

## **“Corporate Social Responsibility: A Comprehensive Study”**

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### **ABSTRACT**

India, being the traditionally rich country, and because of the manifest socialism in the environment of this country, CSR is deeply rooted in the philosophy of this country. When a Company earns huge profit it is in the interest of society that the company will contribute towards the social good of the society in monetary form. Corporate Social Responsibility under the Companies Act, 2013 imposes a mandatory duty on Indian Companies to contribute towards social good of society in monetary form. However to see CSR as an unnecessary liability is wholly unjustifiable on the part of the Company as there are many unhidden and hidden benefits which are attached in doing CSR activities.

As per Section 135(1) of the Companies Act, 2013, now it is mandatory for the Companies whose net profit is Rs. 5 crore or turnover is Rs. 1000 crore or net worth of Rs. 500 crore to spend 2% of its profit on CSR Activities. This paper aims at dealing with and defining the meaning of CSR, the regulations governing it while going into the intricacies of CSR. CSR is often construed as a simple yet difficult endeavor and adhering to it often requires expertise and knowledge. Thus, while most companies know about the CSR yet while implementing it they often come across hurdles. Thus, this paper identifies the role as well as responsibilities of the board as well while dealing with CSR.

KEYWORDS – Board, Corporate, Company, Responsibility, India

### **1. INTRODUCTION TO CORPORATE SOCIAL RESPONSIBILITY**

*“A company should have in its DNA, a sense to work for the welfare of the community. CSR is an extension of individual sense of social responsibility. Active participation in CSR projects is important for a company”*  
- Ratan Tata

Corporate Social Responsibility (hereinafter referred as CSR) has a long and varied history. Many trace its origin to the century’s old social concern, charity and philanthropic activities of merchants and businessman. These are the act of altruism voluntary derived for the goodwill for the society. As a modern concept, CSR is a product of the industrial revolutions and

globalization of economy which saw the emergence of big businesses with overwhelming power and influence over society.<sup>1</sup>

The first formal definition of CSR came from Brown in his book *Social Responsibilities of the Businessman*<sup>2</sup> which was published in 1953. However since then interpretation of CSR has been change drastically. It is now defined as Business's contribution to Sustainable Development.<sup>3</sup> **United Nations Industrial Development Organization (UNIDO)** defines CSR as a management concept making it a part of the corporate governance process. The definition in verbatim provides below:

*“Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives, while at the same time addressing the expectations of the shareholders and stakeholders.”<sup>4</sup>*

India, being the traditionally rich country, and because of the manifest socialism in the environment of this country CSR is deeply rooted. However structural evolution of the CSR in India was in various phases:

**Phase 1 (1850 to 1914):** CSR activities were done mainly for Philanthropy. In this phase charity was done during industrialization. Organizations were solely responsible to proprietor and manager.

**Phase II (1914 to 1960):** This was the time of Independence. CSR was used as a tool for Social Development. Organizations were responsible to proprietor, manager, and employees.

**Phase III (1960 to 1990):** This was the time when India was largely a mixed economy. Organizations were responsible towards proprietor, managers, employees and other environment factors.

**Phase IV (1990 onwards):** CSR became a mandatory requirement after passing of a legislation, The Companies Act, 2013. Organizations responsibility is now towards proprietor, managers, employees, environment and public in general.<sup>5</sup>

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<sup>1</sup>The Debate over Corporate Social Responsibility, Edited by Steve May, George Cheney and Juliet Roper, Oxford University Press, 2007.

<sup>2</sup>Archie B. Carroll, *Corporate Social Responsibility: Evolution of a Deviant Construct*, Vol. 38 No. 3, Business & Society, 268-295(1999).

<sup>3</sup> CSR and Developing Countries: What Scope for Government Action? Sustainable Development, Innovation Briefs, February 2007 issue.

<sup>4</sup> <http://www.unido.org/csr/o72054.html> (last accessed on 23rd April 2019).

<sup>5</sup>Vijay Kumar Sarabu, *Corporate Social Responsibility: An Overview*, [https://www.researchgate.net/publication/318445440\\_CORPORATE\\_SOCIAL\\_RESPONSIBILITY\\_IN\\_INDIA\\_AN\\_OVER\\_VIEW](https://www.researchgate.net/publication/318445440_CORPORATE_SOCIAL_RESPONSIBILITY_IN_INDIA_AN_OVER_VIEW) (last accessed on 23rd April 2019).

India is plaguing with a problem of Rich becoming richer and poor becoming poorer. This is one of the most significant reason for which importance of CSR increased manifold in India. Some of the benefits of CSR are:

- Enhancing ability to deal with stakeholders expectations more responsibly and improve company and stakeholders relation.
- A socially responsible company attracts best talent for the industry.
- Leads to more creative and innovative environment for the company.
- Benefits society at large as companies are mandatory required to spend a threshold limit for the benefit of the society.
- Help in developing effective corporate governance framework.

