

# CORPORATE SOCIAL RESPONSIBILITY IN INDIAN CORPORATIONS MEASURED AGAINST 2% MODEL

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**ABSTRACT:** Corporate Social Responsibility is now gone beyond charity or philanthropy. It is incorporated into the grass root level of the corporations. As business is an embedded and inseparable part of the society, it owes something back to the community. CSR is becoming the new face of corporations to discharge their responsibility towards the society. The new provisions in the Company Act 2013 are making the CSR process more transparent. The new 2% model can bring a drastic change in the perception of social responsibility. This paper tries to analyse the CSR practices implemented before and after amendment to the Act. It also studies the new provisions of the Company Act 2013.

**Key words:** Company Act 2013, Philanthropy, CSR practices, Corporations, Social Responsibility

## I. INTRODUCTION

Corporate Social Responsibility is gaining momentum in India. It is not just limited to Philanthropy alone but a continuing commitment by business to behave ethically and contribute to economic development while benefitting the environment, local community and society at large. India is the first country in world to make CSR spending mandatory. Under the new law(Company Act 2013), every company having a net worth of Rs.500 crore or more or revenue above Rs.1,000 crore or a net profit above Rs.5 crore needs to spend at least 2% of the average net profits for the past three years on CSR activities.

## II. LITERATURE REVIEW

Now a days CSR is an important element of development because companies need to look after their communities in which they operate, particularly those that are operating in rural areas. In an article by Premlata and A. Agarwal [2013], the authors have focused on why CSR is important for corporations? Why should they contribute for Country's Economic Development? CSR can help the corporations to build their goodwill, differentiate themselves from their rivals by taking social initiatives, enhance access to capital and markets, increase sales and profits, improve brand image and reputation, enhance customer loyalty and also improve employee job satisfaction level.

Dr. Verma and A. Singh [2014], in their paper analyses the motive of making CSR spending mandatory. India is the first country in the world to make CSR spending mandatory. This new law will replace the nearly 60 years old Companies Act. 1956. The Governments perspective on CSR is that though India's business sector has generated wealth for shareholders for decades, the country still continues to grapple with problems of poverty, unemployment, illiteracy and malnutrition. Corporate growth is sometimes seen as widening the gap between India and Bharat (Rural India) through its income-skewing capability. Therefore along with the government even business sector needs to fill this gap. The authors have also given suggestions to strengthen the 2% CSR Model like: Government must present the real picture of social problems and justify why all firms should see it as a sustainable investment and not an expense, Government should show some reduction in the burden of taxes, etc. Finally the author has concluded that companies should take the concept of mandatory CSR positively.

In his study Miklesh Yadav [2014] has identified the impact of CSR on business reputation. The Analysis reveals that CSR not only strengthens the core of business, but also creates value along with cost and risk reduction. CSR helps in generating healthy competition with ethical base and steers the corporation towards transparency and disclosures which in turn helps to win their stakeholders. As a result, it has positive impact on the financial performance of firms. In other words, the study finds that CSR may positively influence relationships with their stakeholder which creates corporate reputation.

Dr. Reena Shyam [2016], in her paper explains the concept of CSR and analyses the development of CSR in India. The author says that till 1990's CSR was solely dominated by the idea of Philanthropy. However, over the last few years, the concept of CSR has been changed from mere Charity to Responsibility. Even the Government has made CSR mandatory through a Statutory Provision for Private Companies. She has also explored several challenges faced by Companies for CSR Implementation in India with the help of certain examples of Indian Corporations like- Lack of Community participation; Need to build local capacities, Visibility Factor and many more. At the end the author has given valuable suggestions to make CSR initiatives more effective like: CSR initiatives should be active from the grass root level, allocating finance for treating CSR as an investment and monitoring CSR activities closely to ensure that initiatives really deliver the desired outcomes.

