



## Brief analysis of CSR (Corporate social responsibility) with Indian acts

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### Abstract

Corporate social responsibility (CSR) refers to strategies corporations or firms conduct their business in a way that is ethical, society friendly and beneficial to community in terms of development. This article analyses the meaning of CSR based on some theories available in literature and role of CSR in Indian ACTS and its impact on private companies. It is argued that three theories namely utilitarian, managerial and relational theories of CSR supported by works of other scholars in the area could be used to suggest that CSR becomes an international concern due to globalized nature of business that knows no border. CSR is evolving in its meaning and practice. The article then discusses the role of CSR in Indian Acts because the very logic of CSR is towards seeing its impact in community socially, environmentally and economically.

**Keywords:** corporate social responsibility, Indian development, multinational corporations, corporate-society relations, income tax, company act

### Introduction: What is CSR

According to one of the most frequently cited definitions, CSR is 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis'. In reality, the distinction between companies' voluntary and mandatory action is sometimes blurred in the developing world. As Graham and Woods point out, voluntary initiatives may have mandatory aspects and national regulatory frameworks may incorporate the use of voluntary instruments. Also, debating whether companies should go beyond their legal obligations and voluntarily adopt CSR initiatives makes little sense in many developing countries. The issue of corporate social responsibility (CSR) has been debated since the 1950s. Latest analyses by Secchi (2007) and Lee (2008) reported that the definition of CSR has been changing in meaning and practice. The classical view of CSR was narrowly limited to philanthropy and then shifted to the emphasis on business-society relations particularly referring to the contribution that a corporation or firm provided for solving social problems. In the early twentieth century, social performance was tied up with market performance. The pioneer of this view, Oliver Sheldon (1923, cited in Bichta, 2003), however, encouraged management to take the initiative in raising both ethical standards and justice in society through the ethic of economizing, i.e. economize the use of resources under the name of efficient resource mobilization and usage. By doing so, business creates wealth in society and provides better standards of living. The present-day CSR (also called corporate responsibility, corporate citizenship, responsible business and corporate social opportunity) is a concept whereby business organizations consider the interest of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders as well as their

environment. This obligation shows that the organizations have to comply with legislation and voluntarily take initiatives to improve the well-being of their employees and their families as well as for the local community and society at large. CSR simply refers to strategies corporations or firms conduct their business in a way that is ethical and society friendly. CSR can involve a range of activities such as working in partnership with local communities, socially sensitive investment, developing relationships with employees, customers and their families, and involving in activities for environmental conservation and sustainability. This article aims to analyze three theories of CSR namely utilitarian, managerial and relational in terms of their meaning and practical emphases. These groups of theories are chosen because they are interdisciplinary in nature covering aspects of economic system, the managerial aspects of the corporation.

The theories are as follows: 1) The utilitarian theory, 2) The managerial theory, and 3) The relational theory (see Table 1). On the other hand, Garriga and Mele's (2004) analysis maps CSR into four types of territories. They are: 1) Instrumental theories, 2) Political theories, 3) Integrative theories, and 4) Ethical theories. Table 2 describes the theories and the relevant approaches. There is no doubt that some similarities do exist in both conceptualizations of CSR and the discussion will be based on emphases and approaches.

### Situation in India

However, in India, CSR was previously managed just as a mere responsibility but it was not obligatory. Therefore, alongside the superlative flow in revenue generation, the importance of social causes was somewhat lacking behind. And so, to make CSR as mandatory expense item, the central government, with the help of the Ministry of Corporate Affairs, notified Section 135 and Schedule VII of the

Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014.

### **For whom is CSR a mandatory Expense**

According to the provision, firstly, each and every company having net worth of rupees five hundred crores or more, or companies having a turnover of rupees one thousand crores or more or entities having a net profit of rupees five crore or more has to spend 2% of its net profit in any financial year on CSR activities and this needs to be carried forward for the next three years.

### **Corporate social responsibility under companies Act**

Corporate Social Responsibility (CSR) assumes significance as it permits companies to engage in projects or programs related to activities related to social welfare and improvement enlisted under the terms of Companies Act, 2013. There is an element of flexibility in company activities by allowing them to select their preferred CSR engagements that are in agreement with the overall CSR policy of the company. In this article, we review the applicability of CSR, policy of CSR, role of Board of Directors and activities of CSR. Definition of Corporate Social Responsibility (CSR) The term Corporate Social Responsibility or CSR has been defined as under, but is not limited to:

- Projects or programs with reference to activities that are specified in the Schedule; or
- Projects or programs related to activities undertaken by the Board in pursuance of recommendations of the CSR Committee according to the declared CSR policy subject to the condition that such policy covers subjects explained in the Schedule.

