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EFFECTIVENESS CORPORATE SOCIAL RESPONSIBILITY

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INTRODUCTION

In an era marked by rapid globalization, technological advancement and increasing awareness of social and environmental issues, Corporate Social Responsibility (CSR)[1] has emerged as a fundamental pillar of modern business practices. CSR refers to the ethical framework that businesses adopt to conduct their operations in a manner that is socially responsible, environmentally sustainable and economically viable. It encompasses a wide range of practices from reducing carbon footprints and improving labour policies to engaging in community development and ensuring ethical supply chain By the enactment of Companies Act 2013[2], Corporate social responsibility came into effect. Section 135[3] of the Companies Act states all the provisions concerning the act of CSR activity. Schedule 7 of the act lists all the activities which may be included by the companies in their CSR policies. These provisions are necessary to govern the CSR activity.

It has evolved into a strategic imperative that can shape a company's reputation, foster customer loyalty and drive long-term profitability. Businesses that embrace CSR not only contribute positively to society but also position themselves as leaders in their industries, capable of attracting top talent and securing investor confidence. The growing body of evidence linking CSR to enhanced business performance underscores the necessity for companies to integrate social responsibility into their core strategies. In this article we will explore the multifaceted nature of CSR, its benefits for businesses and society. the challenges organizations face in implementing effective CSR initiatives. By understanding the critical role of CSR in today's business landscape, we can appreciate why it is not just an option but a necessity for sustainable growth and success.

[1] Corporate Social Responsibility (CSR)
[2] Companies Act 2013
[3] Section 135

CSR COMMITTEE (SECTION 135)

ELIGIBILITY CRETERIA: Section 135(1) of the Companies Act 2013 specifically mentions the eligibility criteria by which companies are obligated to comply with. Every company having:

- Net worth of more than Rs. 500 crore
- Turnover of more than Rs. 1000 crore
- Net profit of more than Rs. 5 crore

COMPOSITION:

The Corporate Social Responsibility (CSR) Committee shall be composed of a minimum of three Directors with the stipulation that at least one of these Directors must be an Independent Director.

In instances where a company is not mandated to appoint an Independent Director as per sub-section (4) of section 149[4], it is required to include two or more Directors in its CSR Committee. Therefore, a company exempt from appointing an Independent Director may establish its CSR Committee without including such a director.

For a private company with only two Directors on its Board, the CSR Committee shall be formed with both Directors.

Regarding foreign companies, the CSR Committee must consist of at least two individuals, one of whom must meet the criteria outlined in clause (d) of sub-section (1) of section 380 of the Companies Act, 2013[5], while the other individual shall be appointed by the foreign company.

MEETINGS/QUORUM:

According to SS-1[6], the committee is required to convene as frequently as necessary adhering to the minimum number and frequency established by applicable laws, authorities, or directives from the Board.

A member designated by the Board or elected by the Committee to serve as Chairman in

[4] CA sub-section (4) of section 149
[5] section 380 of the Companies Act, 2013
[6] SS-1

compliance with the Act or other relevant legislation or the Articles shall preside over the Committee Meetings. In the absence of an elected Chairman or if the elected Chairman is unable to attend, the Committee shall select one of its present members to lead the Meeting, unless otherwise specified in the Articles.

Regarding the quorum for the CSR Committee unless otherwise indicated in the Act, the Articles or any other legal provisions, the quorum for meetings of the CSR Committee established by the Board shall be determined by the Board. In the absence of a specified quorum, the presence of all Committee members is required to establish a quorum.

FUNCTIONS

The responsibility of formulating and recommending a Corporate Social Responsibility (CSR) Policy to the Board lies in identifying the activities the company will engage in as outlined in Schedule VII of the Companies Act, 2013[7].

- Additionally, the Committee is tasked with advising on the budget allocated for CSR initiatives.
- It is also responsible for the ongoing oversight of the company's CSR Policy.

Moreover, the CSR regulations stipulate that the CSR Committee must develop and propose an annual action plan to the Board in alignment with its CSR policy, which should encompass the following elements:

(a) a list of approved CSR projects or programs to be executed in accordance with the areas specified in Schedule VII of the Companies Act, 2013.
(b) the execution methods for these projects or programs as detailed in sub-rule (1) of rule 4[8] of the CSR Rules.
(c) the strategies for fund allocation and timelines for project implementation.
(d) a framework for monitoring and reporting on the progress of the projects or programs. And
(e) any necessary assessments of need and impact related to the projects undertaken by the company.

It is important to note that the Board retains the authority to modify this plan at any point during the financial year based on recommendations from the CSR Committee provided there is reasonable justification for such changes.

[7] Schedule VII of the Companies Act, 2013
[8] Rule 4 of the CSR Rules.

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DISCLOSURE RELATED TO CSR COMMITTEE

The Board of Directors of each company are obligated to establish a CSR Committee shall after considering the recommendations provided by the Committee formally approve the Corporate Social Responsibility Policy for the organization. The contents of this Policy must be disclosed in the company's report and made available on the company's website if applicable in accordance with the prescribed guidelines. Furthermore, the Board of Directors is required to publicly disclose the composition of the CSR Committee along with the CSR Policy and Projects that have received Board approval on their website if one exists to ensure public accessibility.

HOW CSR ACTIVITY IS BEEN PERFORMED?

CSR became mandatory for certain companies through the Companies Act of 2013, which requires businesses meeting specific criteria (like revenue and net worth) to spend at least 2% of their average net profits on CSR activities each year.

