

This paper contributes to the literature on mandatory CSR with our study of the Indian setting resulting in a conceptual model. A central concept in this model, as mentioned above, is *isomorphism*, which DiMaggio and Powell (1983) follow Amos Hawley in defining as "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions." In a similar vein, Deephouse (1996) considers isomorphism as the state of "the similarity among a set of organizations at a given point in time" and, like us, quantifies it across organizations using financial variables. Thus, our findings note the isomorphism across (leading) companies, and we try to explain the similarity with a conceptual model. The model proposes that the government and companies prioritize different unmet social needs the same way. Therefore the government's use of mandatory CSR can encourage companies to meet the government's development goals.

In the rest of this paper, Section 2 provides literature relevant to our study. Section 3 presents the materials and methods that we used. Section 4 offers our case study of corporate India as regards mandatory CSR. Next, section 5 provides a conceptual model followed by a discussion with limitations and directions for future research in Section 6 and the conclusion in Section 7.

2. Literature Review

There are many views on CSR, such as (1) CSR is the obligation of businesses to pursue policies which add value towards the development of the society (Bowen, 1953), with "legal, ethical, economic and discretionary expectations that society has from organizations at a given point in time" (Carroll, 1979, p. 500; Carroll, 1999). (2) CSR is founded upon the essential economic and legal binding between the society and organizations to serve a common good (Jamali & Karam, 2018). (3) Since society gives organizations license to operate, the organizations must help society create wealth and contribute to social needs and satisfy social expectations regarding the business (Melé, 2008). Finally, (4) CSR rests on moral obligation, reputation, license to operate, and sustainability (Porter & Kramer, 2006); see also Friedman (1970) and Freeman (1984) on whether CSR should even be a priority for a profit-maximizing company.

Primary responsibility for development lies on the government, but, at the same time, governments – even in developed countries – do not always have the resources to bring about necessary economic and social interventions, and therefore seek to enlist the help of large private sector firms. These firms may help out, partly by discharging CSR for legitimacy in society, for marketing reasons, or *quid pro quo* arrangements with government officials for approvals or licenses. Individuals associated with these organizations, or even these organizations, may also contribute through philanthropic efforts.

Gond et al. (2011: p.644) note that "missing in discussions on CSR is the fact that, both historically and comparatively, national governments have always had a relationship with CSR and continue to [influence] CSR." More attention needs to be paid to the role of national governments in shaping the CSR agenda of corporations. They highlight the role governments can play in different contexts, including CSR mandated by the government (Gond et al. 2011: p.647). Among country-based studies, Vallentin (2015) studies the role of the government in the development of CSR in Denmark, and Giamporcaro et al. (2020) look at the case of France.

Especially relevant to our paper, Moon and Knudsen (2018) propose that government is ubiquitous in CSR efforts, that CSR is not 'voluntary', and that the execution of an organization's CSR obligations depends on its relationship with society and the government. Moon (2004) has written about the 'soft' CSR approach in the UK while Tony Blair was Prime Minister. Based on a content analysis of 34 different CSR guidelines, Comminetti and Seele (2016) have proposed a 2x2 table of CSR guidelines being 'soft' (voluntary) or 'hard' (mandatory) in two dimensions: adoption by a company being compulsory or voluntary, and non-compliance by a company inviting legal sanction or not (**Table 1**). In our paper, 'soft' and 'hard' refer to the nature of the guidelines rather than enforceability; see also Gatti et al. (2019) in this regard.

Table 1: Hard and soft CSR (adapted from Cominetti and Seele, 2016)

	'Soft' enforceability	'Hard' enforceability
'Soft' adoption (voluntary)	No formal rules	Formal rules with certification; sanctions for non-compliance
'Hard' adoption (mandatory)	Mandatory guidelines but no clear criteria to be met; weak or no sanctions for non-compliance	Mandatory guidelines with clear criteria to be met; strong sanctions for non-compliance

Particularly for developing countries, CSR efforts of companies can be a way to contribute to development. Indeed, European NGOs and trade unions asked the European Union (EU) in the CSR conference in Maastricht in Nov. 2004 to create an agenda for CSR, particularly for developing countries. Although the idea of the private sector supplementing the public sector's effort is attractive, Blowfield (2005) raises several questions about whether society can trust a business with development and at what cost; see also Dobers and Halme (2009) in this regard. Indeed, the *Economist* notes that CSR is a hindrance to public intervention in taxes, public spending, and regulation in many different areas of business activity (Economist, 2005). Moon (2004) has described the 'soft' CSR approach taken in the UK.

Governments debate whether CSR should be mandatory or voluntary. The discussion may sharpen in the coming years (Isaakson and Mitran, 2019), particularly in the wake of the COVID-19 pandemic and the resulting growth in economic disparity in many countries. For developed countries like Germany, mandatory requirements may be limited to reporting, and Gulenko (2018) reports that such requirements increase the reporting volume but not the quality. Jackson et al. (2020) also look at 24 developed countries in the OECD and find that mandatory reporting requirements lead to "firms adopting increasingly similar [CSR] practices" even as firms adopt a wider range of practices.

For developing countries like Mauritius, which have brought in mandatory CSR spending, not just reporting, there may be some benefits despite worries about a 'tax' being imposed on companies. Ramdhony (2018), being motivated by ‘hard’ CSR in Mauritius, reviews secondary literature and concludes that “the CSR levy does not disadvantage firms due to the uniform amount and universal application." He also finds that the levy "can attract Foreign Direct Investment (FDI) and Socially Responsible Investment (SRI)” and could thus be attractive for Mauritius.

We contribute to the mandatory CSR literature by providing a conceptual model on *how* a country's mandatory approach to CSR work might help the government achieve development with private sector involvement using the example of corporate India. The Indian Companies Act 2013 requires Indian companies with a turnover above a threshold value to spend 2% of their annual profits as CSR (Ministry of Corporate Affairs, 2014). The stipulation, differentiating this expenditure from sustainability in the western sense, is that a company can spend this money in its supply chain. Many researchers have looked at the case of India as an example of government policy to get the private sector to assist on development (Rana and Majumdar, 2014; Azim et al. 2009; Gautam & Singh, 2010; Kansal et al. 2014, 2018; Mishra & Suar, 2010; Mitra, 2012; Subramaniam et al., 2017; Verma & Kumar, 2014; Cordeiro et al., 2018; Isaakson and Mitran, 2019).

