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Corporate Social Responsibility: A Boon to Corporate Governance

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Abstract: Corporate governance refers to the system of rules, practices, processes, and structures by which a company is directed, controlled, and operated. It encompasses the relationships and responsibilities among various stakeholders, including shareholders, management, the board of directors, employees, customers, suppliers, and the broader community. Corporate Social Responsibility (CSR) refers to the ethical and moral obligations that businesses and corporations have towards society and the environment beyond just maximizing profits. CSR includes socially responsible ways to earn profits and operating a transparent business to achieve an overall social and environmental sustainability. It also includes the various activities businesses use their profits for in order to use them for various social and environmental development. The purpose of this essay is to examine the various facets of corporate social responsibility and to evaluate the roles Indian businesses have played in various CSR initiatives.Corporate social responsibility should be viewed as an essential component of a business entity's primary operation rather than just as charity. This research paper will create a theoretical framework that explicitly connects the characteristics of CSR committees, board diversity, and financial performance. It will examine the various facets of corporate social responsibility and to evaluate the roles played by companies in carrying out various CSR initiatives.
Keywords: Corporate Social Responsibility, Corporate governance, Diversity, CSR committees, Financial Performance, Company's growth, CSR initiatives

I. INTRODUCTION

The nature of the triangle-shaped connection between businesses, the government, and society has undergone a radical upheaval in the past twenty years. Businesses can no longer operate independently from the interests of the broader population. The relationship between businesses and society has slowly evolved from one of altruistic coexistence to one in which the common interests of all stakeholders are becoming increasingly important. This gives rise to a broader mindset within businesses that extends beyond shareholders, giving way to the concept of Corporate Social Responsibility (CSR).

Over time, CSR has evolved from being considered a discretionary action to becoming an integral part of corporate strategy. In this journey, it has seen the development of guidelines, standards, and initiatives that encourage companies to align their practices with broader social and environmental goals. As the world faces complex challenges such as climate change, social inequality, and resource depletion, CSR offers a path for businesses to become agents of positive change, striving not only for financial success but also for a sustainable and equitable future.

Another factor driving the swift adoption of CSR within the Indian context is the prevailing socio-economic landscape. Despite India's status as a rapidly growing economy, pervasive issues such as poverty, illiteracy, inadequate healthcare, and other challenges persist. The government's resources to address these issues are limited. Numerous other entities are also playing a role in societal betterment through contributions and charitable activities. Virtually all prominent Indian corporations are engaged in corporate social responsibility (CSR) initiatives, focusing on areas such as education, healthcare, the creation of livelihood opportunities, skill enhancement, and the empowerment of marginalized segments of the population.

The idea of corporate social responsibility (CSR) is not a novel concept for Indian businesses. However, what is novel is how it has gained traction within Indian corporations and the active engagement of employees in executing these initiatives. Many companies now have dedicated departments overseeing efforts that extend beyond mere funding or sporadic projects. The advantages of CSR endeavors are manifold. They contribute to fostering a positive reputation and encouraging employees' direct participation in social projects, thereby cultivating a sense of allegiance to the company. These initiatives also facilitate team cohesion among employees and enhance their attachment to both the team and the organization, ultimately leading to a committed workforce that takes pride in its association with the company.

A. Background

The concept of Corporate Social Responsibility (CSR) has evolved over time in response to changing societal expectations and business practices. Its origins can be traced back to the early 20th century, but the modern CSR movement gained momentum in the latter half of the 20th century and has continued to evolve to this day. Here's a brief overview of the background and evolution of CSR:

1) *Early Philanthropy and Charity:* In the early stages of industrialization, some business leaders engaged in philanthropic activities, such as building schools and hospitals for their employees and communities. These efforts were often driven by individual values rather than formal CSR strategies.
2) *Social Movements and Critiques:* The 1960s and 1970s saw an increase in social activism and a growing awareness of environmental and social issues. Businesses faced criticism for their perceived negative impacts on society, leading to calls for greater accountability and responsibility.
3) *Emergence of Social Responsibility:* During the mid-20th century, economists like Howard Bowen began to write about the social responsibilities of businesses beyond profit-making. Bowen's book "Social Responsibilities of the Businessman" (1953) laid the groundwork for discussions on businesses' obligations to society.
4) *Globalization and Ethical Concerns:* As businesses expanded globally, concerns arose about labor practices, human rights, and environmental degradation in various parts of the world. This led to calls for multinational corporations to adopt ethical practices and consider their global impact.
5) *Triple Bottom Line:* The late 1990s and early 2000s introduced the concept of the "triple bottom line," which emphasized not only financial performance (profits) but also social and environmental performance. This concept promoted the idea that businesses should measure success based on economic, social, and environmental criteria.
6) *UN Global Compact:* Launched in 2000, the United Nations Global Compact encouraged businesses to voluntarily commit to ten principles covering human rights, labor, environment, and anti-corruption. This initiative helped formalize CSR principles and encouraged companies to integrate them into their operations.
7) *Increased Transparency and Reporting:* From the 2000s onwards, there was a growing demand for transparency in CSR efforts. Companies began to publish CSR reports outlining their initiatives, progress, and impacts in social, environmental, and ethical domains.
8) *Mainstream Integration:* In recent years, CSR has become more integrated into mainstream business practices. Many large corporations now have dedicated CSR departments, and responsible business practices are often seen as essential for maintaining a positive reputation and attracting socially conscious consumers and investors.
9) *Focus on Sustainable Development:* More recently, CSR has aligned with the United Nations Sustainable Development Goals (SDGs), providing a framework for companies to contribute to global sustainable development priorities.

Throughout its history, the CSR concept has evolved from sporadic acts of philanthropy to a more strategic and comprehensive approach that considers a company's impact on society, the environment, and multiple stakeholders. The changing landscape of business, societal expectations, and global challenges continues to shape the evolution of CSR practices.

B. Corporate Social Responsibility

There is no definition of CSR in the Companies Act, 2013. The provisions of Corporate Social Responsibility is given under section 135 of the Companies Act, 2013 read with Companies (Corporate Social Responsibility Policy) Rules, 2014. CSR includes, but is not limited to, projects or programmes related to activities listed in Schedule VII of the Act or projects and programmes related to activities carried out by a business board in accordance with recommendations made by the board's CSR Committee as stated in the board's CSR Policy, as per Rule 2(c) of the CSR Rules.

II. RESEARCH METHODOLOGY

As I mentioned above, CSR goes beyond the company's core business activities and involves engaging in activities that benefit various stakeholders and address social and environmental concerns. CSR encompasses areas such as environmental sustainability, community engagement, philanthropy, ethical business practices, and employee well-being. For this research study, we began by browsing a variety of websites to see which ones are beneficial and offer the appropriate information. We looked through a lot of websites and research journals to acquire secondary data for this essay through a variety of websites and academic journals. We read as much as we could to get a sense and importance of the topic and make sure the information is true. Everyone falls inside our target demographic because CSR is one of the rising concerns in today’s world and everyone should be aware of this.

For this study report, part of the information was directly copied from the websites, which we then edited in our own words. Several websites offer information that is essentially the same, which was a problem we ran into when collecting data.

III. RESULTS

Section 135 of the Companies Act, 2013

A. Section 135

1) CSR provisions within the Act is applicable to companies with:
   a) Net Worth of 500 Crore or more
   b) Turnover of 1000Crore or more
   c) Net Profit of 5 Crore or more
2) The companies which fulfils either of the criteria, shall constitute CSR committee with 3 or more directors, out of which one should be Independent Director.
3) Compliance obligations are also applicable on holding and subsidiary companies and foreign companies whose branch and project offices are in India.

B. CSR Committee

As per the Companies Act of 2013 in India, certain categories of companies are required to establish a Corporate Social Responsibility (CSR) Committee as part of their governance structure. This committee is responsible for overseeing and implementing CSR activities within the company. Here's an overview of the CSR committee as per the Companies Act, 2013:
Composition of the CSR Committee:

1) The CSR Committee must consist of three or more directors, with at least one being an independent director.
2) In the case of a private company that is not required to appoint an independent director, the CSR committee can be formed with two or more directors.

