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CORPORATE SOCIAL RESPONSIBILITY IN INDIA

SECTION 135 OF COMPANIES ACT

In India under Companies Act, 2013 this concept of Corporate Social responsibility is governed under section 135. This was passed by the parliament and got the assent from the president of India on 29 August 2013. There are rules under this Act which are applicable from the year 2014-15.

In today's world few companies which are having financial support take the responsibility for society and for underprivileged people in the society. Since there is increase in the personal liability of a company for the last four decades the concept of CSR has developed. in 21st century Companies not only see for gaining profits but they also concern for giving back to society in return and work for society.

The bank which is supporting the country clients in the way of Poverty reduction Strategy work can be strengthened with involvement of the private sector. Private sector should have a balance between the commercial advantage and community benefits. In many developed countries many companies have made a utilized corporate social responsibility concept. But they have limited implications regarding this concept for development and transitional economic.

Every company under CSR have responsibility towards the environmental conditions and as well as the community. Corporate social responsibility is neither a charity nor donation but it

is one of the way of business by which corporate entities contribute for the social good and welfare.

Most of the preference must be given by to make CSR activities in local area as per the terms under the Companies Act. A company can choose the other company and do the CSR activities combine. But they have reported on the activity on their individual bases. When a committee makes a policy of CSR, such policy includes the programmes and their projects which are to be done or to organise. Company can also make an annual report in which they include the activities of CSR and they declare the average net profit for 3 financial years. It approves the expenditure of CRS and if the company is not capable in spending it's expenditure then such companies have to give a reason report at a Board report for not fulfilling the obligations of the CSR and the penal provisions¹.

HISTORICAL BACKGROUND

According to **Friedman** who gave a classical theory in 1970 in that CSR was first seen as it is only the responsibility on the firms which are making profits. In today's world a Neo-Classical theory has come into existence and it says company has also having other responsibilities not only making profits. This has two perspectives such a gaining profits and the other one is social oriented responsibilities. In between these two dimensions there is a legal obligations, public responsibility and ethical concern. CSR gives a significance and measure which denotes the awareness towards the obligation of the society the obligations for society and is anticipated to make certain esurience towards initiation of a better destiny now not most effective for their companies' shareholders but additionally their clients, employees and business companions and also for community and entire world.

Purpose of CSR

The Company's Act, 2013 wanted every company to put out CSR policy in the public domain. It doesn't do any normal business activities. For the annual report the draft rules says that an outline of CSR policy which includes the statement of intent of broad areas and overview of activities have to be there. A web link of the policy of CSR which includes the project, activities of the company.

¹ Dr. Reena Shyam, "An Analysis of Corporate Social Responsibility in India", International Journal of Research- Granthaalayah, Vol. 4, Issue 5, May 2016.

This CSR wanted to develop long time vision of nearly three to five years and strategy which is reviewed annually and budgets are planned in the annual budget.

Application of corporate social responsibility

CSR can be applicable to the companies which have the financial strength of,

- Those companies which having a net worth of about Rs.500 crores and above it are applicable to CSR
- Those companies which having a turnover of Rs.1000 crores and above it are applicable to the CSR
- CSR is applicable to the companies which are having net profit of Rs.5 crores and above such amount².

When the a above financial strength is satisfied, then those companies can can constitute a CSR and the rules and provision will be applied on such companies. Those companies have to form a committee which consists of directors. Such committee will have an overall right on CSR activities of the company.

The role of Board of Directors of the company under corporate social responsibility

All the board of directors have a significant role such as,

- They should get the approval of the policy of corporate social responsibility
- They should be careful in ensuring the implementations of the CSR policy.
- All the directors are bound to disclose the contents and reports of the CSR policy.
- Directors and committee must be careful and ensure that regarding the CSR activities, the company shall spend the amount according to the amount specified by the statutory.
- There shall be no imposing of penalty when the prescribed amount is not spent on the CSR activities. They should just give a reason for spending such less amount on that activity.

Committee of corporate social responsibility and the policy under it

²https://taxguru.in/company-law/corporate-social-responsibility-overview.html?amp#1_Applicability_of_Corporate_Social_Responsibility

The companies which are qualified in its financial strength are applicable to be a CSR and they have to constitute a CSR committee and they have to spend the amount of their company of at least 2% of the company's net profit. This process should be done for 3 financial years basing upon the CSR activities. The companies which are qualified to be as CSR shall have a committee which consists of Board of Directors which or of more than 3 members as Directors. should be an independent directors. CSR committee will prepare a policy and recommend the board a policy through which they will tell the activities which should be done. In case of a private company there must be only 2 board of directors. When there is a foreign company, then 2 members must be as a board of directors where one person will be an Indian where as the other will be nominated from the foreign nations.

