

Corporate Social Responsibility

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Definition of CSR:

- *CSR is a process by which an organization thinks about and evolves its relationships with stakeholders for the common good and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus, CSR is no charity or mere donations.*
- *CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies use CSR to integrate economic, environmental and social objectives with the company's operations and growth.*

Definition of CSR:

- **“Corporate Social Responsibility” (CSR) Means and include but not limited to :-**

 - 1) **Projects or programs relating to activities specified in the schedule VII of the Act; or**
 - 2) **Projects or Programs relating to activities undertaken by BODs of the company in pursuance of the recommendations of the CSR committee of the Board as per declared CSR Policy of the company enumerated in schedule VII of the Act.**
- **“CSR Policy” relates to the activities to be undertaken by the company as specified in schedule VII of the act and the expenditure thereon, excluding activities undertaken in pursuance of normal course of business of a company**

Reasons for CSR Activities

CSR activities are important to and even expected by the public

And they are easily monitored worldwide

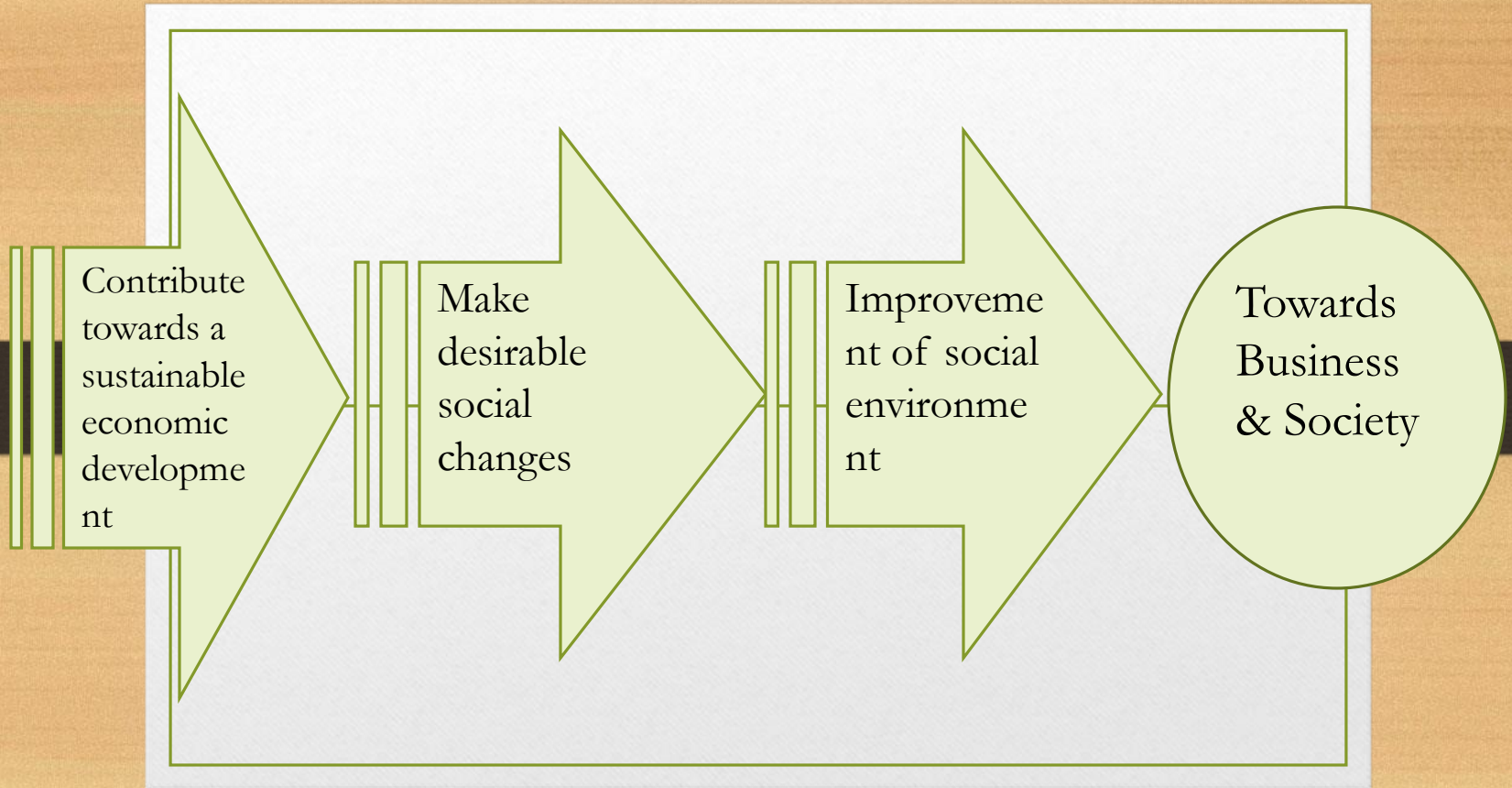
CSR activities help organizations hire and retain the people they want