## **2. STATUTORY PROVISIONS REGARDING CORPORATE SOCIAL RESPONSIBILITY**

As discussed in the introduction part CSR is in existence for long and it is as old as civilization. CSR became very important in a socialistic country like India as company is considered to be a social institution having duties and responsibilities towards the common good of the society and it is always expected from companies to make effective contribution towards the social good of the people. Before the enactment of Companies Act, 2013 CSR expenditure is at the discretion of the companies however demand to contribute mandatorily under CSR was not new and infact Supreme Court from 1950 till 2013 reiterated time and again in various cases that “*the new concept of corporate social responsibility transcending the limited traditional views about the relationship between the management and the shareholders and embracing within its scope much wider groups affected by the trading activities and other connected operations of companies emerged as an important feature of contemporary thought on the role of the corporation in the modern society*”.<sup>6</sup>In short Supreme Court in various cases observed that corporations should mandatorily contribute effectively towards the social good of the people.<sup>7</sup>

In 2009, the Ministry of Corporate Affairs released its first formal CSR guidelines, called the **Voluntary Guidelines for Corporate Social Responsibility**<sup>8</sup> (referred as **ESG Guidelines**) bringing in social and environment concerns. The fundamental principle of the guidelines applicable to all business entities was to make CSR activities an integral part of overall business policy. However need was felt to mandate companies to incur expenditure towards CSR. So, a new section is introduced in the new Companies Act of 2013.

Section 135 is incorporated in Companies Act 2013<sup>9</sup> which makes it mandatory for the companies crossing a certain threshold limit to contribute mandatorily towards society. Ministry of Corporate Affairs, Government of India notified section 135 along with Companies (Corporate Social Responsibility Policy) Rules in 2014. CSR in India after 2013 Act is revolving

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<sup>6</sup>National Textile Workers v. P.R. Ramkrishna, AIR 1983 SC 75.

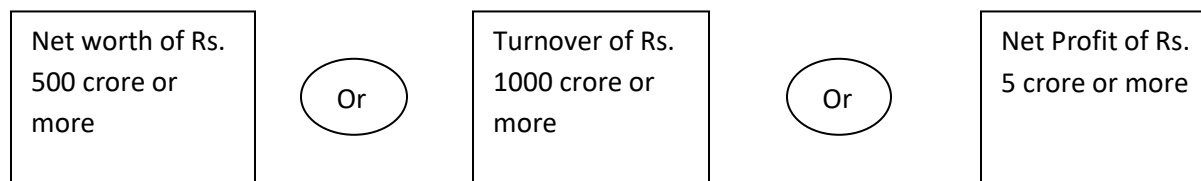
<sup>7</sup>Chiranjeevlal v. Union of India, AIR 1951 SC 41.

<sup>8</sup>Voluntary Guidelines for Corporate Social Responsibility, Ministry of Corporate Affairs, Government of India, 2009.

<sup>9</sup>Section 135 of the Companies Act, 2013.

around Section 135, so thorough understanding of section 135 and relevant rules is very important.

Sub-section 1 of section 135 provides for those companies on whom CSR provisions are applicable. The said section provides “*every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.*”<sup>10</sup> The pictorial representation below gives the representation of the threshold limit provided in the section.



The above provision requires every company who crosses the prescribed threshold limit to form a corporate social responsibility committee which consist of at least 3 directors, out of which one director shall be an independent director. The committee formed is responsible for undertaking CSR activities of the company. However, every company which ceases to be a company covered under any of the above 3 conditions for immediate preceding financial years shall not be required to comply with the CSR provision under section 135. Proviso to section 135(5) also provides preference shall be given to local areas where company operates while spending earmarked amount for CSR activities. It is important to mention here that subject to section 135(5) CSR projects or programs or activities undertaken in India only shall amount to CSR Expenditure.<sup>11</sup>

### 2.1 Amount to be Incur towards CSR Activity

“*The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy*”<sup>12</sup> So, atleast 2% of the average net profits made need to incur towards CSR. Three immediate preceding financial year means for financial year 2019-2020, Average net profit of FY 2016-2017, FY 2017-2018, FY 2018-2019 need to be considered.

Here, “*Net profit means the net profit of a company as per its financial statement prepared in accordance with the applicable provisions of the Act, but shall not include the following, namely:— (i) any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise; and (ii) any dividend received from other companies in India, which are covered under and complying with the provisions of section 135*”

<sup>10</sup>Section 135(1) of the Companies Act, 2013.

