



Unit 1: Introduction to CSR:

□ Meaning and Definition :

Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. The term corporate social responsibility (CSR) refers to practices and policies undertaken by corporations that are intended to have a positive influence on the world. Every business works within the society, earns from the society and utilises resources of the society. In return, it is the responsibility of every business to cater the society.

Corporate Social Responsibility (CSR) is one such term given to the obligation of every business towards society. It requires management to be accountable to the full range of stakeholders. It is the constant commitment by the business to operate ethically and make a contribution to the economic development of the country while improving the quality of life of the workforce and their families and local community and society at large. It is a way of integrating the economic, social and environmental imperatives of business activities.

The Companies Act, April 2013

The Companies Act 2013 has formulated Section 135 and is landmark legislation that makes Indian companies answerable to the government about their CSR expenditure. India is the first country to make the incorporation of Corporate Social Responsibility activities mandatory for qualifying companies. It is, for sure, a remarkable step towards growth, overall development and humanity.

Be it a private sector company or a public sector company, Corporate Social Responsibility CSR has to be adhered to by all listed companies. If a company falls in either of the following criteria for compulsion, they need to form a CSR committee. Companies:

- That has a net worth of Rs. 500 crores or more, or
- That have an annual turnover of Rs. 1000 crores or more, or
- That generate a profit of Rs. 5 crores or more.

□ Types of CSR activities under Schedule VII of the Companies Act 2013

The following are the types of CSR activities in India that the qualifying listed companies under the Companies Act 2013 can contribute to:



- Eradicating hunger, poverty and malnutrition
- Promoting education
- Promoting gender equality
- CSR initiatives related to the environment
- Protection of national heritage, art and culture
- Measures can be taken towards the benefit and support of armed forces veterans, war widows and families.
- Contributions to the Prime Minister’s National Relief Fund or any other fund set up by the central government, for welfare, development and relief of the schedule caste, tribes, other backward classes, women and minorities.
- Contributions or funds provided to the development of technology located within the central government approved academic institutions
- Contributions can be made towards rural development projects and slum area development
- ❖ **Sustainability**
 - Response to the challenges of the modern world
 - Sustainability is a comprehensive approach to management of organizations which is focused on creating and maximizing long-term economic, social and environmental value.
 - It is a response to the challenges of the modern world facing organizations from the public and private sectors.
 - Sustainability is skilled positioning of the organization in the economic reality, taking account of the social and economic challenges, environmental opportunities and threats.
 - Sustainability focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs.



- Business sustainability is a business principle that is widely recognized as a critical strategic concern for governments and organizations. Many organizations have chosen to integrate sustainability principles into their business models.

❖ **Stakeholders Management:**

- A **stakeholder** is someone who has an interest in or who is affected by your project and its outcome. This may include both internal and external entities such as the members of the project team, project sponsors, executives, customers, suppliers, partners and the government.
- Most projects fail because the interests and the requirements of stakeholders are given zero attention.
- While your key stakeholders have the power to make your project fail, you need to have a proper plan in place to identify their needs and communicate and engage with them.
- Your stakeholder management plan should be a key element of your project planning efforts.
- Stakeholder management is the process of managing the expectations and the requirements of these stakeholders.
- It involves identifying and analyzing stakeholders and systematically planning to communicate and engaging with them.

❖ **Stakeholder Management Process**

STEP 1: Stakeholder Identification

- You can start by listing down anyone and everyone who is affected by the project. jot down their name or their company to specify. Stakeholders who you should take into consideration are those
 - ✓ Who will be affected (positively and negatively) by your project
 - ✓ Who has an interest in your project
 - ✓ Who has power over your project
 - ✓ Who wants your project to fail



- ✓ Who wants your project to be successful
- ✓ Once you have a full list of stakeholders, it is easier to categorize them. For example, you can group them as External and Internal. You can use a similar stakeholder map like the one above to do this.

STEP 2:Stakeholder Analysis

- In this step you will be evaluating the stakeholders in terms of the power and interest they have over your project. By categorizing them thus, you can decide which stakeholders you should spend most and least effort on.

I. The Power Interest Grid

- The Power Interest grid is the most widely used technique in stakeholder analysis. This tool helps you determine what you will communicate to your stakeholders and how often you will do so.

- ✓ High Power/ High Interest (Fully Engage)

- The stakeholders you place on this quadrant are the key players. While you will have to spend the most effort on engaging with them, you should keep them informed at all times.

- ✓ High Power/ Low Interest (Keep Satisfied)

- Make enough effort to keep these stakeholders satisfied. But refrain from going overboard with your communication efforts lest you make them bored.

- ✓ Low Power/ High Interest (Keep Informed)

- Provide adequate information on the project to these people and ensure that they don't have any issues with the project.

- ✓ Low Power/ Low Interest (Minimum Effort)

- Monitor these stakeholders and their interest in the project and provide them with adequate information without overloading them.

- ✓ II. Stakeholder SWOT Analysis



- ✓ Another great tool to analyze the importance of your stakeholders and prioritize them is the SWOT analysis.
- ✓ With it you can evaluate your stakeholders based on their strengths and weaknesses, threats they pose to your project and the opportunities they can bring to successfully complete the project.

STEP 3 :Stakeholder Planning:

- ✓ Now that you have an idea about how and how often you should communicate and engage with your stakeholders, it's time to create a plan to deliver the right message to the right stakeholder in a timely manner.
- ✓ You should have a stakeholder profile by hand.
- ✓ These profiles (you should have one for each category of stakeholders) should list their needs, interests, goals, responsibilities, level of power and interest, communication channels etc.
- ✓ Then you can develop a communication plan for each stakeholder profile. The plan should specify information such as
 - ✓ The type of information that should be communicated (the key message)
 - ✓ The engagement approach
 - ✓ The communication channels (eg: emails, newsletters, video calls etc.)
 - ✓ Frequency of engagement and the phase of the project

STEP 4: Stakeholder Engagement:

- ✓ This is where you execute your communication plan that you have created.
- ✓ While actively engaging with the stakeholders, you need to constantly monitor them to identify whether they may have issues with any development of the project.
- ✓ Also be careful to select a suitable engagement approach based on the type of stakeholder. For example, you can use costly approaches like face-to-face meetings,



extensive consultations etc. with the stakeholders who has high power and high interest (the key players) in your project.

❖ **Concept of Charity & Business Philanthropy:**

Charity is to give to others that which belongs to you. When you give to charity, you experience happiness.

- a foundation created to promote the public good (not for assistance to any particular individuals)
- a kindly and lenient attitude toward people
- an activity or gift that benefits the public at large
- Charity means voluntary promotion of human welfare
- Business philanthropy may seem a relatively new concept in the world of business, but corporate charitable giving has actually been around for some time. By the eighteenth and nineteenth centuries, philanthropy was common amongst the growing number of wealthy middle-class, particularly the new industry owners as a result of industrialisation.
- George Cadbury, the founder of Cadburys, was one of those thought leaders, founding the Bournville Village Trust in 1900 to provide safe, comfortable living conditions for his workers.

❖ **Purpose of Charity:**

- ✓ Charity is essential and therefore meant to be done for public benefit, relief and to provide assistance to people at times of need in any part of the world, especially those who are the victims of war, natural disaster, catastrophe, hunger, disease, poverty, orphans by supplying them with food, shelter, medical aid, and other fundamental needs.

❖ **Why do companies give to charity?**

- ✓ Team Morale
- ✓ Shines a positive light on your brand
- ✓ Helping the community
- ✓ Customers may develop a stronger attachment to the company's products.



- ✓ Company culture can be improved by connecting with communities
- ❖ Corporate philanthropy involves a corporation or organization supporting the wellbeing of others, typically through charitable contributions or donations.
- ❖ It involves investments and actions which a company voluntarily undertakes. These actions are to manage and account for their effect on society appropriately.

❖ **Steps To Create A Corporate Philanthropy Program**

1. Determine which colleagues or team members will be in charge of the program.
2. Choose a philanthropic strategy that is in line with your organization's objective.
3. Identify and reserve funding for the program.
4. Create a detailed execution strategy.
5. Make a marketing strategy to promote your philanthropy.
6. To maximize the impact of your program, keep track of the metrics and assess them frequently.