Key Amendments and Updates

- Companies (Amendment) Act, 2019[9]: Introduced penalties for non-compliance. Mandated depositing unspent Corporate Social Responsibility funds into specified government funds.
- Companies (CSR Policy) Amendment Rules, 2021[10]: Allowed carrying forward unspent funds for "ongoing projects." Reinforced transparency through stricter reporting norms.

TYPES OF CSR

1. **Environmental Responsibility**: In order to sustain in the tech-centric era organizations should behave in as environmentally friendly way as possible. It refers to organization's commitment to sustainable practices pledging to consider their environmental impact at every stage of business. This means reducing harmful environmental practices regulating energy consumption and offset negative environmental impact.
2. **Ethical Responsibility**: It refers to a company's commitment to operate their business in fair and ethical manner that upholds human rights principle. This reflects the fair treatment to all stakeholders, employees, employers, suppliers, investors and customers.

[9] Companies (Amendment) Act, 2019[9]:
[10] Companies (CSR Policy) Amendment Rules, 2021[10]:

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3. **Philanthropic responsibility**: It refers to business's aim at making the society a better place. Engaging in such activities that can help in improve society and environment by aiding research, creating awareness or supporting specific sections of the community. It aims at donating money, doing charity, and giving schemes to employees.
4. **Economic Responsibility**: It is the practice of making financial decisions which are empathetic towards community and go beyond just gaining profits. Companies take measures that it benefits the business and society. The end goal isn't just to maximize profits but also to draw positive impact on environment and society.

BENEFITS OF CSR

1. **Increased Brand Awareness and Reputation:** Corporate social responsibility (CSR) initiatives can help companies build a positive brand image and reputation. It can attract potential customers and investors and create opportunities to develop stronger relationships with current customers.
2. **Improved Employee Engagement and Retention:** Companies that invest in CSR programs report higher employee satisfaction, engagement and retention levels. Employees feel more connected to the organization when they see that the company values the community and environment.
3. **Increased Productivity and Efficiency:** CSR initiatives create an environment that encourages employees to work together and strive to reach their full potential. It can lead to greater efficiency, improved productivity and ultimately better results for the company.
4. **Enhanced Community Relations:** Companies that participate in CSR programs have better relationships with the communities in which they operate. It can lead to increased support from local communities as well as new opportunities for collaboration.
5. **Financial Benefits:** Companies that invest in CSR experience increased revenues, market share, and cost savings from reduced waste and improved efficiency. It can contribute to a company's financial success by reducing operational costs attracting investment and driving customer loyalty.
6. **Regulatory Benefits:** Companies that engage in CSR can benefit from increased regulatory compliance and reduced legal risks.
7. **Environmental Benefits:** Companies that invest in CSR initiatives experience environmental benefits such as reduced emissions and improved resource management.

8. **Social Benefits:** Companies that engage in CSR can benefit communities by providing educational and employment opportunities as well as improved access to health care, clean water and sanitation.

CHALLENGES

1. **Lack of Transparency**: This is perhaps one of the main issues where the local implementing agencies do not make enough efforts to disclose or share information about their programmes whether they have been successful or not. Also, audits are not conducted to show how funds are spent. This lack of transparency negatively impacts the process of trust building between companies and local communities which is key to the success of any CSR initiative at the local level.
2. **Limited Availability of Well Organized Non-Governmental Organizations**: This is a challenge which is unique to India where data shows that there is limited availability of well-organized nongovernmental organizations in remote and rural areas who have the expertise to assess and identify real needs of the community and work along with companies to ensure successful implementation of CSR activities. This also means there is limited investment in local communities to empower them to undertake their own grassroot development projects.
3. **Visibility Factor**: The role of media in highlighting good cases of successful CSR initiatives is welcomed as it spreads good stories and sensitizes the local population about various ongoing CSR initiatives of companies. This apparent influence of gaining visibility and branding exercise often leads many nongovernmental organizations to involve themselves in event-based programs in the process they often miss out on meaningful grassroots interventions.
4. **Lack of Community Participation in CSR Activities**: There is a lack of interest of the local community in participating and contributing to CSR activities of companies. This is largely attributable to the fact that there exists little or no knowledge about. CSR within the local communities as no serious efforts have been made to spread awareness about CSR and maintain confidence in the local communities about such initiatives. The situation is further aggravated by a lack of communication between the company and the community at the grassroots.

Recommendations for Reform

- Incentivize Corporate Social Responsibility through Tax Reforms: Allow broader tax deductions for Corporate Social Responsibility expenses to encourage meaningful investments.
- Strengthen Monitoring Mechanisms: Introduce independent audits to assess the actual impact of Corporate Social Responsibility initiatives.
- Align with Sustainable Development Goals (SDGs)[11]: Encourage businesses to integrate CSR with global sustainability goals for a holistic approach.
- Promote Capacity Building for NGOs[12]: Enhance training and funding for NGOs to effectively implement CSR projects.
- Focus on Long-term Impact: Shift from compliance-driven spending to sustainable practices that create lasting societal benefits.

Conclusion

CSR has evolved from its historical status as a purely moral duty to become a strategic necessity for long-term success and sustainable growth in the modern corporate environment. CSR has been formalized with the passage of Section 135 of the Companies Act 2013 which requires companies to make significant contributions to the welfare of society and the environment. Businesses that include CSR into their fundamental strategy not only build consumer loyalty and improve their brand image, but they also improve financial performance employee engagement and community development. Nevertheless, there are obstacles in the way of implementing CSR effectively. The full potential of CSR activities is frequently hampered by problems including a lack of transparency, a limited capacity of NGOs and inadequate community involvement. To get beyond these obstacles, companies need to embrace a more open, inclusive left.

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