CSR activities contribute to business performance

WBCSD (World Business Council for Sustainable Development)

“The continuing commitment by business to behave ethically and contribute to sustainable economic development while improving the quality of life of the workforce and their families as well as of the local community and society.”

Basic Constituents of CSR





CSR Principles & Strategies.

Respect for human rights.

Respect for the differences of views.

Diversity & non-discrimination should be the guiding principle.

Make some social contribution.

Enter into dialogue

Self-realization & creativity.

Fair dealings & collaboration.

Feedback from the community.

Positive value-added

Long term economic & social development.

Models of corporate social responsibility

- Friedman model
- Ackerman Model

- Carroll Model
- Environmental Integrity & Community Model.
- Corporate Citizenship Model.
- Stockholders & Stakeholders Model.
- New Model of CSR.

Friedman Model(1962-73)

- A businessmen should perform his duty well, he is performing a social as well as a moral duty.
- A businessmen has no other social responsibility to perform except to serve his shareholders & stockholders.

Ackerman Model (1976)

- The model has emphasized on the internal policy goals & their relation to the CSR.
- Four stages involved in CSR.
 - Managers of the company get to know the most common social problem & then express a willingness to take a particular project which will solve some social problems.
 - Intensive study of the problem by hiring experts & getting their suggestions to make it operational.
 - Managers take up the project actively & work hard.
 - Evaluating of the project by addressing the issues.

- Six Strategies in the adoption of CSR.
 - Rejection strategy
 - Adversary strategy
 - Resistance strategy
 - Compliance strategy
 - Accommodation strategy
 - Proactive strategy



Carroll Model(1991)



Carroll Model(1991)

- **Philanthropic requirements:** Donation, gifts, helping the poor. It ensure goodwill & social welfare.
- **Ethical responsibility:** Follow moral & ethical values to deal with all the stakeholders.
- **Economic responsibility:** Maximize the shareholders value by paying good return.
- **Legal responsibility:** Abiding the laws of the land.

Environmental Integrity & Community Health Model.

- This model developed by Redman.
- Many corporate in US adopted this model.
- Corporate contribution towards environmental integrity & human health, there will be greater expansion opportunities.
- Healthy people can work more & earn more.
- CSR is beneficial for the corporate sector.
- CSR in a particular form is welcome.

Corporate Citizenship Model

- To be a corporate citizen, a corporate firm has to satisfy four conditions:
 - Consistently satisfactory
 - Sustainable economic performance
 - Ethical actions
 - Behaviour.
- A particular firm's commitment to corporate citizenship requires the fulfillment of certain social responsibility.

Stockholders & Stakeholders Model

Stockholders
Model

ORIENTATION

Stakeholder
Model

Self	1 Productivism	2 Progressivism	Interest
MOTIVES			
Moral	3 Philanthropy	4 Ethical Idealism	Duty

Contd.....

- Productivists believe that the only mission of a firm is to maximize the profit.
- Philanthropists who entertain the stockholders. CSR is dominated by moral obligations & not self-interest.
- Progressivists believes the corporate behaviour basically motivated by self interest & should have ability to transform the society for good.
- Ethical Idealism concern with sharing of corporate profits for humanitarian activities.

