

# A Study on Corporate Social Responsibility in India

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**Abstract:** Corporate Social Responsibility (CSR) is a concept which states that the help given by the businesses to the governments in making world a better place. India is the land of ethics and values; these are embedded in the business too. The company can do their best by starting with ethical corporate governance. India is the first country in the world to make corporate social responsibility (CSR) mandatory by following an amendment to The Company Act, 2013 in April 2014. Businesses can invest their profits in areas such as education, poverty, gender equality, and hunger. Corporate social responsibility (CSR), also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business is a form of corporate self-regulation integrated into a business model. The CSR activities need to be in tune with effective strategic policies so that the aim of sustainable environmental, social and economic progress may be achieved. The present paper aims at reviewing the provision and various developments in corporate social responsibility in India under the Companies Act, 2013.

**Keywords:** corporate social responsibility, ethics and values, corporate governance

## 1. Introduction

The present-day CSR (Corporate Social Responsibility) is a concept whereby business organizations consider the interest of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders as well as their environment. CSR simply refers to strategies, corporations or firms conduct their business in a way that is ethical and society friendly. CSR can involve a range of activities such as working in partnership with local communities, socially sensitive investment, developing relationships with employees, customers and their families, and involving in activities for environmental conservation and sustainability. Corporate social responsibility (CSR) is about how businesses align their values and behavior with the expectations and needs of stakeholders – not just customers and investors, but also employees, suppliers, communities, regulators, special interest groups and society as a whole. CSR describes a company's commitment to be accountable to its stakeholders. CSR demands that businesses manage the economic, social and environmental impacts of their operations to maximize the benefits and minimize the downsides.

The Proponents of CSR argue that the efficient functioning of global markets depends on socially responsible business conduct. More than anything, it is about commitment and that can be a difficult thing to cultivate in a business. CSR is only just emerging as a precise activity and has much room to grow.

## 2. What is Corporate Social Responsibility?

CSR, or corporate social responsibility is not a term of the philosopher's art. We will not find it in any book of ethics and political philosophy, It is one of those slippery term. The term 'corporate social responsibility' was originally coined in the 1930s by Harvard professors A.A. Berle and C.G. Means. Although this historical fact is a clue to its meaning, the term has undergone a number of shifts in usage since then.

'Today, corporate social responsibility goes far beyond the old philanthropy of the past -- donating money to good causes at the end of the financial year and is instead an all year round responsibility that companies accept for the environment around them, for the best working practices, for their engagement in their local communities and for their recognition that brand names depend not only on quality, price and uniqueness but on how, cumulatively, they interact with companies' workforce, community and environment. Now we need to move towards a challenging measure of corporate responsibility, where we judge results not just by the input but by its outcomes: the difference we make to the world in which we live, and the contribution we make to poverty reduction.'

The broadest definition of corporate social responsibility is concerned with what is or should be the relation between global corporation, governments of countries and individual citizens. In general, Corporate social responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders. Some of the definitions given by academician's and others are as follows

Philip Kotler & Nancy Lee (2005) "A commitment to improve community well-being through discretionary business practices and contributions of corporate resources".

WBCSD (World Business Council for Sustainable Development) "The continuing commitment by business to behave ethically and contribute to sustainable economic development while improving the quality of life of the workforce and their families as well as of the local community and society."

BSR (Business for Social Responsibility) "Achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment.

### 3. Importance of Corporate Social Responsibility

Corporate social responsibility allows organizations to do their bit for the society, environment, and customers or for that matter stake holder.

**The term corporate social responsibility gives a chance to all the employees of an organization to contribute towards the society, environment, country and so on.** We all live for ourselves but living for others and doing something for them is a different feeling altogether. Bringing a smile to people's life just because of a particular organization has pledged to educate the poor children of a particular village not only gives a sense of inner satisfaction but also pride and contentment. One should never forget the importance of society and environment in our lives. It is indeed high time when we also start thinking about people around us who are less privileged and fortunate than us. Corporate social responsibility gives an opportunity to organizations to work towards the betterment of the society and make it a better place to live.

**Corporate social responsibility goes a long way in creating a positive word of mouth for the organization on the whole.** Doing something for your society, stake holders, customers would not only take your business to a higher level but also ensure long term growth and success. Corporate social responsibility plays a crucial role in making your brand popular not only among your competitors but also media, other organizations and most importantly people who are your direct customers. People develop a positive feeling for a brand which takes the initiative of educating poor children, planting more trees for a greener environment, bringing electricity to a village, providing employment to people and so on. You really do not have to invest much in corporate social responsibility activities. Do not undertake CSR activities only to gain publicity but because you believe in the cause. There are many organizations which tap remote villages, some of which are even unheard as an initiative of corporate social responsibility.