<sup>11</sup>CS Divesh Goyal, *Corporate Social Responsibility (CSR) – Brief Summary of Provisions*, Taxguru, <https://taxguru.in/company-law/corporate-social-responsibility-csr-summary-provisions.html> (last accessed on 23rd April 2019).

<sup>12</sup>Section 135(5) Companies Act, 2013.

of the Act”<sup>13</sup>. So any profit arising from any overseas branch or any dividend received from other companies in India cannot be included in net profit.

Explanation to section 135(5) provides average net profit shall be calculated in accordance with section 198 of the Companies Act, 2013. Section 198(5) (a) provides in making computation of net profits, income-tax and super-tax payable by the company under the Income Tax Act, 1961 shall not be deducted. Therefore, the net profit criterion in section 135(5) is Net Profit before tax.<sup>14</sup>

## 2.2 CSR Activities to be performed in collaboration or through any other Entity

Company can also undertake CSR activities as per its CSR Policy or Board of the company may decide to undertake CSR activities through a registered trust or society or company registered under section 8 of the Companies Act.<sup>15</sup> However the aforesaid entities can undertake CSR activity of a company if they have a track record of three years in undertaking similar projects and modalities of utilization of funds, monitoring and reporting mechanism has been specified.

A company may also collaborate with other companies for undertaking CSR activities but in those condition CSR committees of respective companies have to report separately on such projects or programs.

## 2.3 Activities not included in CSR Activities

- Activities undertaken in normal course of business.
- Activity undertaken outside India.
- CSR projects or programs or activities that benefit only the employees of the company and their families shall not be considered as CSR activities.
- Contribution of any amount directly or indirectly to any political party under section 182 of the Act, shall not be considered as CSR activity.
- Activity not covered within schedule VII of the 2013 Act.
- One-off events such as marathons/ awards/ charitable contribution/ advertisement/ sponsorships of TV programs etc. would not be qualified as part of CSR expenditure.
- Expenses incurred by companies for the fulfillment of any Act/ Statute of regulations (such as Labor Laws, Land Acquisition Act etc.) would not count as CSR expenditure under the Companies Act.<sup>16</sup>

## 2.4 CSR Policy – Rule 6 of Companies (CSR) Rules, 2014

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<sup>13</sup>Rule 2 (f) of the Companies (Corporate Social Responsibility) Rules, 2014.

<sup>14</sup>Mansukhlal Hiralal and Company, *Corporate Social Responsibility – Indian Companies Act 2013*, Mondaq, <http://www.mondaq.com/india/x/366528/Corporate+Governance/Corporate+Social+Responsibility+Indian+Companies+Act+2013> (last accessed on 23<sup>rd</sup> April 2019).

<sup>15</sup>Rule 4 of the Companies (CSR) Rules, 2014.

<sup>16</sup>Saurabh Kumar, *Corporate Social Responsibility under Companies Act, 2013*, iPleaders, <https://blog.ipleaders.in/csr-laws-india/> (last accessed on 23<sup>rd</sup> April 2019).

CSR Policy relates to the activities to be undertaken by the company as specified in schedule VII to the Act excluding activities or expenditure which is done in the normal course of business. As per Rule 6, following shall be included in CSR Policy:

- The list of programs or projects which finds its place in the purview of Schedule VII;
- The modalities for exaction of CSR projects;
- The schedules for implementation of CSR projects;
- Monitoring process of such projects;
- Specific declaration to the effect that surplus arising out of the CSR projects shall not form part of the business profit of a company.<sup>17</sup>

### 2.5 CSR Expenditure – Schedule VII of the Companies Act, 2013

Any expenditure on an item not in conformity or not in line with activities which fall within the purview of Schedule VII of the Act does not considered being CSR expenditure.<sup>18</sup> Schedule VII provides a comprehensive list of those activities spending on which considers to be a CSR activity. Schedule VII provides<sup>19</sup>:

- Eradicating hunger and poverty
- Promotion of education and employment
- Livelihood enhancement Projects
- Women Empowerment
- Hostels for women and orphans
- Promoting gender equality
- Old age homes
- Protection of flora and fauna
- Contribution of PM relief fund
- Promotion of Sports
- Rural development projects
- Measures to benefit armed forces veterans
- War widow and dependents
- Environmental sustainability
- Slum Area Development.

If the company fails to spend earmarked expenditure on CSR activities then the Board shall specify reasons for failure to spend in its report.

### 2.6 Guidelines for Central Public Sector Enterprises

Department of Public Enterprises issues a new guidelines for Central Public Sector Enterprises (hereinafter referred as CPSE) in 2010, ***‘Guidelines on Corporate Social Responsibility and***

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<sup>17</sup>Corporate Social Responsibility under Companies Act, 2013, India Filings, <https://www.indiafilings.com/learn/corporate-social-responsibility-companies-act/> (last accessed April 2019).