## III. OBJECTIVES

1. To study the Corporate Social Responsibility Practices implemented in Large-scale Industrial Units before and after amendment to the Companies Act
2. To study the Section 135 of Company Act 2013 on CSR and suggest ways to inculcate it in their normal course of business.

#### IV. DATA COLLECTION METHODS

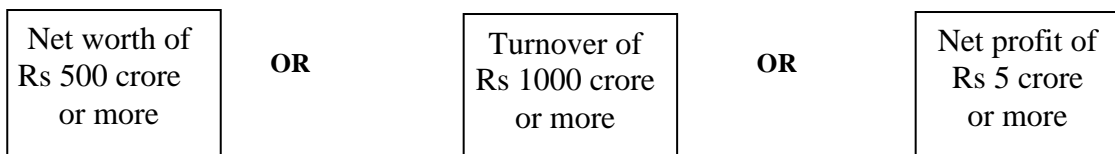
The primary data was collected through a detailed interview schedule and a structured questionnaire. The questionnaire was mainly based on open ended questions as well as partly on closed ended questions. Statistical data regarding Large-scale Industrial Units from Satara, Kolhapur and Sangli Districts was collected.

The secondary data was collected from relevant literature like books, magazines, library of EBSCO online database, various Journals, Proceedings of Seminars and Conferences, Research papers, Annual Reports of Selected Organizations, Company's Act 1956 and the Amendments made in the Act, etc.

Information from the official website of the Companies was also used for the study by the researcher.

#### V. APPLICABILITY FOR CSR

As stated under the Companies Act, the company which satisfies any of the following criteria has to comply with the CSR provisions as stipulated under the Companies Act. This is given in pictorial representation as below:



#### VI. CONSTITUTION OF THE CSR COMMITTEE

1. The company which satisfies any one of the above criteria during any financial year shall be required to constitute a Corporate Social Responsibility Committee of the Board.
2. The CSR Committee shall be comprised of 3 or more directors, out of which at least one director shall be an independent director.

#### VII. FORMULATION OF CSR POLICY

1. The Committee shall formulate and recommend to the Board a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken as specified in Schedule VII.
2. Recommend the amount of expenditure to be incurred on the activities referred.
3. Monitor the CSR Policy of the company from time to time.

#### VIII. ROLE OF THE BOARD

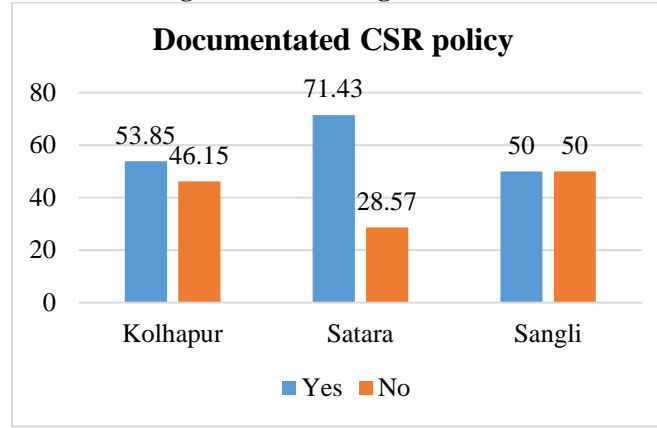
1. The Board, after taking into account the recommendations made by the Committee, shall approve the CSR policy for the company.
2. Ensure that the activities are undertaken by the company as included in CSR Policy of the company.
3. Ensure that the company spends, in every financial year, at least 2% of the average net profits made during the three immediately preceding financial years.
4. If the Company is not in a position to spend such amount, the Board is required to specify the reasons for not spending the amount.

#### XI. ACTIVITIES INCLUDED UNDER CSR

- i. eradicating hunger, poverty and malnutrition, promoting preventive health care and 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 environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water;
- v. protection of national heritage, art and culture including restoration of buildings 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 benefit of armed forces veterans, war widows and their dependents;
- vii. training to promote rural sports, nationally recognised 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 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.”