3. Materials and Methods

To analyze the impact of mandatory CSR, we focused on leading companies by way of the NIFTY50 or the top 50 listed companies, not all corporations within the remit of the Companies Act. Our work is similar to other researchers (e.g., Kumar and Kumar, 2018; Fifka et al., 2018; Perumalraja et al., 2020). There are at least four reasons to justify the use of leading companies rather than typical companies within the remit of the regulations:

(1) Leading companies are often the torchbearers in following regulation owing to their higher profile.

(2) These companies may have provided feedback to the government in creating the regulation and are therefore more likely to follow the regulation.

(3) The Ministry of Corporate Affairs (2019) has analyzed all the companies required to report CSR. There were more than 21,000 such companies in 2018. However, about half of these companies failed to report on their CSR activities, and many more did not spend the required amount of funds or turned over the money to the Prime Minister's Relief Fund (replaced by PM Cares Fund). The lack of non-compliance or tax-oriented view indicates that for the year studied, the enforcement was not rigorous, and only the leading companies implemented the government requirements.

(4) The Ministry has recommended that UNSDGs be 'considered' in the Companies Act guidelines. Anticipating this, two-fifths of the leading companies in our study – 35% of the manufacturing companies and 42% of the service companies – already mention the UN SDGs explicitly in their annual reports without any government requirements. Therefore, it is worthwhile studying the leading companies that are entirely in tune with the regulation to understand the impact of mandatory CSR rather than all companies affected by such regulation.

Below we provided our data sources and analyses using the data.

3.1 Data

Our study uses information from three sets of secondary sources:

(1) *NIFT-50 annual reports*: The first source of information is the annual reports of the top 50 listed companies (**Appendix**: **Table A2**) for the five years immediately following the enactment of the Company's Act, i.e., from fiscal years 2014-15 to 2018-19. All but one of these companies reported the entire required CSR expenditure of 2% over the five years, and the one exception committed funds for the year following this period. These companies belonged to different industrial sectors within the broad manufacturing and services categories (**Table 2**).

Table 2: The NIFTY-50 Indian companies by sector

S. No.	Sector	# companies
Manufacturing		
1	Automobile	6
2	Cement and Cement Products	2
3	Construction	1
4	Consumer Goods	5
5	Energy	8

S. No.	Sector	# companies
6	Fertilizers and Chemicals	1
7	Metals	5
8	Pharma	3
Services		
9	Financial Services	11
10	IT	5
11	Services	1
12	Telecom	2
Total		**50**

(2) Our second source of information was the Indian government's (central and states) expenditure in various 'social sector' categories like education, healthcare, and rural development from various sources over the decade 2010-2020 (**Appendix, Table A4**). We also used the government's reports on the Companies' Act.

(3) Our final source is the text of published interviews of senior managers of Indian companies (**Appendix: Table A3**). Published interviews of managers from 29 companies were represented, out of which eight were among the top-50 listed companies, known as the NIFTY-50. Some of these interviews had been conducted before the enactment of the Companies Act. We extracted 172 relevant statements from these interviews for analysis.

3.2 Analysis

Using these information sources, we carried out the following four analyses, and have provided the results in Sections 4.1-4.4. respectively:

1. *Establish categorization of CSR activities*: First, we analyzed companies' expenses across different categories by establishing categories and sub-categories of companies' reported activities. To learn about the activities of leading companies, we compiled all the relevant text from the annual reports, which included details of the projects funded by the top 50 listed companies. Then, we carried out a co-word analysis (Ronda-Pupo & Guerras-Martin, 2012) using the software WORDij (Danowski, 2019) on words in the meta-file. There were 12,525 words in total, with 4,120 unique words pertinent for our analysis, from which we extracted categories for analyzing CSR expenditure in the next step (Section 4.1; Table 3).
2. *Analyze the pattern (isomorphism) in companies' efforts*: We sought to determine how similar or different these companies were regarding their spending in various categories. The comparison

meant checking whether all companies' relative expenditure in various categories comes from the same multivariate normal distribution in the number of dimensions equal to those of the categories. We first established the total percentage expenditure over the five years (2014-2019) in the selected categories. Then, we checked the statistical significance of Mahalanobis distance of each company's spending across the nine categories from the average percentages for all companies, using the χ^2-test. The rationale is that if most companies were spending amounts statistically no different from the average, then they are isomorphic in their CSR efforts across various categories. The assumption is that the companies are instances from a multivariate normal distribution around the average, which is reasonable as we deal with percentages where the company's total size does not matter. In any case, the test is quite robust even if the distribution of percentage expenses is not multivariate normal (Section 4.2; Tables 4-6).

3. *Infer government's motivation and unmet social needs*: We sought evidence for government development priorities through analysis on expenditure data on different categories using the percentage of GDP as a measure to compare India with global averages. Additionally, we used the Ministry of Corporate Affairs (2019) report on the five-year history of the program and the recommendations of the Ministry to understand the motivation of the Indian government to use the Companies Act 2013 as part of its efforts to achieve the UN SDGs by 2030 (Section 4.3; Table 7).
4. *Understand managers' motivations*: Managers prefer to focus their CSR efforts on their companies' supply chains. However, the Companies Act requires them explicitly to put their CSR efforts specifically outside their supply chains. Therefore it makes sense to understand how managers' see compliance and CSR in general. We analyzed the 172 statements of text extracted from published interviews of senior corporate leaders from the business press and related websites to understand the rationale behind the chosen CSR activities (Section 4.4; Table 8).

Using the four analyses above, we developed propositions and a conceptual model (Section 5; Figure 1) to explain the isomorphism observed. The model allows us to claim how mandatory CSR can help the government with its development goals.

4. Case Study of Corporate India

Using the three data sources listed above, we analyzed the expenditure of leading companies and observed that the pattern of expenses in different categories across these companies is quite similar. Below, we provide the results from four different analyses in Sections 4.1-4.4 respectively and then provide a conceptual model in Section 5.

