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## An overview of corporate social responsibility: A theoretical framework

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### Abstract

The Companies Act, 1956 binds all those companies that are situated in India. The provisions specified in this Act are not suitable to the present scenario, because of the rapid development and industrialization witnessed in India. For example: Earlier the penalty imposed for not attending the Annual General Meeting (AGM) was RS 10,000/-, which might not be suitable in the present scenario. The loopholes of this Act paved way for the enforcement of new Companies Act 2013 which is more rigorous when compared to the previous Act. Also, in the previous Act there was no provision for CSR, where as in the present Act, the provision for the same is provided under Sec 135, Chapter IX, of the Companies Act 2013. The Companies bill, 2012 was passed by the upper house of parliament on 8 August 2013. From April 1, 2014, it has become legally binding for companies in India to be "socially responsible". This paper provides us a perception of how CSR contributes to the overall development of the country - Legal pronouncements [Sec 135 of Companies Act, 2013] - Guidance note on CSR - MCA clarification - Top 3 companies that bestow to most of the activities specified in Schedule VII- Note on international scenario - Impact of CSR in general [Benefits and difficulties for initiating CSR activities in India].

**Keywords:** Corporate social responsibility, schedule 135, social initiatives

### Introduction

"Creating a strong business and building a better world are not conflicting goals – they are both essential ingredients for long term success" – William Clay Ford. Now in this modern world, Corporate Social Responsibility has become vital, due to which the organizations/corporate have included it as one of their main objectives. These corporate develop the economy, by their growth both directly and indirectly. In present era, corporate social responsibility is also used as a strategy by the corporate to distinguish itself from its competitors. Its investment in CSR leads to, enhancement of the brand image and reputation of the business, improve customer sales and customer loyalty etc. The goal of CSR is to embrace responsibility for the companies' action and encourage the positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered as stakeholders.

### Definition for corporate social responsibility

According to Frederick (1960) "Social responsibility means that businessmen should oversee the operation of an economic system that fulfills the expectations of the people". According to World Business Council for Sustainable development, "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"

### Objectives of the study

- To understand the concept of CSR
- To find out the scope of CSR (types of activities to be undertaken as per schedule VII of the Act); and
- To study the legal pronouncements on CSR as per Sec 135 of The Companies Act, 2013.

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## Legal pronouncements

According to Section 135 of Companies Act, 2013

- (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 any 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.
- (2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.
- (3) The Corporate Social Responsibility Committee shall
  - a) Formulate and recommend to the Board, a Corporate Social Responsibility
  - b) Policy which shall indicate the activities to be undertaken by the company as specified in schedule VII;
  - c) Recommend the amount of expenditure to be incurred on the activities referred to in the clause (a); and
  - d) Monitor the Corporate Social Responsibility Policy of the company from time to time.
- (4) The Board of every company referred to in sub section (1) shall
  - a) After taking into account the recommendations made by the Corporate Social
  - b) Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such policy in its report and also place it on the company's website, if any, in such manner as may be prescribed ; and
  - c) Ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company
- (5) The Board of every company referred to in sub section (1), shall ensure that the company spends, in every financial year, at least two percent, of the average net profits the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub section (3) of section 134, specify the reasons for not spending the amount

Explanation – For the purpose of this section “average net profit” shall be calculated in accordance with the provisions of section 198

## Schedule VII of the Companies Act 2013

Activities which may be included by companies in their CSR policies.

Activities relating to:-

- 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 prime ministers national relief fund or any other fund set up by central government or the state governments for socio economic development and relief and funds for the welfare of scheduled castes and scheduled tribes, other backward classes, minorities and women; and
- Such other matters as may be prescribed.

Types of expenditure considered as expenditure on the CSR activities as per Ministry of Corporate Affairs (MCA)

## Promoting education

- Educating the masses and promotion of road safety
- Donations to Indian Institute of Management, Ahmedabad for conservation of buildings
- And renovation of classrooms
- Consumer education and awareness by providing effective consumer grievance redressal mechanism

## Promoting health care including preventive health care

- Social business projects giving medical and legal aid, treatment to road accident victims.
- Provisions for aids and appliances to the differently-able persons
- Trauma care around the highways.