New Model of CSR

		Ethical Rooting	
		Strong	Poor
Financial Capability	Strong	CSR (+)	CSR (-)
	Poor	CSR (-)	CSR (-)

Best Practices of CSR

- To set a feasible, Viable & measureable goal.
- Build a long lasting relationship with the community.
- Retain the community core values.
- The impact of the CSR needs to be assessed.
- Reporting the impact.
- Create community awareness.

Need for Corporate Social Responsibility

- To reduce the social cost.
- To enhance the performance of employees.
- It a type of investment.
- It leads to industrial peace.
- It improves the public image.
- Can generate more profit.
- To provide moral justification.
- It satisfies the stakeholders.
- Helps to avoid government regulations & control.
- Enhance the health by non polluting measures.

Arguments for the CSR

- Corporate should have some moral & social obligations to undertake for the welfare of the society.
- Proper use of resources, capability & competence.
- The expenditure on CSR is a sort of investment.
- Company can avoid many legal complications.
- It create a better impression.
- Corporate should return a part of wealth.

Arguments against the CSR

- Fundamental principles of business gets violated.
- It vey expensive for business houses.
- CSR projects will not be successful.
- There are not the special areas of any business.
- CSR is to induce them to steal away the shareholders money.

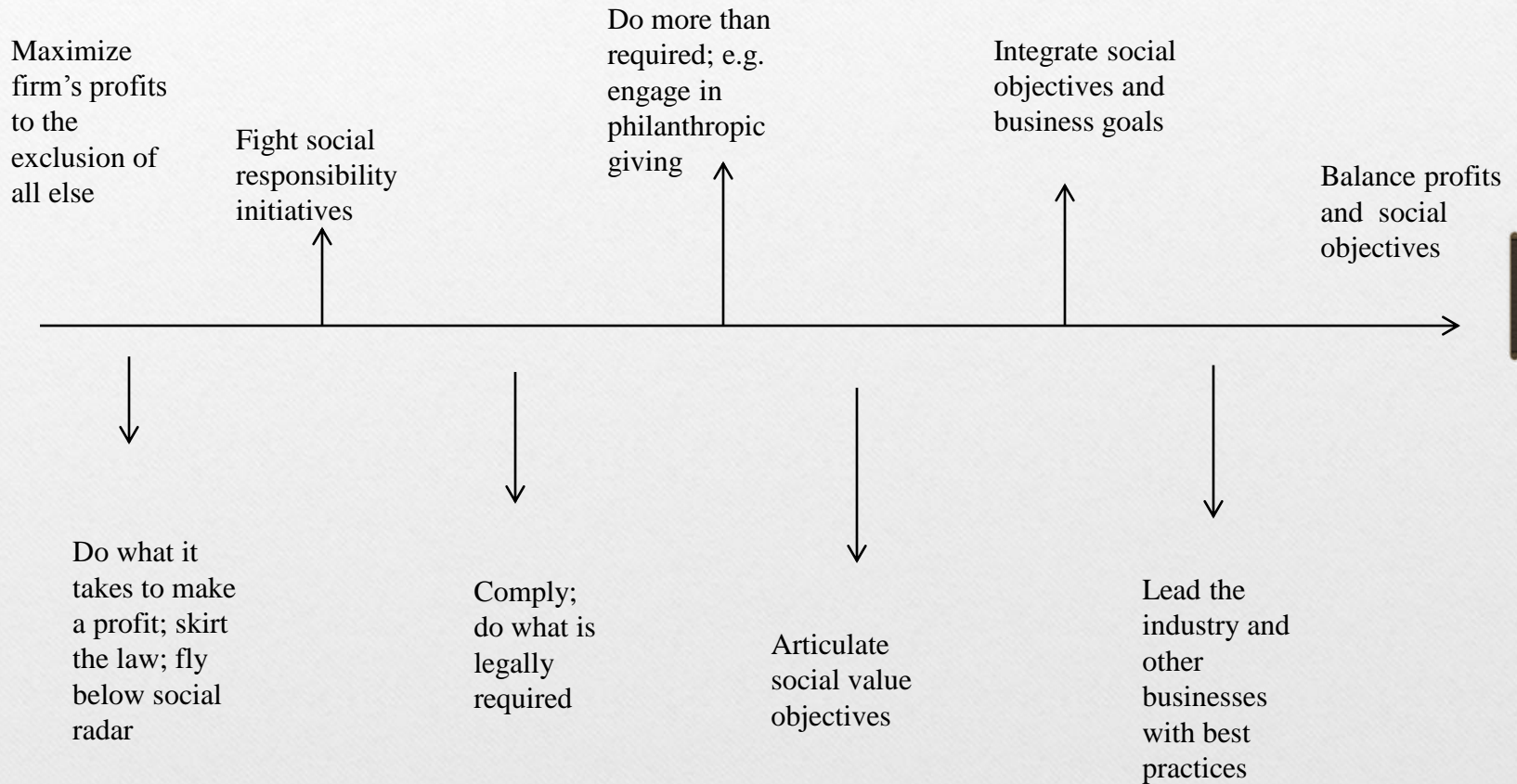
Indian Perspective.