❖ **Relation between CSR and Corporate Governance**

- **Corporate governance** is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.
- Corporate governance is the structure of rules, practices, and processes used to direct and manage a company.
- A company's board of directors is the primary force influencing corporate governance. Corporate Governance is the procedure by means of which a corporation guidelines itself.

❖ **The Structure of Corporate Governance**

✓ **Board of Directors**

The Board Of Directors plays an important character in commanding the company's management and business blueprints to accomplish long-term value creation. The most important functions of the board are:

- Determine the company's vision and mission to guide and set the pace for its current operations and future development.



- Monitoring/examining the CEO's performance and overseeing the procedure regarding CEO succession.
- Understand and take into account the interests of shareholders and relevant stakeholders.
- Avoiding conflicts of Interest
- ✓ **Management:**
 - Chief Executive Officer (CEO) leads the management of the company.
 - Important aspects like strategic planning, risk alleviation, and financial reporting falls under the umbrella of the management.
 - An efficient team of management escorts the company with the determination of achieving the business strategies over a considerable time horizon and avoids focusing on short-term metrics.
- ✓ **Shareholders:**
 - Shareholders invest in a public company by purchasing its stock from the exchange via brokers and earn capital gains with a rise in the price of the stocks.
However, Shareholders are not involved in the day-to-day management of business affairs but enjoy the right to elect representatives i.e. Directors. They also receive a Quarterly/Annual Report which consists of information regarding investments and voting decisions.
- ❖ **Relation between CSR and Corporate Governance**
 - Corporate governance and corporate social responsibility are actually quite different business concepts.
 - Despite the difference between corporate governance and corporate social responsibility corporate social responsibility holds a prominent place for many corporations under the umbrella of good corporate governance.
 - In other words CSR and corporate governance are two sides of the same coin.
 - Both Corporate Governance and CSR focus on the ethical practices in the business and the responsiveness of an organisation to its stakeholders and the environment in which it operates.
 - Corporate Governance and CSR results into better image of an organisation and directly affects the performance of an organisation.
 - Good governance certainly helps companies withstand the ups and downs of the marketplace.
 - CRS disclosure makes public the responsiveness of companies to socio-environmental issues as well as the behavior of managers facing real situations for example the benefits to employees the concern for people.

❖ **Evolution And History Of CSR Activities In India**

❑ **Pre-independence period:**



- Before the East India Company started ruling India, there were Rajputs and Mughals who ruled the kingdoms and empires.
- A lot of social activities were done by these men to improve the quality and standard of living of the people in their kingdom.
- Most were environment based activities like planting trees and cleaning river bodies.
- Employment was given under the king's rule which in turn helped the head of the family to provide food and all the necessities for his family members.
- Women in those these weren't treated right much.

❑ During the British Rule:

- The “giving” attitude among Indians grew less as there was nothing for them itself. Heavy taxes were levied on all businesses which stopped all CSR activity that the merchants were doing generously.
- But the East India Company thought it was the “White man's burden” to improve the lives of Indian people and make them more civilized.
- Railways and tramps were built for the benefit of their business but also helped in the enhancement in the livelihood of the native countrymen as employment rates increased and there were many employment opportunities scattered other than agriculture.
- Knowingly or unknowingly, the Britishers have contributed to the growth of the nation.
- CSR was seen as a way of advertising and marketing that will attract more attention to the domestic businesses.

❑ Post-independence period:

- Immediately after the independence struggle, under the leadership Mahatma Gandhi many trusts sprouted up in the name of upliftment of the Indian socio-economic status.
- Helping the untouchables, the needy, and downtrodden were the goals of most of the patriotic citizens at that time.
- Increased funds for the development of the nation seemed to pour in from within the borders of the country.
- Many new philosophers, writers, and teachers who were present in this era spread a lot of awareness in the society and brought together people from all caste and creed to work for the betterment of the Indian society.
- Women's empowerment took a major toll in this time.
- Foreign investors and companies were stepping foot in India which increased the expenditure of the Indian household and the attitude of CSR among Indians.

❑ In recent times:

- The capability of companies in India to contribute to society is high now and the government has realized it.



- Section 135 of the Companies Act, 2013 talks about the responsibility and the legal compulsion of corporate to spend money on CSR activities.
- Schedule VII of the act talks about where and how this money can be spent.
- The view towards CSR as of now reflects in the amount of money put in the Prime Minister's Fund.
- Every company does not take the responsibility but simply, to comply by the act, transfers 2 percent allocated for the CSR activity to the Prime Minister's Fund.
- ❖ **Models of CSR in India :**
 - Several CSR models have been formulated over the years. The purpose of these models is to design and execute the CSR process and to enable its monitoring and control.
 - Businesses by implementing CSR models in their operations increase their adaptability to internal and external changes in the environment. This helps to promote positive changes and bringing about progress in socio-economic parameters.
- ❑ **Carroll's Pyramid CSR model**
 - This is one of the leading CSR model. It is formally known as the model of Carroll's four-part pyramid.
 - The major focus of the model is to embrace the complete spectrum of expectations that society has from a business, defining them and dividing them into different categories.
 - There are four kinds of social responsibilities that cohesively constitute the concept of **CSR**. This involves economic, legal, ethical and philanthropic. The pyramid is used to show the different responsibilities of a business in the order of decreasing importance.

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Carroll's CSR pyramid

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Be a good corporate citizen
Contribute resources to the community,
improve quality of life

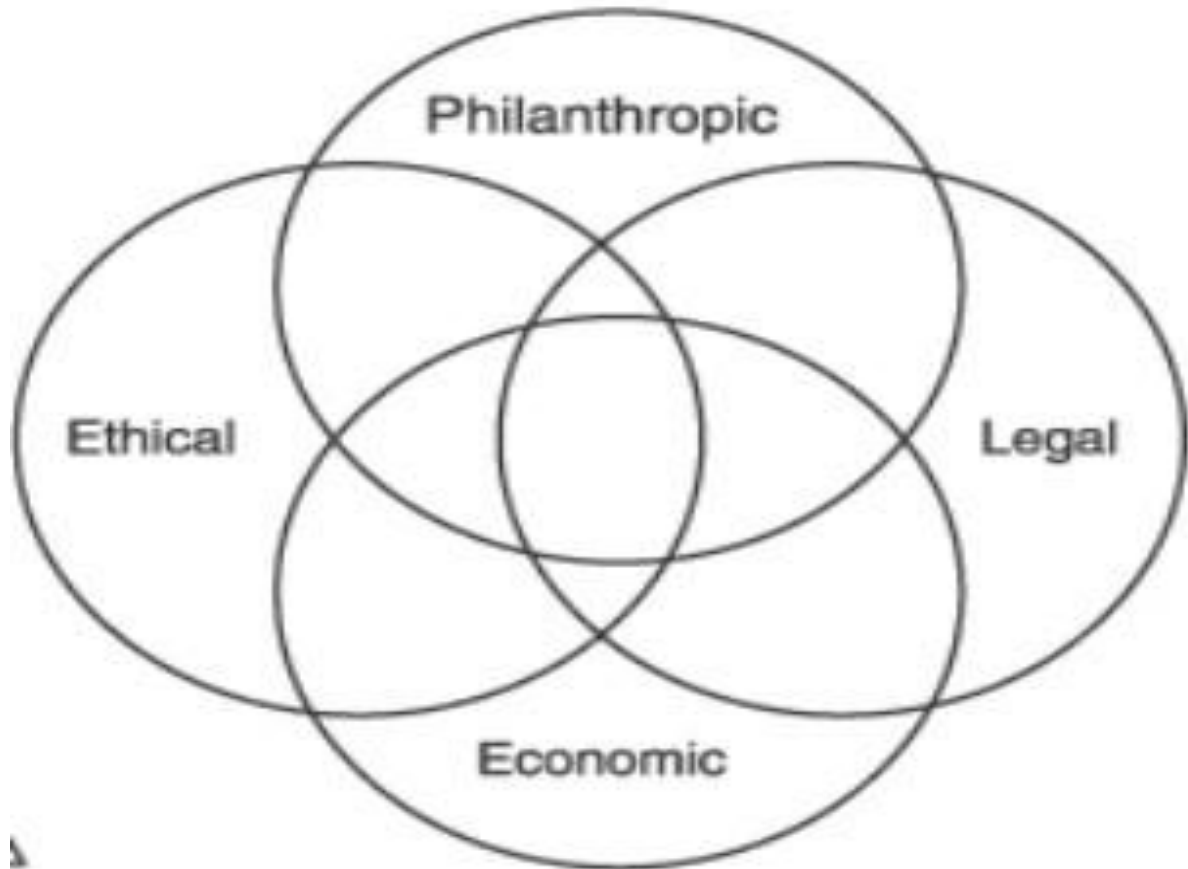
Be ethical
Obligation to do what is right, just and
fair. Play by the rules of the game