**Corporate social responsibility also gives employees a feeling of unparalleled happiness. Believe me, employees take pride in educating poor people or children who cannot afford to go to regular schools and receive formal education.** CSR activities strengthen the bond among employees. People develop a habit of working together as a single unit to help others. In fact they start enjoying work together and also become good friends in due course of time. They also develop a sense of loyalty and attachment towards their organization which is at least thinking for the society. Who does not like to work with an organization where management is kind enough to take out time for the society and contribute in their own small way? Corporate social responsibility also goes a long way in building a positive image of the brand.

### 4. Objectives of the Study

The study has been geared towards achieving the following objectives:

- 1) To understand the concept of Corporate social responsibility
- 2) To examine Corporate social responsibility Rules under Companies Act, 2013
- 3) To analyze various developments and present framework in corporate social responsibility in India.

### 5. Research Methodology

This paper is based on qualitative research design consisting of review of literature through secondary sources of data collection. This research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles. Available secondary data was extensively used for the study.

#### Corporate Social Responsibility In India

India's new Companies Act 2013 (Companies Act) has introduced several new provisions which change the face of Indian corporate business". One of such new provisions is Corporate Social Responsibility (CSR). The concept of CSR rests on the ideology of give and take. Companies take resources in the form of raw materials, human resources etc from the society. By performing the task of CSR activities, the companies are giving something back to the society. The amendment notified in the Schedule VII of the Companies Act advocates that those companies with a net worth of US\$73 million (Rs 4.96 billion) or more, or an annual turnover of US\$146 million (Rs 9.92 billion) or more, or a net profit of US\$732,654 (Rs 50 million) or more during a financial year, shall earmark 2 percent of average net profits of three years towards CSR. In the draft Companies Bill, 2009, the CSR clause was voluntary, though it was mandatory for companies to disclose their CSR spending to shareholders. It is also mandatory that company boards should have at least one female member.

CSR has been defined under the CSR rules, which includes but is not limited to:

- 1) Projects related to activities specified in the Schedule; or
- 2) Projects related to activities taken by the company board as recommended by the CSR Committee, provided those activities cover items listed in the Schedule.

#### Corporate Social Responsibility Examples in India

##### Tata Group

The Tata Group combination in India carries out various CSR projects, most of which are community improvement and poverty alleviation programs. Through self-help groups, it is engaged in women empowerment activities, income generation, rural community development, and other social welfare programs. In the field of education, the Tata Group provides scholarships and endowments for numerous institutions.

The group also engages in healthcare projects such as facilitation of child education, immunization and creation of awareness of AIDS. Other areas include economic

empowerment through agriculture programs, environment protection, providing sport scholarships, and infrastructure development such as hospitals, research centers, educational institutions, sports academy, and cultural centers.

### Ultratech Cement

Ultratech Cement, India's biggest cement company is involved in social work across 407 villages in the country aiming to create sustainability and self-reliance. Its CSR activities focus on healthcare and family welfare programs, education, infrastructure, environment, social welfare, and sustainable livelihood.

The company has organized medical camps, immunization programs, sanitization programs, school enrollment, plantation drives, water conservation programs, industrial training, and organic farming programs.

### Mahindra & Mahindra

Indian automobile manufacturer Mahindra & Mahindra (M&M) established the K. C. Mahindra Education Trust in 1954, followed by Mahindra Foundation in 1969 with the purpose of promoting education. The company primarily focuses on education programs to assist economically and socially disadvantaged communities. CSR programs invest in scholarships and grants, livelihood training, healthcare for remote areas, water conservation, and disaster relief programs. M&M runs programs such as Nanhi Kali focusing on girl education, Mahindra Pride Schools for industrial training, and Lifeline Express for healthcare services in remote areas

### ITC Group

ITC Group, a conglomerate with business interests across hotels, FMCG, agriculture, IT, and packaging sectors has been focusing on creating sustainable livelihood and environment protection programs. The company has been able to generate sustainable livelihood opportunities for six million people through its CSR activities. Their e-Choupal program, which aims to connect rural farmers through the internet for procuring agriculture products, covers 40,000 villages and over four million farmers. Its social and farm forestry program assists farmers in converting wasteland to pulpwood plantations. Social empowerment programs through micro-enterprises or loans have created sustainable livelihoods for over 40,000 rural women.

### Methodology of Corporate Social Responsibility

CSR is the procedure of assessing an organization's impact on society and evaluating their responsibilities. It begins with an assessment of the following aspects of each business:

- Customers
- Suppliers
- Environment
- Communities
- Employees

The most effective CSR plans ensure that while organizations comply with legislation, their investments also respect the growth and development of marginalized communities and the environment. CSR should also be

sustainable – involving activities that an organization can uphold without negatively affecting their business goals.

Organizations in India have been quite sensible in taking up CSR initiatives and integrating them into their business processes. It has become progressively projected in the Indian corporate setting because organizations have recognized that besides growing their businesses, it is also important to shape responsible and supportable relationships with the community at large. Companies now have specific departments and teams that develop specific policies, strategies, and goals for their CSR programs and set separate budgets to support them. Most of the time, these programs are based on well-defined social beliefs or are carefully aligned with the companies' business domain.