- The Sachar committee was appointed in 1978 to look into corporate social responsibility issues concerning Indian companies
- The company must behave & function as a responsible member of society.
- Committee suggests openness in corporate affairs & behaviour.
- Some business houses have established social institutions like Schools, colleges, charitable hospitals etc.
- Corporate sectors have not made significant contributions. (Polluting Environment).

Indian Perspective.

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- ❖ PM's Ten Point Social Charter 2007
 - ❖ MCA and CSR
 - ❖ Voluntary Guidelines on CSR, 2009
 - ❖ Released in Dec 2009, in presence of the president of India
 - ❖ A statement of Intent by the national government
 - ❖ Intended to be replaced by a more comprehensive guideline.
 - ❖ National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business 2011
 - ❖ Planning Commission and Task Force on Business Regulation.

Corporate Social Responsibility Continuum



Applicability : (sec. 135(1))

- To all companies that have either of the following in any financial year:
 - ▶ **Net worth** of INR 500 crore or more
 - ▶ **Turnover** of INR 1000 crore or more
 - ▶ **Net profit** of INR 5 crore or more

* All Companies means every Company including its holding or subsidiary and foreign company having its branch office or project office in India.

CSR COMMITTEE :-

➤ Composition As per act :-

- Comprising of 3 or more directors with at least 1 Independent Director
- Composition should be disclosed in the annual board of directors report

➤ Company -wise composition rules :-

- Unlisted public or private company u/s 135(1), not required to appoint Independent Director pursuant to sec.149(4) :- **Composition committee without independent director**
- Private company having 2 directors only :- **Compose committee with such 2 directors**
- In case of foreign company:- **Committee shall comprise of 2 persons of which**
 - 1.) One person shall be specified u/s 380(1)(d) of this act;
 - 2.) Another person shall be nominated by foreign company.

RESPONSIBILITY OF THE COMMITTEE :-

- Committee shall prepare, formulate and recommend to the board the CSR policy of the company which shall indicate activities to be undertaken;
- Recommend amount of expenditure to be incurred on the above activities;
- Monitor CSR policy from time to time

RESPONSIBILITIES OF COMPANY'S BOARD :-

- Approve and Disclose CSR policy in the Annual Director's report and company website;
- Ensure implementation of CSR activities as per the policy;
- Ensure that the company spends, in every financial year, at least 2% of average net profit made during the three immediate preceding financial years;
- Director's report to specify reasons in case the specified amount is not spent;

ANNUAL SPENDING ON CSR BY COMPANIES :-

- For every financial year, CSR spending would be computed as **2% of the average net profits** made by the company during every block of three preceding financial years
- Net profit for the sec.135 and CSR rules shall mean, net profit before tax as per books of accounts and shall not include profits arising from branches outside India
- For this purpose, the average Net profit will be calculated in accordance with the sec.198

CSR POLICY :-

- **CSR Policy of the company shall include :-**
 - Projects and programs that are to be undertaken;
 - A list of CSR projects/ programs which a company plans to undertake, which may also focus on integrating business models with social and environmental priorities and processes in order to create shared value, specified modalities of execution in the execution of areas or sectors chosen and implementation schedules;
- **CSR of the company should provide that surplus arising out of the CSR activity will not be part of business profits of a company.**
- **CSR Policy would specify that the corpus would include the following:**
 - a] 2% of the average net profits, there from, out of CSR activities
 - b] Any income arising out of CSR activities;
 - c] Surplus arising out of the CSR activities.

