

# Concept of Corporate Social Responsibility and Company Act 2013

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**Abstract – Company, since it thrives in the very social eco-system, is obligatory to community. The spatial and temporal endurance of socially accountable, legal and environmentally sound market solutions shall be. Governmental efforts to place CSR in the core business agenda recognise the policy commitment to fostering socio-responsive enterprise in a region. The present article is the result of a country-specific analysis analysing CSR mandates, especially the Companies Act 2013, in a historical context in India in general. Desk analysis is the methodology of the sample. The study found that India's recent mandate in this regard is to bring CSR commitments together in a phase of internalization and institutionalisation of corporate success.**

**Keywords – Corporate Social Responsibility, Corporate Philanthropy, CSR, Companies Act 2013, State Engagement in Business**

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## 1. INTRODUCTION

Social corporate responsibility (SCR) may be characterised as a company's sense of responsibility to the world and to the society in which it works (both ecological and social). This duty can be fulfilled by companies by waste and emission control procedures, educational and social programmes, environmentally sustainable practises and related activities. CSR isn't all gifts or charity. CSR is a way that companies will visibly add to the common benefit while doing business. Socially conscious enterprises are not restricted to the use of capital in businesses that only raise their income. They use CSR for integration in the activities and development of the organisation with fiscal, environmental and social goals. CSR is said to enhance its consumers and society's brand image.

## 2. CSR

In order to engage with, and behave with, stakeholders, CSR applies to the notion that businesses would participate in socially and environmentally-relevant causes. CSR is referred to as the "Triple Bottom-Line Approach" to assist the company to further its business needs and the corporation's broader commitments. CSR differs from charity acts such as sponsorships and other philanthropic activities, as this latter can serve as a corporate strategy at a shallow or surface level but the latter attempts to examine the long-standing

socioeconomic and environmental problem in a detailed manner.

The promotion of CSR should be promoted for small or medium-sized enterprises (SMEs), not over-extending their resources so small, taking the corresponding fiscal skills into account. The Triple Bottom Line (TBL) CSR is designed to provide developing countries with a three-pronged strategy to improve their socio-economic development and enable them to become more competitive, in line with UNIDO. TBL allows private enterprises and organisations to coordinate their operations in a social, economic and environmental manner. This would allow countries to meet long-term Sustainable Development Objectives (SDGs). Companies should be allowed to undertake cost-effective CSR programmes to support UNIDO-based culture and the community.

### 2.1 Need of CSR

CSR is accountable either specifically or implicitly for creating a great deal of goodwill for businesses. This contain These

- Enhance staff loyalty and enable firms to maintain them for a longer term.
- Enhance the legitimacy of businesses and help them access a larger market share.

- Companies are facing less court challenges when they behave ethically.
- Strengthens the general public's goodwill towards businesses and helps to boost their "name appeal."
- Help to stabilise short- and long-term financial prices
- Help to reduce the role of the State in business as self-regulators and ethical enterprises.

CSR allows businesses and their components to improve the macro-economy of a region, such as their owners. You inspire businesses, consumers and institutional equipment to collaborate and interact.

The below are the multiple benefits for different stakeholders:

- The standard of life is improving as further amenities are introduced.
- Enterprises participate in "capacity development" in broad scales, which makes population prosperous and wealthier.
- Makes the earth more balanced and environmentally sound structures.
- The juggling activities of companies make ecosystems healthy.
- Improved waste management.
- The atmosphere would be cleaner and greener.
- Company benefits.
- Makes society more acceptable and respectful.
- Help the business to expand and become more successful in fiscal terms.
- Allows the organisation to communicate with and appreciate its needs with different stakeholders.
- Employees and family members are honoured to be affiliated with a balanced business.

## 2.2 CSR Policy

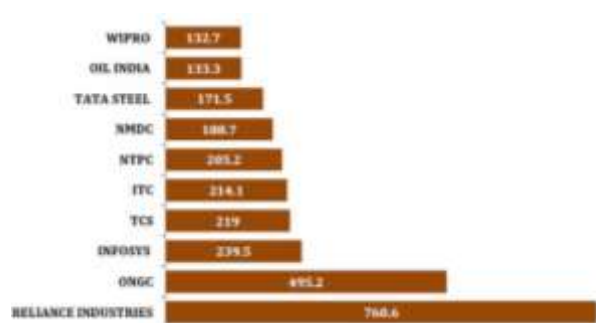
- The CSR policy of the organisation shall include:

- a summary of CSR projects or programmes which the company is planning to carry out, detailing how these projects or programmes are implemented and how these programmes may be implemented.
- Method of monitoring of initiatives or services
- A provision stating that CSR schemes, services or operations are not part of the company's commercial benefit.