**CSR Committee and Policy:** Every qualifying company requires spending of at least 2% of its average net profit for the immediately preceding 3 financial years on CSR activities. Further, the qualifying company will be required to constitute a committee (CSR Committee) of the Board of Directors (Board) consisting of 3 or more directors. The CSR Committee shall formulate and recommend to the Board, a policy which shall indicate the activities to be undertaken (CSR Policy); recommend the amount of expenditure to be incurred on the activities referred and monitor the CSR Policy of the company. The Board shall take into account the recommendations made by the CSR Committee and approve the CSR Policy of the company

**Activities under CSR:** The activities that can be done by the company to achieve its CSR obligations include eradicating extreme hunger and poverty, promotion of education, promoting gender equality and empowering women, reducing child mortality and improving maternal health, combating human immunodeficiency virus, acquired, immune deficiency syndrome, malaria and other diseases, ensuring environmental sustainability, employment enhancing vocational skills, social business projects, contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women and such other matters as may be prescribed.

### Corporate Social Responsibility Under Companies Act 2013

The practice of CSR is not a new one in the Indian industry. It was an activity that was not deliberated, rather performed. Observers believe that in India, this activity has evolved from institutional development to community development by way of several projects and tends to focus on the utilization of profits made by a company. Also, undertaking such initiatives were a voluntary step for all companies until it was mandated by the new Companies Act which came to force in the year 2013. Section 135 of this Act provides that every company in India, either private or public having a net worth of Rs 500 crore, or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend a minimum of 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities. A company refers to an entity incorporated under the

Companies Act or under the other previous company law. A clarification has been made with regard to computation of net profits that if the profits have been computed under the Companies Act 1956 then they need not be recomputed under the 2013 Act. Also, the CSR activities must be undertaken with respect to certain areas which are listed under Schedule VII of the 2013 Act, some of which include:

- 1) Activities to eradicate hunger, poverty and malnutrition.
- 2) Promotion of preventive healthcare, education and gender equality.
- 3) Setting up homes for women, orphans and the senior citizens.
- 4) Undertaking measures for reducing social and economic inequalities.
- 5) Ensure environmental sustainability, balance in the ecology and welfare of animals.
- 6) Protection of national heritage, art and culture.
- 7) Taking measures for the benefit of armed forces veterans, war widows and their dependents.
- 8) Provide training to promote rural, nationally recognized, Paralympic or Olympic sports.
- 9) Contribute to Prime Minister's National Relief Fund or any other fund which has been set up by the Central Government for socio-economic development, relief and welfare of SC, ST, OBCs, minorities and women.

The provision also states that a company shall give preference to the local areas and those areas around which the company operates for undertaking the said CSR activities. Another statutory requirement under section 135 is the formation of a CSR Committee of the Board for monitoring the CSR policies of any company consisting of at least 3 directors (inclusive of an independent director). The Committee is required to recommend and suggest the amount of expenditure that the company must incur on the activities so specified. After considering the recommendations put forth by the Committee, the Board shall approve the CSR policy for the company.

It has been notified by the Ministry of Corporate Affairs that Section 135 and Schedule VII under Companies Act 2013, along with the provisions of the Rules, shall come into effect from 1<sup>st</sup> April 2014. The Statute provides CSR activities to be undertaken through a registered trust or society, or a company established by its holding, subsidiary or associate company. For this purpose, the company needs to specify the activities that will be taken up and the modalities for utilizing the funds. It is said that such an entity will have to establish a track record of three years where similar activities were performed by it. The report which shall be submitted by the Directors along with the financial statements of a company shall include an annual report on the CSR Activities of a company in the prescribed format under the Rules, setting out inter alia a brief outline of the CSR policy, the composition of the CSR Committee, the average net profit for the last three financial years and the prescribed CSR expenditure. If the company does not have adequate profits or has been unable to spend the minimum required on its CSR initiatives, the specific reasons for not doing so are to be disclosed in the Board Report.

However, failure to report CSR spending or the specific reasons for non-expenditure shall amount to contravention of the provision under section 134 of the Companies Act 2013 and the said company shall attract penalty in the form of fine, which shall not be less than fifty thousand rupees and may extend to INR 2.5 Million. Also, every officer who will be liable for such a default will be punished with imprisonment for a term extending to 3 years, along with fine of minimum fifty thousand rupees but which may extend to INR five lakh rupees or both.

## 6. Conclusion and Suggestion

Therefore, it can be concluded that the recent CSR provision in the new Companies Act has the potential to bring novelty in the corporate field and institutional philanthropy in India. Despite of the various practical difficulties with respect to the implementation of the new CSR provisions, the initiative by the government has been appreciated by many on the ground that it entrusts responsibility on giant corporates to contribute towards social welfare of the society.

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