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**ROLE OF CORPORATE SOCIAL RESPONSIBILITY- IN
RESPECT TO COMPANY LAW**

Corporate Social Responsibility (CSR) has proven to play a very important role for businesses in today's times. CSR is used as a means to give back show how companies care about the environment and customers. It is generally seen as a positive practise. This is so because their customers feel that the company is actively working towards giving back to the society, fulfilling its needs. The World Business Council for Sustainable Development, states that "**Corporate Social Responsibility** is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"¹

Importance of CSR

The stakeholders and the people living in the community that the company is catering to, directly benefits the most through Corporate Social Responsibility. However, it does not mean the company itself does not get anything in return. By carrying out CSR, the company appeals to the people as a caring entity, dedicating its resources graciously. It helps them reach out to a larger number of people, which leads them to increase their customers- resulting in profit. It leads to a greater amount of media coverage; it is highly likely for news agencies to pick up stories relating to the CSR activities carried out by them, which then leads to a widespread presence in terms of media. CSR oriented companies really show their 'philanthropic nature' which not only encourages customers to do business with them, but it also instils a strong feeling of confidence within the employees. They feel a lot happier knowing that the place they are working at, cares about others, be it the environment or even its employees, lastly it might also directly result in an increase in the level of productivity.

CSR Under Company Act, 2013

¹ CSR Definition, WBCSD (1999), <http://www.wbcd.org/workprogram/business-role/previous-work/corporate-social-responsibility.asp>

The Company Act, 2013, under Section 135² alongside Schedule VII³ talk about Corporate Social Responsibility. This act states that any eligible company should contribute 2% of its net profit towards CSR.

Eligibility of Companies for CSR

Sec. 135 states that those companies which:

- Have a net worth exceeding Rs. 500 crore or more
- Turnover exceeding Rs. 1000 crore or more
- Net profit of Rs. 5 crore or more

-the immediately preceding financial year, shall carry out CSR.

Additionally, any foreign company having its office in India and meeting the above financial criteria, is also eligible for CSR.

Establishment of Corporate Social Responsibility Committee

Once a company becomes eligible, according to Section 135(3) there must be an establishment of a CSR Committee that ensure CSR is carried out properly, after which it goes through a round of approval by the Board of Directors.

- This committee comes up with a **Policy** for CSR.⁴
- Gives out suggestions related to the financing and allocation of budget of CSR.⁵
- Keeps an active check upon the CSR Policy of the company from time to time.⁶
- The committee shall design a transparent control framework for the implementation of the company's CSR tasks.

The CSR Committee must comprise of at least 3 directors and whenever possible, one additional independent director.

For foreign companies in India, there should be 2 people, 1 of which should be a resident of India, authorised to accept the notices and other documents on behalf of the foreign company. The other person should be nominated by the foreign company.

Formation of CSR Policy

- A CSR Policy should include the details of activities that need to be carried out and must be in line with Schedule VII.

² **Section 135 (1)**-Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during [the immediately preceding financial year] shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

³ Schedule VII—This schedule provides for a list of activities that a company may take up in order to perform CSR. These activities range from feeding the poor; eradicating hunger to supporting development projects in rural areas.

⁴ Section 135(3)(a)

⁵ Section 135(3)(b)

⁶ Section 135(3)(c)

- It should be mentioned on the website of the company, the responsibility of which lies on the BoD. This Policy may allow two or more companies to take up a CSR activity together but report it separately with their own respective observation and other details.

Role of Board of Directors in CSR

According to Section 135(4), the board shall be responsible for the following:

- Approval of the Policy drafted by the CSR Committee, followed by a disclosing of the contents of the policy through its reports and on the company's website.⁷
- Seeing to it that CSR activities, mentioned in Schedule VII, is practised by the company properly without any hinderances.⁸
- Ensuring that 2% of the net profit made in the immediately preceding 3 financial years of the company is contributed to CSR expenditure of the company.
- Giving preference to local areas for improvement under the CSR policy.
- Formation of a report in case the company fails to contribute such percentage of net profit, stating an appropriate reason for the same.

Any leftover amount from the assigned budget for CSR, should be transferred by the firm in less than 30 days from the end of the financial year to a scheduled bank called "Unspent Corporate Social Responsibility Account". This amount will be used according to the CSR Policy of the company. In case the company fails to make use of the funds within 3 financial years of its transferring, it may be used for:

- Transferring to the Prime Minister's National Relief Fund
- Given to the government for any other initiatives concerning the socio- economic development, relief, and welfare of the minority groups in the country.
- Contributions made for the development of public resource centres such as Public Funded Universities, Indian Council of Medical Research, Indian Institute of Technology etc.

Penalties

In case a company fails to comply with Section 135⁹ then it may be subject to paying a fine of minimum fee of Rs. 50, 000 and maximum fee of Rs. 25 Lakhs. In addition to this, all persons responsible directly for the non- compliance may be fined between Rs. 50, 000 and Rs. 5 Lakhs and also face imprisonment that may extend up to three years.

