CORPORATE SOCIAL RESPONSIBILITY

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Abstract

Corporate social responsibility is the term used to describe the way that a business takes into account the financial, environmental and social impacts of decisions and actions it is involved in. It is a form of corporate self-regulation integrated into a business model. This is not a new term but its meaning is changing with the time .Now a days the area of corporate social responsibility is much wider than before. This research paper will draw light on what the exactly corporate social responsibility is and how Companies Act, 2013 has changed the scope of corporate social responsibility. General principles of corporate social responsibility are set forth. Corporate social responsibility is important for every business but its scope is different for different business depending upon the nature and size of the business. CSR is not only a responsibility for outside the organization but also for the employees working in the same organization because they are also a part of the society. Giving them proper working environment and security is the first step towards corporate social responsibility. This research paper will explain the work or function comes under corporate social responsibility.

Keywords: corporate social responsibility, Companies act 2013, corporate self-regulation, financial, environmental and social impact.

Introduction

The term "corporate social responsibility" became popular in the 1960s and has remained a term used indiscriminately by many to cover legal and moral responsibility more narrowly constructed. **Corporate social responsibility** also called **corporate conscience**, **corporate citizenship** or **sustainable responsible business/ Responsible Business**.

"CSR should have in place a process to integrate social, environmental, ethical and human rights concerns into their business operations and core strategy in close collaboration with their stakeholders".

This wording replaces the original solely voluntary approach with a weak requirement, depicted in the word "should". Concerning SMEs, the commission states that "for most small and medium-sized enterprises, especially micro-enterprises, the CSR process is likely to remain informal and intuitive". The Commission sets out an action plan for the period between 2011 and 2014 with eight focus areas:

1. CSR and good practices should become more visible. In order to achieve this vision, a new European award is to be established and stakeholders should meet in a more formal way to set common goals and monitor progress in the CSR strategy of the affected companies.

2. Levels of trust should be tracked and improved by the European Commission by launching a public debate on the role and potential of enterprises and by organizing a survey on citizen trust in businesses.

3. Self initiatives are to be guided and improved by the Commission.

4. EU policies in the field of consumption, investment and public procurement are to be aimed at enhancing market rewards for responsible business conduct.

5. The Commission intends to develop a legislative proposal for company disclosure of their environmental

6. CSR should be integrated in education, training and research with potential funding possibilities.

7. EU member states should present and update their national CSR strategies.

8. CSR should be aligned and embedded in other international programs, including the OECD Guidelines for Multinational Enterprises, the 10 principles of the UN Global Compact, the UN Guiding principles on Business and Human Rights, ILO and ISO 26000 standards. Considering the definition and strategy lined out by the Commission, it becomes evident that CSR will be a focal issue in succeeding years and that all effort is taken to make CSR more verifiable, better known and more widespread and social performance.

Opponents of CSR have several arguments against it:

- It **imposes costs** that make corporations less efficient, thus subtracting from overall social welfare.
- It is **unfair to shareholders** because managers divert profits that belong to them to social projects.
- **Libertarians** are advocates of laissez-faire, who believe that the market allocates resources more efficiently than political pressures. They oppose CSR because they believe its advocates are predominantly progressives with a leftist policy agenda.

Advocates of CSR justify it with two arguments:

Despite arguments the business community accepted the idea of corporate social responsibility. Two groups of business leaders issued supportive statements, ending major opposition.

- In 1971 the **Committee for Economic Development** published a report making a case for expansive social responsibility. The report set forth three concentric circles of responsibility.
    - An **inner circle** of responsibility for economic performance.
    - An **intermediate circle** requiring exercise of the economic function with sensitivity to social values and priorities.
    - An **outer circle** of emerging responsibilities for business to improve the social environment broadly in ways not directly related to its economic function.

- In 1981 the **Business Roundtable** issued a *Statement on Corporate Responsibility* saying that corporations had both economic and social duties and that there was no necessary conflict between them.

- Acceptance of the doctrine of corporate social responsibility by the business elite protected the legitimacy of large corporations. But many managers retain a conviction that Friedman is correct and they continue to operate with an eye only to profits.

Elements of CSR:

There are three basic elements of social responsibility.

- **Market actions** are competitive responses to forces in markets. They dominate corporate decisions. When a corporation responds to markets, it fulfils its first and most important social responsibility. Creating jobs, paying taxes, and making products is the major impact of a company on society.

- **Mandated actions** are programs required by government regulation or by agreements negotiated with stakeholders such as unions. The importance of mandated actions grew in the twentieth century.
- **Voluntary actions** are those that go beyond legal, regulatory, or negotiated mandates. A wide range of social programs and charitable activities are included in this category.

General principles of corporate social responsibility should guide managers:

- First, **corporations are economic institutions run for profit** and should not be expected to meet major social objectives without financial incentives.

- Second, **all firms must follow multiple bodies of law** including (1) corporation laws and chartering provisions, (2) the civil and criminal laws of nations, (3) government regulations, and (4) international law.
- Third, **managers must act ethically**.

- Fourth, **corporations have a duty to correct the adverse social impacts they cause**. They should internalize **external costs**, or costs of production borne by society.
- Fifth, **social responsibility varies with company characteristics** such as size and location.

- Sixth, **managers should try to meet legitimate needs of stakeholders**.

- Seventh, **corporate behavior must comply with norms in an underlying social contract**.

- Eighth, **corporations should accept a measure of accountability toward society** and publicly report on their market, mandated, and voluntary actions.

The business benefits of corporate social responsibility:

- A good reputation makes it easier to **recruit employees**.
- Employees may stay longer, reducing the costs and disruption of recruitment and retraining.
- Employees are better motivated and more productive.
- CSR helps ensure you comply with regulatory requirements.
- Activities such as involvement with the local community are ideal opportunities to generate **positive press coverage**.
- Good relationships with local authorities make doing business easier. See the page in this guide on how to **work with the local community**.
- Understanding the wider impact of your business can help you **develop new products and services**.
- CSR can make you **more competitive** and reduces the risk of sudden damage to your reputation (and sales). Investors recognize this and are more willing to finance you.

The Companies Act, 2013 and CSR

The Companies Act, 2013 In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. The new rules, which will are applicable from the Act lists out a set of activities eligible under CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act.

The draft rules (as of September 2013) provide a number of clarifications and while these are awaiting public comment before notification, some the highlights are as follows:

• Surplus arising out of CSR activities will have to be reinvested into CSR initiatives, and this will be over and above the 2% figure

• The company can implement its CSR activities through the following methods: - Directly on its own - Through its own non-profit foundation set- up so as to facilitate this initiative - Through independently registered non-profit organizations that have a record of at least three years in similar such related activities - Collaborating or pooling their resources with other companies

• Only CSR activities undertaken in India will be taken into consideration

• Activities meant exclusively for employees and their families will not qualify

• A format for the board report on CSR has been provided which includes amongst others, activity-wise , reasons for spends under 2% of the average net profits of the previous three years and a responsibility statement that the CSR policy, implementation and monitoring process is in compliance with the CSR objectives, in letter and in spirit. This has to be signed by either the CEO, or the MD or a director of the company Governance Clause 135 of the Act lays down the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director.

Reporting

The new Act requires that the board of the company shall, after taking into account the recommendations made by the CSR committee, approve the CSR policy for the company and disclose its contents in their report and also publish the details on the company's official website, if any, in such manner as may be prescribed. If the company fails to spend the prescribed amount, the board, in its report, shall specify the reasons.

CSR: Planning and strategizing

The first step towards formalizing CSR projects in a corporate structure is the constitution of a CSR committee as per the specifications in the Companies Act, 2013, clause 135. Background Clause 135 of the Companies Act, 2013 requires a CSR committee to be constituted by the board of directors. They will be responsible for preparing a detailed plan of the CSR activities including, decisions regarding the expenditure, the type of activities to be undertaken, roles and responsibilities of the concerned individuals and a monitoring and reporting mechanism. The CSR committee will also be required to ensure that all the income accrued to the company by way of CSR activities is credited back to the CSR corpus. Companies Act, 2013, Clause 135: CSR committee requirements

• A CSR committee of the board should be constituted. It should consist of at least three directors out of whom at least one is an independent director. This composition will be disclosed in the board's report as per sub-section (3) of section 134.

• The CSR committee shall: - formulate and recommend a CSR policy to the board, indicating the activities as specified in Schedule VII of the Act - recommend the amount of expenditure to be incurred on the activities indicated in the policy - monitor the CSR policy regularly This is an excellent starting point for any company new to CSR. In case a company already practices CSR, this committee should be set up at the earliest so that it can guide the alignment of the company's activities with the requirements of the Act. For effective implementation, the CSR committee must also oversee the systematic development of a set of processes and guidelines for CSR to deliver its proposed value to the company, including:

• One-time processes such as developing the CSR strategy and operationalizing the institutional mechanism

• Repetitive processes such as the annual CSR policy, due diligence of the implementation partner, project development, project approval, contracting, budgeting and payments, monitoring, impact measurement and reporting and communication. While developing these processes, no standard set of recommendations exist for all companies.

CSR includes different functions in different organizations but some functions are common in all organizations which we can see from the following diagram-

- Sustainable Regulation
- Green initiatives
- Carbon Reporting
- Great place to work
- Making a difference
- Responsible gaming
- Fair Play

Fig1. Corporate social responsibility
Source: www.google.com

Conclusion

CSR is the need of hour. Every business whether it is small or big should fulfill its social responsibility. Most companies have long practiced some form of corporate social and environmental responsibility with the broad goal, simply, of contributing to the well-being of the communities and society they affect and on which they depend. But there is increasing pressure to dress up CSR as a business discipline and demand that every initiative deliver business results. CSR is not only a social work in fact it is a technique of winning the heart of its employees and customers.

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