**From voluntary to mandatory CSR**

**Devendra Prasad Pandey**

**Head**

**Department of Rural Management**

**MGCG University, Chitrakoot, MP**

**Deep Narayan Tiwari**

**Research Scholar-Management**

**MGCG University, Chitrakoot, MP**

**--------------------------------------------------------------------------------------------------------------------**

**Abstract**

Corporate Social Responsibility (CSR) means corporate voluntary contribution towards growth and prosperity of society in which it operates. CSR relates with the activities of companies for welfare and safe custody of society and environment where any company / factory /establishment operates. Since the companies use the resources of the society and environment, hence they carry some responsibility and liability towards the societies and environment. It includes the welfare of societies with regards living condition, education, livelihood, health and any other activities which help in well being, which can be done for the purpose of development and prosperity of it people either social or cultural of its people.

Primarily, CSR was based on more conscience of business than compulsion. But now it has made mandatory to every corporate house. Earlier only few of companies/ businesses were involved in CSR. Due to CSR importance and its effect in developing people and ability to fight with the backwardness; Government of India, by exercising the powers conferred under section 135 and subsections (1) and (2) of Section 469 of the Companies Act, 2013(18 of 2013) makes rules that is called Companies (Corporate Social Responsibility Policy) rules, 2014. The paper describes the introduction and definition of CSR, voluntary to mandatory CSR journey and expenditure by companies on CSR in India.

--------------------------------------------------------------------------------------------------------

**Introduction –**

CSR is a concept which deals with the inner concern of business towards the environment and societies in which it operate. As these businesses work in environment and between societies, they need to do something for environment and the people of societies other than their mandatory duties.

The CSR definition used by Business for Social Responsibility is:-

Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business.

A modern concept of CSR has evolved since 1950’s, formalized in 1960’s and proliferated in 1970’s (Carroll, 1999). Corporate social responsibility (CSR), or similar terms such as corporate citizenship and sustainable development, refers to the general idea that corporations need to keep an eye on the social and ethical consequences of their conducts while pursuing the bottom line (Carroll, 2008). CSR has been a primarily Western concept developed in the historical context of democracy and market capitalism (Godfrey & Hatch, 2007; Scherer & Palazzo, 2008). CSR can be understood as a discourse, that is, “an interrelated set of texts, and the practices of their production, dissemination, and reception, that brings an object into being” (Phillips & Hardy, 2002). As a discourse, CSR is constructed through the dialogue between corporations and their major stakeholders, including NGOs, governments, consumers, employees, and the community (Clarkson, 1995).

The European Commission defines CSR as “the responsibility of enterprises for their impacts on society”. To completely meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders”

The World Business Council for Sustainable Development (WBCSD) defines CSR as “the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.”

According to the United Nations Industrial Development Organization (UNIDO), “Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions 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. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.”

**Emergence of CSR in India** -

Initially in India CSR, [charity](https://en.wikipedia.org/wiki/Charitable_organization) and [philanthropy](https://en.wikipedia.org/wiki/Philanthropy) were the main drivers of CSR. Culture, religion, family values and tradition and [industrialization](https://en.wikipedia.org/wiki/Industrialization) had a significant upshot on CSR. In the pre-industrialization period, which lasted till 1850, rich merchants donated a part of their wealth to the vast society by way of building temples for a religious cause. Moreover, these merchants helped the society in getting over phases of famine and epidemics by providing food from their godowns and money and thus securing an integral position in the society. With the arrival of colonial rule in India from the 1850s onwards, the approach towards CSR changed. The industrial families of the 19th century such as [Tata](https://en.wikipedia.org/wiki/Tata_Group), [Godrej](https://en.wikipedia.org/wiki/Godrej_Group), [Bajaj](https://en.wikipedia.org/wiki/Bajaj_Group), [Modi](https://en.wikipedia.org/wiki/Modi_Group" \o "Modi Group), [Birla](https://en.wikipedia.org/wiki/Birla_family), Singhania were strongly tending towards economic as well as social considerations. However it has been observed that their efforts towards social as well as industrial development were not only driven by selfless and religious motives but also influenced by caste groups and political objectives or studies.

In the second phase, during the [independence movement](https://en.wikipedia.org/wiki/Indian_independence_movement), there was increased stress on Indian Industrialists to demonstrate their dedication towards the progress of the society. This was when [Mahatma Gandhi](https://en.wikipedia.org/wiki/Mahatma_Gandhi) introduced the notion of "trusteeship", according to which the industry leaders had to manage their wealth so as to benefit the common man. Gandhi's influence put pressure on various Industrialists to act towards building the nation and its socio-economic development. According to Gandhi, Indian companies were supposed to be the "[temples of modern India](https://en.wikipedia.org/wiki/Temples_of_modern_India)". Under his influence businesses established trusts for schools and colleges and also helped in setting up training and scientific institutions. The operations of the trusts were largely in line with Gandhi's reforms which sought to abolish untouchability, encourage empowerment of women and rural development.