<sup>18</sup>Supra note 11.

<sup>19</sup>Legal Provisions relating to Corporate Social Responsibility, LAWYERSCLUBINDIA, <http://www.lawyersclubindia.com/articles/Legal-provisions-relating-to-corporate-social-responsibility-some-unanswered-questions-still-6440.asp> (last accessed on 23rd April 2019).

*Sustainability for Central Public Sector Enterprises*<sup>20</sup>, where it had asked all CPSEs to create separate CSR budget.

The guidelines mandated CPSEs to make annual budgetary provisions for 1% to 5% of profit-after-tax (PATs) for CSR and sustainability activities, depending on the size of the PATs, and also mandate to take up at least one major project for development of a backward district which, it believes. CPSEs are required to collaborate with NGOs in realizing the Minimum Development Goals. Earlier guidelines had mandated a spending Rs. 3 crore on CSR activities for CPSEs having net profit of 100-500 crore.<sup>21</sup>

### 2.7 SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015

Regulation 34(2)(f) of SEBI (LODR) Regulation, 2015 also require top five hundred listed entities based on the market capitalization calculated as on March 31 of every financial year, business responsibility report describing the initiatives taken by them from an environmental, social and governance perspective, in the format as specified by the Board from time to time.<sup>22</sup>

## **3. ROLE OF BOARD OF DIRECTORS IN CSR**

The Companies Act, 2013 holds Board of Directors responsible for the company's CSR initiative through all stages from planning, execution to impact assessment.<sup>23</sup> Further Companies Act, 2013 requires companies to move away from isolated or ad hoc CSR spend to a consolidated action plan. This is a welcome move as CSR in India is left to non-directional, haphazard, people drifted social service initiative to occupy free time or to assuage feelings of guilt or fulfil religious duties etc. Now Board of directors are responsible for constituting CSR committee, Ensuring implementation of CSR activities and proper reporting of CSR activities to all stakeholders.

### 3.1 Constitution of CSR Committee

The Board of Directors is the highest decision-making body in a company.<sup>24</sup> Dedicated committees of the board help the board of directors to discharge its responsibility effectively by focusing attention on various issues in smaller groups. Most regulations provide for a high level of independence, which is a globally recommended tool for assuring fairness in the board oversight.

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<sup>21</sup>New CSR Guidelines for Indian public sector enterprises focus attention on sustainability reporting, GRI Empowering Sustainable Decisions, <https://www.globalreporting.org/information/news-and-press-center/Pages/New-CSR-Guidelines-for-Indian-public-sector-enterprises-focus-attention-on-sustainability-reporting.aspx> (last accessed on 23<sup>rd</sup> April 2019).

<sup>22</sup> Regulation 34(2)(f), SEBI (LODR) Regulation, 2015.

<sup>23</sup>Sumaira Jan & Mohi-ud-Din Sangmi, *The Role of Board of Directors in Corporate Governance*, Imperial Journal of Interdisciplinary Research, <http://www.imperialjournals.com/index.php/IJIR/article/view/542> (last accessed on 9th June 2019).

<sup>24</sup>Role and Responsibilities of Directors and Board, BREFI Group, [https://www.brefigroup.co.uk/directors/directors\\_roles\\_and\\_responsibilities.html](https://www.brefigroup.co.uk/directors/directors_roles_and_responsibilities.html) (last accessed on 9th June 2019).

Companies Act, 2013 has, for the first time in India, mandated companies to have a dedicated Corporate Social Responsibility Committee for certain classes of companies. So, every company who crosses the aforesaid threshold limit shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. However, Rule 5 of Companies (CSR) Rules, 2014 prescribed different rules for appointment of directors in case of unlisted public companies, private companies and foreign companies.

- Unlisted Public Company or Private Company, who are not required to appoint independent director, shall have its CSR committee without such director.
- Private Companies with only two directors can constitute its CSR committee with two such directors.
- For Foreign Companies it is mandatory to appoint at least two persons in the CSR Committee of which one person shall be specified under section 380(1)(d) of the Companies Act and other person shall be nominated by the foreign company.<sup>25</sup>

The CSR Committee is responsible in formulating and recommending a Corporate Social Responsibility Policy which will guide the CSR activities of the company in accordance with Schedule VII referred above. The Board report under section 134(3) of the Companies Act, 2013 shall disclose the composition of the CSR committee.

- **CSR Committee meeting**

Company law is silent on the CSR Committee meeting. However Secretarial Standards<sup>26</sup> mandates committees shall meet as often as necessary subject to the minimum number of meeting prescribed by the Board. There are no prescribed guidelines as to how committee should conduct its business, so it is on the Board to decide conduct of the meeting.