**X. DATA ANALYSIS**

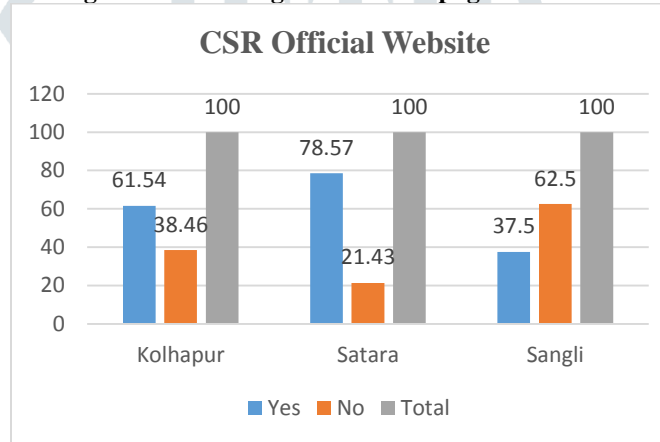
**Table No. 1 Organisations having Documented CSR Policy**



**Interpretation:**

Out of the total respondents, 60% respondents said they had proper documentation process for CSR activities, while others are framing their policy as per the Act. In Kolhapur region 53.85% respondents said they had proper documentation process for CSR activities. In Satara district 71.43% respondents had proper documentation and in Sangli district only 50% respondents had proper documentation for CSR activities.

**Table No. 2 Organisation having a CSR Homepage on their Official Website**



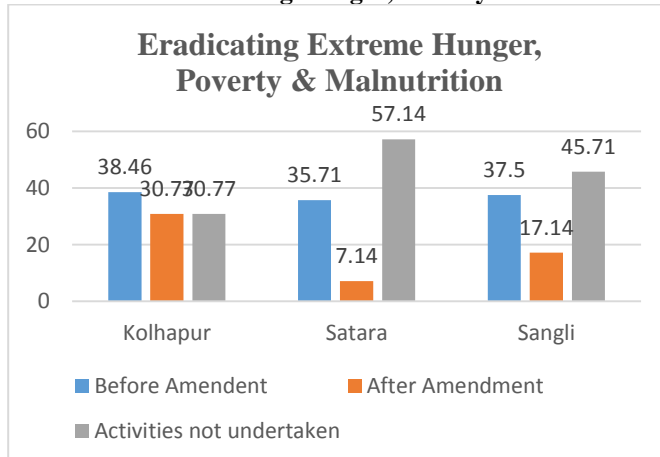
**Interpretation:**

62.86% respondents said, they have their own website and all CSR details like CSR Policy, CSR budget allocation as per 2% criteria, CSR activities to be undertaken; Composition of CSR Committee, CSR Expenditure, etc. are published on their website. In Kolhapur district 61.54% respondents said they have their own website, whereas 38.46% respondents said, they don't publish any information related to CSR on their website.

In Satara District 78.57% respondents said they have their own website and updated the information about the CSR activities. Only 21.43% respondents said they don't display any information on their website. In Sangli District, only 37.5% respondents publish CSR related information on its websites, while 62.5% respondents said they have no information on their website regarding this. As per above interpretation most of the companies in Sangli District do not have a CSR Homepage as compared to Kolhapur and Satara Districts.