The third phase of CSR (1960–80) had its relation to the element of "[mixed economy](https://en.wikipedia.org/wiki/Mixed_economy)", emergence of [Public Sector Undertakings](https://en.wikipedia.org/wiki/Public_Sector_Undertakings) (PSUs) and laws relating labour and environmental standards. During this period the private sector was forced to take a backseat. The public sector was seen as the prime mover of development. Because of the stringent legal rules and regulations surrounding the activities of the private sector, the period was described as an "era of command and control". The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices. This led to enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure suitable distribution of resources (wealth, food etc.) to the needy. However the public sector was effective only to a certain limited extent. This led to shift of expectation from the public to the private sector and their active involvement in the socio-economic development of the country became absolutely necessary. In 1965 Indian academicians, politicians and businessmen set up a national workshop on CSR aimed at reconciliation. They emphasized upon transparency, social accountability and regular stakeholder dialogues. In spite of such attempts the CSR failed to catch steam.

In the fourth phase (1980 - 2013) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In the 1990s the first initiation towards [globalization](https://en.wikipedia.org/wiki/Globalization) and [economic liberalization](https://en.wikipedia.org/wiki/Economic_liberalization) were undertaken. Controls and licensing system were partly done away with which gave a boost to the economy the signs of which are very evident today. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing for conceptual study of CSR development in India and able to contribute towards social cause. Globalization has transformed India into an important destination in terms of production and manufacturing bases of MNCs are concerned. As Western markets are becoming more and more concerned about labour and environmental standards in the developing countries, Indian companies which export and produce goods for the developed world need to pay a close attention to compliance with the international standard.

Even though competing with international standard, some of business houses tried to escape from their moral responsibility towards people and environment. Taking attention on it, Central government using its power to make rules, ruled; that is called Companies (Corporate Social Responsibility Policy) rules, 2014.

Now every company registered under the Companies Act, 2013 is compelled to practise CSR. The rules made by Central Government in relation to CSR are as under-

1. Short Title and Commencement- (1) These rules are called the Companies (Corporate social Responsibility Policy) rules, 2014.

(2) These rules came into force on 1st day of April, 2014.

2. Definitions:- (1) In these rules , unless the context otherwise requires –

(a) “Act” means the Companies Act, 2013;

(b) “Annexure” means the Annexure appended to these rules.

(c) “Corporate Social Responsibility (CSR)” means and includes but not limited to:-

(i) Projects or programs relating to activities specified in schedule VII to the Act; or

(ii) Projects or programs relating to activities undertaken by the board of directors of a company (Board)in pursuance of recommendations of the CSR Committee of the Board as per declared CSR Policy of the Company subject to the condition that such policy will cover subjects enumerated in Schedule VII of the Act.

There are some subjects specified in the Schedule VII of the Companies Act, 2013. Every company has to cover these subjects in their CSR policy.

(d) “CSR Committee” means the Corporate Social Responsibility Committee of the board referred to in section 135 of the Act.

Section 135 of the Companies Act states that 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 is bound to form a Corporate Social Responsibility Committee of the Board in which three or more directors will be the member of the committee, out of which at least one director will be an independent director.

(e) “CSR Policy” relates to the activities to be under taken by the company as specified in schedule VII to the Act and the expenditure thereon, excluding activities undertaken in pursuance of normal course of business of a company;

“CSR Policy” of the company must concise with the subjects mentioned in the schedule VII of Companies Act, 2013. And the expenditure incurred in only these activities will be considered as expenditure incurred in CSR Policy. Any other expenditure incurred in the normal course of action of business will not be considered as CSR expenditure.

(f) “Net profit” means the net profit of a Company as per its financial statement prepared in accordance with the applicable provisions of the Act, but shall not includes the following, namely:-

(i) Any profit arising from any overseas branches of the company, whether operated as a separate company or otherwise; and

(ii) Any dividend received from other companies in India, which are covered under and complying with the provisions of section 135 of the Act;

Provided that net profit in respect of a financial year for which the relevant financial

Statements were prepared in accordance with the provisions of the Companies Act, 1956, (1 of 1956) shall not be required to be re-calculated in accordance with the provisions of the Act:

Provided further that in case of a foreign company covered under these rules, net profit means the net profit of such company as per profit and loss account prepared in terms of clause (a) of sub section (1) of section 381 read with section 198 of the Act.

(2) Words and expressions used and not defined in these rules but defined in the Act shall have the same meanings respectively assigned to them in the Act.