4.1 Categories in Corporate Reporting

Upon analyzing the text of 49 of the NIFTY-50 companies' annual reports (one company had reported losses during the period), we found 4,120 words related to CSR. These reports use the same categories for reporting their CSR expenditure -- before 2014, there were no uniform categories. Further, we tied keywords in the text of the reports that described the activities under these categories. The analysis gave us various CSR efforts and their relative importance for the NIFTY-50 as a pool of companies using the number of words as a proxy for effort. Based on the CSR-related content in the annual reports, *healthcare*, *education* and *skills development* are the top three CSR categories (**Table 3**).

Table 3: Major categories obtained from NIFTY-50 annual reports, 2014-19

Category	Dictionary	Word Count (N= 4,120)
Healthcare	Health/care, Sanitation, Medical, Drinking Water, Preventive, Swachh Bharat, Child Health, Waste Disposal/ Management, Special people, Malnutrition, Cancer Treatment, Hospital/s, Hunger Eradication, Nutrition, Toilet/s, Treatment, Hygiene, Reproductive health, Eye Check-up, Midday meals, Palliative Care, Elderly, Surgery/surgeries, diseases, Old age home/s, Food, Cataract, Malnourishment, Senior citizen, Open defecation, Blood donation/ bank, Maternal health, Hepatitis, AIDS, Pediatric clinic, sanitization, health hygiene nutritional Amenities, Leprosy limb replacement, HIV, Mentally challenged, Disabled, Waterborne, Sewer Lines, Handwashing, Heart, Janaswasthya, Blind/ness, Deaf/ness, Psychological, Pharma, Clean.	1,013 (25%)
Education	Education/al, School/s, Schools, Youth, Student/s, Institute/s/ional/ions, Preschool, Technical, Learning, Scholarship/s, Engineering, Young, College, Teachers, Career, Library/libraries, Meritorious, Fellowship, Vidyalaya, Shiksha, IIIT, Dropout/s, Research.	763 (19%)
Skill development and entrepreneurship	Skill creation, Training, Skill/s/ed/ing, Vocation/al, Employment, Employability, Safe Vocation, Rehabilitation, Technology, Manufacturing, Upgradation, Computer, Entrepreneur/ship, IT, ITES, Information Technology,	598 (15%)

Category	Dictionary	Word Count (N= 4,120)
	Occupational, MSME's, Education and employment, Unemployed, Trained enrolment, Livelihood creation	
Environment and sustainability	Environment/al, Sustainable/ ility, Water Conservation, Natural Resource/s, Solar energy, Soil Conservation, Non-conventional energy, Harvest(ing), Ecological, Watershed, Green, Recycle/ ing, Flora-fauna, Air, Ganga, Renewable Energy, Carbon, LPG, LED lights, Forestry, Nature, Ecology, Plastic Recycling, Plant and wildlife, Biodiversity, Park/s, Tree/s, Rainwater Harvesting	472 (11%)
Social development	Social, Community, poverty, Safety and security, income supplement, Financial Literacy, Differently abled/ disability, disabilities, Shelters, Inequalities, Infrastructural, Standard of living, Anganwadi, Economically Weaker, Women empowerment, Girl/s education, Gender equality, Girl child.	410 (10%)
Rural development	Rural Development, Agriculture/al, Animal, Road/s, Village/s, Husbandry, Farm/er, Culverts, Bridges, Agroforestry, Land Management, Irrigation, Livestock, Fodder, Compost/ing.	363 (9%)
Culture, art and heritage	Culture, Heritage, Art/s, Restoration, Historical, Curative, Handi/crafts, Tradition/al, Monuments, Classical music, Paintings, Hampi.	261 (6%)
Sports	Sports, Football, Paralympic, Disadvantaged Athletes, NBA, Olympic athlete/s.	145 (4%)
Disaster response	Disaster relief, Flood/s Relief, Cyclone, Disaster/s	95 (2%)

The analysis showed that the Companies Act has standardized reporting and CSR categories, thus making companies' reporting isomorphic and allowing easy comparisons of CSR expenditure among companies by category. In addition, some managers confirmed in published interviews that the government's CSR mandate had brought focus to the overall CSR work, leading to organized reporting. They say that *"the law has brought about a structure and governance to corporate philanthropy"* [EY Foundation, 2018], given that "[*although*] *some business leaders were working, there was no formal disclosure regarding the overall spending* [earlier]*"* [Newgen, 2020]. Unsurprisingly, we can conclude that. The Indian government's requirements on mandated total expenditure across specified categories have led to isomorphic CSR *reporting* by large Indian companies in these categories.

4.2 Isomorphism in Companies' Efforts

We used the categories in Table 4 to compile and compare the expenditure of the NIFTY-50 companies for 2014-19. Before 2014, when the Companies Act was enacted, corporations used non-standard categories such as 'donation' indicating corporate philanthropy. Out of the 50 companies in consideration, 49 reported expenditures on CSR out of their annual profits in all five years, 2014-19. The one exception was a company that did not make profits during this time and therefore did not have CSR reporting.

We made two changes to the categories in Table 4, dropping *social development* and adding a catchall category, *others*, to accommodate the various projects being reported in the annual reports in these categories. Thus, *the 'others*' category includes Occupational Health and Safety (OHS) among micro and small-sized enterprises in the manufacturing sectors; public policy research; construction of all-weather roads (no urban-rural distinction); construction and maintenance of traffic island parks; International Yoga Day; cooking gas connections for homes; overheads and operational expenditures that was 10-20% of total CSR expenditure where reported); and women empowerment. However, *others* category excludes skill development, healthcare or distributing bicycles to girls to attend school. On average, a NIFTY-50 company spent about 10% of the annual CSR expenditure on items in this '*others*' category.

More than a third of the leading 40 companies spent the highest proportion of their CSR expenditure on *education* every year. The second most popular category for actual spending was *healthcare,* with 13 companies spending their highest annual percentage amount during 2015-17. The third most popular category was *skills development*, with as many as eight companies having this as their peak category in 2017-18. Moreover, given the consistency in the importance of each category (**Table 3**), companies' projects appear to be long-term in nature.

