Corporate Social Responsibility: A Growth Avenue As Per Companies Act 2013

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Indexing:
Abstract

India is a country of endless contradictions. On the one hand, it has grown to be one of the largest economies in the world, and an increasingly important player in the emerging global order, on the other hand, it is still home to the largest number of people living in absolute poverty and the largest number of undernourished children. What emerges is a picture of uneven distribution of the benefits of growth which many believe, is the root cause of social unrest.

Companies too have been the target of those anxious by this uneven development and as a result, their contributions to society are under severe scrutiny. With increasing awareness of this gap between the haves and the have-nots, this scrutiny will only increase over time and societal expectations will be on the rise. Many companies have been quick to sense this development, and have responded proactively while others have done so only when pushed. Governments as well as regulators have responded to this unrest and the National Voluntary Guidelines for Social, Environmental and Economic Responsibilities of Business or the NVGs (accompanied by the Business Responsibility Reports mandated by the SEBI for the top 100 companies) and the CSR clause within the Companies Act, 2013 are two such instances of the steps taken. According to Indian Institute of Corporate Affairs, a minimum of 6,000 Indian companies will be required to undertake CSR projects in order to comply with the provisions of the Companies Act, 2013 with many companies undertaking these initiatives for the first time. Further, some estimates indicate that CSR commitments from companies can amount to as much as 20,000 crore INR. This combination of
regulatory as well as societal pressure has meant that companies have to pursue their CSR activities more professionally.

Key words: corporate social responsibility, Companies acts 2013.

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Introduction

With the passage of the Companies Act, 2013 the mandate for corporate social responsibility (CSR) has been formally introduced to the dashboard of the Boards of Indian companies. The industry has positively accepted the reforms bring by the government with a wide interest across the both public and private sectors.

The practice of CSR is not new to companies in India. However, this Act widen the scope of corporate social responsibility. Also, it is likely that the total CSR spends will increase. What is clear to many companies is that if this increased spending is to achieve results on the ground – which is the intent of the Act – then it needs to be done strategically, systematically and thoughtfully.

Objectives

The Present paper is basically concerned with the following objectives.
1. To visualize the concept of CSR in India
2. To know the meaning of CSR.
3. To study the policies governing CSR in India.
4. To highlight the provisions of new companies act 2013 regarding CSR.
5. To study the benefits of CSR.

**Research Methodology:**

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports.

**What is CSR?**

Corporate social responsibility (CSR, also called corporate conscience, corporate citizenship or sustainable responsible business/ Responsible Business) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and international norms. With some models, a firm's implementation of CSR goes beyond compliance and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law. CSR aims to enfold responsibility for corporate actions to get a positive impact on the environment and stakeholders including consumers, employees, investors and others.
The term is often used interchangeably for other terms such as Corporate Citizenship and is also linked to the concept of Triple Bottom Line Reporting (TBL), which is used as a framework for measuring an organization’s performance against economic, social and environmental parameters. The rationale for CSR has been articulated in a number of ways. In essence it is about building sustainable businesses, which need healthy economies, markets and communities. The key drivers for CSR are enlightened self-interest, Social investment, transparency and trust, increased public expectations of business.

**CSR in India**

CSR in India has classically been seen as a gracious activity. And in keeping with the Indian tradition, it was an activity that was performed but not deliberated. As a result, there is limited documentation on specific activities related to CSR. However, what was clearly evident that much of this had a national character enclosed within it, whether it was awarding institutions to actively participating in India’s freedom movement, and pierced in the idea of trusteeship.

As some observers have pointed out, the practice of CSR in India still remains within the gracious space, but has moved from institutional building (educational, research and cultural) to companies progress through various projects. Also, with universal influences and with companies becoming more rapid and appealing, there appears to be a apparent trend, that while CSR remains largely restricted to companies development, it is getting more strategic in nature (that is, getting linked with business) than gracious, and a large number of companies are reporting the activities they are undertaking in this
space in their official websites, annual reports, sustainability reports and even disclosing CSR reports.

The Companies Act, 2013 has introduced the idea of CSR to the forefront and through its disclose-or-explain mandate, is encourage higher translucence and revealing. Schedule VII of the Act, which lists out the CSR endeavor, advice companies to be the focal point. On the other hand, by explaining a company’s relationship to its shareholders and integrating CSR into its core operations, the draft rules advice that CSR needs to go beyond companies and beyond the concept of gracious. It will be interesting to observe the ways in which this will interpret into action at the ground level, and how the understanding of CSR is set to undergo a change.

**Provisions of Companies Act 2013 regarding CSR**

In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. The new rules, applicable from the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director.

The Act encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The ministry’s draft rules, that have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India. The Act lists out a set of activities eligible under
CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act.

The draft rules (as of September 2013) provide a number of clarifications and while these are awaiting public comment before notification, some the highlights are as follows:

Surplus arising out of CSR activities will have to be reinvested into CSR initiatives, and this will be over and above the 2% figure.

- The company can implement its CSR activities through the following methods

  - Directly on its own

  - Through its own non-profit foundation set-up so as to facilitate this initiative

  - Through independently registered non-profit organisations that have a record of at least three years in similar such related activities

  - Collaborating or pooling their resources with other companies

Only CSR activities undertaken in India will be taken into consideration.

Activities meant exclusively for employees and their families will not qualify.

A format for the board report on CSR has been provided which includes amongst others, activity-wise, reasons for spends under 2% of the average net profits of the previous three years and a responsibility statement that the CSR policy, implementation and monitoring
process is in compliance with the CSR objectives, in letter and in spirit. This has to be signed by either the CEO, or the MD or a director of the company

❖ **Governance**

Clause 135 of the Act lays down the guidelines to be followed by companies while developing their CSR programme.

