



**Ministry of Corporate Affairs**  
**Government of India**  
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**CSR** Corporate  
 Social  
 Responsibility



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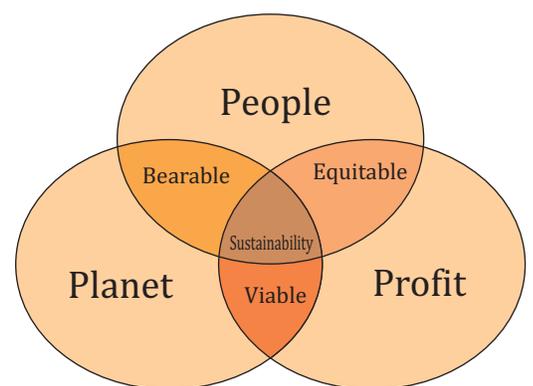


# CSR

## Corporate Social Responsibility

We live a dynamic life in a world that is growing more and more complex. Global scale environmental, social, cultural and economic issues have now become part of our everyday life. Boosting profits is no longer the sole business performance indicator for the corporates and they have to play the role of responsible corporate citizens as they owe a duty towards the society, where they operate and draw resources from it and as such they are part of society. Corporate Social Responsibility is underpinned by public policy and therefore, it has undeniable links with law.

Corporate Social Responsibility is the way companies manage their businesses to produce an overall positive impact on society through economic, environmental and social actions. Corporate Social Responsibility is a business approach that creates a long term consumer and employee value by not only creating a 'green strategy' on natural environment but also considering every dimension of how a business operates in social, cultural and environment. The company should meet the needs of its all stakeholders (consumer, employees, shareholder, clients and other related persons) without sacrificing the ability to meet the needs of the future stakeholders.



Corporate Social Responsibility (CSR) is the responsibility of an organization for the impacts of its decisions and activities on society, the environment and its own prosperity, known as the "triple bottom line" (TBL) of people, planet, and profit. The three together are often referred to as 'the three pillars' of the business entity. In 1997 Briton John Elkington introduced the term (TBL) which is based on the premise that business entities have more to do than make just profits for the owners of the capital. Here People (human capital) refers to the Society where the business conducts its operations, Planet (natural capital) refers to the sustainable environment practices and Profit is shared by all concerned.

## Significance of Corporate Social Responsibility to sustainability of business:

The CSR is important to the corporate to sustain in the environment and thus has the following significance:

- **Reduction in operative cost:** corporate social responsibility helps companies in reduction in operating cost, this may include recycling, water conservation, energy efficiency etc.
- **Increased Sales and Customer Loyalty:** The customers also recognize those companies which are socially responsible. This results in increased sales and content customers.
- **Higher productivity and Quality:** Company as an essential of its triple bottom line, focuses on improving the working conditions of its employees, people in its supply/distribution chain, which helps in increased productivity with better quality.
- **Access to Capital:** The companies with strong CSR have increased access to capital that might not otherwise have been available. Even the lending institutions are cautious and are considering this as an important parameter of granting loans.
- **Boost in Brand Image and Reputation:** CSR is an essential brand building tool used by companies to enhance its reputation amongst the stakeholders.

The Corporate Social Responsibility and Corporate Governance are inextricable in today's going perception of the society. The Corporate Governance and business ethics make the concept of Corporate Social Responsibility inevitable.

### Government's Initiatives to Promote CSR

The Government has taken various initiatives for the development of the society at large. Developing a society is a collective mechanism, requires efforts of the Government, Corporate and Individuals at large. In order to promote the concept of CSR, the Government encourages the Corporate to contribute towards the society needs, welfare, education, research and development etc.

Until the enactment of the Companies Act, 2013, Corporate Social Responsibility was not mandated. The environmental and labour laws prescribed the basic responsibilities that a Corporate owes towards its employees and the environment.