**CSR Activities undertaken by the Organisation before and after Amendments made in the Companies Act, 2013.**

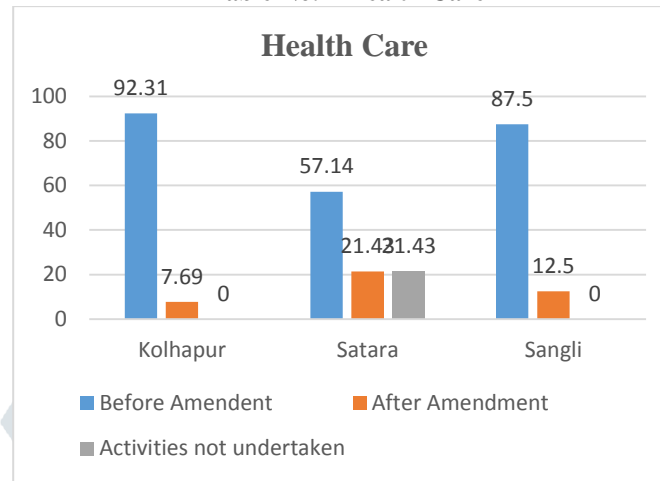
**Table No. 3 Eradicating Hunger, Poverty & Malnutrition**



**Interpretation:**

The above table shows that 38.46% companies in Kolhapur District have undertaken CSR Initiatives on Eradicating Hunger, Poverty and Malnutrition before Amendment to the Act, 30.77% companies have undertaken this initiative after Amendment and 30.77% companies have not undertaken this initiative up till now. In Satara District, 35.71% respondents said they have undertaken this initiative before Amendment, 7.14% have undertaken after Amendment and 57.14% have not undertaken it all. In Satara District, 37.5% respondents said they have undertaken this initiative before Amendment, 12.5% have undertaken after Amendment and 50% have not undertaken this initiative uptill now. It is interpreted from the above analysis that majority of the companies have not undertaken this CSR initiative.

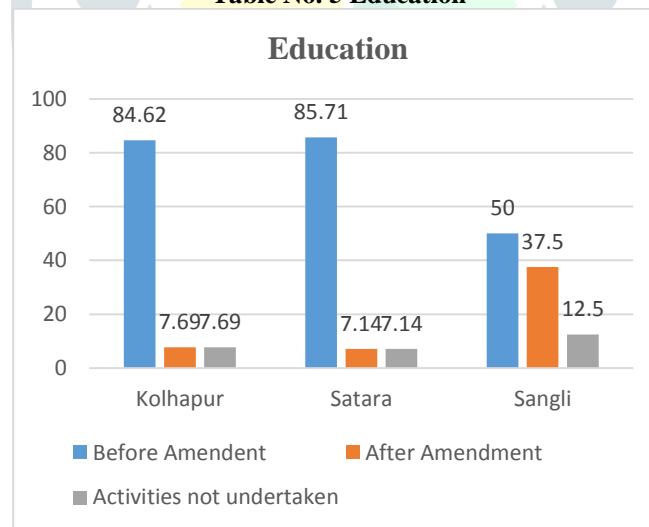
**Table No. 4 Health Care**



**Interpretation:**

The above table depicts that 92.31% companies in Kolhapur District have undertaken CSR Initiatives on Healthcare before Amendment to the Act, 7.69% companies have undertaken this initiative after Amendment and there is not a single company which has not undertaken this initiative up till now. In Satara District, 57.14% respondents said they have undertaken this initiative before Amendment, 21.43% have undertaken after Amendment and 21.43% have not undertaken it all. In Sangli District, 87.5% respondents said they have undertaken this initiative before Amendment, 12.5% have undertaken after Amendment and there is no such company which has not undertaken this initiative uptill now. It is interpreted from the above analysis that majority of the companies have undertaken this CSR initiative before Amendment, few have carried out this initiative after Amendment and very few have never carried it out up till now.