The CSR committee will be responsible for preparing a detailed plan on CSR activities, including the expenditure, the type of activities, roles and responsibilities of various stakeholders and a monitoring mechanism for such activities. The CSR committee can also ensure that all the kinds of income accrued to the company by way of CSR activities should be credited back to the community or CSR corpus.

❖ **Reporting**

The new Act requires that the board of the company shall, after taking into account the recommendations made by the CSR committee, approve the CSR policy for the company and disclose its contents in their report and also publish the details on the company's official website, if any, in such manner as may be prescribed. If the company fails to spend the prescribed amount, the board, in its report, shall specify the reasons
Role of the board and the CSR committee

- Net worth > 500 Crore INR
- Turnover > 1000 Crore INR
- Net profit > 5 Crore INR

Role of the board

- Form a CSR committee
- Approve the CSR policy
- Ensure implementation of the activities using CSR
- Ensure 2% spend
- Disclose reasons for not spending the amount (If applicable)

CSR committee

- Three or more directors at least one independent director
- Formulate and recommend CSR Policy to the board
- Recommend activities and the amount of expenditure to be incurred
- Monitor the CSR policy from time to time
List of activities under schedule VII

- Promotion of education
- Eradication of extreme hunger and poverty
- Gender equity and women empowerment
- Reducing child mortality and improving maternal health
- Combating HIV-AIDS, malaria and other diseases
- Environmental sustainability
- Social business projects
- Contribution to prime minister’s relief fund and other such states and central funds
- Employment enhancing vocational skills
- And such other matters may be prescribed

Scope for spending CSR Money

It appears that the government intends to ensure that the CSR spending only goes to specific areas as defined in Schedule VII of the Companies Act, 2013:

(a) Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water

(b) Promoting gender equality, empowering women, setting up homes and hostels for women and orphans, setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups
(c) Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro-forestry, conservation of natural resources and maintaining quality of soil, air and water

(d) Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects

(e) Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art, setting up public libraries, promotion and development of traditional arts and handicrafts

(f) Measures for the benefit of armed forces veterans, war widows and their dependents

(g) Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports

(h) Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government

(i) Rural development projects

(j) Contribution to the Prime Minister’s National Relief Fund or any other fund set up by the Central government for socio-economic development and relief and welfare of the scheduled casts, the scheduled tribes, other backward classes, minorities and women
As this list shows, a large number of areas which could benefit middle class people either as consumers or investors are outside the purview of CSR. For instance, a consumer education programme or one that explains citizens how to use the Right to Information (RTI) Act would not be considered part of CSR spending.

**Benefits of CSR**

1. **EMPLOYEES SATISFACTION.**

Each Employee wants to feel proud upon his/her organization. A satisfied employee always wants to work in his/her own organization in-spite of any other organization. The role of HR in managing CSR projects is significant because of the high positive impact of CSR on employee motivation and welfare.

2. **CUSTOMERS SATISFACTION**

It is proven by some scholars that CSR improves customers satisfaction towards the company. A satisfied customer will be loyal to the company and will be less willing to move to another brand. If a customer likes the company, he or she will buy more products or services from that company.

Relevant research : IBM study ‘Attaining Sustainable Growth through CSR’ : The majority of business officials believe that CSR activities are providing their firms competitive advantage, primarily due to positive responses from customers. Better Business Journey, UK Small Business
Consortium: “88% of customers said they were more likely to buy from a company that supports and engages in endeavors to shape up the society.”

3. POSITIVE PR

CSR provides the new room to share favorable stories online and through traditional media. Companies need not to waste money anymore on expensive advertising campaigns and making brand Ambassadors which costs too much to the companies. Instead they produce free publicity and benefit from word of mouth marketing.

4. REDUCTION IN COSTS

A CSR program doesn’t cost to the company. If a CSR program conducted properly a company can reduce its costs.

Companies reduce costs by:

- Implementation of energy savings programs
- Handling potential risks and liabilities more appropriately.
- Less expenditure in classical advertising

5. NUMEROUS BUSINESS OPPORTUNITIES

An open, outside oriented approach is required for a CSR program. The business must be in a regular communication with customers, suppliers and other parties that influence the organization. Business will be the first to know about new opportunities because of continuous interaction with other parties.
6. **LONG TERM BUSINESS ASPECT**

CSR approach is not something that is for the short term. It’s all about achieving long term goals and business perpetuity. Large businesses refer to: “shaping a more sustainable society” (Vodafone 2010 report):

**Conclusion**

Corporate social responsibility is a never ending process. The Companies bill is a good initiative on the part of the government. The concept of CSR has been universally accepted as a component of success and business survival along with achieving social objectives. Along with the dissemination of CSR strategies a key challenge facing business is the need for more reliable indicators of progress in the field of CSR. Translucence and communication can help to make a business come out more authentic, and bring up high standards of other organizations at the same moment. However, the challenge for the companies is to persuade a strong and innovative CSR tactics which should deliver high achievement in ethical, environmental and social disciplines and meet all the shareholders’ objectives. Non-governmental organizations, civil society and media have further enhanced the scope for greater cooperation and harmony between corporate and the society in which they operate. Finally, we have a welfare oriented democracy in which our political classes should be sensitive towards the welfare of the common masses. After
discussing all the facts about CSR and provisions of companies Act 2013 regarding CSR, it has been concluded that these provisions are possibly a growth avenue.

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