**Quorum:** Company Law is silent with respect to Quorum, However Secretarial Standard<sup>27</sup> prescribed the presence of all the members of any committee is necessary to form to form the Quorum for meeting of such committee unless otherwise prescribed the Articles of the Company.

**Time:** Once the provision of Section 135 is applicable to the company it is prescribed to form the committee within 6 months.

- **Role / Function of CSR Committee**

- To formulate a CSR Policy which will specify activities to be undertaken by the company under Schedule VII and recommend the same to the Board of Directors.<sup>28</sup>
- To recommend the amount of expenditure that has to be spend in performing the CSR activities which the committee will specify.
- Monitor the CSR policy and the activities undertaken from time to time.

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<sup>25</sup> Rule 5 of the Companies CSR Rules, 2014.

<sup>26</sup> Secretarial Standard 1, Clause 2.2.

<sup>27</sup> Secretarial Standard 1, Clause 3.5.

<sup>28</sup> Supra note 23.



- Prepare a clear and transparent monitoring mechanism to monitor the CSR activities and ensure proper implementation of the programmes/projects/activities proposed to be undertaken.<sup>29</sup>

The Board of Directors of every company to whom CSR provisions are applicable shall after taking recommendation of the CSR Committee, approve the CSR Policy for the Company and place the content of the policy in its report and on company's website. The Board is also responsible to ensure that CSR activities are performed in consonance with the CSR Policy.<sup>30</sup>

### 3.2 Ensuring Implementation of CSR Activities

An effective CSR program is implemented through corporate-level policies and standards and supported by oversight mechanisms, training programs and accountability measures. Implementation helps the company to realize the value of its CSR strategy and initiatives. Allocating appropriate funding to various CSR programs and requirements of staffing and their training is an important way in which board/committee can ensure proper implementation of identified CSR programmes and projects.

Some of the questions that the CSR Committee/Board must ask are: What does success look like for the company in relation to CSR? What are the desired outcomes of the company's CSR strategies? How will the company know whether or not it is moving towards those desired outcomes? What information can and will be shared with the Board in this regard? How often will the Committee monitor the implementation of CSR projects?<sup>31</sup>

One critical way to ensure proper implementation of CSR activities is to fully integrate efforts into the governance of the company and into existing information and management system so that CSR activities can be performed by the company subsequently with other activities. Another way to ensure CSR activities are performed properly is to develop a performance appraisal system for company's employees so that there is a good chance that they execute their duty with precision.

For proper implementation of the CSR activities the CSR committee can also spend time in preparing a dashboard or impact map. This will define the expectations from the specific CSR programs and also serve as a guide or blueprint to the CSR implementation team within the company. Therefore, the CSR committee must focus on making this dashboard as clear as possible so that all efforts are in the same direction and there are very few instances of individuals being at cross purposes.<sup>32</sup>

Also early detection of activities that are contrary to CSR principles and initiatives is important to ensure the continuous and smooth implementation of a company's CSR strategy. For this reason,

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<sup>29</sup>Sub-section 3 of Section 135 of Companies Act, 2013.

<sup>30</sup><https://ethicalboardroom.com/corporate-responsibility-the-board-of-directors-role/> (last accessed on 10th June 2019)

<sup>31</sup>Supra note 11.

<sup>32</sup> Dr. Simran Kaur, Ms. Nidhi Tandon, The Role of Corporate Social Responsibility in India, Department of Commerce, Manav Rachna International University, Faridabad, [https://www.researchgate.net/publication/312084577\\_The\\_Role\\_of\\_Corporate\\_Social\\_Responsibility\\_in\\_India](https://www.researchgate.net/publication/312084577_The_Role_of_Corporate_Social_Responsibility_in_India), (last accessed 9th June 2019).

it is important for the board to ensure that the company puts in place mechanisms and processes that will allow early detection, reporting and resolution of problematic activity. Directors have to run company smoothly so as to ensure CSR activities can be performed properly.

### 3.3 Reporting on CSR Performance

Companies spend lot of time and resources in ensuring accuracy of financial reporting because this is highly regulated area with penal consequences for slippage, inaccurate reporting and non-conforming of rules. In contrast, reporting on CSR or even sustainability issues not only more recent, it had its genesis in volunteerism. However there are so many benefits attach to proper CSR reporting.