### **Applicability of corporate social responsibility to companies**

Corporate Social Responsibility is required for all companies viz. private limited company, limited company. The following companies are necessary to constitute a CSR committee:

- Companies with a net worth of Rs. 500 crores or greater, or
- Companies with a turnover of Rs. 1000 crores or greater, or
- Companies with a net profit of Rs. 5 crores or greater.

If any of the above financial strength criteria are met, the Corporate Social Responsibility (CSR) provisions and related rules will be applicable to the company. These companies are required to form a CSR committee consisting of its directors. This committee oversees the entire CSR activities of the Company.

### **Role of Board of Directors in CSR**

The board of directors of a company plays a significant role in CSR activities of the company. The role of Board is as follows: Approval of the CSR policy, Ensuring its implementation, Disclosure of the contents of CSR policies related to its report, Placing the same on Company's website, Ensuring that statutory specified amount is spend by the company with reference to CSR activities and It's significant to note that there is no penalty if the particular amount is not spent on CSR activities. In such case, the board's report must

identify the reason for such short spending.

### **CSR Committee and Policy**

All qualifying company required to have a CSR committee are required to spend at least 2% of its average net profit for the directly preceding 3 financial years on CSR activities. Additionally, the qualifying company shall be necessitated to comprise a committee (CSR Committee) of the Board of Directors (Board) comprising of 3 or more directors. The CSR Committee will prepare and recommend to the Board, a policy which will specify the activities to be undertaken (CSR Policy); advocate the amount of expenditure to be incurred on the activities referred and monitor the CSR Policy related to the company. The Board will take into account the recommendations made by the CSR Committee and support the CSR Policy of the company.

### **Activities permitted under corporate social responsibility (CSR)**

The following activities can be performed by a company to accomplish its CSR obligations: Eradicating extreme hunger and poverty, Promotion of education, Promoting gender equality and empowering women, Reducing child mortality, Improving maternal health, Combating human immunodeficiency virus, acquired, immune deficiency syndrome, malaria and other diseases, Ensuring environmental sustainability, Employment enhancing vocational skills, social business projects, 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 such other matters as may be prescribed.

### **Importance to Local Areas and Neighborhoods**

Under the terms of Companies Act, preference must be given by companies in its CSR activities to local areas and the areas where the company operates. Company may possibly also choose to link with 2 or more companies for fulfilling the CSR activities provided that they are competent to report individually. The CSR Committee will also prepare the CSR Policy in which it includes the projects and programmes which is to be undertaken, organize a list of projects and programmes which a company plans to embark on during the execution year and also focus on integrating business models with social and environmental priorities and process for the reason of creating share value. The company can in addition make the annual report of CSR activities in which they declare the average net profit (average net profit" shall be calculated in accordance with the provisions of section 198.) for the 3 financial years and also approved CSR expenditure but if the company is not capable to spend the minimum required expenditure the company has to provide the reasons in the Board Report for non-compliance so that there are no related penal provisions.

### **Corporate Social Responsibility under Income Tax Act**

Section 37 of income Tax Act, 1961 is a residuary section which allows deduction of business expenditures not covered

specifically under sections 30 to 36. Since the admissibility of CSR expenditure as business expenditure under section 37 was not clear due to differing Court rulings, the Budget proposals were expected to clarify the same, which it did, however not in the interest of the corporate sector.

In order to clarify, the Finance (No.2) Act, 2014 has inserted an Explanation to section 37 which is reproduced as under:

“Explanation 2.—For the removal of doubts, it is hereby declared that for the purposes of sub-section (1), any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to be an expenditure incurred by the assessee for the purposes of the business or profession.”

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Voluntary CSR Expenditure are allowable as business expenditure.

**Table 1**

<b>CSR Expenditure</b>	<b>Alloweable or Not</b>
Statutort Expenditure	Not Allowable
Voluntary CSR Expenditure	allowable

**Conclusion**

Statutory expenditure on CSR is not Allowable as Per Income Tax Act but Voluntary expenditure on CSR Expenditure is allowable expenditure as per income tax act

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