Obey the law
Law is society's codification of right and
wrong. Play by the rules of the game

Be profitable
The foundation upon
which all others rest

Philanthropic
responsibilitiesEthical
responsibilitiesLegal
responsibilitiesEconomic
responsibilitieswww.toolshero.com**❑ Intersecting Circle (IC) CSR model**

- The Intersecting Circle (IC) CSR model is very different from the pyramid model. The major point of differentiation between the two models is that:
 - ✓ it recognizes that there is a possibility of interrelationships between the different domains of CSR and second and,
 - ✓ it rejects the hierarchical order of importance.
- This model clearly includes all the possible domains of CSR and hence could clearly depict the picture of the interrelationships between the different domains.
- The IC model refutes the notion that CSR is just a collection of contingent and externally related topics. Rather, the model states that different responsibilities are in dynamic interplay with each other.
- It is the responsibility of the corporates to maintain harmony and resolve the conflicts between different responsibilities. The main idea of the model is that no responsibility is more important than the other. Rather everything is a social creation and the existence of everything depends on the willingness of the society to support them.

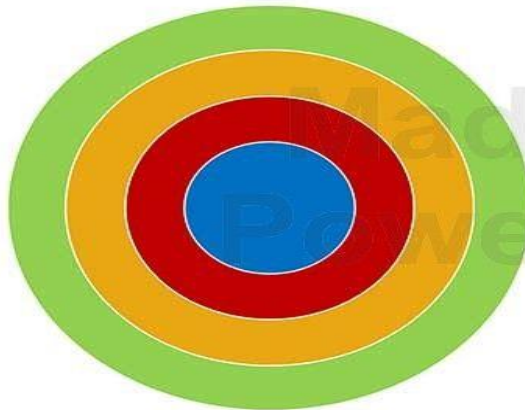


Concentric Circle CSR model

- The Concentric Circle model which is also known as the CON model shares some similarities with Carroll's Pyramid and IC model.
- For instance, the CON model also states economic responsibility as one of the core social responsibilities.
- Also, like the IC model, the CON model also emphasizes the interrelationships among different responsibilities.
- However, besides these similarities, there is a major difference as well. In contrast to the Pyramid model and IC model, the CON model states non-economic social responsibilities are the one that embraces core economic responsibilities.
- As shown in the figure above the inner circle represents the core responsibilities of the business in terms of CSR. This basically includes responsibilities that focus on the efficient execution of economic functions such as products, jobs and economic growth.
- The second circle represents the legal responsibilities that involve cooperating with the government on the part of the businesses.

Models of Corporate Social Responsibility

Concentric Circles (CC) Model



PHILANTHROPIC

Responsibilities

Be a good Corporate Citizen

Contribute resources to the community; improve quality of life

ETHICAL

Responsibilities

Be ethical

Obligation to do what is right, just and fair; Avoid harm

LEGAL

Responsibilities

Obey the Law

Law is society's codification of right and wrong; Play by the rules

ECONOMIC

Responsibilities

Be Profitable

The foundation upon which all others rest



- The intermediate circle which is the ethical circle includes responsibilities that help to exercise economic functions but with a sensitive awareness of ethical norms as well as values and priorities.
- The outer circle that represents the philanthropic circle focuses on newly emerging responsibilities that the business should focus on in order to become more broadly involved in social responsibilities.

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Unit 2: Modules of Corporate Social Responsibility

I. Social Responsibility of Business Gandhi's Doctrine of Trusteeship:

- Gandhiji advocated trusteeship doctrine. It is based on the principle that all people having money or property hold it in trust for society.
- Society is to be regarded as a donor to the individual and accordingly the latter is required to share part of his acquired wealth with the society for mutual benefit.
- According to this doctrine, business organizations have to be viewed as socio-economic institutions to be run and owned by 'Trust Corporation' with considerably diluted shareholdings.
- Most of the ideas of Mahatma Gandhi on trusteeship find expression in his speeches, short notes, and press interviews and informal discussions.
- Organizations and individuals possessing surplus wealth over and above their legitimate and genuine needs should spend it on community welfare programmes as part of their social responsibilities.
- Explaining his ideas on this issue, Gandhi added: "Suppose I have earned a fair amount of wealth either by way of legacy or by means of trade and industry. I must know that all that belongs to me is the right to an honorable livelihood no better than what enjoyed by million of others, the rest of my wealth belongs to the community and be used for the welfare of the community."
- According to Mahatma Gandhi, trusteeship is the only ground on which he can work out an ideal combination of economics and morals. In concrete form, the trusteeship formula reads as follows:

(i) Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one. It gives no quarter to capitalism, but gives the present owning class a chance to reform itself. It is based on the faith that human nature is never beyond redemption.

(ii) It does not recognize any right of private ownership of property except so far as it may be permitted by society for its own welfare.

(iii) It does not exclude legislation of the ownership and use of wealth.

(iv) Thus under state regulated trusteeship, an individual will not be free to hold or use his wealth for selfish satisfaction in disregard to the interests of society.

(v) Just as it is proposed to give a decent minimum living wage, a limit should be fixed for the maximum income that would be allowed to any person in society. The difference between such minimum and maximum incomes should be reasonable and equitable and variable from time to time, so much so that the tenancy would be towards obliteration of the difference.



(vi) Under the Gandhian economic order, the character of production will be determined by social necessity and not by personal greed

II. Stakeholders Model: (1990 – Present)

- In this era of globalization, Corporate Social Responsibility (CSR) has managed to integrate itself into the corporate culture and has evolved as an integral aspect of corporate performance reviews.
- It is a voluntary concept to be adopted by organizations. It integrates the social and environmental dimensions of a business in its operational activities.
- CSR and stakeholder theory both highlight the significance of conducting business operations by taking into consideration the larger societal benefits.
- Stakeholder theory, which has been described by Edward Freeman and others, is the mirror image of corporate social responsibility.
- Stakeholder theory is a concept that emphasizes the interrelationship between business and its various stakeholders, including investors, customers, employees, suppliers, etc.
- Instead of starting with a business and looking out into the world to see what ethical obligations are there, stakeholder theory starts in the world. It lists and describes those individuals and groups who will be affected by (or affect) the company's actions and asks, "What are their legitimate claims on the business?"
- What rights do they have with respect to the company's actions?" and "What kind of responsibilities and obligations can they justifiably impose on a particular business?" In a single sentence, stakeholder theory affirms that those whose lives are touched by a corporation hold a right and obligation to participate in directing it.
- The stakeholder theory stresses on the fact that an organization should create value for its various stakeholders who are affected by its business actions and decisions, and not only its shareholders.
- The theory talks about the necessity of managers to be held liable to the various stakeholders for safeguarding stakeholder interests. It works from the point of three perspectives for a business:
 - ✓ stakeholders who have an impact on the business operations of the firm
 - ✓ how such interconnections have an impact on key stakeholders and the organisation; and
 - ✓ how the viewpoints of key stakeholders has an impact on the success of the firm's strategic measures (Bonnafous-Boucher & Rendtorff, 2016).



- ✓ Businesses should hence plan strategies to deal with key stakeholders in an appropriate manner to improve efficiency and effectiveness in carrying out business operations successfully over the long term.