## 2.3 CSR Activities

- Tasks conducted in the field of CSR shall be performed by the Organization in compliance with its CSR Policy, except
- activities undertaken in accordance with its usual operations.
- a registered trust or corporation founded either by the company, alone or by some other company,
- a company established by the Central Government, the Government of the State, or other body established by the Act of Parliament or the State Legislature under section 8, or a registered trust, or a registered company establishing the central or state government
- Section 8, or registered trust or registered company with an established 3 years track record in the implementation of similar programmes or projects, but not as specified in clauses a and b above;
- cooperation on the execution of projects or programmes and on the execution of CSR activities with other companies in such a way as to allow the CSR Commission of the companies concerned to report
- CSR schemes, initiatives or events that are not CSR activities:
- Expenses for workers of the enterprise and their family just Contribution to any political group expressly or implicitly
- Enhance education and support social equity and inspire people
- Encourage chronic hunger and injustice.
- Reproductive health improvement

- Fight against viral human immunodeficiency, birth defects, malaria, and other diseases
- Reduction in the mortality of children.
- Sustainability for the community, improved professional capabilities and social enterprise programmes
- Contribution to the National Aid Fund of the Premier or to any funds for social-economic growth established by the Central Government or the State Government and
- Aid and funding for the protection of the Scheduled Castes, the Scheduled Tribes, the other backward groups, minorities and women, as prescribed.



**Figure 1: Top 10 Spenders of CSR Activities (in Rs. Core)**

## 2.4 Responsibilities of the Board

In compliance with any of the requirements listed in 135(1) [discussed above], The company's board of directors must:

- CSR Policy will be approved, in accordance with the recommendations of the Committee, and the CSR Policy and the website Policy will be included in its report. It shall also ensure that CSR's actions contribute to the activities referred to in Annex VII of the Law.
- Ensure the operation of CSR policy
- Dedicate a minimum of 2% of the average company's net profit in each financial year in the three financial years immediately before the end of the period

[Note: Net profit is measured for the purposes of the above in compliance with Section 198 provisions (relating to managerial remuneration). However, the proceeds resulting from a branch of the Company overseas and from any dividend earned from other Indian firms protected under Section 135 would not be included.]



**Figure 2: Role of the board and the CSR committee**

## 2.5 CSR Committee

The CSR board shall constitute any Company for which CSR is applicable:

- Comprising three or more executives, of which at least one independent director is the director. If, however, a corporation is not allowed to name an impartial director, therefore the committee is composed of two or more executives.
- Comprises 2 managers, with just 2 managers on their board for a private business
- Comprises at least 2 people in the case in a foreign corporation in whom one person resides in India and one person is named by a foreign company

## 2.6 Functions of CSR Committee

The CSR Committee shall—

- Formulate and prescribe the CSR Policy on the activities to be pursued by the Corporation to the Board
- Recommend the sum of expenditure to be incurred in relation to the activity specified in clause I
- Provide a clear control framework for the delivery of the Company's CSR initiatives or services or events.

## 2.7 Need of Partnership in CSR

Company organisations, through establishing, improving and renovating human, societal, and naturally-occurring capital and income, see Corporate Social Responsibility as a great opportunity to improve their companies

dramatically. To successfully implement a CSR strategy it is essential to choose the right kind of collaborators. We are in an environment that is linked.

The other problems, experience and climate are all together. Working alone is fine so it's best to work together. In comparison with working together often, working independently offers less advantages. In partnership with other bodies, the CSR universe can discover. Joint approaches to social and environmental problems are beneficial for all. In order to implement mega-social programmes, the CSR world could promote partnerships.

Companies must achieve and work in collaboration in order to meet corporate social responsibility (CSR) targets. Partnership building has played an important role in global growth and development. The partnership puts together corporations, companies, employees and culture, and then pools their capital to meet the targets set. CSR partnerships are hour-long.

### 3. INDIAN COMPANIES ACT 2013

India's corporate facility legislation 2013 (Company Act) has passed several statutes, and new rules have been enforced under India's Corporate Facility Act 2013 (Companies Act). One of these new actions is corporate social responsibility (CSR). The concept of CSR is founded on the principle of give and take. Companies take capital in the form of commodities, human capital, etc. from population. Through carrying out the task of CSR activities, the companies give everything to the world.

The Ministry of Corporate Affairs recently notified Article 135 and Schedule VII of the Rules of Procedure and Company Act (Corporate Social Responsibility Policy) 2014 (CRS Rules) provisions which entered into force on 1 April 2014.

**Applicability:** As provided for under section 135 of the company's law, the limitation condition for applicability for CSR is the total value of a company rs. 500 crore or higher; (b) the company earns a benefit of rs. 1000 crore or higher; and (c) the net profit of the company Rs. 5 or higher. The CSR regulations extend, in compliance with the CSR rules, to Indian companies as well as to subsidiaries and project organisations of an Indian multinational company.