Companies Practicing CSR

This article has previously highlighted the essential benefits of Corporate Social Responsibility. These benefits were recognised early on by some of the companies that have been practising CSR for a long time. They include:

- Tata Consultancy Services (TCS)- Other than being a leading technology and software company, has also been an excellent practitioner of CSR. It recorded having spent over Rs. 600 Crore in Social Development Programs in Financial Year 2019-20. It has won

⁷ Section 135(5)(a)

⁸ Section 135(5)(b)

⁹ Company Act, 2013

the Asian CSR Award for carrying out programs towards reflecting increasing sincerity toward the environment and society. It has different scaled programs such as focussed and large scale. It devotes a lot of its resources towards the community which has helped the company maintain its 150+ years long legacy. To put it in numbers in the FY 2019-20, roughly Rs. 2 crores were used for Disaster Relief contribution, Rs.6 Crore was spent on Environmental sustainability, Rs. 116 for Education and Skill Building exercises, and Rs. 175 crore was spent on Health and Wellness. Such massive numbers act as evidence to how much CSR is valued by TCS. It has lived on to become the embodiment of 'giving back to the community'.¹⁰

- Infosys- It has been constantly recognised for taking up its CSR duties with responsibility and care. Infosys has focused on striving for economic development which requires minimal resource footprints. It believes in working towards eradicating hunger, poverty and malnutrition among many other problems infesting the society. It is focused on protecting the environment, while supporting both the communities and its stakeholders. Infosys had spent roughly Rs. 240 crores in FY 2014-15. Parts of this spending had gone to Akshaya Patra Foundation, Chennai Mathematical Institute, Infosys Science Foundation etc. The company has been seen donating items such as chess boards, carroms, foods etc. to the ones in need.¹¹
- MRF- It is an Indian multinational tyre manufacturing business that is the largest tyre maker in India and the world's sixth largest manufacturer. MRF has its own healthcare and education centre which aims to help provide medical facilities alongside education to the needy ones. It incorporates its own career guidance facility and a coaching centres specially made for those kids who are not able to afford it. MRF provides multiple scholarships to fund the education of talented kids who aim to secure their future through hard work. The company has focused on activities such as training to promote nationally recognised sports (including cricket), improving the livelihood of poor people, Poverty alleviation, rural development etc.¹²

Problems Related to CSR

Recently in the month of June, a lot of employees working at a fast-food joint, Burger King, Nebraska, USA, had quit their jobs. Everyone including the fresh starters to the supervisors had complained about the lack of care shown by the corporation towards their own employees during the sickening heat wave that encapsulated the city. Through this example it is evident that there is still a lack of public awareness for CSR. Today, CSR is mostly only taught to those that study business or are somehow related to the corporate world. Lack of public awareness leads to the employees or the community members not being able to be vocable about the non-participation of eligible companies in CSR. In addition to this, it also discourages smaller (yet eligible) companies from taking up this task if people or the community do not recognise their work.

¹⁰ Corporate Social Responsibility(CSR):TCS spends Rs. 600 Cr in Social development programs in FY 2019-20, INDIACSR, <https://indiacr.in/corporate-social-responsibility-csr-tcs-spends-rs-600-cr-in-social-development-programs-in-fy-2019-20/>

¹¹ Corporate Social Responsibility Policy of Infosys Limited, INFOSYS, <https://www.infosys.com/investors/corporate-governance/documents/corporate-social-responsibility-policy.pdf>

¹² Corporate Social Responsibility Policy, MRF TYRES, <https://www.mrftyres.com/downloads/Corporate-Social-Responsibility-Policy.pdf>

CSR Policy is made by directors through a very customised way, in the sense that these Policy makers cherry pick the areas in which the company should invest money for CSR. They keep in mind areas which will maximise their own social benefits areas of the organisation. Environmental programmes, for example the reduction of greenhouse gas or packaging, are often the first CSR efforts launched by firms. Through these programmes, firms can build efficiencies, support their results and simultaneously enhance the brand image. These initiatives are welcome. But the difficulty with a corporate responsibility strategy is that it is not based on a set of principles as to what it means to be a responsible company. In the end, CSR is whatever businesses want to be, it is whatever the directors deem fit. CSR is seen as a yearly program just like any other campaign, and is done just for the sake of complying with the laws. While this may not be true for all the companies, this certainly is the case for a lot of them. This takes away the true meaning behind CSR, because if a good is not done with the right intention, it steals away the entire purpose for which CSR was introduced in the first place.

Conclusion & Suggestion.

Corporate Social Responsibility has turned out to be a very effective and a much-needed move in the business world. It not only has helped a lot of families improve their living conditions; it has helped them practise their right to life under Article 21 of the Constitution. This is because these CSR activities facilitate improving the environment, planting trees, holding cleanliness drives etc. However, even today, the concept of CSR is still questioned to a great extent. This is because a lot of corporations perform CSR with ulterior motives, such as focussing on growth of the company or increasing their customer base. Many argue that despite this, the ultimate goal which is the growth of the society, is achieved. The whole concept of CSR stems on the fact that it is the community which helps a company grow and then it should be the duty of the company to give back once it has grown a substantive amount.

The future of CSR can be improved by including competition in the market. Competition increases the desirability of companies and business to become better than their rivals. If CSR somehow can manage to find a rhythm which creates a sense of competitiveness, then, it would certainly lead to a faster and healthier growth of the society and the community. Companies are going to want to invest more and more, increasing their budget spending for CSR through their policies. This competition can only be brought in if the importance of CSR is repeatedly broadcasted. All the stakeholders need to come together and realise that they must work together, hand in hand to raise awareness and make CSR a more centralised and common topic of discussion.