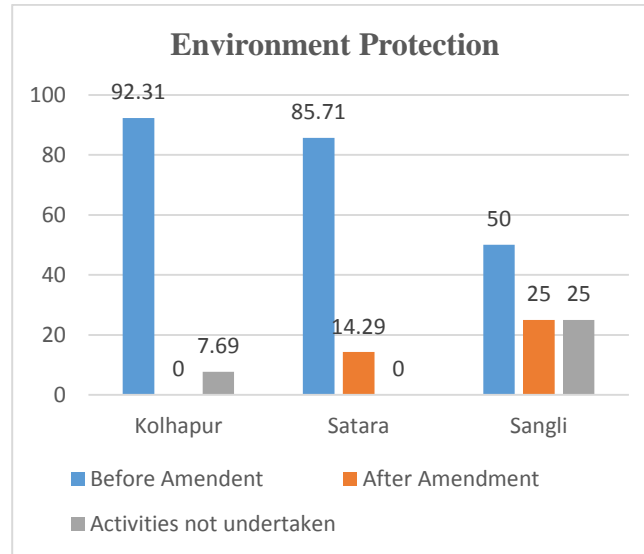
**Table No. 5 Education**



**Interpretation:**

The above table indicates that 84.62% companies in Kolhapur District have undertaken the Education Initiative before Amendment to the Act, 7.69% companies have undertaken this initiative after Amendment and 7.69% companies have not undertaken this initiative up till now. In Satara District, 85.71% respondents said they have undertaken this initiative before Amendment, 7.14% have undertaken after Amendment and 7.14% have not undertaken it all. In Sangli District, 50% respondents have undertaken this initiative before Amendment, 37.5% have undertaken after Amendment and 12.5% respondents have not undertaken this initiative uptill now. The above analysis interprets that majority of the companies have undertaken this CSR initiative before Amendment, few have carried out this initiative after Amendment and very few have never carried it out up till now.

**Table No. 6 Environment Protection**

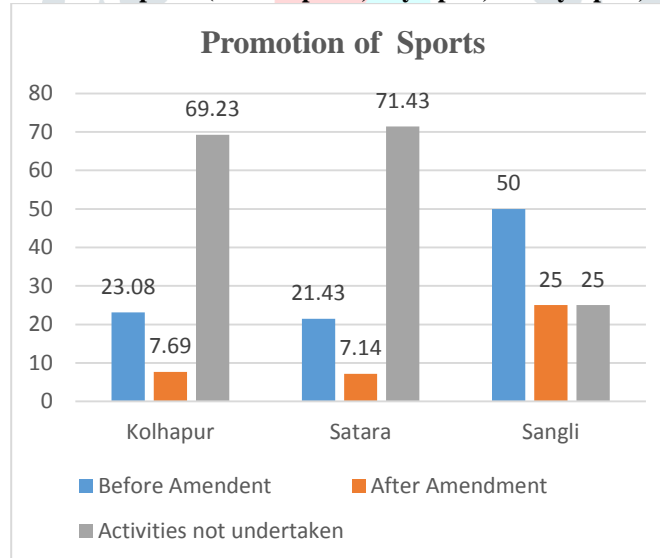


**Interpretation:**

The above table shows that 92.31% respondents in Kolhapur District have conducted various CSR Activities for Environment Protection, before Amendment to the Act, and only 7.69% respondents have never conducted this CSR activity. In Satara District, 85.71% respondents said that they have conducted this initiative before Amendment and remaining 14.29% said they have conducted it after Amendment. In Sangli District, 50% respondents said they have conducted this initiative before Amendment, 25% have conducted it after Amendment and rest 25% respondents have not carried out this initiative uptill now.

It is revealed from the above analysis that majority of the companies in all the three districts have conducted this CSR initiative before Amendment, some of them have carried out this initiative after Amendment and the remaining respondents have never carried it out up till now.