3. Corporate Social Responsibility:-

(1) Every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India which fulfils the criteria specified in sub-section (l) of section 135 of the Act shall comply with the provisions of section 135 of the Act and these rules:

Provided that net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Act.

(2) Every company which ceases to be a company covered under sub -section (1) of section 135 of the Act for three consecutive financial years shall not be required to -

(a) Constitute a CSR Committee; and

(b) Comply with the provisions contained in sub-section (2) to (5) of the said section, till such time it meets the criteria specified in sub-section (1) of section 135.

4. CSR Activities.-

(l) The CSR activities shall be undertaken by the company, as per its stated CSR Policy, as projects or programs or activities (either new or ongoing), excluding activities undertaken in pursuance of its normal course of business.

(2) The Board of a company may decide to undertake its CSR activities approved by the CSR Committee, through a registered trust or a registered society or a company established by the company or its holding or subsidiary or associate company under section 8 of the Act or otherwise:

Provided that-

(i) If such trust, society or company is not established by the company or its holding or subsidiary or associate company, it shall have an established track record of three years in undertaking similar programs or projects;

(ii) The company has specified the project or programs to be undertaken through these entities, the modalities of utilization of funds on such projects and programs and the monitoring and reporting mechanism.

(3) A company nay also collaborate with other companies for undertaking projects or programs or CSR activities in such a manner that the CSR committees of respective companies are in a position to report separately on such projects or programs in accordance with these rules.

(4) Subject to provisions of sub-section (5) of section 135 of the Act, the CSR projects or programs or activities undertaken in India only shall amount lo CSR Expenditure.

(5) The CSR projects or programs or activities that benefit only the employees of the company and their families shall not amount to CSR activities in accordance with section 135 of the Act.

(6) Companies may build CSR capacities of their own personnel as well as those of their Implementing agencies through Institutions with established track records of at least three financial years but such expenditure shall not exceed five percent of total CSR expenditure of the company in one financial year.

(7) Contribution of any amount directly or indirectly to any political party under section 182 of the Act, shall not be considered as CSR activity.

The CSR projects should fall under the 10 broad areas outlined in the Schedule VII of the Companies Act 2013. These are:-

Activities which may be included by companies in their Corporate Social Responsibility Policies

Activities relating to:—

(i) Eradicating extreme hunger and poverty;

(ii) Promotion of education;

(iii) Promoting gender equality and empowering women;

(iv) Reducing child mortality and improving maternal health;

(v) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;

(vi) Ensuring environmental sustainability;

(vii) Employment enhancing vocational skills;

(viii) Social business projects;

(ix) 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

(x) Such other matters as may be prescribed.

5. CSR Committees,-

(1) The companies mentioned in the rule 3 shall constitute CSR Committee as under:-

(i) An unlisted public company or a private company covered under sub-section (1) of section 135 which is not required to appoint an independent director pursuant to sub-section (4) of section 149 of the Act, shall have its CSR Committee without such director;

(ii) A private company having only two directors on its Board shall constitute its CSR Committee with Two such directors;

(iii) With respect to a foreign company covered under these rules, the CSR Committee shall comprise of at least two persons of which one person shall be as specified under clause (d) of sub-section (1) of section 380 of the Act and another person shall be nominated by the foreign company.

(2) The CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.

6. CSR Policy.-

(1) The CSR Policy of the company shall, inter-alia, include the following, namely :-

(a) a list of CSR projects or programs which a company plans to undertake falling within the purview of the Schedule VII of the Act, specifying modalities of execution of such project or programs and Implementation schedules for the same; and

(b) Monitoring process of such projects or programs:

Provided that the CSR activities does not include the activities undertaken in pursuance of normal course of business of a company.

Provided further that the Board of Directors shall ensure that activities included by a company in its Corporate Social Responsibility Policy are related to the activities included in Schedule VII of the Act.

This aims that company should focus mainly on the subjects and activities mentioned in schedule VII.

(2) The CSR Policy of the company shall specify that the surplus arising out of the CSR projects or programs or activities shall not form part of the business profit of a company.

This means any amount of the budget which surplus the actual expenditure of CSR activities i.e. CSR Projects or programs, will be used in any other CSR activities and will not any how consider the profit of the company.

7. CSR Expenditure:- CSR expenditure shall include all expenditure including contribution to corpus, for projects or programs relating to CSR activities approved by the Board on the recommendation of its CSR Committee, but does not include any expenditure on an item not in conformity or not in line with activities which fall within the purview of Schedule VII of the Act.

8. CSR Reporting:-

(l) The Board's Report of a company covered under these rules pertaining to a financial year commencing on or after the 1st day of April, 2014 shall include an annual report on CSR containing particulars specified in Annexure.