With CSR reporting the company essentially says ‘here what we are doing on sustainability’ and ‘here is the progress we are making’ or may be ‘here’s where we need to do better’. As said above there are so many benefits attract to proper CSR reporting, some of the benefits are:<sup>33</sup>

- More accurate non-financial information is available to data suppliers.
- Key stakeholders may have greater confidence in the information.
- Better resource allocation decisions can be made, including cost reduction or improved risk management.
- There is a better identification of opportunities.
- There is a greater commitment to investors and other stakeholders, including current and future employees, which contributes to attracting and retaining skills.
- Risks to the company’s reputation are reduced.
- Capital cost are lower, and access to capital is facilitated.

In India CSR acquired legal status with the notification of the Companies (CSR) Rules, 2014 which made it mandatory for the companies to file CSR reports in a prescribed format from 2014-2015 onwards.

The mandatory reporting on CSR spend extends even to companies not falling within the ambit of section 135. This is as per the mandatory section 134 of the Companies Act, 2013, which says the details about the policy developed and implemented by the company on CSR initiatives taken during the year shall be a part of the Board of Directors’ annual report.

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<sup>33</sup>*Ibid.*

**The format prescribed by the Companies (CSR) Rules is<sup>34</sup>**

## ANNEXURE

### **FORMAT FOR THE ANNUAL REPORT ON CSR ACTIVITIES TO BE INCLUDED IN THE BOARD'S REPORT**

1. A brief outline of the company's CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and projects or programs.
2. The Composition of the CSR Committee.
3. Average net profit of the company for last three financial years.
4. Prescribed CSR Expenditure (two per cent of the amount as in item 3 above).
5. Details of CSR spent during the financial year:
  - (a) Total amount to be spent for the financial year;
  - (b) Amount unspent, if any;
  - (c) Manner in which the amount spent during the financial year is detailed below:

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<sup>34</sup> Rule 9 – Display of CSR Activities on its website, Format – Annexure , Company CSR Rules 2014.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
S. No.	CSR project or activity identified	Sector in which the project is covered	Projects or programs (1) Local area or other (2) Specify the State and district where projects or Programs was undertaken	Amount outlay (budget) project or program-wise	Amount spent on the projects or programs Sub-heads: (1) Direct expenditure on projects or programs (2) Over-heads :	Cumulative-expenditure up to to the reporting period	Amount spent: Direct or through implementing agency*
1.							
2.							
3.							
	TOTAL						

\*Give details of implementing agency:

6. In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof the company shall provide the reasons for not spending the amount in its Board report.
7. A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.

Sd/- (Chief Executive Officer or Managing Director or Director)	Sd/- (Chairman CSR Committee)	Sd/- (Person specified under clause (d) of sub-section (1) of section 380 of the Act)  (wherever applicable)
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#### **4. STRATEGIC APPROACH TO CSR PROGRAMME**

In this part we will discuss about the roadmap which is required to properly implement the CSR activities. A proper strategy is very essential to perform corporate responsibility as any other harder business metrics.

*“Our belief is that corporate responsibility is just as much a part of corporate strategy as any other, harder business metrics. For us, our initiative in CSR must always have a stakeholder impact for only that can assure the ongoing sustenance of these projects and focus on them”*

- Suman Sarkar, President, Apollo Tyres Holding (Singapore) Pvt Ltd.

A strategic approach towards CSR starts with the preparation of a roadmap for CSR activities. Regular monitoring and evaluation of projects and assessment of their impact are the next important stages of this process.

#### Identifying Projects for CSR activities

It is very important to identify CSR activities which are in line with the mission and vision of the organisation. Planned identification and implementation of CSR activities will have multiple benefits for the Company.

*“If an organisation seeks to make impact, however small, through its CSR activities, it would be helpful to focus on a limited number of themes and not to scatter its money as well as efforts across multiple well-meaning initiatives.”*

- A. Krishna, Executive Director, Robert Bosch Engineering and Business Solutions Pvt Ltd.

A. ***A systematic approach to identification of CSR projects involves the following four stages :***

i. Needs Assessment Survey (NAS)

NAS basically means to understand the needs of a particular community and to establish a theme to properly implement CSR programme. NAS is important as it helps in:

- To learn more about the group or community needs are.
- To document needs, as is required in many applications for funding.
- To get more support from group or community where CSR activity is undertaken.

ii. Preparing Timeline for Conducting CSR activities.

It is very important to have a proper and well defined timeline for conducting any CSR activity. Timeline helps the company in delivering maximum returns out of the CSR activity. Also for a company it is very important to have a timeline to get the desired result out of the CSR activity. It is always advisable to have a timeline prepare after consulting with all the members of the CSR team so that the best possible approach to deliver the results is worked out.