**Table No. 7 Sports (Rural Sports, Olympics, Paralympics, etc.)**



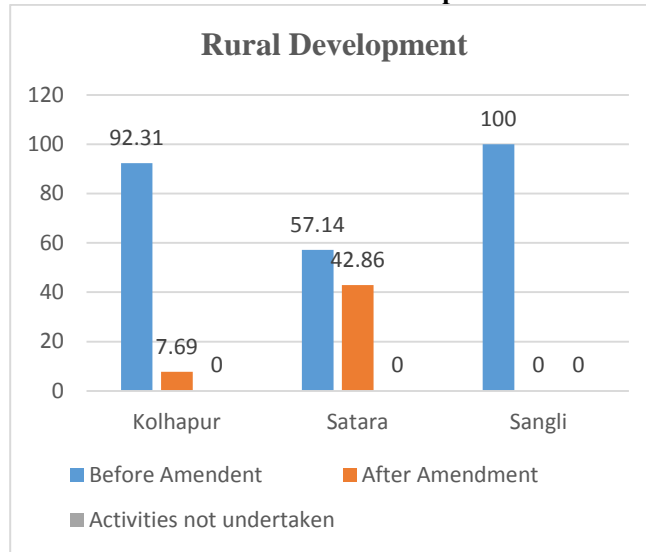
**Interpretation:**

The above table indicates that only 23.08% respondents in Kolhapur District have undertaken CSR Initiatives for Promotion of Sports including Rural, Olympics and Paralympics Sports before the Amendment to the Act, 7.69% respondents have undertaken this initiative after Amendment to the Act and 69.23% respondents say that they do not undertaken this initiative.

In Satara District, 21.43% respondents said they have undertaken this initiative before Amendment, 7.14% have undertaken it after Amendment and 71.43% have not undertaken it earlier. In Sangli District, 50% respondents said they have undertaken this initiative before Amendment and 25% respondents have undertaken it after Amendment and rest 25% have not undertaken this initiative uptill now.

It is interpreted from the above analysis that there are more respondents who have not undertaken this initiative till now.

**Table No. 8 Rural Development**

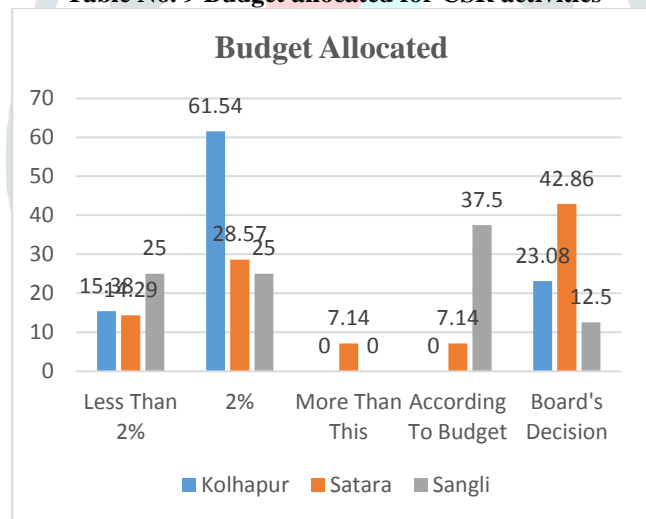


**Interpretation:**

The above table depicts that 92.31% respondents in Kolhapur District have undertaken CSR Initiatives for Rural Development far before the Amendment to the Act, whereas rest 7.69% respondents have undertaken this initiative after Amendment and there is not a single company left which has not undertaken this initiative. In Satara District, 57.14% respondents said they have undertaken this initiative before Amendment and remaining 42.86% have undertaken this initiative after Amendment. In Sangli District, 100% respondents are carrying out this initiative much before the Amendment.

It is interpreted from the above analysis that majority of the companies have undertaken this CSR initiative much before Amendment, and the remaining few are carrying out this initiative after Amendment.

**Table No. 9 Budget allocated for CSR activities**



**Interpretation:**

According to the above table 15.38% respondents in Kolhapur region say that their CSR Budget is less than 2%, 61.54% say it is 2% as per the Act and 23.08% respondents say that their CSR Budget is based on the Board's Decision that means it is not fixed. In Satara region 14.29% respondents said that their CSR Budget less than 2%, 28.57% say it is exact 2%, 7.14% say it is more than 2%, 7.14% say it has no relation with the Annual Budget of the Company and 42.86% say that their CSR Budget is based on the Board's Decision. In Sangli region 25% respondents have their CSR Budget less than 2%, 25% say it is 2%, 37.5% say it has no relation with the Annual Budget of the Company and 12.5% say that their CSR Budget is decided by the Board of Company.