III. Ethical Model: (1930 – 1950)

- The origin of the first ethical model of corporate responsibility lie in the pioneering efforts of 19th century corporate philanthropists such as the Cadbury brothers in England and the Tata family in India.
- The pressure on Indian industrialists to demonstrate their commitment to social development increased during the independence movement, when Mahatma Gandhi developed the notion of trusteeship, whereby the owners of property would voluntarily manage their wealth on behalf of the people.
- Gandhiji's influence prompted various Indian companies to play active roles in nation building and promoting socio-economic development during the 20th century.
- The history of Indian corporate philanthropy has encompassed cash or kind donations, community investment in trusts and provision of essential services such as schools, libraries, hospitals, etc.
- Many firms, particularly family-run businesses, continue to support such philanthropic initiatives.
- The ethical responsibility to do what's right even when not required by the letter or spirit of the law (the aim or purpose of a law when it was written)
- This is the theory's keystone obligation, and it depends on a coherent corporate culture that views the business itself as a citizen in society, with the kind of obligations that citizenship normally entails.
- Many industrial plants produce, as an unavoidable part of their fabricating process, poisonous waste.
- The law governing toxic waste disposal was ambiguous, but even if the companies weren't legally required to enclose their poisons in double-encased, leak-proof barrels, isn't that the right thing to do so as to ensure that the contamination will be safely contained?
- True, it might not be the right thing to do in terms of pure profits, but from a perspective that values everyone's welfare as being valuable, the measure could be recommendable.
- The pressure on Indian industries to demonstrate their commitment to social development increased during the independence movement when Mahatma Gandhi developed the notion of



trusteeship, whereby the owners of the property would voluntarily manage their wealth on behalf of the people.

- An ethical organisation in its activities must respect stakeholders' right and create a better framework for the development of employees, managers and owners, fostering the customer's and supplier's evolution strategies, offering new perspectives to the local community and providing environmental protection.
- Ethical CSR is based on the strong relationship between rights and ethical responsibilities to attain legitimacy.

IV. Statist Model: (1950 – 1970s)

- Another model of CSR emerged in India after independence in 1947, when India adopted the socialist and mixed economy framework, with a large public sector and state-owned companies.
- The boundaries between the state and society were clearly defined for the state enterprises.
- Under the aegis of Jawahar Lal Nehru, this model came into being in the post-independence era. The era was driven by a mixed and socialist kind of economy. The important feature of this model was that the state ownership and legal requirements decided the corporate responsibilities.
- Elements of corporate responsibility, especially those relating to community and worker relationships, were enshrined in labour laws and management principles.
- This state-sponsored corporate philosophy still operates in the numerous public sector companies that have survived the wave of privatization of the early 1990s.
- In the First International Summit on CSR, jointly organized by the Ministry of Corporate Affairs and ASSOCHAM in New Delhi in the year 2008, it was agreed upon that a second model of CSR emerged in India after independence, with the adoption of a socialist and mixed economy framework where both large, state-owned public sector companies and private-sector firms coexisted (KPMG, & ASSOCHAM, 2008). The boundaries between the state and the society were clearly defined for the state enterprises.
- Elements of corporate responsibility, especially those relating to community and worker relationships, were enshrined in labour laws and management principles.
- This state-sponsored corporate philosophy still operates in the numerous public sector companies that have survived the wave of privatization in the early 1990s.
- The statist model has evolved well and has been adopted now.

V. Liberal Model: (1970s – 1990s)

- The model was actively advocated by Milton Friedman. The model largely surges that corporate responsibility is not the primary responsibility of the businesses, it recommends instead corporate be confined to its economic bottom line.



- This implies that it is sufficient for business to obey the law and generate wealth, which through taxation and private charitable choices can be directed to social ends.
- Emphasises on economic gain rather than social inputs.
- Indeed, the worldwide trend towards privatization and deregulation can be said to be underpinned by a third model of corporate responsibility that companies are solely responsible to their owners.
- This approach was encapsulated by the American economist Milton Friedman, who in 1958 challenged the very notion of corporate responsibility for anything other than the economic bottom line.
- The role of philanthropy gets removed automatically as the prime interest is towards profit making.
- It is just a profit making model working under the assumption that its profit would in turn benefit the society.
- In the present scenario, an economic corporation can hardly survive without social and philanthropic agendas. Thus the acceptance of this model makes sense only when it is normalised to some extent as in the case of the stakeholder model.

❖ **International Framework of CSR:**

- International Organisations have developed guidelines that offer globally active companies guidance and are designed to ensure that social and environmental responsibility is part of business.

1. ISO 26000 Guidance on Social Responsibility:

- ISO 26000 is defined as the international standard developed to help organizations effectively assess and address social responsibilities that are relevant and significant to their mission and vision; operations and processes; customers, employees, communities, and other stakeholders; and environmental impact.
- The ISO 26000 standard provides guidance on:
 - ✓ Recognizing social responsibility and engaging stakeholders
 - ✓ Ways to integrate socially responsible behavior into the organization

2. UN Guiding Principles on Business & Human Rights:

The UN Guiding Principles on Business and Human Rights are a set of guidelines for States and companies to prevent, address and remedy human rights abuses committed in business operations.



They were proposed by UN Special Representative on business and human rights John Ruggie, and endorsed by the UN Human Rights Council in June 2011. In the same resolution, the UN Human Rights Council established the UN Working Group on business & human rights.

- The UNGPs rest on three pillars

I. Protect: State duty to protect human rights.

II. Respect: The corporate responsibility to respect human rights.

III. Remedy :Access to remedy for victims of business-related abuses

3. Corporate Social Responsibility in line with the guidelines for multinational enterprises:

- OECD Guidelines for Multinational Enterprises:
- The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards.
- The Guidelines are the only multilaterally agreed and comprehensive code of responsible business conduct that governments have committed to promoting.
- The **OECD Guidelines for Multinational Enterprises** are recommendations on responsible business conduct addressed by governments to multinational enterprises operating in or from the 49 adhering countries. The Guidelines provide non-binding principles and standards for responsible business conduct in a global context that are consistent with applicable laws and internationally recognised standards.
- The Guidelines cover business ethics on a range of issues, including:
 - employment and industrial relations
 - human rights
 - environment
 - information disclosure
 - combating bribery
 - consumer interests
 - science and technology



- competition
- taxation.

4. The ILO's Social Standards:

- The International Labour Organization (ILO) is a United Nations agency whose mandate is to advance social and economic justice through setting international labour standards.
- Founded in October 1919 under the League of Nations, it is the first and oldest specialised agency of the UN. The ILO's labour standards are aimed at ensuring accessible, productive, and sustainable work worldwide in conditions of freedom, equity, security and dignity.
- Four basic principles:
 - Freedom of association and the right to collective bargaining
 - Elimination of forced labour
 - Abolition of child labour
 - Elimination of discrimination in respect of employment and occupation

5. Global Compact:

The United Nations Global Compact is a non-binding United Nations pact to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.

The UN Global Compact is a principle-based framework for businesses, stating ten principles in the areas of human rights, labor, the environment and anti-corruption.

The UN Global Compact is the world's largest corporate sustainability (a.k.a. corporate social responsibility) initiative with 13000 corporate participants and other stakeholders over 170 countries with two objectives:

- ✓ "Mainstream the ten principles in business activities around the world"
- ✓ "Catalyse actions in support of broader UN goals, such as the Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs)"
- By incorporating the Ten Principles of the UN Global Compact into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success and the 17 'Sustainable Development Goals (SDGs)' adopted in September 2015, by all 195 Member States



of the United Nations including India in order to end extreme poverty, fight inequality and injustice, and protect our planet- understood and interpreted by businesses around the world , regardless of size , complexity or location.

- **Human Rights**
- **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2:** Make sure that they are not complicit in human rights abuses.
- **Labour Standards**
- **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- **Principle 4:** The elimination of all forms of forced and compulsory labour;
- **Principle 5:** The effective abolition of child labour; and
- **Principle 6:** The elimination of discrimination in respect of employment and occupation.
- **Environment**
- **Principle 7:** Businesses should support a precautionary approach to environmental challenges;
- **Principle 8:** Undertake initiatives to promote greater environmental responsibility; and
- **Principle 9:** Encourage the development and diffusion of environmentally friendly technologies.
- **Anti-Corruption**
- **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.
- 6. The Global Reporting Initiative (GRI):
- The Global Reporting Initiative (GRI) is an international, multi-stakeholder and independent non-profit organization that promotes economic, environmental and social sustainability. The GRI was established in 1997 in partnership with the United Nations' Environment Programme (UNEP).
- The organization has developed Sustainability Reporting Guidelines that strive to increase the transparency and accountability of economic, environmental, and social performance and provides all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world.