These timeline can also describe and make accountable key personnel involved the the activity by framing different timelines for these personnel. Such timeline clearly sets expectations for each person so they can anticipate and decide in advance future course of action.

iii. Identifying Project Implementation Partners (PIP)

CSR rules 2014 by Ministry of Corporate Affairs, specified that an entity that a company establish for conducting CSR activity, whether it is a trust, society or a non-profit company must be registered in India and have experience of conducting CSR activity of at least 3 years. If it is an independent organisation then also PIP must have a track record of conducting CSR activity of at least 3 years.

*“What is really holding back more effective CSR initiative rapidly is the fact that a lot of implementation partners do not have much scale to access under-served populations. Corporate then have to deal with several partners.”*

- Sangeeta Talwar, Independent Director,  
Religare Enterprises Ltd.

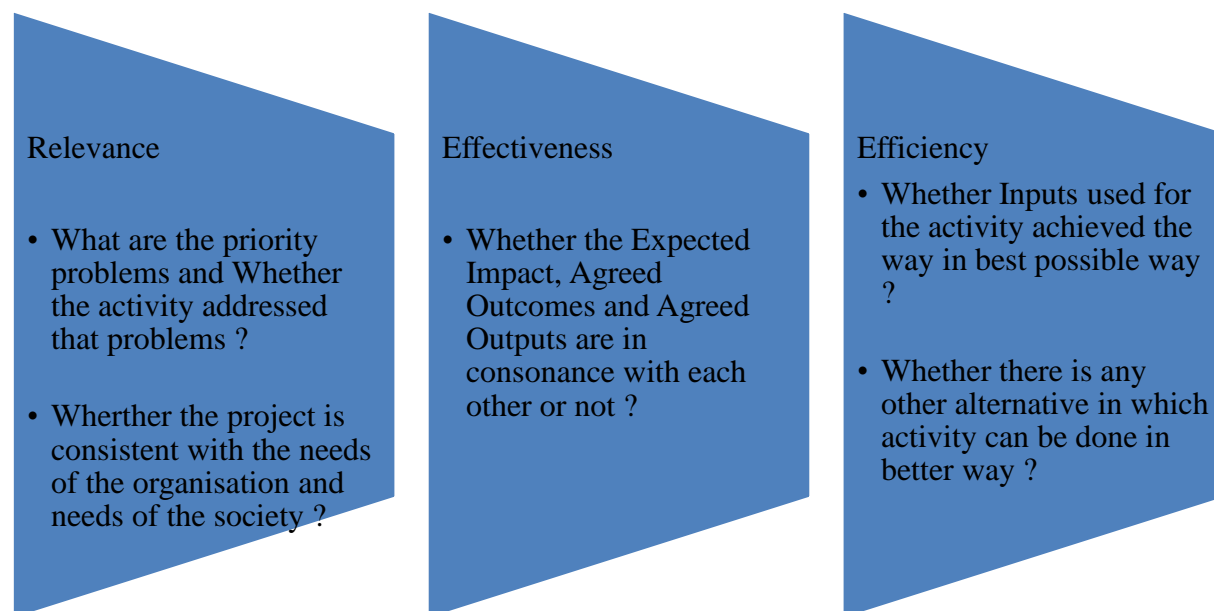
iv. Creating Milestone Grid for Programme Implementation

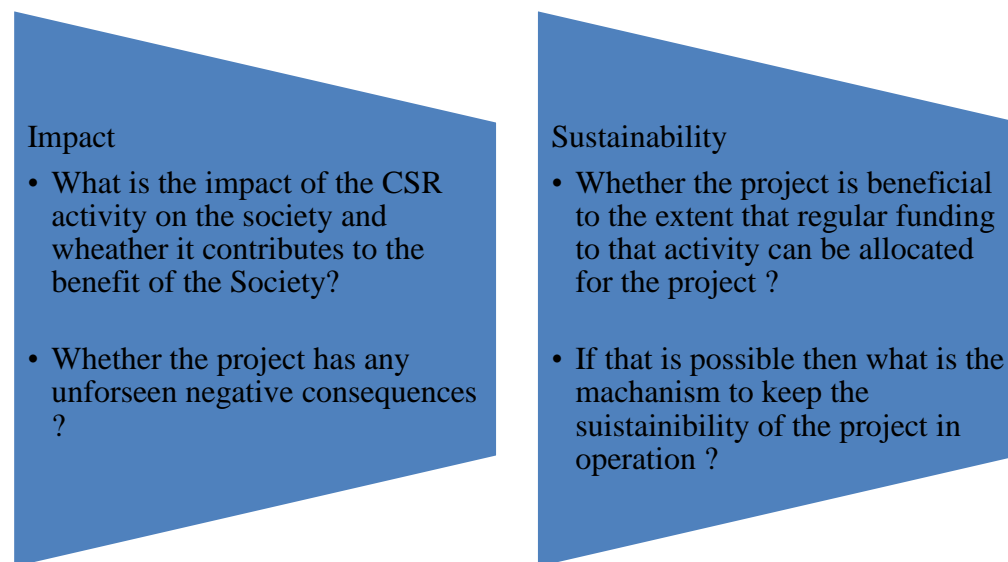
A milestone grid is a tabular representation of a systematic approach of recording the progress of CSR activities. It helps in maintaining a record of the outcomes and outputs of each CSR activity so that the achievements can be mapped to the targets set forth at the beginning or at various stages of the CSR programme. However before creating a milestone grid it is very important and essential to acknowledge Expected Impact, Agreed Outcomes, and Agreed Outputs.