It is concluded that Budget allocated for CSR activities of the companies does not have a fixed %. It varies based on the policies and profit or loss incurred by the company.

**XI. FINDINGS**

1. It is found that majority of the companies have a proper documentation process for their CSR Policy, while some companies do not have proper process for documenting its CSR Policy.
2. Majority of the respondents have their own website and all CSR activities are published on their website. It is also found that most of the companies in Kolhapur and Satara District have a separate Homepage for CSR. Whereas very few companies in Sangli District have a separate CSR Homepage.

3. It is found that majority of the companies have not undertaken the CSR initiative of Eradicating Extreme Hunger, Poverty and Malnutrition up till now.
4. The number of companies undertaking the CSR initiative of Healthcare before Amendment is more, as compared to companies who have carried out this initiative after Amendment. There are few companies which have not ever carried out this initiative up till now.
5. It is evident that the percentage of companies undertaking the Initiative for Education before Amendment is high. Very few companies have not carried out any activity in this area up till now.
6. There are companies which are working for the Protection of Environment even before Amendment, while some of them have started this initiative after Amendment. But still there are some companies who have not yet worked on this initiative.
7. It is found that more than 50% respondents have not undertaken any initiative for Promotion of Rural Sports, Olympics and Paralympics till now.
8. It is interpreted that majority of the companies have undertaken the initiative of Rural Development much before Amendment, and the remaining few are carrying out this initiative after Amendment.
9. It is concluded that 40% Companies have Budget Allocation of 2% for their CSR activities, 17.14% companies have less than 2%, only 2.86% companies spend more than 2% for their CSR activities, while some companies say that they don't have a fixed percentage. It varies based on the policies and profit or loss incurred by the company.
10. It is concluded that more than 50% companies have constituted their separate CSR Committee and remaining half have not constituted a CSR Committee yet.
11. It is concluded that 60% companies implement their CSR activities through CSR Department or Committee, 11.43% carry out through their own trusts, 2.86% with the help of NGO's and 25.71% through their HR Department.
12. Majority of the companies Monitor and Review their CSR Activities through Mid-term Review and after completion of the activity undertaken.
13. It is found that majority of the companies publish their CSR Report on the company's official website.

## XII. SUGGESTIONS

1. Companies that have a proper documented CSR Policy help them to follow a systematic approach towards their initiatives. Hence it is advised to constitute a proper policy according to the rules in the Act.
2. It also mandatory to have a CSR Homepage on their official website. The homepage should have the CSR policy statement, constitution of the CSR Committee and activities to be conducted.
3. Out of the 12 areas which were taken for the study, majority of the companies concentrate more on only five areas viz., Education, Healthcare, Gender Equality and Women Empowerment, Environment Protection and Promotion of Rural Sports. It is therefore, advised to also undertake the other areas which have been overlooked.
4. It is mandatory to have a separate CSR Committee for CSR activity. The composition of the committee should be as mentioned in the act. Having a separate committee can exclusively concentrate on social problems.
5. Companies should incorporate CSR into their vision, strategy and operations.
6. Government is trying to bring uniformity in corporate social responsibility practices through the new law (Company Act 2013). Hence, instead of taking it as compulsion, companies should undertake CSR positively as an investment.

## XIII. CONCLUSION

Government perceives that legal compliance of CSR will make the corporations more responsible towards the society and its stakeholders. CSR can make way for the corporations to contribute in various activities which directly or indirectly help in bridging the gap between developed and under-developed. As we know that corporations being social entities must take care of all stakeholders. Teamwork between government and corporations can bring dramatic changes in the society at large.

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