



CSR TOWARDS SUSTAINABLE DEVELOPMENT UNDER THE COMPANIES ACT, 2013

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Abstract: *Corporations in India are under growing pressure from internal as well as external stakeholders to achieve corporate sustainability and consider the economic, environmental and social implications of their activities. Sustainability reporting is gaining momentum globally as an important communication tool for companies to disclose their sustainability plans and performance and enhance stakeholder confidence. This paper aims to review the various initiatives and trends of corporate sustainability with special reference to the recent trends of sustainability reporting in India. It also provides an overview of various approaches to CSR promotion and its implementation and elicits the essentiality of CSR under the Companies Act, 2013. However, it contends that Indian corporations have been showing positive signs in embracing this concept, and the recent policy developments shall also encourage the reporting efforts in India.*

Key Words: *CSR, Sustainability reporting, Companies Act 2013, Corporate Sector*

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INTRODUCTION

In a context of change and globalization, businesses are increasingly asked to pursue their mission paying attention to the needs of the stakeholders whose well-being depends on the way enterprises manage their core activities. Corporations around the world are struggling with a new role, which is to meet the needs of the present generation without compromising the ability of the next generations to meet their own needs. Organizations are being called upon to take responsibility for the ways their operations impact societies and the natural environment. They are also being asked to apply sustainability principles to the ways in which they conduct their business.

CSR and sustainable development are essentially contested concepts as their meaning is always part of debate about their application. One of the reasons is because CSR and sustainable development are applausive, internally complex and openly defined terms. Generally, the conception of CSR involves several matters related to a company's behavior in its social environment beyond the exclusively economic realms with which companies are traditionally associated. Thus, CSR has often been seen as apart from the profit-making activity of the firm, not required by the law and not the result of governmental coercion. Sustainable development has broad appeal and little specificity, but some combination of development and environment as well as equity is found in many attempts to describe it. Sustainable development is commonly perceived as fighting poverty while protecting the environment on a macro-level. Sustainable development when incorporated by the organization is called corporate sustainability and it contains, like sustainable development, all three pillars: economic, ecological and social.

REVIEW OF LITERATURE

A study (**Matilda & Martin, 2007**) of the attitudes towards sustainable development and corporate social responsibility among future business leaders in Bangalore, India in 2007 found a positive attitude towards CSR and suggest that top students evaluate the attractiveness of a future employer partly through its CSR work.

In a survey (**Albaum & Peterson, 2006**) of nearly 3,000 undergraduate business students from 58 universities and colleges in 32 states of the United States regarding certain general ethics-related attitudes and the degree of ethicality these students possess, it was found



that the female survey participants were slightly but significantly more ethically inclined than male survey participants.

An extensive survey (**PWC, 2002**) was jointly undertaken by the United Nations Development Programme, the British Council, the Confederation of Indian Industry and Price Waterhouse Coopers. Answers from 102 Indian corporations to 43 questions gave detailed information regarding the 'how and why' of CSR in Indian industry, the barriers to CSR, and apprehensions and expectations for the future.

The results from the TERI-Europe poll (**TERI, 2001**) showed that attitudes to CSR were definitely changing also in India. The poll investigated attitudes to and expectations on the social, economic, and environmental responsibilities of companies operating in India among the Indian middle class, workers, and corporate executives. A third of the respondents reported that they considered environmental, labor, and social issues as most important when forming an opinion about a company.

Another study (**Matilda & Martin, 2007**) conducted by the Indian Institute of Management, Bangalore showed how Indian young professionals from the urban elite considered CSR issues important, although they tended to view urban issues as more of a major concern than rural issues. The overall results point towards an increasing awareness of CSR in India. The survey findings indicated that around 70% of the respondents believed that social responsibility was not only a government role but also a corporate one. A significantly smaller proportion -17%, agreed with the proposition that social obligations are the responsibility of government, not corporations. Nearly 80% agreed that codes of conduct are necessary elements to encourage accountability and transparency. Surprisingly, a majority of respondents – 72%, agreed that CSR expenses should be seen as a 'cost of operations, not as an appropriation of profits' and that 'corporates must discharge social responsibility obligations' (86%).

The **Millennium Poll (EI, 1999)** which interviewed 23,000 average citizens worldwide highlighted the rising expectations on companies to not only make profits, pay taxes, employ people and obey laws, but also to contribute to broader societal goals. However, the study showed that Indian citizens did not agree with this to the same extent as for example North Americans.



OBJECTIVES OF THE STUDY

The objectives of the study are as under:

- To give a brief insight on Corporate Social Responsibility for sustainable development.
- To enumerate the various approaches to promotion of CSR and its implementation.
- To elucidate the significance and adoption of CSR under the Companies Act, 2013.

I CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY (CSR): DEFINITION

Massive content studies have been conducted to define what CSR is and what elements it contains. Enormous definitions of CSR have been given by researchers, scholars, institutions and businessmen. This abundance of definitions has resulted in variations about CSR being defined. Some of these definitions are found to be biased due to the specific context under which these were studied. However, the point that needs to be considered is that there are no conceptual differences. Meaning by they are based on the similar concept i.e. the responsibility an organization owe towards its stakeholders (Dahlsrud, 2006).

Corporate Social Responsibility is defined an effort on the part of the company to voluntarily participate in practices that are expected to have a positive effect on society and economy with a view to maintaining and improving firm-stakeholders relations in the long run.

Baker (2004) has defined corporate social responsibility as *“CSR is about how companies manage the business processes to produce an overall positive impact on society.”* In the words of Khoury (1999), *“Corporate social responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and financial performance.”*

As per European Commission (2001), CSR is defined as *“A concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.”*

An overview of the definitions cited above signifies that the embedded concept behind CSR is similar. CSR definitions are congruent. In other words, CSR includes



organizations/corporations being voluntarily involved in activities/responsibilities that has (or are expected to have) a positive influence on its stakeholders such as shareholders, management, lenders, suppliers, employees, society, environment and to the economy at large.

DIMENSIONS OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

CSR has been defined on the basis of five distinct dimensions and responsibilities of corporations are dispersed among these five areas/dimensions. These include stakeholder, social, economic, voluntariness and environmental dimensions (Dahlsrud, 2006).

- **Stakeholders dimension**

Responsibility towards stakeholders includes working on building stakeholders-organization relationship through interaction with stakeholders, ensuring protection of their interests, providing monetary as well as non monetary benefits, etc.

- **Social dimension**

Social responsibility requires organizations to participate in activities for the benefit of the society. Scope of activities an organization should owe towards the society is gigantic. However, major activities include working on the provision of quality products, protecting the rights of majorities as well as minorities, provision of employment opportunities, contributing for strengthening the weaker sections of the society and refraining from contributing anti society practices.

- **Economic dimension**

Responsibilities of corporations towards the economy are to participate in activities inclined for economic development, to ensure best utilization of national resources and to work in accordance with the national legal statutes through acting on rules defined.

- **Voluntariness dimension**

This includes companies being voluntarily involved in activities in which they are not obliged by law i.e. beyond the legal obligations such as following the ethical values of society in constitution of strategic goals, participation in programs designed to uplift economy in financial depression stage of economy and assisting in the rehabilitation of disasters victims.



- **Environmental dimension**

This includes working on keeping health environment such as establishing industries and factories in far away areas to prevent people from reactions that can occur as an after myth of disposal of wastage and to control noise.

CSR CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

It is evident that company can contribute to sustainable development via its CSR activities if its CSR values coincide with those of sustainable development. Under the circumstances when company's CSR is directed mainly to short term profit, CSR contribution to sustainable development is questionable. First of all, there always has to be guaranteed a short term win-win scenario from the firm's perspective whereas sustainable development by definition is targeted at a long-term period. Secondly, additional conditions have to be assured in order CSR partnership with a non-business partner to become sustainable. The main difference from short term profit oriented CSR is that companies seek to uncover and pursue long term win-win situations what appear to be win-loss situation in the short term turned into win-win situation in the long term. CSR definition which says that CSR is not directed at short-term profits, CSR is thought to largely contribute to sustainable development. Many factors and influences have led to increasing attention being devoted to the role of companies and CSR. These include:

- **Sustainable development:** Humankind is using natural resources at a faster rate than they are being replaced. If this continues, future generations will not have the resources they need for their development. In this sense, much of current development is unsustainable-it can't be continued for both practical and moral reasons. CSR is an entry point for understanding sustainable development issues and responding to them in a firm's business strategy.
- **Globalization:** With its attendant focus on cross-border trade, multinational enterprises and global supply chains-economic globalization is increasingly raising CSR concerns related to human resource management practices, environmental protection, and health and safety, among other things. CSR can play a vital role in detecting how business impacts labour conditions, local communities and economies, and what steps can be taken to ensure business helps to maintain and build the public good.



- **Governance:** Governments and intergovernmental bodies have developed various compacts, declarations, guidelines, principles and other instruments that outline norms for what they consider to be acceptable business conduct. CSR instruments often reflect internationally-agreed goals and laws regarding human rights, the environment and anti-corruption.
- **Corporate sector impact:** The sheer size and number of corporations, and their potential to impact political, social and environmental systems relative to governments and civil society, raise questions about influence and accountability. Companies are global ambassadors of change and values.
- **Finance:** Consumers and investors are showing increasing interest in supporting responsible business practices and are demanding more information on how companies are addressing risks and opportunities related to social and environmental issues. A sound CSR approach can help build share value, lower the cost of capital, and ensure better responsiveness to markets.
- **Ethics:** A number of serious and high-profile breaches of corporate ethics resulting in damage to employees, shareholders, communities or the environment-as well as share price-have contributed to elevated public mistrust of corporations. A CSR approach can help improve corporate governance, transparency, accountability and ethical standards.
- **Business tool:** Businesses are recognizing that adopting an effective approach to CSR can reduce the risk of business disruptions, open up new opportunities, drive innovation, enhance brand and company reputation and even improve efficiency.

II THE APPROACHES TO CSR PROMOTION AND IMPLEMENTATION

As companies they face the challenges of a changing environment in the context of globalization and in particular the Internal Market, they are increasingly aware that corporate social responsibility can be of direct economic value. Although the prime responsibility of a company is generating profits, companies can at the same time contribute to social and environmental objectives, through integrating corporate social responsibility as a strategic investment into their core business strategy, their management instruments and their operations. CSR should be treated as an investment, not a cost, much like quality management. They can thereby have an inclusive financial, commercial and



social approach, leading to a long-term strategy minimizing risks linked to uncertainty. Companies should pursue social responsibility for which there are various approaches. They are as below:

- **Philanthropy approach:** A more common approach of CSR is philanthropy. This includes monetary donations and aid given to local organizations and impoverished communities in developing countries. Some organizations do not like this approach as it does not help build on the skills of the local people, whereas community-based development generally leads to more sustainable development. Many companies use the strategy of benchmarking to compete within their respective industries in CSR policy, implementation, and effectiveness. Benchmarking involves reviewing competitor CSR initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment, and how customers perceive competitor CSR strategy. After a comprehensive study of competitor strategy and an internal policy review performed, a comparison can be drawn and a strategy developed for competition with CSR initiatives.
- **A holistic approach:** While companies increasingly recognise their social responsibility, many of them have yet to adopt management practices that reflect it. Pioneering companies can help to mainstream socially responsible practice by disseminating best practice.
 - *Social responsibility integrated management:* Companies' approaches in dealing with their responsibilities and relationships with their stakeholders vary according to sectoral and cultural differences. At the start companies tend to adopt a mission statement, code of conduct, where they state their purpose, core values, and responsibilities towards their stakeholders. These values then need to be translated into action across the organization, from strategies to day-to-day decisions.
 - *Social responsibility reporting and auditing:* Many multinational companies are now issuing social responsibility reports. While environmental, health, and safety reports are common, reports tackling issues such as human rights and child labour are not. Moreover companies' approaches to social reporting are as varied as their approaches to corporate social responsibility.



- *Quality in work:* Employees are major stakeholders of companies. In addition, implementing corporate social responsibility needs commitment from the top management, but also innovative thinking and, thus, new skills and closer involvement of the employees and their representatives in a two-way dialogue that can structure permanent feedback and adjustment.
- *Social and eco-labels:* Consumers care about the most are protecting the health and safety of workers and respecting human rights throughout company operations and the chain of suppliers, safeguarding the environment in general, and the reduction in emissions of greenhouse gases in particular.
- *Socially responsible investment:* In recent years, socially responsible investing (SRI) has experienced a strong surge in popularity among mainstream investors. Socially and environmentally responsible policies provide investors with a good indication of sound internal and external management. They contribute to minimizing risks by anticipating and preventing crises that can affect reputation and cause dramatic drops in share prices (Green Paper, 2001).
- **Triple bottom line (TBL) approach:** An increasing number of companies are adopting a new way of operationalizing the intangible concepts of 'corporate social responsibility' and 'sustainability'. Triple Bottom Line or TBL focuses on data collection, analysis and decision making using economic, environmental and social performance information. In this concept, the company is judged on the basis of its triple bottom-line: its returns to shareholders, communities and the environment. Under this concept, the company will have to look at not just what it should do with its profits, but how it made its profits in the first place. This implies looking at impacts on all its stakeholders. Companies like Tata group and ITC are at the forefront of adopting the triple bottom-line approach in India.
- **Cluster approach:** all the local actors are stimulated to cooperate in order to manage the responsibility of the whole productive system towards the workers in the cluster, the local community, the customers, the environment, etc., being the social



responsibility actions of their own organizations only a part of the sustainability management at the territorial level and an instrument to strengthen its potential.

- make local actors identify common CSR
- identify intermediary local actors
- diffuse – among the local actors
- develop – through a participative process
- make at local actors' disposal collective CSR tools

III CSR UNDER COMPANIES ACT, 2013

The 2013 Act has introduced several provisions which would change the way Indian Corporate do business and one such provision is spending on Corporate Social Responsibility activities. CSR which has largely been voluntary contribution by Corporate Law has now been included in law. The key provisions, analysis and challenges relating to the compliance of CSR provisions for companies are shown hereunder:

- Formation of CSR Committee has been made mandatory for a company having net worth of Rs. 500 crore or more, or turnover of Rs.1, 000 crore or more or net profit of Rs. 5 crore or more during any financial year.
- Such company shall spend, in every financial year, at least 2 % of the average net profits of the company made during three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy (CSRP).
- The mandate of the said CSR committee shall be:
 - to 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;
 - to recommend the amount of expenditure to be incurred on the activities referred to above;
 - to monitor the Corporate Social Responsibility Policy of the company from time to time
- The Board of every company referred to above shall after taking into account the recommendations made by CSR Committee:
 - approve the CSR Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, and



- ensure that the activities as are included in CSR Policy of the company are undertaken by the company, and
- ensure that the company spends, in every financial year, at least two per cent of the average net profits

CSR ACTIVITIES

As per Companies Act, 2013, CSR activities to include the following:

- eradicating extreme hunger and poverty
- promotion of education
- promoting gender equality and empowering women
- reducing child mortality and 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

CONCLUSION

Business houses all over the world are increasing in realizing their stake in the society and engaging in various social and environmental activities. Corporate social responsibility is an evolving concept that incorporates a wide range of internal and external policies and practices extending from the workplace, into the community, the environment and beyond. It is not a new activity to many companies, both large and small, have already been practicing CSR, albeit on an informal basis, for years. CSR holds a very important place in the development scenario of the world today and can pose as an alternative tool for sustainable development. As companies have shown great concerns for their immediate community and the stakeholders, nevertheless CSR has certain limitations which restrict its activities. The need of the hour is to formulate effective strategic policies and adopt various instruments



according to the company history, its content, peculiarity in relationship with its different stakeholders so that CSR can be best implemented towards its goals – sustained environmental, social and economic growth. Corporate together can make the world as a better place to live. CSR is becoming a leading principle of top management and of entrepreneurs. Organizations can re examine their pattern of behaviours in the TBL framework and begin their journey toward a sustainable approach that is integrated into their business strategy.

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