That policy will have the figure of amount of expenditure which is used for the activities under CSR and also the committee will look into the CSR policy which is related to their company. The company can tell their ideas on CSR policy to the Board so that the board will look into the recommendation of the committee of CSR and support their policy given by the company³.

Activities of Corporate social responsibility

There are certain activities where the company can be performed through the obligation given by CSR

All the board of directors shall ensure the activities of the company in its CSR policy relating to it's subject specified under schedule 7.

- CSR have to work in eradication of hunger and poverty.
- They have to work for providing and promoting the education to all the children.
- They have to promote the gender inequality in the society and provide women empowerment. They have to improve the maternal health.
- They have to reduce or prevent the child mortality.
- The committee shall contribute for combating the human virus of immunodeficiency, Immune deficiency syndromes and other diseases like malaria and ect.

³ Bhupender and Vikas Kumar Joshiya (2012), "Issues and Challenges of Corporate social responsibility in India", IJIBF, Vol.2, No. 2, July-Dec.2012

- They have to ensure the environmental sustainability by providing sanitation and cleanliness in the society.
- They have to provide the facility for skill development for the employees.
- Such committee has to contribute from its company fund to prime minister's Relief Funds or any fund can be given to central or state government for the social economic development of the country.
- Some of the funds and the reliefs shall be provided to Schedule Castes and Schedule Tribes for their welfare. Funds for the protection of Women should also be given.

The balance sheet from the foreign company to be filed under section 381(1)(b) of Act contains a report regarding the CSR

Implementation of Activities

Any company which is eligible for CSR can implement the activities under CSR activities by directly on its own. This non-profit Foundation was started to facilitate the initiatives.

Even though there are independent registered non-profit organizations have a record of at least 3 years in those type of similar activities.

CSR activities can be implemented by collaborating their resources with other companies and working together. Frame working on CSR strategy⁴:

Target Group: in India, the way of development and welfare programming, address all the citizens with the main focus on disadvantaged, marginalise. In India the marginalisation is on gender, disability and ethnicity. There is also language and literacy, information and infrastructure and geographical challenges and also cultural barriers leads to marginalisation.

Sector and Issue: company select the sector to which it seems to make developments. It focuses on livelihood, health, education, environment and etc. Issue refers to some specific sectors, like primary education is the education sector in livelihood sector skill development is main issue. It depends on the company which sector it is going to focus on.

⁴ <https://www.futurescape.in/insights/responsible-business-rankings>

Inputs: the company and the committee gets the guidance from the board and get the benefit of the corporate business strategy, plan. The companies make developments where ever the company have its interest.

Outputs: The CSR policy document and an indication of sector, issue, geographies are its beneficiaries.

Relief of Poverty and Corporate Social Responsibility

Poverty is the biggest cause for the under development of the nation. Poverty is caused due to the lack of basic needs of the human kind. For survival of a human, there are some basic needs like cloths, shelter, food, sanitation. Due to this poverty, inequalities among the people in the country increases. In order to overcome this poverty problem, government is trying to eradicate the poverty by introducing many schemes but it is impossible to overcome the issue only by government. Generally, every government main responsibility is to serve the people by giving protection against standard threats, protection of environment, development of economic standards and providing better education. Because of unavoidable reasons, government forces the companies to follow their social responsibility towards the society. Social responsibility is nothing but a company holds responsible for the decisions it takes and activities it does in implementing Corporate Social Responsibility projects regarding society and environment. CSR is a good behaviour for corporate units and it should be implemented very transparently and effectively. The corporate unit should posses good behaviour with ethics and morals.

CSR is an obligation of taking general humanity principles and following them with a dignity. The key element for implementation of CSR agenda is Community development which means actions of companies to increase the value of their actions like making products, their time, donating money, providing services, influence etc, on which they operate. CSR is a powerful aspect which has potential to contribute positive needs in eradication of poverty. Business organisations and broader alliances can contribute to eradicating the poverty without compromising with their economic, social, political factors. CSR can create the path for entrepreneurship and new technology development which can be helpful for problem solving like sanitation, educational facilities, food, clothes, water, shelter.