## Vocational skills

- Drivers training
- Training agricultural labor on skill development to predominantly benefit rural farming community

## Eradicating hunger, poverty and malnutrition

- Food supply as disaster relief measure
- Supplementing government schemes like midday meal by corporate through additional nutrition.

## Ecological balance

- Own research for individual crops to identify the most cost optimum and agri-ecological sustainable farm practices.
- Applied research with the focus on water management.

## Conservation of natural resource

- Product life cycle analysis from the perspective of soil conservation

## Environmental sustainability, ecological balance and conservation of natural resources

- Renewable research projects

## Following are the examples of activities that are not CSR activities (as per MCA)

1. Training to enforcement personnel
2. Capacity building of government officials and elected representatives in the area of public private partnerships and urban infrastructure.

3. Sustainable urban development and urban public transport systems
4. Program providing professional exchange of physicians between India and the United States.

### Examples for the CSR Initiatives

#### Tata Group

Corporate social responsibility has always been taken care of by the Tata group. The founder Mr. Jamshedji Tata used to grant scholarships for further studies abroad in 1892. Amendments were made to the Articles of Association of the major Tata group companies in the 1970s. Newly included was an article stating that the company “shall be mindful of its social and moral responsibilities to consumers, employees, shareholders, society and local community” A clause was also included in the groups ‘Code of Conduct’. This clause states that the group companies had to actively assist in the improving quality of life in the communities in which they operated.



**(1) Lifeline Expresses:** Tata steel has hosted 12 lifeline Expresses in association with the ministry of railways, and the government of Jharkhand. It has served over 50000 people. Five thousand people have got surgical facilities and over 1000 people received aid and appliance.

**(2) Ecological balance:** Tata motors had planted more than 2.4 million trees have been planted in Jamshedpur region. Over half a million trees have been planted in the Poona region.

**(3) Assistance to Specially-abled people:** Tata tea has set up the Srishti Welfare Centre at Munnar, Kerala; - Its various programs provide education, training, and rehabilitation of children and young adults with special needs.

**(4) Adult Literacy Program:** Indian government launched Saakshar Bharat, an adult education program in 2009 and the program will go online through TCS partnership. The scheme aimed at female literacy and the program has been rolled out in 167 districts across 19 states.

**(5) Supports Social welfare organizations:** Like, National Association for the Blind, Shishu Niketan school of Hope, Centre for Hearing Impaired Children.

#### Hindalco Industries

Vision of Hindalco industries as said by Mrs. Rajashree Birla- Chairperson “to actively contribute the social and economic development of the communities in which they operate, In doing so, build a better, sustainable way of life for the weaker sections of society and raise the country’s human development index.



- (1) Health:** Over 2334 medical camps and health care programs were organized by Hindalco in the year 2013 -2014 and it has reached 244245 villagers in deep interiors.
- (2) Education:** In the places of Renukoot, Renusagar, Lohardaga, Doraguda, Hindalco group running over 72 balwadis and it benefitted of about 2479 students from poor families.
- (3) Environment:** At Birla Cooper, Dahej, a new sewage treatment plant based on membrane bio reactor technology was installed and commissioned in 2015. It offers operational and economic advantages compared to conventional waste water treatment plants.

#### Canon India

Canon India as responsible company stands committed to the causes of Environment, Eye care and Education. It has its corporate philosophy called ‘k yosei’ which means living and working together for common good. The company is committed towards improving the quality of lives of people in the communities in which they operate.



**(1) Education:** A government school in Ferozepur Namak Village and a government school in Maharaja Katte Village were adopted by Canon India. The company's prime concern was to develop school by opening a resource centre, library, and providing training to the teachers.

**(2) Adopt Village:** Canon has adopted Ferozpur Namak Village which is situated in Mewat district, state of Haryana, Maharaja Katte village in Kanakpura district, state of Karnataka and Karanjoti village in Thane, Mumbai. This initiative has made a difference to almost 150000 lives.

**(3) Eye care:** A physical vision centre was established in the adopted villages. The centre provides support over adopted villages and neighboring groups of villages. The villagers were provided with the medicines and spectacles too.