The milestone grid is helpful in recording the Expected Impact, Agreed Outcomes and Agreed Outputs.

**B. Monitoring and Evaluation**

Monitoring and Evaluation should be done by the organisation by asking some pertinent questions. These questions are hereunder provided:





It is always advisable to monitor the performance of the project and compare it with the milestone grid prepared by the organisation. It will show the commitment to honour deadlines and also help in evaluating the effectiveness of the programme.

It is also advisable that for the purpose of monitoring and to ensure complete fairness an independent monitoring team should be engaged by the organisation. The work of the team should not only be limited to keep vigil on the program's expenditure but also on the implementation team for their action on the ground. Former Corporate Affairs minister, Mr. Sachin Pilot proposed to setup a certified external agency or an independent monitoring team to keep a strict vigil on India Inc.<sup>35</sup> However there is no such certified agency in India till now.

### ***C. Impact Assessment***

The main motive of conducting CSR activity is to bring change in the society by making organisation more responsible towards society. Merely by conducting CSR activity and without observing and evaluating its impact on the society will not dispense the desired results.

Success of CSR activity is reflected through its social, economic and environmental impact. CSR activities are generally planned with some anticipated impact on society, economy or environment. This anticipation should be used as a benchmark that an organisation while conducting the activity should strive to achieve. All the CSR activity must be measured to ascertain the degree of its success or its failure.

*Measuring success of CSR initiatives is a problem that we are currently grappling with. We are very good at measuring business related KPIs and KPRs, but this approach does not fit into CSR.*

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<sup>35</sup> National Body to monitor CSR funds project execution likely, Financial Express, Sachin Pilot, Former Corporate Affairs Minister, India December -3-2012, <https://www.financialexpress.com/archive/national-body-to-monitor-csr-funds-project-execution-likely/1039422/> (last accessed on 10<sup>th</sup> June 2019).

- A. Krishna, Executive Director, Robert Bosch Engineering and Business Solutions Pvt Ltd.

Impact assessment is not merely about measuring outputs and outcomes but a measurement of the cumulative effect of outcomes on the developmental process affecting the society, the economy and the environment.<sup>36</sup>

## **5. CONCLUSION**

Corporate Social Responsibility has been developed and incorporated in the veins of the corporate body due to its essence having a positive effect on the society as well as the organization. Its inception lies in the old traditions of social concern, social benefit and charity for the welfare and upliftment of the common masses. It has been developed as a concept derived from industrial revolutions and economic globalization.

In India, before the enactment of Companies Act, 2013 CSR expenditure was at the discretion of the companies but the Supreme Court from 1950 till 2013 required and demanded companies to mandatorily contribute and the same has been directed by Supreme Court in various cases such as *National Textile Workers v. P.R. Ramkrishna* (AIR 1983 SC 75); *Chiranjeevlal v. UOI* (AIR 1951 SC 41).

Ministry of Corporate Affairs in 2009 had released its first formal CSR guidelines called **Voluntary Guidelines for Corporate Social Responsibility (referred as ESG Guidelines)** bringing in social and environment concerns. The most integral provision which regulates this CSR is section 135 of the Companies Act 2013 which makes it mandatory for companies crossing a certain a certain threshold limit to contribute mandatorily to society.

The amount to be spent in every financial year should be at least 2% of the average net profits . Section 135(5) of the act provides that average net profit shall be calculated in accordance with section 198 of the Companies Act, 2013. A company may also collaborate with other companies for undertaking CSR activities but in those condition CSR committees of respective companies have to report separately on such projects or programs.

CSR Expenditure is given under schedule 7 of the Companies Act, 2013 as to what would be included as an expenditure and what type is it. SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 also regulates and requires that top five hundred listed entities based on the market capitalization have to put in their business report describing the initiatives taken by them from an environmental and governance perspective. Corporate Governance entails an imperative factor to which promotes its application in the corporate society and that is called “Transparency”. It allows the corporate beneficiaries to sustain strong and balanced economic development whilst keeping their surrounding and the social nature of their transactions and operations in good light

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<sup>36</sup>Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises.