International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

A Study on Corporate Social Responsibility (CSR) Policies Under Companies Act 2013

[1]Anuraga Arularasi R, [2]Ambaliga Bharathi Kavithai

[1] II MBA, Department of Management studies, Periyar University, Salem 636011, Tamil Nadu.
[2]PhD Research Scholar, Department of Management Studies, Periyar University, Salem-636 011, Tamil Nadu.

ABSTRACT

India has been historically involved in various corporate social (CSR) activities. In April 2013, The Indian Government Formalized CSR across industries by incorporating the companies act of 2013. CSR has become an increasingly popular and contentious field of study since the 1970s. CSR is the 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 process and strategies. Introduction of a corporate social Responsibility clause has made India the first country to mandate CSR through a statutory provision. While CSR is not mandatory for companies, the rules are in line with the comply or Explain principle with penalities applicable only if an explanation is not offered. This paper is focused on Companies Act 2013 & its provision on mandatory spending and disclosure of corporate social reasonability activities.

Keywords- Corporate Social Responsibilty, CSR, Companies act 2013.

INTRODUCTION

When the President of India gave assent to the Companies Bill, 2013, India became the first country to mandate spend on CSR activities through a statutory provision. India has set itself apart from other Asian countries by codifying corporate social responsibility (CSR) spending for targeted companies. The Union Minister of State for Corporate Affairs, Sachin Pilot, has said that the aim of the legislation was to make India a safe and attractive destination for investment and to do away with _inspector raj' on companies. On 27 February 2014, the Government of India has notified provisions and corresponding Rules pertaining to Corporate Social Responsibility under the Companies Act, 2013. Clause 135 of the Companies Act, 2013 (the ―CSR Clause‖) requires targeted companies to spend a prescribed formula based amount on CSR for the applicable fiscal year, report on these activities, or explain why they failed to spend, in the annual board report. CSR provisions may be viewed as an honest attempt to integrate objectives of the enterprises with the socioeconomic objectives of the country

CORPORATE SOCIAL RESPONSIBILTY

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.

The act defines CSR as activities that promote poverty reduction, education, health, environmental sustainability, gender equality, and vocational skills development. Companies can choose which area to invest in, or contribute the amount to central or state government funds earmarked for socioeconomic development. While this definition of CSR is broad and open to interpretation, it clearly emphasizes corporate philanthropy rather than strategic CSR. The act does, however, specify that companies shall give preference to the local area and areas around where it operates.

The European Commission describes it as: ―CSR is a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. It is a concept whereby companies integrate social and environmental concerns in their business operations and in interaction with their stakeholders on a voluntary basis.

OBJECTIVES OF THE STUDY

- To understand the concept of CSR
- To examine the CSR policies under Companies Act, 2013.
- To provide information for future research works on CSR.

REVIEW OF LITERATURE

Sanjay Kumar Sharma (2013) studied ―A 360 degree analysis of Corporate Social Responsibility (CSR) Mandate of the New Companies Act, 2013‖ & found that In order to ensure meeting the true spirits of the new CSR law, a well organized, professionally capable and independent team needs to be formed. It is possible only when companies come forward and join together for this common good goal. Building an expert and trained team of professionals is needed for managing funds earmarked for CSR purposes is required.

Akanksha Jain (2014) studied ―The Mandatory CSR in India: A Boon or Bane‖ & found that the mandated 2% CSR investment in the new Indian Companies Bill is a novel solution to India‘s social problems. It may not be perfect but it is a product out of necessity for economic justice in India. Corporations in India have failed to take the responsibility for the real cost of their functioning. Many often pollute the environment and run away from human hazards that they invent. 2% CSR policy envisions a system in which each industry would contribute in a manner apt with their expertise. Chemical and oil companies might take environmental and safety initiatives and technology companies might take tech-education initiatives. Thus, in a nutshell, this new policy may turn out to be a boon for both the corporates and the society, propelling India towards the path of equitable and sustainable growth. Comments on Draft CSR Rules under Section 135 of Companies Act 2013, National Foundation for India was focused on potential difficulties relating to the CSR rules and suggestions for each problem.

Section 135 Corporate Social Responsibility

Which company is covered under Section 135

Every Company having

(a) Net Worth of > 500 Crores, or (b) turnover of > 1000 Crore, or (c) a net profit (PBT) of> 5 Crore during the immediately preceding financial year, shall constitute a Corporate Social Responsibility Committee of the Board consisting of 3 or more directors, out of which at least 1 director shall be an independent director.

Provided that where a company is not required to appoint an independent director under Section 149(4), it shall have in its Corporate Social Responsibility Committee 2 or more directors.

Note: Every company which ceases to fulfill the above conditions for 3 consecutive financial years shall not be required to follow the requirements of this Section 135 till such time it meets the specified criteria.

Disclosure in Board Report The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

Role of CSR Committee

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 in areas or subject, 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.

Duty of the Board of Directors

The Board of every company referred to in sub-section (1) shall –

1) 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
2) Ensure that the activities as are included in Corporate Social Responsibility Policy

of the company are undertaken by the company.

Amount to be spent on CSR

At least 2% of the average net profits of the Company made during the 3 immediately preceding financial years or where the company has not completed the period of 3 financial years since its incorporation, during such immediately preceding financial years, shall be spent for every financial year commencing from 1st April 2014.

- 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 Board Report, specify the reasons for not spending the amount, and, unless the unspent amount relates to any ongoing project referred to in sub-section (6), transfer such unspent amount to a Fund specified in Schedule VII, within a period of 6 months of the expiry of the financial year

Unspent CSR Account

Any amount remaining unspent under 135(5), pursuant to any ongoing project, fulfilling such conditions as may be prescribed, undertaken by a company in pursuance of its CSR Policy, shall be transferred by the company within a period of 30 days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the **Unspent CSR Account,** and such amount shall be spent by the company in pursuance of its obligation towards the CSR Policy within a period of 3 financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within a period of 30 days from the date of completion of the 3rd financial year.

Punishment in case of non-compliance

If a company contravenes the provisions of 135(5) or (6), the punishment shall be as follows:

10n company	**On Officer in default**
Rs 50,000 < Fine <25 lakhs	Imprisonment 3 years Or 50000 < Fine < 5 lakhs Both

Special Directions by CG:

The Central Government may give such general or special directions to a company or class of companies as it considers necessary to ensure compliance of provisions of this section and such company or class of companies shall comply with such directions.

Rules

CSR Reporting The Board's Report of a company shall include an annual report on CSR containing particulars specified in the CSR Rules.

CONCLUSION

Introduction of CSR policy in the companies act in India is a welcome step. It will make the company to participate in the social responsibility. The advantage of having the CSR provision in the companies act, Companies should not view the CSR as a reporting requirement and also a cost of doing business in India. Instead of this, They should utilize it as a opportunity to effect positive impact in the communities where they work and in the communities they affect. Whether the CSR policies actually encourages more CSR spending or not and how the corporate India move forward to the redistribution of wealth.

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