#### Findings

**Benefit of CSR:** Corporate social responsibility offers manifold benefits both internally and externally to the companies involved in various projects.

Externally, it creates a positive image amongst the people for its company and earns a special respect amongst its peers. It creates short term employment opportunities by taking various projects like, construction of parks, school etc., and keeping in view the interest of local community. Internally, it cultivates a sense of loyalty and trust amongst the employees in the organizational ethics. More importantly, it services as a soothing diversion from the

routine workplace practices and gives a feeling of satisfaction and a meaning to their lives.

Corporate social responsibility offers benefit to the society and environment at large and they are:

- Charitable contributions
- Product safety and quality
- Employee volunteer programs
- Greater material recyclability
- Corporate involvement in community education, employment and homelessness programs

### **Key challenges hindering CSR initiatives in India**

The practical implementation of CSR is faced with lot of issues and challenges. As a result, there are several key challenges which are anticipated. The survey conducted by Times of India Group on CSR used a sample size of 250 companies involved in CSR activities through a method of online administration of questionnaire. The questionnaire was conducted after due diligence including focus group meeting, consultation with key stakeholders and a pilot in four metros. Finally 82 organizations responded to the questionnaire. These comprised of 11 public sector undertaking, 39 private national agencies and 32 private multinational companies.

The survey was to bring out the various challenges faced by the organizations in implementing the CSR initiatives in different parts of the country. The responses obtained from the participating organizations are listed below:

- Lack of community participation in CSR activities: There is lack of interest of the general public in participating and contributing to CSR activities of companies. This situation exists because of the lack of communication between the companies involved in CSR and the general public at the grassroots.
- Need for capacity building of the local Non-Government Organizations: There is need for capacity building of Nongovernmental Organizations as there is serious scarcity of trained and efficient organizations that can effectively contribute to the ongoing CSR activities initiated by the companies.
- Non availability of clear CSR guidelines: There are no clear cut statutory guidelines or policy directives to give a definitive direction to CSR initiatives of companies.

### **International Scenario**

In the global environment most of the CSR activities are performed by the public international bodies and Non-governmental organizations (NGO's). The trend in developed nations is to support the reporting of CSR without introducing legislation to mandate CSR practices, instead, governments appear to be content relying on initiatives introduced and achieved by the NGO's and organizations such as, the OECD, UN and GRI.

The current CSR landscape is multi-faceted. There are at present hundreds of private initiatives, often with their own code, or set of standards and principles which provide guidance on social and environmental issues. Their focus, membership, usage, and structures vary widely. Overall, they share a desire to help enhance the contribution that business organizations can make improvement of social and environmental conditions, including labor and other human rights.

There are three international instruments relevant to CSR

- The ILO declaration

- The OECD Guidelines
- The UN Global Compact (UNG) -which have either been developed or formally agreed by governments or have received high level recognition by governments at international level. Indeed, the standards and principles set out in ILO Declaration, the OECD Guidelines and the UNG are universal and have been derived directly from international normative frameworks.

### **Recommendations**

The Companies Act, 2013 restricts the mandate implementation of CSR initiatives only to those companies which fulfills the provisions of the Act. Our suggestion is that an opportunity must be given to other firms (if possible by small firms) to take up CSR initiatives which can also contribute to the development of the economy to certain extent. We have analyzed that there is lack of awareness regarding concept of CSR amongst society as well as companies. It will be better when the government conducts more awareness programs/ campaigns to inculcate the knowledge of CSR.

### **Conclusion**

Social obligation is much bigger than supporting worthy causes. It includes anything that impacts people and the quality of their lives"-William Clay Ford. CSR clearly impacts our corporations, society, and education organizations. In the recent years corporate business houses have substantially involved towards societal responsibilities. Companies have started to realize the importance of CSR and initiating the steps towards it. It is difficult for one single entity to bring about change, as scale is enormous. Effective partnerships between corporate, NGOs and the government will place India's development on a faster track. What is commendable is the spirit with which India has made her corporate socially responsible. In this respect, she has set an example to the other developed nations.

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