Every company covered under the Act and rules has to submit its annual report of its CSR activities for the financial year containing all the material information as mentioned in the Annexure. This report will form a part of company’s annual report.

The reporting consist of following information –

1. A brief outline of the company’s CSR policy, including overview of projects or programs proposed to be under taken and a reference to web link to the CSR policy and projects or programs.
2. The composition of CSR committee.
3. Average net profit of the company for last three years.
4. Prescribed CSR expenditure (2% of the average net profit of last three financial year)
5. Detail of CSR expenditure during the financial year-
6. Total amount to be spent for the financial year.
7. Amount unspent, if any;
8. Manner in which the amounts pent during the financial year.

VI. It also contain the CSR project or activity, sector or area to which the project covered, local area, district, state where projects or programs under taken, budget, Project or programs wise, amount spent in direct and indirect activities and detail of implementing agency, if any.

(2) In case of a foreign company, the balance sheet filed under sub-clause (b) of sub-section (l) of Section 381 shall contain an Annexure regarding report on CSR.

9. Display of CSR activities on its website: -

The Board of Directors of the company shall, after taking into account the recommendations of CSR Committee, approve the CSR Policy for the company and disclose contents of such policy in its report and the same shall be displayed on the company's website, if any, as per the particulars specified in the Annexure.

**CSR expenditure of some companies**  -

After the CSR rules, 2014 came into force one financial year (FY 2014-2015) has been completed. India Inc has been slow to warm up to new rules on corporate social responsibility (CSR) spending with only 14 Nifty companies managing to spend the mandatory 2% of net profit towards social causes in FY15.

A study of annual reports of Nifty companies by a Group showed that 48 companies spent a combined Rs 4,252 crore during FY15. This is 1.6% of the standalone net profit earned by Nifty companies for FY15. Two companies are yet to publish their annual reports.

A study of annual reports of Nifty companies by Group showed that 48 companies spent a combined Rs 4,252 crore during FY15. This is 1.6% of the standalone net profit earned by Nifty companies for FY15. Two companies are yet to publish their annual reports.

Social spending is proving to be alien for many companies. Idea Cellular is the only Nifty Company that did not spend anything on CSR last year. In its annual report, the company explained that it spent the last year preparing to implement a CSR policy. It evaluated various CSR activities and conducted consultations with organisations in the area of education, health, sanitation, poverty eradication and livelihood generation.

A chart showing top 5 CSR expenditure of companies and –

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  | | --- | --- | --- | | TOP FIVE CSR SPENDERS | | | | COMPANY | AMOUNT SPENT (Rs. Cr.) | % of NET PROFIT | | RELIANCE IND | 760.5 | 3.4 | | ONGC | 495 | 1.5 | | INFOSYS | 243 | 2 | | ITC | 214 | 2 | | NTPC | 205.18 | 1.5 | |  |

A chart showing bottom 5 CSR expenditure of companies –

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  | | --- | --- | --- | | BOTTOM FIVE CSR SPENDERS | | | | COMPANY | AMOUNT SPENT (Rs. Cr.) | % of NET PROFIT | | IDEA CELLUAR | 0 | 0 | | HERO MOTOCORP | 2.4 | 0.1 | | PNB | 3.75 | 0.1 | | KOTAK MAHINDRA | 11.34 | 0.6 | | LUPIN | 12.6 | 0.7 | |  |

(Source: Economic Times 30 September 2015)

**Conclusion**

Corporate social responsibility is under scanner of government agencies on various accounts. Companies are adhering to the norms and standards of CSR Rules. The mandatory approach has opened gateway for social spending by companiess . Companies are working with NGOs and other organsations to undertake socially responsible initiatives in India.

**References: -**

1. The Companies Act, 2013.
2. The gazette Notification, extraordinary, Part-2, Section-3, sub section – (i).
3. CSR Rules, 2014.
4. Carroll, A. B. (1999). Corporate social responsibility evolution of a definitional construct. Business & society.
5. Carroll, A. B. (2008). A history of corporate social responsibility: Concepts and practices.
6. Clarkson, M. B. E. (1995). A stakeholder framework for analyzing and evaluating corporate social performance. Academy of Management Review.
7. Godfrey, P. C., & Hatch, N. W. (2007). Researching corporate social responsibility: An agenda or the 21st century. Journal of Business Communication.
8. http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index\_ en.htm.
9. http://www.wbcsd.org/work-program/business-role/previous-work/corporate-social-responsibility.aspx
10. http://www.unido.org/what-we-do/trade/csr/what-is-csr.html
11. http://economictimes.indiatimes.com/news/company/corporate-trends/corporate-shirking-responsibility-only-14-nifty-cos-spent-2-of-net-gain-on-csr-in-fy15 (30.09.2015).