FORMAT OF REPORTING :-

- ❑ Format for the annual report on CSR initiatives to be included in the board report by qualifying companies;
- ❑ Provide a brief outline on Company's CSR Policy including an overview of activities proposed to be undertaken and indicate the web link to the CSR Policy;
- ❑ The composition of the CSR committee
- ❑ Average Net profit of the company for last three financial years;
- ❑ Prescribed CSR expenditure;
- ❑ In case the company has failed to spend the 2% of the Average Net Profit (INR) of the last 3 financial years, please provide the reasons for not spending the amount

FORMAT OF REPORTING :-

- ❑ Details of CSR activities/ projects undertaken during the year:
 - a.) Total amount to be spent for the year;
 - b.) amount carried forward from earlier years;
 - c.) amount spent during the year;
 - d.) amount carried forward for the year.

- ❑ To be signed by CEO/ MD/ Director or Chairman CSR Committee. (Corporate Social Responsibility) Companies act, 2013

LIST OF CSR ACTIVITIES :-

- ❖ Eradicating extreme hunger and poverty;
- ❖ Promotion of education;
- ❖ Promotion of gender equality and empowering women;
- ❖ Reducing child mortality and improving maternal health;
- ❖ Ensuring environmental sustainability;
- ❖ Employment enhancing vocational skills;
- ❖ Social business projects;
- ❖ Contribution to the Prime Minister's National Relief Fund or any other fund setup 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 ;
- ❖ Such other matters as may be prescribed. (Corporate Social Responsibility) Companies act, 2013

Non-Applicability:

- Every company which ceases to be a company covered u/s 135(1) of the for 3 consecutive financial years shall not be required to-
 - constitute a CSR committee;
 - comply with the provision contained in sub-section 2 to 5 of Sec. 135.
till such time it meets the criteria specified in sec. 135(1).

CSR Committee:

- Composition As per Act:-

- Comprising of 3 or more directors with atleast one Independent Director;
- Composition to be disclosed in the annual board of director's report.

- Company-wise Composition Rules:-

- unlisted public company or private company u/s 135(1), not required to appoint independent director pursuant to sec. 149(4):- **Compose Committee without independent director**
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CSR Activities:

- Only such CSR activities will be taken into consideration as are undertaken within India.
- Only activities which are not exclusively for the benefit of employees of the company or their family members shall be considered as CSR activity.
- The Company to give preference to local area and areas around where it operates, for spending the amount earmarked for CSR activities.
- Contribution of any amount directly or indirectly to any political party u/s 182 of the act, shall not be considered as CSR activity.

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Legal obligation regarding CSR:

- **Disallowance of CSR expenditure:**

- CSR to be incurred only by specified class of companies; hence character of appropriation
- No adverse / penal consequence if reason for not spending is explained in Board Report
- 'Comply or explain' provision
- No carry forward of unspent amount
- No investigation into the books of the company

- **Points for defense:**

- From financial reporting perspective, it will be treated as expense and not distribution of profit
- Courts in the past have allowed voluntary CSR expenses as tax deductible under various situations:
 - Drinking water facilities to the residents in the vicinity of the refinery
 - Aid to the school run for the benefit of the children of those local residents

List of CSR Activities:

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- Such other matters as may be prescribed.

CSR Activities:

- A company may also conduct/ implement its CSR programs through Trusts, Societies, or Section 8 companies operating in India, which are not setup by the company itself.
- Companies may build CSR capacities of their own as well as those of their implementing agencies through institutions with established **track record of at least three financial years but such expenditure shall not exceed 5% of total expenditure of the company in one financial year .**
- Companies may collaborate or pool resources with other companies to undertake CSR activities and any expenditure incurred on such collaborative efforts would qualify for computing the CSR spending.

Sub Section 8 of Section 134

❖ If a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.

THANK YOU