- Since 2016, the GRI guidelines also includes references to the UN Sustainable Development Goals (SDGs).
- The Global Reporting Initiative (GRI) is a network-based organisation that aims to mainstream a firm’s disclosure on environmental, social and governance performance. The GRI produce Sustainability Reporting Guidelines in an effort to fulfill these goals. G4 is the latest generation of these guidelines.
- **Sustainable Development Goals (SDGs):**
- The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all.
- They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice.
- The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.
- The 17 SDGs are integrated—they recognize that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability.
- Countries have committed to prioritize progress for those who're furthest behind. The SDGs are designed to end poverty, hunger, AIDS, and discrimination against women and girls.
- The creativity, knowhow, technology and financial resources from all of society is necessary to achieve the SDGs in every context.
- The 17 sustainable development goals (SDGs) to transform our world:
- GOAL 1: No Poverty
- GOAL 2: Zero Hunger
- GOAL 3: Good Health and Well-being
- GOAL 4: Quality Education
- GOAL 5: Gender Equality
- GOAL 6: Clean Water and Sanitation
- GOAL 7: Affordable and Clean Energy
- GOAL 8: Decent Work and Economic Growth



- GOAL 9: Industry, Innovation and Infrastructure
- GOAL 10: Reduced Inequality
- GOAL 11: Sustainable Cities and Communities
- GOAL 12: Responsible Consumption and Production
- GOAL 13: Climate Action
- GOAL 14: Life Below Water
- GOAL 15: Life on Land
- GOAL 16: Peace and Justice Strong Institutions
- GOAL 17: Partnerships to achieve the Goal





Unit 3: CSR-Legislation in India and the World

- CSR in India is a result of the 2013, Companies Act.
- India is one of the few countries in the world to have a dedicated CSR act.
- In fact, it is the first to have brought about a legislation to implement CSR activities, followed by United Kingdom.
- The Companies Act, 2013, a successor to The Companies Act, 1956, made CSR a compulsory act. Under the notification dated 27.2.2014, under Section 135 of the new act, CSR is compulsory for all companies- government or private or otherwise, provided they meet any one or more of the following fiscal criterions:
 - ✓ The net worth of the company should be Rupees 500 crores or more
 - ✓ The annual turnover of the company should be Rupees 1000 crores or more
 - ✓ Annual net profits of the company should be at least Rupees 5 crores.
- If the company meets any one of the three fiscal conditions as stated above, they are required to create a committee to enforce its CSR mandate, with at least 3 directors, one of whom should be an independent director.
- **Duties of CSR Committee:**
 - ✓ Creation of an elaborate policy to implement its legally mandated CSR activities. CSR acts should conform to Schedule VII of the Companies Act, 2013.
 - ✓ The committee will allocate and audit the money for different CSR purposes.
 - ✓ It will be responsible for overseeing the execution of different CSR activities.
 - ✓ The committee will issue an annual report on the various CSR activities undertaken.
 - ✓ CSR policies should be placed on the company's official website, in the form and format approved by the committee.
 - ✓ The board of directors is bound to accept and follow any CSR related suggestion put up by the aforementioned committee.
 - ✓ The aforementioned committee must regularly assess the net profits earned by the company and ensure that at least 2 percent of the same is spent on CSR related activities.



- ✓ The committee must ensure that local issues and regions are looked into first as part of CSR activities.

- **FEATURES OF CSR LAWS**

The broad and important features of the CSR laws are as follows:

- ✓ Quantum of money utilized for CSR purposes are to be compulsorily included in the annual profit-loss report released by the company.
- ✓ The CSR rules came into force on 1st April 2014 and will include subsidiary companies, holdings and other foreign corporate organizations which are involved in business activities in India.
- ✓ CSR has been defined in a rather broad manner in Schedule VII of Companies Act, 2013. The definition is exhaustive as it includes those specific CSR activities listed in Schedule VII and other social programmes not listed in schedule VII, whose inclusion as a CSR activity is left to the company's discretion.
- **Role of Board of Directors:**
 - ✓ Approve the CSR Policy of the company after considering the recommendations given by the committee;
 - ✓ To disclose the contents of such a policy in its report and to place it on the company's website, if prescribed;
 - ✓ To ensure that the company spends, in every financial year, at least 2% of the average net profits made during the three immediately preceding financial years, in pursuance, of its CSR Policy;
 - ✓ The Board shall specify in its report the reasons for not spending the amount if the company fails to spend such amount.
- **Treatment of unspent amount:**
 - ✓ Section 21 of The Companies Amendment Act, 2019 with effect from 22 January, 2021. The amendment provides that if a company fails to spend the CSR amount during a year, the Board shall specify the reasons for not spending the amount in its CSR report.
 - ✓ The Board shall also transfer such unspent amount to as contribution to the prime minister's national relief fund or Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund) or any other fund set up by the central government for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women within a period of six months of the expiry of the financial year.



- ✓ In case of unspent amount in respect of ongoing projects, company shall transfer such funds to a separate special account opened by company in scheduled bank, within 30 days from end of financial year in any scheduled bank. The company shall spend that amount within three financial years towards CSR. Otherwise, the amount shall be transferred to any Fund specified in Schedule VII of Companies Act, 2013 within 30 days from completion of third financial year - section 135(6) of Companies Act, 2013 as inserted vide Companies (Amendment) Act, 2019 from 22-1-2021.

Note: Amendment as on 22.01.2021 Where amount to be spent < Rs. 50 lakhs, no CSR Committee required (Sec. 135 (9)), in that case, activities relating to CSR will be carried out by the BOD of the Company.

- **Treatment of excess or surplus amount of CSR:**

- ✓ If the company spends amount on CSR in excess of the 2% of average profits of past 3 years then it is free to do so as 2% is minimum amount and there is no maximum limit prescribed in law.
- ✓ However, no set-off will be allowed in subsequent years for excess amount spend in previous years and accordingly no asset should be recognized in books for such amount.
- ✓ For instance, R Ltd. spends Rs. 800 crores on CSR in FY 20-21 which is equal to 2.8% of its average profits. However, in FY 21-22 it spends Rs. 560 crores which is 1.5% of its average profits. Now, R Ltd. cannot set-off excess 0.8% of FY 20-21 with deficit of 0.5% on FY 21-22.

- **CSR Activities to be stated in Board report:**

- ✓ The Board of Director's report under section 134(3) of Companies Act, 2013 shall disclose the composition of the Corporate Social Responsibility Committee - section 135(2) of Companies Act, 2013.
- ✓ The Board's Report of a company covered under these rules pertaining to any financial year shall include an annual report on CSR containing particulars specified in Annexure I or Annexure II to Companies (CSR Policy) Rules, as applicable - Rule 8(1) of Companies (CSR Policy) Rules, 2014 as amended on 22-1-2021.

- **Penalty for non-compliance with provisions of CSR**

- ✓ Section 135(7) of Companies Act, 2013 as inserted vide Companies (Amendment) Act, 2020 from 22-1-2021 provides for penalty on company of twice the amount required to be transferred to the Fund specified in Schedule VII or Rs one crore, which ever is less.
- ✓ Further, every officer who is in default is liable to a penalty of one-tenth of amount required to be transferred by the company to such fund specified in Schedule VII or the unspent CSR amount, or Rs two lakhs, whichever is less.



- **Income Tax Aspects of CSR**

- ✓ Expenditure on CSR is not allowable as deduction under section 37 of Income Tax Act.
- ✓ **CSR activities listed in schedule VII :**
 - ✓ (i) Eradicating hunger, poverty and malnutrition, “promoting health care including preventive health care” and sanitation including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.
 - ✓ (ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.
 - ✓ (iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
 - ✓ (iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water [including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga].
 - ✓ (v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts;
 - ✓ (vi) measures for the benefit of armed forces veterans, war widows and their dependents, 9[Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF) veterans, and their dependents including widows];
 - ✓ (vii) training to promote rural sports, nationally recognised sports, paralympic sports and olympic sports
 - ✓ (viii) contribution to the prime minister's national relief fund [or Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund)] or any other fund set up by the central govt. for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women;
 - ✓ (ix) (a) Contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by the Central Government or State Government or Public Sector Undertaking or any agency of the Central Government or State Government; and



- ✓ (b) Contributions to public funded Universities; Indian Institute of Technology (IITs); National Laboratories and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defense Research and Development Organisation (DRDO); Indian Council of Agricultural Research (ICAR);
- ✓ Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs).
- ✓ (x) rural development projects
- ✓ (xi) slum area development
- ✓ Explanation.- For the purposes of this item, the term 'slum area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.
- ✓ (xii) disaster management, including relief, rehabilitation and reconstruction activities.