**CSR Committee and Policy:** For the three accounting years directly before, a qualified organisation needs expending on CSR activities at least 2 per cent of its average net profit. The qualifier corporation would also be expected to form a Board of Directors (Board) committee (CSR Committee) composed of three or more board members. A regulation indicating the operations to be carried out (the CSR policy) is formulated and recommended to

the board by the CSR Committee; the sum of costs to be paid in the activities referred shall be suggested, and the company's CSR policy shall be monitored. The Board takes into consideration the CSR Committee's findings and approves the company's CSR Policy.

**Definition of the term CSR:** The CSR definition has been specified in accordance with the CSR Regulations and does not include:

- Projects or programmes related to activities set out in the Schedule; or
- Projects or programmes relating to CSR Committee activities, as set out in the regulation of CSR, subject to the requirement that certain policies address the subjects mentioned in the Schedule. CSR Council guidelines

This concept of CSR takes on importance as it enables organisations to participate in initiatives or schemes related to scheduled activities. Companies are therefore allowed to flexibly select their desired CSR commitments in accordance with the CSR regulation.

**Activities under CSR:** The Company should take measures to end severe hunger and poverty, encourage education, foster gender equality, strengthen women, minimise infant death and improve maternal health, fight immune deficiency virus, developed Immune Deficiency Syndrome, malaria, etc., and safeguard the environment's sustainability, with a view to fulfilling its CSR obligations.

**Local Area:** According to the Corporation Act, the geographical communities and areas in which the business works should be preferred. Companies may also affiliate 2 or more enterprises in order to carry out the operations of CSR, provided they can report on their own. The CSR Committee shall also draught a CSR policy including the initiatives and programmes, draw up the list of projects and programmes to be implemented by the organisation within the year of execution, and also work on translating business models with social and environmental goals and processes so as to generate a fair value.

In addition, if the corporation is unwilling to spend the necessary allowable budget, it needs to state that the Board of Appeal is not in line so that no penal requirements are applied. The firm may also disclose annually the CSR activity, which includes an average net profit in the 3 financial years and all recommended CSR costs.



**Table 1: Composition of CSR Committee**

| Type of Company             | Composition  |
|-----------------------------|--|
| Listed                      | Three or More Director including at least one Independent Director                   |
| Unlisted & Private          | Three or more director , Independent director is mandatory required to be appointed. |
| Private having two Director | Two Director   |

### 3.1 India Companies Act 2013: Five Key Points about India's "Csr Mandate"

In over 50 years, the Indian Parliament adopted the first corporate law amendment, including many critical provisions modernising the laws of corporate governance of India. In the Companies Act 2013, 1/3 of the board comprises independent directors and at least 1 member of the board is a woman. Companies often may report management pay to the overall wage of the workers, and they may bring collective action lawsuits for shareholders.

The most focus has been paid to the so-called "2%" criterion, making India the first nation to mandate CSR. The 294-page Act provides full details; the following five main points are to be understood by all firms, which have a corporate interest in India.

#### 1. What is the 2 percent requirement?

The Act calls for organisations to have a CSR Board of Directors, consisting of at least 3 managers, each independent of whom. The Committee shall ensure that, in the three immediately intervening financial years, the organisation pays 'at least 2 per cent of the average operating profit of the company' on 'CSR' operations. If the organisation should not expend such money on CSres, the annual report requires the board to reveal why.

#### 2. Who must follow this requirement?

The condition applies to any corporation registered in India that has (1) a total Rs. 5 billion or greater (US\$ 83 million), (2) a revenue of 10 billion or more (US\$ 160 million), (3) a net profit in the previous three financial years of 50 million Rs or more (US\$ 830,000), either at home or at a subsidiary of a foreign entity. This suggests that about 8,000 businesses invest up to Rs. 150 billion (US\$2 billion) a year on CSR operations together.

#### 3. How will the requirement be enforced?

The committee of the board shall evaluate, approve and validate the investments made in CSR by the firm. The Board shall report on the CSR activities

implemented during the preceding financial year before any Annual Meeting. This mechanism is ensured by the Board's independent director. The Act does not, however, offer guidelines for which grounds a corporation should exclude 2 percent expenditures on CSR are appropriate.

#### 4. How does the act define "CSR"?

The Act describes CSR as practises promoting poverty reduction, training, fitness, environmental sustainability, equity among men and women and the advancement of professional skills. The companies will choose the region to invest in or contribute the amounts allocated for socio-economic development to central or state government funds. This concept of CSR is strong and understandable, but it does not emphasise strategic CSR, it emphasizes corporate philanthropy. But it stipulates, "the surrounding region and regions in which it exists would be preferred by the corporations."