Table 4: The number of NIFTY-50 companies spending the maximum per cent per year in a particular CSR category over 2014-19

Year	2014-15	2015-16	2016-17	2017-18	2018-19
Education	16	20	19	20	16
Healthcare	4	13	13	9	10
Skills development	3	2	3	8	2

The three categories (**Table 4**) show up at the top **(Table 5)** when we look at the total expenditure across all 49 companies over the five years for a total CSR expenditure of US$ 594.64 million, with US$ 532.29 million spent in eight categories. Compared to Table 4, we do not have a *social development* category here as CSR projects fall neatly into other categories. The *education* category took nearly 22% of the CSR expenditure among these eight categories, followed by *healthcare* (21%) and *skills development* (17%) (**Table 5**).

Table 5: Average percentage total expenditure of NIFTY-50 companies over 2014-19

Category	**CSR expenditure (US$ equivalent)** (1 US$ = INR 72)	**Percentage (%)**
Education	$132.63m	22%
Healthcare	$123.16m	21%
Skill Development and Entrepreneurship	$99.94m	17%
Rural Development	$63.60m	11%
Environment and Sustainability	$80.56m	14%
Sports	$12.62m	2%
Culture, art, and heritage	$9.63m	2%
Disaster Response	$11.52m	2%
Others	$60.98m	10%
Total	**$594.64m**	**100%**

Prior studies on the CSR expenditure of Indian corporations include Verma and Kumar (2014) reporting that donations and community development were the major segments for Indian companies' expenditure and that no company was spending on the environment. In their study of 223 Indian corporates over 2014-15, Mukherjee and Bird (2016) found that companies focused on employee training and development and workplace health and safety. Additionally, Bhaduri and Selarka (2016) found that, between 2009 and 2012, the CSR expenditure mainly was on community development, which included rural development. The second-highest area of spending was in healthcare for the 500 companies listed at the Bombay Stock Exchange. Generally, since 2000, there appears to be a shift of primary focus from employee welfare to skill development in the local community, possibly to sustain the supply of skilled labour in the long term (Shirodkar et al., 2018).

Comparisons of the percentage expenditure of these companies with the average percentages in the nine categories (**Table 5**) to check if all companies are from the same multivariate normal distribution showed that only five companies are statistically significantly different from the average. The remaining 44 of 49 companies had insignificant variation from the average indicated by the p-values obtained using the chi-squared test (**Table 6**). This test, coupled with the same categories being in the top three by expenditure (**Table 4**), indicate that large Indian companies are ‘isomorphic’ in their CSR expenditure pattern regardless of their sector.

Table 6: Significance testing of difference of each NIFTY-50 company's percentages across nine categories over 2014-19 from the average vector using Mahalanobis distance and χ^2 test

S. No.	*p*-value	S. No.	*p*-value	S. No.	*p*-value	S. No.	*p*-value	S. No.	*p*-value
1	0.7709	11	0.9792	21	0.3507	31	0.4988	41	0.6289
2	0.0000	12	0.9982	22	*0.0281**	32	0.9765	42	0.5831
3	0.9938	13	0.7408	23	0.5445	33	0.9288	*43*	*0.0000****
4	0.9318	14	0.1450	24	0.8651	34	0.4689	44	0.9468
5	0.9992	15	0.8276	25	0.1156	*35*	*0.0000****	45	0.9620
6	0.9018	16	0.9865	*26*	*0.0472**	36	0.9996	46	0.9691
7	0.9243	17	0.1322	27	0.9999	37	0.8256	*47*	*0.0000****
8	0.9134	18	0.8723	28	0.5699	38	0.6339	48	0.9980
9	*0.0006****	19	0.9882	29	0.9607	39	0.9393	49	0.3604
10	0.9944	20	0.8981	30	0.8998	40	0.8127	-	-

One company did not report CSR expenditure due to losses
$*p < 0.05$, $***p < 0.001$

Among the non-isomorphic companies, Sun Pharma (9) and Infosys limited (26) have the highest expenditure in environment and sustainability (35% and 51%, respectively). At the same time, ICICI Bank (22) has the highest spending in rural development (66%), TCS Ltd. (35) had the highest expenditure in the 'others' category, and Bharat Petroleum (43) has the second-highest expenditure in rural development at 23%. Wipro Ltd. (47) was spending the highest in skills development (52%), followed by environment and sustainability (32%).

Next, we seek to explain the isomorphism observed to argue how mandatory CSR might work for a government to meet the development goals. Given the surprising finding on companies having the same spending pattern across categories, we seek an explanation that might shed light on whether or not mandatory CSR can be help with development. We do so in two parts: understanding the 'governance deficit' in terms of the government motivation and unmet social needs in Section 4.3 and understanding the companies' motivations as put forward by managers in Section 4.4.

4.3 Government Motivation - Unmet Social Needs

Of the government's priorities regarding social needs, we found data on two categories, healthcare and education. According to the World Bank (Vishnoi, 2020), healthcare is highly underfunded in India. The total healthcare expenditure in India – government and private sector – ranged from 3.25% to 3.75% of the GDP during 2010-20, while the same number globally ranged from 5.70 to 5.97% over the same period (**Table 7**). Thus, relative to global averages, Indian healthcare has a significant shortfall of funding that we take as a proxy for the extent of unmet social needs. The same applies to education. For the same period, the global average for investment in education was around 4.5%. In contrast, the total government spending in India was around 2.8% of annual GDP or 3.8% when private-sector spending is also included. So, relative to global averages, education is underfunded, and therefore, the government would understandably like companies to step in with their CSR efforts (**Table 7**).