- **CSR COMMITTEE**

- Constitutions of CSR Committee:

Companies to which section 135 of Companies Act, 2013 is applicable, are required to constitute a CSR Committee to undertake and monitor CSR activities.

- Time Limit for constitution of CSR Committee: There is no time limit has been prescribed under the act for constitution of CSR Committee. However once provision of Section 135 of the Companies Act are applicable on any Company, the CSR committee should be constituted in the First meeting of Board of Directors after applicability of the requisite provisions.
- Total Members of CSR Committee
 - The CSR Committee shall consist of 3 (Three) or more Director, out of which at least one director shall be an Independent Director.
- As per Rule 4 of the Companies (Appointment and Qualification of Directors) Rules, 2014, the following classes of companies shall have at least 2 directors as independent directors.
 - Public Companies with paid-up share capital of Rs. 10 crores or more.
 - Public Companies with turnover of Rs. 100 crore or more.



- Public Companies with aggregate outstanding loans, debentures, and deposits, exceeding Rs. 50 crore
- **Appointment of Independent Directors on Board :**
- In relation to the Companies Act 2013, Independent Directors means a director other than a Managing Director or Whole-time director or a Nominee Director.
- For appointing the Independent Director, the Companies are required to follow the separate criteria which have been established to have an Independent Director.
- An Independent Director has always been a person of high regard and intellect, he is always been a person who is a face of governance in the Board.
- **Number of independent Directors:**
- ✓ Every listed public company shall have at least one-third of the total number of directors as independent directors.

(Any fraction contained in such one-third number shall be rounded off as one).

- ✓ The following class or classes of companies shall have at least two directors as independent directors –
- The Public Companies having paid up share capital of ten crore rupees or more; or
- The Public Companies having turnover of one hundred crore rupees or more; or
- The Public Companies which have, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees
- **Who can be an Independent director:**
- ✓ An independent director in relation to a company, means a director other than a managing director or a whole-time director or a nominee director:
- ✓ Who in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;
- ✓ Who or was not a promoter of the company or its holding, subsidiary or associate company;
- ✓ Who is not related to promoters or directors in the company, its holding, subsidiary or associate company;
- ✓ Who has or had no pecuniary relationship, other than remuneration as such director or having transaction not exceeding ten per cent of his total income or such amount as may be



prescribed with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;

- ✓ None of whose relatives must have had or any relationships with the company that in the nature is transactional or pecuniary.
- ✓ Who neither himself nor any of his relatives:
 - Holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed.
 - Is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of.
- **Manner of Appointment of the Independent Director**
 - ✓ Appointment process of independent directors shall be independent of the company management; while selecting independent directors the Board shall ensure that there is appropriate balance of skills, experience and knowledge in the Board so as to enable the Board to discharge its functions and duties effectively.
 - ✓ The appointment of independent director(s) of the company shall be approved at the meeting of the shareholders.
 - ✓ The explanatory statement attached to the notice of the meeting for approving the appointment of independent director shall include a statement that in the opinion of the Board, the independent director proposed to be appointed fulfils the conditions specified in the Act and the rules made thereunder and that the proposed director is independent of the management.
 - ✓ The appointment of independent directors shall be formalised through a letter of appointment, which shall set out: The term of appointment;
 - ✓ The expectation of the Board from the appointed director; the Board-level committee(s) in which the director is expected to serve and its tasks;
 - ✓ The fiduciary duties that come with such an appointment along with accompanying liabilities;
 - ✓ Provision for Directors and Officers (D and O) insurance, if any;
 - ✓ The Code of Business Ethics that the company expects its directors and employees to follow;
 - ✓ The list of actions that a director should not do while functioning as such in the company; and



- ✓ The remuneration, mentioning periodic fees, reimbursement of expenses for participation in the Boards and other meetings and profit related commission, if any.
- ✓ The terms and conditions of appointment of independent directors shall be open for inspection at the registered office of the company by any member during normal business hours.
- ✓ The terms and conditions of appointment of independent directors shall also be posted on the company's website.
- **Term of Appointment:**
 - ✓ An Independent Director can, subject of provisions of section 152 of the Act, hold office for a term of 5 consecutive years.
 - ✓ He can be appointed as such for a further term, not exceeding 5 years, if the members pass a special resolution and disclosure of such appointment is made in the Board Report.
 - ✓ After the expiry of 10 years period he cannot be re-appointed as an Independent Director.
- **Re-appointment of Independent Director:**
 - ✓ The re-appointment of independent director shall be on the basis of report of performance evaluation.
- **Remuneration of Independent Director:**
 - ✓ An Independent Director shall not be entitled to receive any remuneration other than a fee and reimbursement of expenses, for attending the meetings of the Board or any committee thereof or for any other purpose as decided by the Board.
 - ✓ Such fees cannot exceed Rs. 1.00 lakh per meeting of the Board or Committee thereof as prescribed u/s. 197 (5) of the Act.
 - ✓ He shall also be entitled to receive profit related commission as may be approved by the members.
 - ✓ However, he shall not be entitled to receive the benefit of stock option.
- **Functions performed by the Independent directors**
 - ✓ To attend the company's general meetings, BOD's meetings and board committees meeting being a member.
 - ✓ To have adequate knowledge about the company's internal and the external environment in which it operates.



- ✓ To report the matters concerning the unethical behavior, fraud or violation of the company's code of conduct or ethics policy
- ✓ To protect the legitimate interests of the company, shareholders and its employees,
- ✓ To ensure that the interests of a person who uses the vigil mechanism of the company are not prejudicially affected on account of using such policies. i.e. the vigil mechanism policy should be adequate and functional.
- ✓ To bring an objective view while evaluating the performance of the board and management of the company
- ✓ To scrutinize, monitor and report the management's performance regarding goals and objectives agreed in the board meetings
- ✓ To safeguard the interests of all stakeholders, particularly the minority shareholders and to balance the conflict of interest of the stakeholders;
- ✓ Useful role in succession planning;
- **Duties of an Independent Director**
 - ✓ Undertake appropriate induction and regularly update and refresh their skills, knowledge, and familiarity with the company.
 - ✓ Attempt to attend company's general meetings.
 - ✓ Attempt to attend BOD's meetings and board committees meeting being a member.
 - ✓ Have adequate knowledge about the company and the external environment in which it operates.
 - ✓ Report matters concerning unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethics policy.
 - ✓ Acting within his or her authority, assist in protecting the legitimate interests of the company, shareholders and its employees.
 - ✓ Not to unfairly obstruct the functioning of the company or committee of the Board.
 - ✓ Participate in the Board's committee being chairpersons or members of that committee.
 - ✓ Not to disclose confidential information, including commercial secrets, technologies, advertising and sales promotion plans, unpublished price sensitive information, unless such disclosure is expressly approved by the Board or required by law.



- ✓ Ascertain and ensure that the company has an adequate and functional vigil mechanism and to ensure that the interests of a person who uses such mechanism are not prejudicially affected on account of such use.

- **Principles of CSR:**

- ✓ Accountability
- ✓ Transparency
- ✓ Ethical behavior
- ✓ Respect for stakeholder interests
- ✓ Respect for the rule of law
- ✓ Respect for international norms of behavior
- ✓ Respect for human rights

- **Resignation & Removal:**

- ✓ An independent partner may resign or be removed from the position in the same manner in which any other director resigns or is removed. In case an independent director has resigned or is removed from the position the company should appoint a new independent director.

