

# CSR- A New Concept of Companies Act, 2013

Abhinav Upadhyay

Assistant Professor

Amity University Madhya Pradesh, Gwalior, India - 474005

**ABSTRACT:** CSR provision in the company's act 2013 is the welcome step. CSR is means to achieve sustainable development of an organization. CSR also called as corporate conscience, corporate citizenship or responsible business is a form of corporation self-regulation integrated into a business model. The concept of CSR has been introduced in the New Companies Act 2013. CSR policies encourage the company to make a positive impact on environment and stake holders including consumers, investors etc. Nowadays CSR has become a concept of goodwill and dignity of a company. Nowadays companies voluntarily engage themselves in social and environmental concerns in their operation and interaction with stakeholders. Today CSR in India has gone beyond charity and donations. It has become an integral part of corporate strategy. Corporate proponents say that companies increase long term profits by adopting CSR policies whereas critics say that distracts the business from its main role. But overall study reveals that CSR has a neutral impact on financial outcomes.

## CSR policy and Company Bill 2013

Corporate Social Responsibility has been in existence for a long time and is almost as old as civilization. It is based on the Gandhian principle of "Trusteeship concept" whereby business houses are looked upon as trustees of the resources they draw from society and thus are expected to return them back manifold.

Companies Act of 2013 gives the concept of CSR. Section 135 of the Companies Act, 2013 contains provisions relating to CSR. Schedule VII contains list of activities which a company can undertake as part of its initiatives.

According to the UNIDO, "Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and inter- actions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (Triple-Bottom-Line Approach), while at the same time addressing the expectations of shareholders and stakeholders."

Philanthropic activities are only a part of CSR, which otherwise constitutes a much larger set of activities entailing strategic business benefits.

India is a country of myriad contradictions where it has grown to be one of the largest economies in the world, but still home to the largest number of people living in absolute poverty and undernourishment. This 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 perturbed by this uneven development and as a result, their contributions to society are under severe scrutiny. 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. (CSR Handbook, 2013)

## RATIONALE FOR THE STUDY

With a view to provide a framework for companies (private and public) to implement need-based CSR activities, the Government of India has included CSR-related provisions in the Companies Bill, 2012 which has been notified by the Ministry of Corporate Affairs ("MCA") on February 27, 2014 giving effect to Section 135 the new Companies Act, 2013 ("Companies Act") dealing with CSR and the Companies (Corporate Social Responsibility) Rules, 2014 ("CSR Rules") and have come into force from April, 1, 2014.

### Findings:

#### Provisions of the Companies Act:

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 new rules, which will be applicable from the fiscal year 2014-15 onwards. The Act contains CSR provisions within the Act:-

#### Applicability:

It covers all companies in India meeting any one or more of the following conditions:

- Turnover of INR 1,000 crores or more
- Net worth of INR 500 crores or more
- Net Profit of INR 5 crores or more

The corporate social responsibility (CSR) contribution would have to be at least two per cent of the average net profit, made during the three immediately preceding financial years. The net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India.

#### **Activities:**

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 activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act.

- Eradicating hunger and poverty and malnutrition, promoting preventive healthcare and sanitation and making available safe drinking water.
  - Promoting education; including special education and employment enhancing vocational skills especially among children, woman, elderly and the differently abled and livelihood enhancement projects.
  - Promoting gender equality, empowering women; setting up homes and hostels for women and orphans, setting up old age homes, day care centers, and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
  - Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining of quality of soil, air and water
  - 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 Castes, the Scheduled Tribes, other backward classes, minorities and women.
  - Such other matters as may be prescribed, like, Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up of public libraries; promotion and development of traditional arts and handicrafts; Measures for the benefit of armed forces veterans, war widows and their dependents; Training to promote rural sports, nationally recognised sports, and Paralympics sports and Olympic sports; Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government and Rural development projects.
- However, in determining CSR activities to be undertaken, preference would need to be given to local areas and the areas around where the company operates.

#### **Administration**

To formulate and monitor the CSR policy of a company, a CSR Committee of the Board needs to be constituted. Section 135 of the 2013 Act requires the CSR Committee to consist of at least three directors, including an independent director. However, CSR Rules exempts unlisted public companies and private companies that are not required to appoint an independent director as a part of their CSR Committee.

A company can undertake its CSR activities through a registered trust or society, a company established as holding, subsidiary or associate company or otherwise, provided that the company has specified the activities, modalities for utilization of funds, reporting and monitoring mechanism. If the entity through which the CSR activities are being undertaken is not established, such entity would need to have an established track record of three years undertaking similar activities.

Companies can also collaborate with each other for jointly undertaking CSR activities, provided that each of the companies are able individually report on such projects. A company can build CSR capabilities of its personnel or implementation agencies through institutions with established track records of at least three years, provided that the expenditure for such activities does not exceed 5% of the total CSR expenditure of the company in a single financial year.

The committee would be responsible to formulate CSR policy, recommend CSR initiatives and monitor CSR expenditure.

#### **Reporting:**

The report of the Board of Directors attached to the financial statements of the Company would also need to include an annual report on the CSR activities of the company in the format prescribed in the CSR 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 has been unable to spend the minimum required on its CSR initiatives, the reasons for not doing so are to be specified in the Board Report. Where a company has a website, the CSR policy of the company would need to be disclosed on such website.

#### **Existing CSR activities of Companies**

CSR is not a new concept in India, corporate like the TATA group, The Aditya Birla Group and Indian Oil Corporation, to name a few have been involved in this activity since their inception.

1. Intel Technology supported the launch of the "Girl Rising" film and

10x10 social action campaign, which highlight the importance of investing in the education of girls and women to advance economic opportunity. The other initiatives include educate students through the Intel International Science and Engineering Fair, a program of Society for Science & the Public.

2. In 2010 American Express partnered with Common Purpose to create a Leadership Academy in the UK. The Leadership Academy brings together

25 emerging leaders from some of the UK's leading charities, including community, education, international relief and cultural organizations. In

2011 India became the fourth country to host the Leadership Academy initiative. The inaugural India Leadership Academy graduated 23 emerging leaders from organizations that support causes such as child rights, education and environment. Beginning in 2012, the India Academy grew to graduate 45 participant.

### 7. Suggestion:

The following suggestion may be considered to make CSR as meaningful tool for a company to be a social institution.

a. In the line of SEBI mandate, MCA should mandate all companies coming under the purview of section 135 to develop specific policies on ethical business practices, respect for human rights, fair sourcing and environmental responsibility and report their adherence to same, any violation of which should be appropriately punishable.

b. The list of activities recommended as CSR in Schedule VII should include a few other critical areas such as – Human rights, livelihood interventions to create jobs and providing sustainable source of income, Population Health areas such as child malnutrition and access to healthcare ensuring accessibility, affordability and availability of health services, Research and Advocacy to bring knowledge from grass-roots through research for policy/program formulation and designing implementation frameworks which may bring improvement.

c. While a larger proportion of the CSR funds can be utilized in the vicinity where the company is located, certain amount of the funds should be mandated to be spent on development of the “backward districts” as identified by the planning commission. This provision has already been made in the “Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises”.

d. Prime Minister's National Relief Fund should be excluded from the list of funds eligible for CSR donations. Donations to any such funds set up by central of state Government should be limited to 20-25% of the total CSR funds earmarked for a financial year.

### 8. Conclusion:

On the basis of above study, it can be concluded that CSR is an integral part of the strategic business of corporation. The Companies Act 2013 has given a very vital concept regarding corporation which would definitely work as motivating factor for the organization.\

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