Table 7. Government and private-sector expenditure in education and healthcare as a percentage of annual GDP

Sector	Year	Global Average[1]	Indian government expenditure[2]	Private sector and government together[3]	Gap relative to the global average
		(% of GDP)			
Healthcare	2010-11	5.74	1.30	3.27	2.47
	2011-12	5.73	1.20	3.25	2.48
	2012-13	5.70	1.20	3.33	2.37
	2013-14	5.70	1.30	3.75	1.95
	2014-15	5.79	1.20	3.62	2.17
	2015-16	5.92	1.30	3.59	2.33
	2016-17	5.97	1.40	3.51	2.46
	2017-18	5.89	1.40	3.53	2.36
	2018-19	N/A	1.50	N/A	
	2019-20	N/A	1.60	N/A	
Education	2010-11	4.54	3.10	3.38	1.16
	2011-12	4.31	3.10	3.80	0.51
	2012-13	4.35	3.10	3.87	0.48
	2013-14	4.60	3.20	3.84	0.76
	2014-15	4.63	2.80	3.80	0.83
	2015-16	4.74	2.80	4.27	0.47
	2016-17	4.50	2.80	4.38	0.12
	2017-18	N/A	2.80	4.43	
	2018-19	N/A	3.10	4.60	
	2019-20	N/A	3.10	3.50	

[1]*World Bank 2019a, 2019b*
[2]*Economic Survey 2014-15, p.275; 2019-20, p.A140 (Department of Economic Affairs, 2015; 2020)*
[3]*Multiple sources -- see Appendix, Table A3*

Reports by the Government of India following the enactment of the Companies Act consider SDGs as an intended objective (Niti Aayog, 2020; Ministry of Corporate Affairs, 2019). The NITI Aayog (2020) report states that CSR leads to the pooling of public and private resources towards development. However, there are calls for using CSR more traditionally instead on SDGs, i.e., on the environment and social concerns at the local and national level (Ministry of Corporate Affairs, 2019). Also, the government's intention in 2014 was not to use CSR to achieve the SDGs (Ministry of Corporate Affairs, 2019). Still, India was a signatory in 2015 to achieve the UN Sustainable Development Goals by 2030, and the government would like the companies' participation.

The Act requires companies to report CSR efforts as part of their annual reports. However, the law has no penalties, and firms can exaggerate or misreport their efforts (Gatti et al., 2019). Despite that, in the first two years after the Act, Gatti et al. (2019) found that 94% of the companies covered by conditions specified in the Act had complied by formalizing CSR policies.

Unlike various definitions of sustainability for western companies, the Companies Act does not consider CSR an activity that directly or indirectly influences the company's supply chain or employees (Government of India, 2013; Gatti et al., 2019).

Although we consider only the 50 leading companies, the analysis of all 21,000 reporting companies by the Ministry of Corporate Affairs (2019) provides similar results. The most significant expenditure across reporting companies was in education (37%), followed by healthcare (28%), rural development (10%), and the default, Prime Minister's Fund (4%), over the four-year period, 2014-18. In addition, the government guidelines on CSR activities focused on the geographical area local to where the companies have facilities. Accordingly, about half the total CSR spending was local.

All in all, the government sees the policy as being successful. Moreover, in consultation with various stakeholders, the government seeks to expand the scope program via the following recommendations by the Ministry of Corporate Affairs (2019): (1) *Expand the number of entities* to report on CSR by including limited liability partnerships (LLP), banks, and other organizations; (2) *tighten loopholes* by requiring companies to carry forward unspent amounts to the following year or to give it to a national fund, otherwise face penalties; (3) *encourage companies to consider 'national priorities* and not just local ones; (4) *tighten reporting for CSR expenditure* with much more specificity on projects undertaken, backed by a CSR audit just like financial reporting; and (5) *require impact and needs assessment* from larger companies every three years.

4.4 Motivations of Managers

We sought to understand the motivations of organizations as presented by their managers regarding their approach to CSR, given that it is an external requirement. Accordingly, we extracted related themes out of 172 statements obtained from the published interviews of managers from 29 companies on the reasons these companies gave to fulfil their CSR **(Table 8)**. While these reasons could be only for 'public relations' – these are public interviews and words would have been chosen carefully – we find support for the stated reasons in the actual activities reported by these companies.

Table 8: Reasons for CSR

Reasons offered by 29 companies	Percentage of statements (N= 172)
Meet local needs	40%
Fulfil national needs or carry out transformative changes and fulfil global commitments	25%
Compliance with Companies Act	13%
Giving back to society	8%
Engaging employees	6%
Offer their own products or services	5%
Promoters' choice	3%
Total	**100%**

Meet local needs. Most of the managers stated that their organizations did CSR activities to fulfil the community's social needs or local development needs, and 26% of the statements were along these lines. Further, we found that this social need was being fulfilled at the local level by most organizations, mostly at or near their plant location or company business premises. Supporting the local community was another important theme, with 14% statements along these lines. Companies meet this social need by providing, for instance, education, healthcare, employment, and skill development at nearby villages and communities. One manager captured this by expressing that the reason for CSR activities was to improve *"the welfare of the underprivileged sections in the areas in close proximity to our plant locations"* (JK Lakshmi Cements). Another manager from a company that works with NGOs talked about how *"our NGO partners who lead our CSR initiatives across multiple locations proximate to our manufacturing plants"* (Wipro Consumer Care and Lighting). As the labour workforce is from these local communities, these efforts could also be seen as socially responsible operations or social sustainability.

There is a practical explanation for focusing on the local community. Corporations in such sectors as automotive, steel and thermal power require significant investments to provide essential services like healthcare and education to their employees' families. They also find it helpful to extend these services to the rest of the local community. They state their purpose as *"facilitating the Company (CSR) to reach out to the communities around the plant location"* (Jindal Steel and Power Limited). *"The most important thing is to bring transformative changes in the lives of the needy and marginalized people around our plant locations"* (JK Lakshmi Cement).

Fulfil national needs or carry out transformative changes. Companies also do CSR to address more extensive national needs and bring transformative changes within society. Nearly a fifth (18%) of the statements supported this reason. As one manager puts it, *"(CSR) should be seen as a great opportunity for organizations to bring transformative changes against the issues prevailing in our society"* (Newgen). Some seek amplification of their efforts by inspiring others: *"...we not only want to do good in the community but also aim to inspire others to do good to drive societal change"* (Mahindra Group). These organizations took initiatives in education, healthcare, and skill development to cater to social needs. In this regard, some managers brought up 'higher goals' tied to what they describe as the responsibility of Indian business towards society: "*as Indian civilization matured, there were Indian businesses that led the development"* (WPP India). Indianness was tied to the cultural and moral ethos of the company in 7% of the statements.

