CLASIS LAW

CORPORATE SOCIAL RESPONSIBILITY

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In the words of renowned marketing author Philip Kotler, "A good company offers excellent products and services. A great company also offers excellent products and services but also strives to make the world a better place." In the aforesaid context, Corporate Social Responsibility (**"CSR"**) can be understood as a voluntary commitment of businesses to include such economic, social and environmental criteria and actions in their corporate practices, which are above and beyond legislative requirements and which impacts a broader range of stakeholders. It is all about the extent of overall positive impact of a business on the society.

The provisions of the section 135 of Companies Act, 2013 (**"Act"**) which deals with the concept of CSR came into effect on April 1, 2014 and over the time has been subject to various amendments. The companies falling within the ambit of the provisions of the section 135 of the Act, i.e., companies having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year are required to constitute a CSR committee of the Board consisting of three or more directors, out of which at least one director is to be an independent director. The CSR committee is responsible for the formulation and monitoring of the CSR policy of the company. Further, the Board of directors of such companies is required to ensure that at least two percent (2%) of the average net profits of the company made during the three immediately preceding financial years are spent in pursuance of its CSR policy every financial year. An annual report on CSR activities is also required to be included in the Board's report. If a company does not spend the requisite amount on CSR activities, it is required to disclose the reasons for not doing so in the Board's report as well as on the website of the Company.

The introduction of CSR has evolved a complete new set of leaders in the corporate landscape who are learning more about corporate social responsibility and adapting themselves to not just complying with the law but also going beyond their comfort zone to streamline and assess the concept. Considering that the CSR provisions requires a company to spend at least two percent of the profit in every financial year, corporates want to ensure that their funds are being invested into a subject/ area that creates a huge social impact that can be seen and talked about. They wish to establish long-term projects that not only serve the statutory requirement of the Act but also establish a strong value for their brand whenever a particular issue is talked about. It would be prudent to say that with time it has resulted into evolution of a mindset among corporates who now consider CSR not only from a compliance perspective but a voluntary service towards social good. A lot of qualitative case-studies have examined how major corporates are financing various social upliftment projects as part of their CSR initiative. Some major CSR activities witnessed includes programmes for:-

- providing livelihood training to youth from socially and economically disadvantaged communities;
- planting of trees;
- construction of toilets across different states specifically for girls in government schools as part of 'Swachh Bharat Swachh Vidyalaya';

- supporting the education of underprivileged girls in different states;
- saving endangered species;
- reducing child and infant mortality in rural areas;
- addressing the issue of unemployment and skill gap;
- by providing students from economically backward communities residential coaching programmes and monthly scholarships and helping them join India's premier engineering institutes;
- rain water harvesting structures;
- mid-day meals;
- improving health indices; and
- employability and promoting social entrepreneurship.

There is a growing realization among the corporates that business growth along with positive community/social impact is now an expected goal.

In spite of all the CSR initiatives undertaken by the corporate giants during the past few years, the CSR aspect in India still has its own setbacks. The funding of CSR activities by business sectors is typically dependent on the inclinations, interests, and priorities of the businesses. There is also an issue of geographic equity. Where on one hand some states like Maharashtra, Gujarat, Rajasthan receive quite a handsome amount to be spent on CSR activities, the north eastern states come on the bottom of the list where the corporates channel their fund.

Moreover, the average corporate tax rate in India being higher than other countries, to several companies' contribution of a sum as huge as 2% of their profits seems like an additional burden. Additionally, companies also have to dedicate their resources for achieving their CSR objectives which act as an impediment. In order to encourage companies to take CSR activities willingly, the burden of corporate taxes should be made even. Besides this, CSR works on the principle of "comply or explain"; i.e. if companies do not undertake any social responsibility or formulate any policy it is only required to explain the reasons for not doing so. It can be said that this is a convenient way for companies to circumvent their obligation of contribution towards CSR activities.

Though CSR in itself is a powerful strategic concept for sustainable development, it is being deprived of its sole purpose. Though, CSR is still in its developing phase in India, by addressing the loopholes in the system and with proper implementation techniques it can result into an overall benefit of the society as a whole.

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