#### 5. Will this positively or negatively impact CSR in India?

The adoption of this Companies Act should be commended for the progressive growth of a nation such as India, where one-third of the populace is analphabetic, two-thirds lack access to adequate sanitation, and 400 million citizens still survive on less than U.S.\$2 a day.

However, it can also be believed that CSR cannot be improved significantly. In addition to seeing the CSR as a systemic understanding of the social and environmental effects of industry by their activities, Indian businesses also associate CSR as corporate philanthropy. The bill could distract business leaders, ready to support strategic CSR, by strengthening this perception.

By rendering CSR obligatory, businesses may often regard it as an activity to 'check the box' instead of seeing ways of innovating and generating a return on the benefit of society and the community. And most corporations would adhere to one of the priority issues listed by channelling funds to Community organisations. There is no lack of organisations able to take these funds – it is reported that in India there are 3.3 million NGOs – but few organisations have the resources and the skill to handle programmes successfully that will have a major impact. Companies should not take proper care in selecting reputable, high impact organisations in an attempt to fulfil the expenditure obligations.

It is too early to tell what the actual effect is, in particular because there are two separate aspects to enact this act and to enforce it. However, notwithstanding the debate about the provisions on CSR and the lack of scope and clarity, leading firms are able to control the interpretation of the

CSR mandate. In India, this can only be a positive thing, given the huge need and enormous market potential.

#### 4. GOVERNANCE

In addition, Clause 135 of the Act provides for firms to set up a CSR board of their members, with at least one independent Representative, for the 2014-15 fiscal year to be completed. In the preceding three years, the Act requires firms to invest in CSR operations at least 2 percent of their averaged net profit. The draught rules of the Ministry, which are placed up for public consultation, describe net profit as tax profit, excluding profit from branches outside of India, in line with books on accounts. Encouraging training Equal gender and liberation of women Eliminating acute starvation and insecurity Reduce infant death and improve maternal wellbeing Fight against HIV, malaria and other diseases Sustainability of the environment Improving employment capabilities Employment Contribution to the relief fund of the Prime Minister and other Public and federal funds Projects for social enterprise Many other things that should be prescribed List of practises in accordance with Schedule VII Manual in India 13 recommendations for organisations to meet throughout the creation of their CSR software. The CSR committee would have to draw up a comprehensive CSR activities plan which will include budget, form of activity, tasks, duties and a reporting process for these activities by different stakeholders. The CSR Committee should also ensure that the Society or CSR corpus is lent back all types of income accruing to the enterprise by CSR operations. Controlling The new Act allows the company's Board to approve the CSR strategy for the company and to reveal its contents in their study, after taking into consideration the suggestions provided by the CSR committee, and publish the specifics, if any, on the official website of the company in the manner specified. The Board shall state the reasons in the report if the corporation does not invest the specified sum.

#### 5. CONCLUSIONS

The company is rising its goals for the company's social growth. Therefore, social roles have become important for the businesses to improve their social profile. While corporations are making substantial efforts to grow sustainably, critics continue to doubt the principle of CSR. Many contend that social accountability for businesses has been founded on some other factors and others consider it a myth. In reality, CSR is no strategy to build a brand, rather it establishes an internal brand within its employees. Take action that helps society in any form just contributes to a company's goodwill. Corporate social responsibility, for the reasons given: Company just earns money which must thus be remitted to everyone; wealth, then, is meant for use by the public and by itself; the basic motive behind all

businesses, is to alleviate human hunger as a whole; the fundamental purpose of all companies is to eliminate the hunger of mankind as a whole. It must be part of both corporate ethics and the handling of staff and clients. CSR cannot be an unnecessary extension. CSR is therefore becoming an intensely dynamic and rapidly expanding sector. A successful company citizen is increasingly essential for commercial performance and lies in the correspondence between public desires and goals, and in the broad and efficient communication of participation and achievements.

Following the adoption of the Companies' Act 2013, the expenditure could reach about INR 15,000 – 20,000 crores, which it is projected that approximately 2,500 companies were in the mandated CSR. The new law is most likely to be a transformer in the way CSR is designed and handled in India, infusing new investments, strategic initiatives and transparency. It provides all partners with new resources to create creative ways to lead to equal social and economic growth, including the private sector, the government, non-profit organisations, the society as a whole. CSR in India is already moving in a good direction and there is also a large number of facilitative organisations, including the Department of Public Enterprises (DPE), the Ministry of Corporate Affairs (MCA) and the Indian Corporate Affairs Institute (IICA). These organisations have also moved the way and play an important role in making CSR a broad activity and ensuring that gaps are reduced without sacrificing business development.

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