- **Separate meeting:**

- ✓ Schedule IV of The Companies Act, 2013 Act mandates Independent Directors of a company to hold atleast one separate meeting in a year without the presence of non independent directors and members of management to:

- (i) review the performance of non-independent directors and the Board as a whole;
- (ii) review the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors; and
- (iii) assess the quality, quantity and timeliness of flow of information between the company management and the Board that is necessary for the Board to effectively and reasonably perform their duties.

- **Evaluation of performance of an independent director:**

- ✓ The performance evaluation of independent directors shall be done by the entire Board of Directors, excluding the director being evaluated.



- ✓ On the basis of the report of performance evaluation, it shall be determined whether to extend or continue the term of appointment of the independent director.
- **Director Identification Number (DIN)**
- Director Identification Number or DIN (MCA) is an 8-digit unique identification number, which is allotted by the central government to each individual who wants to be a director of any company or who already is a director of any company.
- Once allotted the DIN number has lifetime validity.
- With the DIN number government also maintain a database of all the director.
- An individual can have only one DIN but he can be the director of 2 or more companies.
- **Computation of Net Profit's implementation in India:**
- ☐ Statutory provisions in relation to payment of managerial remuneration:
 - ✓ According to the provisions of Section 197 of the Companies Act 2013 the overall remuneration paid by the public company to its directors including managing director and wholetime director and its manager in relation to the financial year shall not exceed 11 % of net profits of the company.
 - ✓ Provided that remuneration payable to any one managing director or wholetime director or manager shall not exceed 5 % of the net profit of the company and if there are more than one such director then the remuneration shall not exceed 10 % of the net profit to all such directors taken together.
 - ✓ It also provided that the remuneration payable to directors who neither managing director or wholetime director or manager
 - One percentage of net profit, if there is a managing director or wholetime director or manager.
 - Three percentage of net profit, if there is no managing director or wholetime director or manager.
 - ✓ The company in general meeting may authorize the payment of managerial remuneration in excess of the limit specified under the Act after passing special resolution.
- **Certain items excluded from calculation of managerial remuneration :-**
- ✓ It is also provided that the sitting fee provided to the directors for attending meeting and also any insurance taken in the name of managing director, wholetime director or manager for indemnifying (compensate) them against any liability in respect of any negligence, default,



misfeasance ,breach of duty or breach of trust for which they have been guilty in relation to the company , the premium paid on such insurance shall not be treated as a part remuneration.

- ✓ If such person is proved to be guilty then the premium paid on such insurance shall be treated as part of remuneration.

- **Calculation of Net profit:**

- ✓ The Act says the remuneration payable to managing director or wholetime director or manager or any other director shall be up to the prescriber percentage on the net profit of the company. Section 198 of the Companies Act 2013 provides calculation of net profit of the company.

- **Managerial Remuneration in case of loss or inadequacy of profits:-**

- ✓ The company may pay remuneration to its Managing director, wholetime director, manager or to any other non-executive director in case of loss or inadequacy of profits subject to the fulfilment of conditions specified in the Schedule V of the Companies Act 2013.

- ✓ The maximum remuneration payable in case of loss or inadequacy of profits is up to the limit provided in the Schedule V of the Companies Act 2013.

- ✓ Provided that for the purpose of payment of managerial remuneration as per the situation discussed above, the company should complied with the following conditions :-

1. A resolution should be passed in the board meeting.

2. The company has not committed any default in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, and in case of default, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.

3. Ordinary resolution or in case if limit is exceeded special resolution is passed in the general meeting.

Unit 4. Identifying key stakeholders and their Roles and recent trends and opportunities in CSR

- ❖ Role of Public Sector in Corporate, Government programmes that encourage voluntary responsible action of corporate :
- ❖ While corporate responsibility is a voluntary management approach by business, the public sector has a significant impact on CSR. The public sector plays a critical role in creating an enabling environment for responsible business to thrive.



- ❖ The meaning of social responsibility of enterprises and public institutions has been growing year by year. These entities notice the essence and benefits resulting from social engagement and want to develop mutual trust and transparent relations with internal and external environment.
- ❖ A positive image in the eyes of interested parties, especially public institutions, can lead to, among others, establishing appropriate conditions for investment and business development or simply for settling in a given area, but also, or maybe primarily, to developing a conviction that funds allocated to administration are spent effectively with provision for maximum benefits to the society.
- ❖ Business needs to address shareholders as well as stakeholders which consist of suppliers, customers, creditors, the bankers, the employee, society at large.
- ❖ As per the report of the committee appointed by the SEBI on Corporate Governance under the Chairmanship of Shri Kumar Manglam Birla, “The fundamental objectives of Corporate Governance are the enhancement of shareholder value keeping in view the interest of other stakeholders”.
- ❖ Corporate Social Responsibility helps to address the stakeholder issues. In the age of globalized world, the concept of CSR can't be ignored by the corporate firms. By keeping in mind the changing market scenario business firms have to change their work culture as per the market demand.
- ❖ India's 10 most profitable companies will together spend Rs 2,625 crore on activities including promotion of commerce, art, science, sports, education, research, social welfare, religion, charity and protection of the environment. The spending will, preferably, have to be in the immediate vicinity of their businesses. (Krishnakant, M Saraswathy, 2014)
- ❖ **CSR IN CENTRAL PUBLIC SECTOR ENTERPRISES (CPSEs):**
- ❖ Public Sector Enterprise plays a crucial role in development of the nation's economy. Central Government and State Government set up PSEs to build the industrial capacity and generating employment alongwith improving socio-economic condition.
- ❖ Central Government establishes Central Public Sector Enterprise (CPSEs) under the Department of Public Enterprise, Ministry of Heavy Industries & Public Enterprise.
- ❖ CPSEs are governed by guidelines issued by Department of Public Enterprise. New Guidelines on CSR and Sustainability for CPSEs came into effect on April 1, 2013
- ❖ Govt. of India issued revised guidelines for CSR activity carried out by CPSEs taking all stakeholders into account. As per new guidelines, it is obligatory for CPSEs to disclose its various CSR initiatives and performance to stakeholders.



- ❖ The CPSEs would have to utilize and spend the entire amount earmarked for CSR, or would have to disclose the reasons for not utilizing the full amount.
- ❖ Further, if the CPSEs are unable to spend the earmarked amount for CSR in a particular year, it would have to spend the amount in the next two financial years, failing which, it would be transferred to 'Sustainability Fund'. Currently, its implementation mechanism is being formulated separately.
- ❖ In the revised guidelines, the thrust of CSR and sustainability is clearly on capacity building, empowerment of communities, inclusive socio-economic growth, environment protection, promotion of green and energy efficient technologies, development of backward regions and upliftment of the marginalized and under-privileged sections of the society.
- ❖ The revised guidelines give a clear, unequivocal message that CPSEs are expected to act in a socially responsible manner at all times.
- ❖ **Financial Component**
- ❖ Every year, each CPSE shall with the approval of its Board of Directors makes a budgetary allocation for CSR and Sustainability activities / projects for the year. The budgetary allocation will be based on the profitability of the company. More specifically, it will be determined by the Profit After Tax (PAT) of the company in the previous year as shown here under:
- ❖ PAT of CPSE in the previous year and Range of Budgetary allocation for CSR and Sustainability activities (as % of PAT in previous year)
- ❖ (i) Less than Rs. 100 Crore..... 3% - 5%
- ❖ (ii) Rs. 100 Crore to Rs. 500 Crore..... 2% - 3%
- ❖ (iii) Rs. 500 Crore and above..... 1% - 2%
- ❖ With the enactment of new companies act, CPSUs need not to follow above budgetary allocation. Now they have to spend 2% of net profit under section 135 of Companies Act, 2013.
- ❖ Each CPSE shall have a Board level committee headed by either the Chairman and / or Managing Director, or an Independent Director to oversee the implementation of the CSR and Sustainability policies of the Company and to assist the Board of Directors to formulate suitable policies and strategies to take the CSR and Sustainability agenda of the company forward in the desired direction.
- ❖ Now as per the new law, CSR committee to be formed to formulate CSR policy and monitor its implementation.



- ❖ Corporate Governance is one of the key parameters included in the Memorandum of Understanding (MoU). An MOU is an expression of agreement to proceed. It indicates that the parties have reached an understanding and are moving forward. Although it is not legally binding, it is a serious declaration that a contract is imminent. The government uses this as a tool to evaluate the performance of CPSEs. As a norm, CPSEs are periodically required to submit a compliance report on CSR.
- ❖ There are various parameters to assess the performance of CPSEs in terms of corporate governance. The government evaluates their performance on a scale of 1 to 100.
- ❖ Higher score translates into better compliance with corporate governance. If any CPSE fails to submit the self-evaluation or compliance report by the cut-off date, it is graded and considered as equivalent to 'Poor'.
- ❖ During FY12, out of the total 248 CPSEs, 78 CPSEs (31.5%) received 'Excellent' score compared with 61 CPSEs in FY11, as they complied well with the corporate governance guidelines.
- ❖ **Roles by the Public sector units (PSUs) in the CSR:**
- ❖ Dun & Bradstreet (D&B), an American company conducted a primary study to analyze CSR initiatives of the PSUs and their contributions towards overall socio-economic development of the country, with the objective to capture the current trends and challenges in the CSR practices.
- ❖ The analysis was based on the study of around 63 PSUs. The key findings of the primary survey are as under:-
- ❖ Environment protection, women empowerment and healthcare are the key focus areas of CSR. As per the survey findings, environment protection, women empowerment, and healthcare emerged as the three major CSR activities undertaken by PSUs that offered maximum benefits.
- ❖ Around 19% of the companies ranked environment protection as their key focus area that offered maximum benefit.
- ❖ Further, women empowerment and healthcare were the next major CSR activities that offered maximum benefit, which the PSUs undertook.
- ❖ Moreover, village upliftment, education, job creation, and assistance during natural calamities were the other major CSR activities implemented by PSUs that provided maximum benefits.
- ❖ The role of PSU reflects many principles of CSR i.e. accountability, transparency and respect for different stakeholder's interest.



- ❖ It also has a leadership role to ensure that its own way of operating is in line with good CSR practices in its multiple roles as employer, purchaser, service provider and its engagement with community.
- ❖ It can also take a lead where there is no response regarding submitted suggestions or the company is not ready to engage with CSR.
- ❖ **Role of government in CSR:**
- ❖ The aversion to government involvement in CSR regulation in business is understandable, however the benefits of engagement from the public sphere should also be considered. Many success stories have arisen from such collaboration, in particular the development of legislation and regulation to control employee-firm relationships, maintain health and safety standards in workplaces, prevent discrimination and promote equal pay.
- ❖ The ability of government to provide a framework for regulation and the means by which to monitor compliance is likely to improve CSR standards and encourage large and small companies alike to improve their performance.
- ❖ Governments employ various methods through which to foster better CSR practices within the private sphere.
- ❖ Most crucially, the government is in a position to raise awareness and build capacities for CSR among companies and stakeholders – an important role due to the largely voluntary nature of CSR. The more people are aware of the social challenges facing businesses, the more likely that attention will be focused on developing solutions to tackle these issues.
- ❖ **Barriers in Public Sector for implementing CSR in developing countries:**
- ❖ PSUs are facing numerous challenges and limitations while implementing CSR programs. They largely relate to the organizational level issues such as absence of a dedicated CSR team, active involvement of key stakeholders, budgetary issues and identifying apt CSR projects and their beneficiaries.
- ❖ Survey findings revealed that identifying appropriate CSR projects as the top-most challenge of the PSUs. The companies surveyed, feel that identifying appropriate social projects and their beneficiaries is their biggest concern.
- ❖ This was followed by lack of active involvement of all stakeholders and beneficiaries as the other major challenge.
- ❖ Data shows that Maharatna and Navratna public sector undertakings (PSUs) have not been able to fully spend their CSR budget.



- ❖ Data released by the ministry of Heavy Industries & Public Enterprises show that the 5 Maharatnas -ONGC, Coal India, IOC, NTPC and SAIL - managed to spend just 49% of the combined budget for three years beginning 2009-10.
- ❖ The spending budget for most PSUs is updated till end September 2011. The combined spending of the Navratnas was higher at 65%.
- ❖ But atleast five of these 21 PSUs managed to spend less than 25% of the CSR budget of the three years. Coal India spent only 27% of the budget, according to information released. National Aluminum Ltd (NALCo) was the only one that managed to fully spend its Rs 31.55 crore budget.
- ❖ ONGC spent 49% of the budget in the three years. Whereas Coal India, its performance in the third year was disappointing. It spent only 6% of the budget till September 2011.
- ❖ Indian Oil Corporation spent 85% of the Rs 264.4 crore it set aside and SAIL 72% of the Rs 179.68 crore. (Tina Edwin, 2012)
- ❖ **Non-Profit Organisations (NPO) and their role in implementing CSR:**
 - A non-profit organization (NPO) is one which is not driven by profit but by dedication to a given cause that is the target of all income beyond what it takes to run the organization.
 - Non-profit organizations are often used for trusts, cooperatives, advocacy, charity, environmental and religious groups.
 - For an NPO to qualify as a government-recognized and tax-exempt organization it has to fulfill conditions set out by government agencies.
 - Funding can be an issue for non-profits as they often rely on external sources, such as donations.
 - Examples of Non-profit organisations based in India which may or may not be Non-governmental organizations, Indian NGOs:
 - UNICEF India
 - Smile Foundation
 - Akshaya Patra Foundation
 - The terms NPO and NGO (non-government organization) are also often used interchangeably but they are different. NGOs are separate from government and require no government council but depend on the government for funding. However, most NGOs are also non-profit organizations.



- While "NGO" has various interpretations, the term is generally accepted to include non-profit, private organizations that operate outside of government control. Some NGOs rely primarily on volunteers, while others support a paid staff.
- NGOs rely on a variety of sources for funding, including: membership dues, private donations, the sale of goods and services, grants.
- Despite their independence from governments, some NGOs rely heavily on government funding. Large NGOs may have budgets in the millions or billions of dollars.
- Examples of NGO in India:
 - Butterflies India.
 - CPIL.
 - Child In Need Institute.
 - Child Rights and You.
 - Childline India.
- **Importance of CSR in NPOs/NGOs:**
 - Benefits to the corporate:
 - Improved image & credibility
 - Enter new markets
 - Increase profits
 - B. Benefits to NGO & NPO:
 - Financial sustainability & funding for projects
 - Assess to free marketing
 - Positive relationship with local authority
 - Businesses can improve their social and environmental performance and find new market opportunities through partnerships with non-governmental organizations (NGOs).
 - The knowledge, expertise and capabilities of NGOs and corporations are different and may be complementary.



- Together, NGOs and companies can often accomplish more than they could alone. But misunderstandings and other obstacles can prevent partnerships from reaching their potential.
- Corporate-NGO partnerships are complex and challenging. But they can benefit both the corporate and NGO participants.
- To give new partnerships the best chance of succeeding, approach relationships carefully, structure them thoughtfully, and seek ongoing recalibration as they evolve.
- The interaction between Indian corporations and non-governmental organizations (NGOs) increased after the Indian Companies Act of 2013 was passed.
- In a notice published by the Ministry of Corporate Affairs, companies were directed to work with partners (specifically, NGOs) who have “an established track record of three years in undertaking similar programs or projects.”
- **CSR as a Strategic Tool for Sustainability and Challenges :**
- The concept of sustainable development:
- The main focuses of sustainable development which determine the essence of this term:
- Focus on meeting needs
- Focus on ethical values
- Focus on social, economic and environmental dimensions
- Focus on human rights
- Focus on cooperation
- **How Does Sustainability Affect Business?**
- The Triple Bottom Line approach to operating a company is useful for businesses in a number of ways. Not only is it ethical and important to meet UN standards of environmental sustainability, it is also economical and allows a stronger business model. Additionally, sustainability enables an organisation to attract employees, shareholders and customers who are invested in the goals of sustainability and share these values. The impact of sustainability can therefore be positive for a business’ image as well as revenue.
- There are many reasons why sustainability is important to us.
- Improves trust and engagement between staff, investors, customers and other stakeholders



- Attracts and retain employees
- Builds credibility, improves relationships and enhances brand awareness
- Reinforce Community Relations
- Encourage Innovation that benefits other measurements
- A better understanding of your customers