Fulfil global commitments. Some organizations saw CSR to align themselves with the United Nations Sustainable Development Goals (SDG). As one global consultancy noted, "*most of our initiatives are mapped to SDGs"* (TCS). Another manager stated that "*our projects' goals are aligned with at least five of the seventeen SDGs*" (DSP Mutual Fund).

Compliance with Companies Act. Many companies emphasized that their CSR efforts predated the requirements of the Companies Act, with 10% of the statements supporting this. As we separately found out, at least 19 out of these 29 companies had well established CSR programs before 2013. Some had formalized CSR programs more than two decades before the 2013 enactment. Only one per cent brought up the Companies Act as a motivation, while only two per cent of the total statements referred to the Act's reporting requirements. One manager noted that the company "*…sets aside a budget that has to mandatorily be utilized for the social causes*" (Radico Khaitan).

Giving back to society. "Giving back" to society was a recurring motif in these interviews and was reflected in 4% of the statements. The motif was evident from phrases like 'giving back to the society,' 'catering to the issues of the society,' 'bringing transformative changes,' and 'programs tailored for the community's need'. For many managers, their organizations were using resources provided by society. The core of these ideas was: "*business cannot prosper if the communities in which they operate fail*" (HDFC Bank). Thus, these companies seek to share the profits to obtain legitimacy. As such, they put their earnings in engagement with community-level institutions, local government, or even national government with the Clean India Campaign.

Engaging employees. Employee involvement in CSR to boost morale was yet another factor reflected in 6% of the statements. The service sector industries, which are primarily skill-oriented, invest more in education or skill development than in other areas of CSR. While deciding upon the CSR activities, they also consider their employees' interests to select types of CSR activities, for instance, *"Education,* *as a broader theme was our employees' choice, made a few years ago through a survey"* (Dun and Bradstreet).

Using own expertise for meeting social needs. We found that nearly 5% of the statements emphasized aligning their CSR efforts to their business offerings. Some organizations offer their products or services; for instance, *"…to participate in their drive to reduce infection-related deaths at birth in India, we immediately joined hands"* (AMD India). Similarly, some services organizations felt they could use their expertise for CSR activities to have a long-term sustainable impact. For instance, according to the EY Foundation, *"We want to be in areas where we can apply our knowledge and experience and also involve our people in the journey."* Technology-based consultancy TCS said that *"…we are also looking at areas in healthcare where technology can help because that is our focus."*

Promoters' choice. Indian corporations are typically led by 'promoters' who founded them or are part of the founding family. In 3% of the statements, we saw that promoters started CSR activities in many companies well before the Companies Act. Examples of promoter-led companies are TCS, WIPRO, Reliance, Infosys, and the Aditya Birla Group. As we shall see later, the type of CSR activities undertaken need not be different from those of other companies.

As such, compliance with government regulation is not the only reason why companies are doing CSR. There are inward-looking motivations for sure – *engaging employees*, for instance. Moreover, *promoters' personal philanthropic motivations* come into play. Nevertheless, recognizing *social needs* and acting upon these is a dominant motivation, especially in areas around factories or other company facilities. These would be communities where workers would typically be from, so such activity could be considered social sustainability and in the company's interest, even if the activity is not in the company's supply chain.

Next, we present a conceptual model to explain the observed isomorphism and then discuss the implications.

5. A Conceptual Model

The findings help us propose a conceptual model that the government can mandate CSR efforts for development. In this model, isomorphism results from these corporations facing the same development need as the government, whether in local communities or at the national level. Indeed, healthcare, education, and skills development are top priorities for most corporations, regardless of the industry sector. The primary need for all actors – the companies, the government, and NGOs or other partner organizations – is to alleviate unmet social needs. Hence, CSR efforts are nested inside the overall effort to meet society's needs. Governments may also require corporations, formally or informally, to carry out certain development activities.

In our conceptual model, we propose five concepts at the country level:

1. *Unmet social needs in different categories*: We already saw the deficit in education, health, and other categories in India as the government's ability to invest in these categories cannot match the need, at least relative to other countries. The various prioritized categories can be referred to as C_1, C_2, C_3… in decreasing levels of severity from the government's viewpoint.
2. *The extent of mandatory CSR*: Although mandatory CSR is usually associated with developing countries, it is not limited to such countries. Mandatory *reporting* is present in many developed countries as well. Thus, researchers can view the extent of mandatory CSR on a continuum.
3. *The extent of CSR reporting*: Corporations in different countries have different regulations or expectations on reporting. Even if reporting is not mandatory, there may be institutional expectations on sustainability reporting.
4. *Total CSR expenditure across reporting companies*: This is the level of CSR expenditure across the public companies covered by the government's remit.
5. *The similarity in CSR spending pattern across categories among reporting companies*: We interpreted the similarity as isomorphism in this context. We consider each company's priority ranking or percentage expenditure in each category (C_1, C_2, C_3…) compared to the other companies.

Using these concepts, we propose the following four **propositions** as our conceptual model (**Figure 1**):

P1. *Unmet social needs* are positively linked to the extent of the *mandatory nature of CSR* imposed by the government.

P2. *Unmet social needs* and the *extent of mandatory CSR* are both positively linked to the *total CSR spending* by reporting companies.

P3. *The extent of mandatory CSR* is positively linked to the *extent of CSR reporting*, mediated by the *total CSR spending* by reporting companies.

P4. *The extent of mandatory CSR* is positively linked to the *similarity in CSR spending pattern* (isomorphism), mediated by the *extent of CSR reporting*.