Benefits by CSR to corporate organizations

To eradicate poverty, business sector need to be increase and should be well developed. Business units like companies, firms, organizations can provide employment which can lead to reduce the unemployment rate. In now a days, companies are expected to provide employment as the companies are strong economically. So by this it can complete the obligation of the social responsibility and can make huge profits. In the economy which is extremes in the wealth and poverty, it is impossible to maintain the economy healthy. To maintain the balance between wealth and poverty, companies need to involve in the eradication of poverty by working for the betterment of the environment and society. It should discuss the activities to perform and decisions to make with the stakeholders of its company and should follow them for society development. Since the companies are lacking to pay the wages to the below poverty line people the living wage must be paid to them⁵.

When there is large population in developing countries where the natural resources are available, then the business opportunity and the potential will be big. Companies have to merge with the developing strategies which are introduced for the poverty reduction by the commercial opportunities. Business is not only a commercial organisation but also it matters for the billions of people where it determined as they live their life.

There are few major benefits to business for adopting Corporate Social Responsibility and eradicating the poverty in the society. This first thing helps to incorporate stable and secured society which benefits the business organisations in many ways. By reducing the poverty, many changes can happen in the society and helps the businesses in a way like availability of efficient workers who are healthy and competent to work, there will be expansion in number of customers and consumers as well investors also, there will be effective and efficient financial system in the business and as well trading system also by implementing rule based principles and predicting the impact of such principles in future. By following these types of mechanism in the business organizations, there will be less number of chances of practising corruption. By these types of principles, the cost of the business transaction activities will be reduced and corruption can eradicated completely in the business. The second benefit for the business is that decreasing the costs of production, effective utilisation of the resources and improving productivity. These benefits will be there in the business by overcoming the problems like unhealthy education system, spoiling the environment, dreadful diseases like cancer, AIDS, insufficient health etc. which impacts the business to their risks and costs

⁵ <https://www.lexology.com/library/detail.aspx?g=a3b43a4e-6e72-41f7-ab7e-9b372e2a27d3>

directly. But there is a risk with these benefits and that is a company can take the advantage of the benefits which come due to eradication of poverty. An individual company can enjoy the benefits by not securing the risks and sharing the costs incurred. But this can also be solved by focusing and concentrating on the business efforts. And there are some more benefits for the companies which mingle the business furtherance with the social responsibility⁶.

Legal Aspects of Corporate Social Responsibility

The definition for Corporate Social Responsibility is cannot be determined accurately in legal terms as the definition and meaning changes from person to person and company to company according to the terms and expectations of the company but it can be described. CSR is not an aspect relating to the democracy and there isn't any reason to opt the business choices by the society. Donating the profits or using the profits for the purpose of public is not legal in developing countries and even it is not prohibited in practising it. Generally, .companies adopt CSR to develop its business and to earn goodwill and sometimes for maintaining good relations with the society.

If a company of any business adopts the CSR, then there are two facts to follow legally. And they are, first, the responsibility should be taken voluntarily and the second one is spreading the traditional responsibility beyond the limits from the shareholders to the others in the society like customers, suppliers, employees, consumers and many other communities. This means company goes beyond its obligations on its members like stake holders, shareholders, employees, etc. and makes the required development for the society.

CSR has some activities legally which are beyond the normal regular relationships with the company's stakeholders and with the society. There are some voluntary guidelines for following Corporate Social Responsibility to the companies until now. But these guidelines are not mandatory.

Limitations of Corporate Social Responsibility

Only businesses cannot solve the problem of poverty or eradicate the poverty even though it has responsibility towards society. To overcome the poverty, it is responsibility for all the people, government, international organisations, citizens, religious institutions, etc. and not

⁶ Dr. Reena Shyam, International Journal of Research-Granthaalayah, Vol.4(Iss.5):May,2006.

only by corporate units. The responsibility for corporate is not only social responsibility but also its main functioning is to manufacture the business product and should make effective number of sales. This is the main aspect for any business and a business should not get distracted from this. But at the same time companies should not forget the ethical responsibilities towards society.

Companies, generally, shows their actions that they are responsible and gains the benefits from society but they don't follow any CSR guidelines in real. This is nothing but the superficial window dressing. Some companies say that CSR is not mandatory. As they believe that some actions which are good to society like increase birth rate, life expectancy rate, public health, etc, are happened due to increase in economic growth. Even more they believe that if good things are done then good things would happen automatically. And some companies feel that it is useless to adopt the CSR. Because they believe that establishment of corporate it is reason for the problem and not its irresponsibility. So they believe that capitalism should be abolished completely.

Conclusion

CSR is followed by public companies by the very basis of their existence and few private companies with international shareholding. Another major way in which a business can help in reduction poverty is to provide employment to poor and middle class people. CSR helps in the providing more employment through giving income stability and more wages. Even it helps the women who are leading their families alone by giving the payment equally.