Keeping in mind the need for development, the Ministry of Corporate Affairs, Govt. of India had notified the Corporate Social Responsibility Voluntary Guidelines, 2009 on 21st November, 2009 to be followed by the Corporate. The Corporate were required therein to formulate a CSR Policy according to Voluntary Guidelines 2009 as an integral part of the overall business policy in order to provide a road map for the CSR initiatives and efforts and guide to its strategic planning. Accordingly, the CSR Policy was expected to cover the following four core elements:

- **Care for all stakeholders:** It is responsibility of the corporate to take care the interest of all stakeholders

including Customers, shareholders, creditors, supplier, employees, project affecting persons and of course the society where it operates.

- **Ethical Functioning:** Ethics are the values, behaviour, nature, conduct of the person or persons in any organization or society. The best Ethical practices are also awarded. They should not engage in any abusive, unfair, anti-competitive or corrupt language.
- **Respect for Worker's Right and Welfare:** The companies should provide the workplace environment that is safe, hygienic and humane to work. They should be taken care of the health issues arising out of the work of the organization. It should conduct the training and development program within the organization for the people of the organization.
- **Respect for Environment:** The companies are required to utilize the Planet, *i.e.*, Natural Capital in a well manner so that it cannot be wasted, excess utilized which is also required for the other states or countries and also requires to be preserve for the future generation.

Keeping in view the reviews of the Corporate Social Responsibility Voluntary Guidelines, 2009 from the stakeholders, the Guidelines Drafting Committee (GDC) was constituted by the Indian Institute of Corporate Affairs. The GDC formulated the guidelines titled "National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business" that mainstreamed the subject of business responsibilities. These Guidelines were released by MCA on July 8, 2011. These guidelines articulated nine Broad Principles which include the business responsibilities of a corporate with regard to: ethics, transparency and accountability; product/service lifecycle; employee well-being; upholding the interests of all stakeholder, especially those who are disadvantaged, vulnerable and marginalized; human rights; environment; influencing public and regulatory policy; inclusive growth & equitable development; customers. These were required to be adopted by the companies for the better business practices.

### CORPORATE SOCIAL RESPONSIBILITY vis-a-vis COMPANIES ACT, 2013

Companies Act, 2013 ["Act"] is a legislation which officially embarked on one of the world's largest experiments of introducing the concept of CSR as a mandatory provision. With the introduction of new Act, there is a statutory obligation for the Corporate to take initiatives towards Social, Environmental and Economic Responsibilities.

Section 135 of the Act and the Companies (Corporate Social Responsibility Policy) Rules, 2014 ["CSR Rules"] framed thereunder govern CSR in India. Extract of Section 135 of the Companies Act, 2013 and the Companies (Corporate Social Responsibility Policy) Rules, 2014 as given herein below:

#### Section 135 of the 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 Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;
- (b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
- (c) 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 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
- (b) 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 per cent. of the average net profits of 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 purposes of this section "average net profit" shall be calculated in accordance with the provisions of section 198.

Schedule VII of the Companies Act, 2013 provides activities which may be included by companies in their corporate social responsibility policies.

#### The activities are as under:-

- (i) eradicating hunger; poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water;
- (ii) promoting education including special education and employment enhancing vocation skills especially among children, Women, elderly, and the differently abled and livelihood enhancement projects;
- (iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
- (iv) ensuring environment sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund setup by the Central Government for rejuvenation of river Ganga;
- (v) protection of national heritage, art and culture including restoration of building and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;
- (vi) measures for the benefits of armed forces veterans, war widows and their dependents;
- (vii) training to promote rural sports, nationally recognized sports, paralympic sports and Olympic sports;
- (viii) 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 welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;
- (ix) contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;
- (x) rural development projects;
- (xi) slum area development.

The Companies (Corporate Social Responsibility Policy) Rules, 2014 *inter alia* include provisions for:

- CSR Activities
- CSR Policy
- CSR Reporting
- CSR Committees
- CSR Expenditure
- Display of CSR activities on its website

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