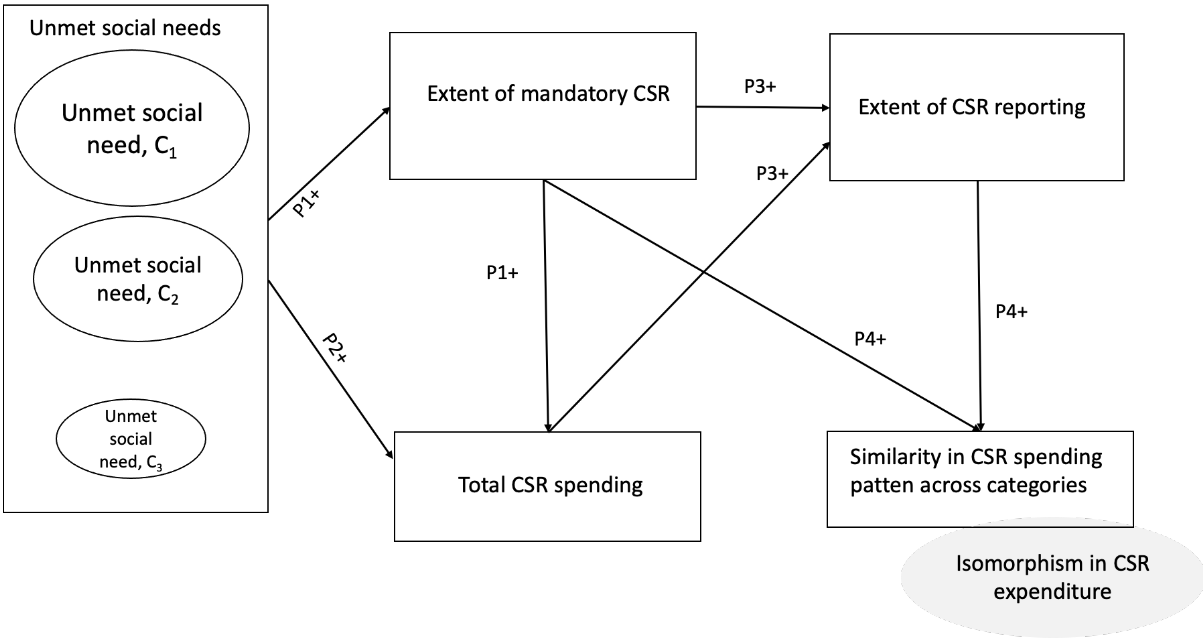

Figure 1: A conceptual model of mandatory CSR-based development. Both the government and corporations are motivated by unmet social needs in different categories (C_1, C_2, C_3...) prioritized by decreasing severity, eventually leading to isomorphism in CSR spending across the various categories among the reporting companies.

6. Discussion

We found that Indian companies focus their efforts primarily on education, healthcare, and other underfunded social needs to improve lives in local communities and take up issues of national importance. Regardless of their sector, companies prioritize the categories of their CSR efforts – as reflected in their spending – essentially the same way, suggesting they rank unmet social needs the same way. Public and private sector expenditure in education and healthcare indicates unmet social needs in these areas compared to global averages. Therefore, the isomorphism in the relative allocation of funds by various companies results from society's unmet needs, which are the same for all companies. The government is also aware of these unmet needs, which is seeks to meet partially at least with mandatory CSR. However, the regulation only impacts the total expenditure and the reporting categories, and not how they allocate the funds across categories. Hence, the driver of isomorphism is the common perception of the country's development needs by the government and (leading) companies, as we propose in the conceptual model. *The isomorphism indicates that the government can indeed shape the companies' CSR efforts to its development priorities*, thus providing an answer to the research question we posed in the Introduction.

Still, the model skips over many nuances that show differences across sectors or the political environment in a country. For instance, companies depending on labour from local communities may be more interested in healthcare and skills development, while IT/consulting organizations may focus more on education in their CSR activities. However, we did observe isomorphism in spending, at least for the leading companies in this study. Also, besides the companies and the government, many NGOs and other organizations also focus on unmet social needs. Companies undertook many activities on their own but also partnered with other organizations on some initiatives. There is also the question of enforcing the CSR requirements – as already noted, nearly half of the 21,000 companies in India are non-compliant.

6.1 Implications for using mandatory CSR for UN SDGs

Sustainable development combines economic development, environmental sustainability, and socially inclusive performance (Sachs, 2012). To the extent countries around the globe have worked together to produce and agree on development tangibly captured by the UN SDGs, it worthwhile commenting on the use of mandatory CSR for achieving the SDGs by 2030. Indeed, the Indian government report seeks to use mandatory CSR to 'promote responsible and sustainable business philosophy' while keeping the SDGs in mind (Ministry of Corporate Affairs, 2019, pp. 21).

Proposed in the United Nations Rio+20 summit in 2012, the SDGs follow the Millennium Development Goals (MDG) with the 2015 deadline. Launched by the United Nations, the 17 goals (**Appendix**: **Table A1**) provide a global plan of action to achieve universal peace and social and environmental justice (Monteiro et al., 2019). The SDGs cover a broader range of issues than the MDGs, stretching beyond developing countries and providing a roadmap to sustainable development (Le Blanc, 2015; Herrera, 2019). The focus is captured by the five Ps – people, planet, peace, prosperity, and partnership (Sachs et al., 2019). The aim is to maximize synergies and integrate economic, environmental, and social dimensions to guide humanity to prosper in the long run (Griggs et al., 2013).

The literature on corporate involvement in development has discussed the nature, success, and sustainability implications of private sector involvement in SDGs via CSR (Haslam, 2021), internal audit and governance (Auld and Renckens, 2021), a role for accounting research (Bebbington and Unerman, 2018). Kobayakawa (2021) suggests that private sector involvement may be beneficial in keeping the increase in carbon emissions contained in specific sectors in line with the Paris agreement while the government implements the SDGs. Companies also use CSR to depress collective action by workers (Haslam, 2021) or contribute to development (Forcadell and Aracil, 2019). Proponents have also discussed the broader definition of social accountability, including private-sector-based development efforts (Fox, 2015). Amidst all such discussions on private sector integration, Fukuda-Parr and Muchhala (2020) challenge the norm of development as being west-or North-influenced.

Instead, they make the case that the SDGs are for the 'southern' led SDGs, enabling structural endurance and serving the local and cultural determinants.