Functions of the CSR Committee:

a) *Formulating CSR Policy:* The CSR committee is responsible for formulating and recommending the company's CSR policy. This policy outlines the focus areas, projects, and initiatives the company intends to undertake as part of its CSR efforts.
b) *Spending on CSR Activities:* The committee ensures that the company spends the required amount on CSR activities. The Act mandates that certain companies allocate at least 2% of their average net profits over the preceding three financial years on CSR initiatives.
c) *Monitoring and Implementation:* The committee oversees the implementation of CSR projects and initiatives in line with the company's policy. This includes assessing the impact of these activities and ensuring compliance with the stated objectives.
d) *Reporting:* The committee is responsible for reporting on CSR activities in the company's annual financial statements and annual report. The report should detail the CSR initiatives undertaken, the amount spent, and the impact achieved.

The CSR committee plays a crucial role in ensuring that companies fulfill their social responsibility obligations and contribute positively to society's well-being. It reflects the growing emphasis on ethical and responsible business practices, with businesses being expected to go beyond profit-making and actively engage in efforts to address societal and environmental challenges.

C. Board's Role in CSR:

1) *Constitution of CSR Committee:* Companies meeting the specified financial criteria are required to constitute a CSR Committee of the Board. The committee comprises three or more directors, including at least one independent director.
2) *Formulation of CSR Policy:* The CSR Committee, with the involvement of the Board, formulates the company's CSR policy. The policy outlines the focus areas, projects, and initiatives that the company intends to undertake as part of its CSR efforts.
3) *Recommendation of Expenditure:* The CSR Committee recommends the amount of money that the company should spend on CSR activities. The Act mandates that companies allocate at least 2% of their average net profits over the preceding three financial years towards CSR initiatives.
4) *Oversight and Monitoring:* The Board of Directors is responsible for providing oversight and monitoring the implementation of CSR activities. The Board ensures that the CSR initiatives align with the company's CSR policy and objectives.

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5) *Review of CSR Performance:* The Board reviews the company's CSR performance and evaluates the impact of CSR initiatives undertaken during the financial year.
6) *Reporting:* The Board approves the annual report containing details of CSR activities, including the amount spent and the impact achieved. This report is included in the company's annual financial statements and annual report.
7) *Disclosure:* The Board ensures that the company discloses its CSR policy and initiatives in the Board's report included in the annual financial statements.

Overall, the involvement of the Board of Directors in overseeing CSR activities reflects the growing emphasis on responsible business practices and the broader impact that companies have on society and the environment. The Board's engagement ensures that CSR initiatives are aligned with the company's values, contribute positively to society, and promote sustainable development.

- If the above conditions are satisfied then the company has to spend at least 2% of the average net profits made during immediately preceding financial years.
- If the company fails to spend such amount, the board shall in its report under section 134(3)(o) specify the reason for not spending the amount.
- If a company fails to spend 2% of average net profit then the unspent CSR amount shall be transferred in the following manner:

Where the amount relates to ongoing project - The amount to be transferred within a period of 30 days from the end of the financial year to a special account to be opened by the company on that behalf for that financial year in any scheduled bank. These amounts should be spend within the next three financial year in accordance with the CSR policy. These amounts should be transferred to any fund listed on Schedule VII if they are still unspent after three years. Not relating to the ongoing project - The unspent amount will be transferred to any fund specified in Schedule VII within six months of the expiry of the financial year.

D. Penalty

If this unspent amount is not allocated anywhere then there is a huge penalty imposed on the company and officer in charge:

1) Twice the unspent amount or 1 crore for the company
2) One-tenth of unspent amount or 2 Lakhs whichever is less for an officer in charge.

E. Activities Permitted under CSR

Under the provisions of the Companies Act, 2013 in India, companies are allowed to undertake a wide range of activities as part of their Corporate Social Responsibility (CSR) initiatives. The Act provides a broad framework within which companies can contribute to social and environmental causes. While the law doesn't prescribe specific activities, it does offer general categories under which CSR initiatives can fall. Some activities permitted under CSR include:

1) *Eradicating Hunger, Poverty, and Malnutrition:* Companies can support initiatives that provide food security, nutrition, and livelihood opportunities to vulnerable populations.
2) *Promoting Education:* Funding educational programs, scholarships, vocational training, and initiatives that improve access to quality education, especially for marginalized communities.
3) *Healthcare:* Supporting healthcare projects, hospitals, clinics, medical camps, and awareness campaigns to improve the health and well-being of underserved populations.
4) *Environmental Sustainability:* Initiatives that promote environmental conservation, protection, and sustainable development. This includes tree planting, waste management, and promoting renewable energy.
5) *Gender Equality and Women's Empowerment:* Programs that empower women economically, socially, and educationally, aiming to reduce gender disparities.
6) *Rural Development:* Projects focusing on rural infrastructure, sanitation, water supply, and agricultural development to uplift rural communities.

a) *Skill Development and Livelihood Creation:* Supporting skill development programs that enhance employability, income generation, and entrepreneurship among disadvantaged groups.
b) *Promoting Sports and Culture:* Initiatives that encourage sports, cultural activities, and arts, fostering community engagement and talent development.
c) *Disaster Relief and Rehabilitation:* Providing assistance during natural disasters, offering relief materials, and supporting rehabilitation efforts.

d) *Community Development:* Undertaking projects that benefit local communities, such as building community centers, libraries, and improving public infrastructure.
e) *Technology Advancement:* Initiatives that promote technological advancements for social welfare, digital literacy, and access to information.
f) *Empowerment of Vulnerable Groups:* Supporting the upliftment of marginalized sections, including scheduled castes, tribes, and persons with disabilities.

It's important to note that while the Companies Act, 2013 provides guidelines on CSR activities, companies have the flexibility to choose initiatives that align with their industry, expertise, and the needs of the communities they serve. The Act requires companies to prioritize local areas where they operate for their CSR efforts.

Companies should also ensure that their chosen activities are aligned with the overall CSR policy they have formulated and contribute to sustainable development and positive social impact.

F. Role of CSR in Companies

Corporate Social Responsibility (CSR) plays a crucial role within companies, influencing various aspects of their operations, culture, and impact on society.

Here are some key roles that CSR serves within companies:

1) *Reputation Enhancement:* CSR initiatives contribute to building a positive reputation for the company. Engaging in ethical and responsible practices helps create a favorable public image, attracting customers, investors, and partners who value socially conscious businesses.
2) *Stakeholder Engagement:* CSR facilitates meaningful engagement with various stakeholders, including customers, employees, investors, suppliers, communities, and regulatory authorities. Demonstrating a commitment to social and environmental concerns fosters trust and positive relationships.
3) *Employee Satisfaction and Retention:* Companies that invest in CSR activities often experience higher levels of employee satisfaction. Engaged employees feel proud of their organization's contributions to society, which in turn enhances employee retention and loyalty.
4) *Risk Mitigation:* By addressing environmental, social, and ethical issues proactively, companies can mitigate potential risks that could harm their reputation or lead to legal and regulatory problems.
5) *Innovation and Competitive Advantage:* CSR encourages companies to innovate and develop sustainable solutions for societal challenges. Such innovations can lead to a competitive advantage by positioning the company as a leader in responsible business practices.
6) *Long-Term Strategy Alignment:* Integrating CSR into the company's core strategy promotes a long-term perspective. It aligns business goals with societal needs, helping companies make decisions that contribute to sustainable growth.
7) *Community Impact:* CSR allows companies to positively impact the communities in which they operate. This can lead to improved relationships with local stakeholders, increased trust, and enhanced social well-being.
8) *Customer Loyalty:* Customers are more likely to support companies that demonstrate a commitment to ethical practices and social responsibility. Engaging in CSR can lead to increased customer loyalty and repeat business.
9) Regulatory Compliance: In some jurisdictions, companies are required by law to engage in CSR activities. By complying with these regulations, companies ensure they are fulfilling their legal obligations.
10) *Ethical Leadership:* CSR enables companies to demonstrate ethical leadership by aligning their actions with values that prioritize the well-being of society and the environment.
11) *Philanthropic Impact:* CSR initiatives often involve philanthropic activities, such as donating to charitable causes or supporting social programs. This allows companies to contribute positively to societal issues they care about.
12) *Sustainability Reporting:* Companies engaging in CSR typically provide sustainability reports that highlight their initiatives, impacts, and progress. Such reports enhance transparency and accountability.

In essence, CSR is a strategic approach that goes beyond profit-making and emphasizes a company's commitment to ethical, social, and environmental responsibility. It is an integral part of modern business practices, reflecting the increasing awareness of businesses' role in shaping a sustainable and equitable future.

G. Challenges of CSR

Corporate Social Responsibility (CSR) initiatives, while noble and impactful, are not without their challenges. These challenges can vary depending on factors like industry, region, company size, and the specific CSR activities undertaken. Here are some common challenges associated with CSR:

1) *Balancing Profit and Social Impact:* Companies often face the challenge of finding a balance between their profit-driven goals and their commitment to social and environmental impact. Allocating resources to CSR initiatives while maintaining financial viability can be complex.
2) *Defining Clear Objectives:* Setting well-defined and measurable CSR objectives can be challenging. Companies need to ensure that their initiatives align with their values and effectively address societal needs.
3) *Resource Allocation:* Dedicating financial, human, and time resources to CSR initiatives can be demanding. Striking the right balance between investing in core business operations and social initiatives is a common challenge.
4) *Identifying Relevant Initiatives:* Choosing CSR initiatives that align with the company's expertise and core values while addressing pressing social and environmental issues requires careful consideration.
5) *Impact Measurement:* Measuring the impact of CSR initiatives on society and the environment can be intricate. Determining how much social change has resulted from these efforts is often difficult to quantify.
6) *Stakeholder Engagement:* Engaging and satisfying various stakeholders, including employees, customers, investors, communities, and NGOs, can be challenging. Addressing their diverse expectations and needs requires effective communication and management.
7) *Sustainability of Initiatives:* Ensuring the long-term sustainability of CSR projects can be a challenge. Some initiatives might struggle to maintain momentum or relevance over time.
8) *Cultural Sensitivity:* Companies operating globally need to consider cultural differences when implementing CSR initiatives. What works in one culture might not be suitable in another.
9) *Greenwashing and Credibility:* Companies must avoid the perception of "greenwashing," where they exaggerate or misrepresent their CSR efforts for marketing purposes. Maintaining credibility and transparency is crucial.
10) *Regulatory Compliance:* Adhering to varying CSR regulations and requirements in different regions can be complex, especially for multinational corporations.
11) *Resistance to Change:* Implementing CSR initiatives might face resistance from within the company if employees or management are skeptical about the value or impact of such efforts.
12) *Resource Constraints for Small Businesses:* Smaller companies may face challenges due to limited resources, making it harder to engage in extensive CSR initiatives.
13) *Competition and Benchmarking:* Benchmarking against industry peers and competitors' CSR efforts can be challenging, especially if the company lags behind in certain areas.
14) *Complex Supply Chains:* Companies with global supply chains might struggle to ensure that their suppliers adhere to similar ethical and responsible practices.

Addressing these challenges requires a strategic and well-planned approach to CSR. While overcoming these obstacles can be daunting, successfully navigating them can lead to more impactful and sustainable CSR initiatives that benefit both the company and society.

IV. CONCLUSION

Companies are individually contributing to the advancement of CSR initiatives in India. They are tackling a range of urgent societal concerns, such as promoting employment opportunities, fostering community growth, safeguarding the environment, ensuring convenient healthcare access, and establishing inclusive market environments. CSR creates an impact by establishing connections between stakeholders and human resource policies. Additionally, it considers the effects on both internal and external aspects of the organization. A significant obstacle to fully realizing the potential of this endeavor is the absence of effective coordination among stakeholders within the policy framework. Collaborative engagement of diverse stakeholders—companies, individuals, institutions, and both state and central governments—can optimize resource utilization and facilitate the attainment of developmental objectives in a coordinated and harmonious manner. The effort can be enhanced by offering a clearer definition of CSR within the Indian context and creating a more conducive policy environment.

Analyzing CSR and CSR reporting practices without considering the context could uphold erroneous interpretations derived from research conducted in developed countries. Diverse political, social, cultural, and economic conditions influence the evolution and reporting of CSR initiatives. As a result, these conditions also affect the extent to which these activities contribute to the betterment of society and the environment.

The Indian government is taking decisive measures to communicate to companies that embracing strategic CSR implementation can result in enhanced business sustainability. By adopting this approach, a mutually beneficial scenario can be established for all stakeholders, involving the accumulation of both financial and technical resources. This, in turn, has the potential to foster comprehensive societal development.

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