What if we substituted government categories in the mandatory CSR requirements by the UN SDGs? The conceptual model (**Figure 1**) proposes that the government's categories drive the isomorphism in CSR efforts. For example, a government seeking to encourage or require companies to help meet the SDGs could provide companies with the list of 17 goals (**Appendix: Table A1**). The SDGs are even more prescriptive than the Indian Act in specifying the means to achieve the SDGs. Each SDG has 'outcome' targets, 'means of implementation targets, and 'indicators' of progress. For instance, Goal 1, end poverty in all its forms everywhere, has five outcome targets, two means of implementation targets, and each target having one or more indicators to monitor progress, not just effort or expenditure as with the Companies Act 2013. Therefore, if a government were to impose the SDGs as CSR requirements on companies, the conceptual model would suggest that the result would focus on the particular SDGs that are particularly relevant in that country.

As the Indian government's development goals shift to the UN SDGs, the Ministry is formally linking the Companies' Act to the achievement of the SDGs. The education efforts for SDGs 1, 2, 4, and 8; healthcare efforts for SDGs 1,2,3, 6, and 10; rural development efforts towards 1,2,3,4, and 9; and PM Relief (or other) Fund efforts towards SDGs 1,2,3,4, 6, and 15 in the years 2014-18 (see **Appendix: Table A1** for a list of the 17 SDGs). The Niti Aayong (erstwhile Planning Commission, Government of India) in this regard has released 'SDG India – Index and Dashboard (Niti Aayog, 2020).

Having the UN SDGs to be formally included in the Companies Act would not cause Indian companies to do anything different other than possibly mapping their efforts to the outcomes tied to the SDGs (Redman, 2018). Indeed, Indian companies in the NIFTY 50 are already targeting poverty reduction (Goal 1), provision of education (Goal 4), empowering women and girls (Goal 5), skills training to help youths get jobs (Goal 8), and sometimes, partnerships (Goal 17) in line with Ministry of Corporate Affairs (2019) recommendations. *Thus, we propose that mandatory CSR can help achieve UN SDGs for a country.*

6.2 Limitations and Further Research

We need to be careful in generalizing from our analysis. Mandatory CSR in India is quite recent, having being adopted only in 2014. Therefore, conclusions from this analysis over 2014-19 cannot be generalized for the long term. Moreover, since COVID-19 in early 2020, there is are contributions by the firms within the ambit of CSR, which might further delay generalizing from the data set for few more years. Moreover, our study does not compare the Indian setting to that of Indonesia or Mauritius, which also have mandatory CSR. Even in India, as firms get into supply chains of companies based in developed countries, they face pressures on sustainability that intersect with but not fully overlap with CSR requirements.

The study looks into the NIFTY50 firms, which has its benefits in providing us with indicative results and a conceptual model. However, the findings do not apply to the other 21,000-odd companies, for many of which CSR requirements are just a tax to be paid into the Prime Minister Fund. A more extensive study than ours would also help bring out sector-specific differences.

Being grounded in the Indian setting, especially with the Indian government of mandatory CSR expenditure, the study is also limited in not considering countries with 'soft' CSR that is the case in many developed countries. Developed countries may be quite different from the Indian setting we studied. For instance, Mishra (2021) notes that most Indian companies focus on social and local needs like poverty alleviation, education, and healthcare in their vicinity rather than global requirements like climate change. In contrast, Pizzi et al. (2021) found that environmental concerns remain the top agenda for Social Responsibility Scores for Italian companies. They found that a lot of the CSR reporting is done for 'material legitimacy', encouraging a tick box approach. Italian firms also have issues of the high level of heterogeneity in reporting, similar to the situation in India before mandatory CSR in 2014 (Pizzi et al., 2021). Thus, a developed country context can be quite different.

The above limitations afford opportunities for further research. *First*, it would be helpful to expand and compare the study to other countries in different regions of the world. China presents an interesting comparison with India also because of the overt government interest in CSR activities in both countries (Yin and Zhang, 2012; Moon and Shen, 2010; Lattemann et al., 2009; Yu and Choi, 2016). See also the compilation of papers by Jamali and Sidani (2012) on the Middle East and a cursory comparison of seven Asian countries by Chapple and Moon (2005) towards CSR or corporate philanthropy. *Second*, even in India, it would be interesting to see if their CSR activities are shifting away from their traditional emphasis on education and healthcare to more instrumental 'sustainability' as they become part of western companies' supply chains. *Finally*, we have not sought to capture the extent to which social needs are met or measure their effectiveness. The UN SDGs provide measurable goals and processes to achieve those goals. Case studies could be used to see how companies measure their effort through outcome rather than just funds spent. Also, we have not taken a critical approach in the manner of Blowfield (2005), the Economist (2005), or Dobers and Halme (2009), for instance, to see what legal aspects were overlooked by the government or tangible benefits obtained by the company as a result of the CSR 'investment'.

7. Conclusions

Motivated to understand how government and the private sector can work for development through mandatory CSR, we studied the top fifty leading companies in India. First, we analyzed companies' CSR percentage spending in different categories. Then we compared the categories and the percentage expenditure in the various categories for each company to the average for all companies and found isomorphism in the pattern of spending across categories. Next, we sought to explain the similarity in CSR efforts across nearly all these companies with a conceptual model. The model includes the motivation of senior managers from published interviews on their CSR efforts. The stated reasons for Indian companies doing CSR centre around improving lives in local communities -- and sometimes taking up issues of national priorities -- to 'give back to society' provide a rationale, even though the efforts are required to be outside the supply chain. Our conceptual model sought to explain the similarity in spending pattern across nearly all the leading companies as driven by the common motivation of both companies and the government to address the nation's unmet social needs. As such, we believe that mandatory CSR can help a government achieve its development goals enlisting the efforts of large companies because of the motivation, shared by the government and corporations, to address unmet social needs.

This paper has sought to contribute to the growing literature on mandatory CSR with our study of the Indian setting resulting in a conceptual model. We demonstrated isomorphism statistically across leading Indian companies in their CSR spending pattern. Then we sought to explain this isomorphism with a conceptual model. No doubt, this work is only a start in contributing to the debate on mandatory CSR for development despite its unattractiveness as a corporate tax. As the world refocuses on the UN SDGs for development following the devastation caused by the COVID-19 pandemic, we agree with Isaakson and Mitran (2019) that the debate on mandatory CSR will intensify over time. We hope our study will further inform this debate.

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