

Corporate Social Responsibility and Business Ethics

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ABSTRACT

In the business-and-society literature and in the general press on whether business fulfils its social role responsibly. Business ethics, corporate social responsibility, corporate governance movements have been developed in recent decades as responses to a growing sense of corporate wrongdoing. This paper attempts to explain why the three movements seem yet to have generated little in the form of widely accepted prescriptions for improvement of business behaviour to the satisfaction of the “constituents” of business, that is the major stakeholders. Without denying the usefulness of any of the three movements, the paper suggests that there are weaknesses in all three, especially concerning the way they conceive modern business operation. To this end business pluralism, responsive codes of practice and re-examination of the assumptions (conditions) of business operation could be helpful. Corporate Social Responsibility (CSR) is a concept whereby companies not only consider their profitability and growth, but also the interests of society and the environment by taking responsibility for the impact of their activities on stakeholders, environment, consumers, employees, communities, and all other members of the public sphere. The basic premise is that when the corporations get bigger in size, apart from the economic responsibility of earning profits, there are many other responsibilities attached to them which are more of non-financial/social in nature. These are the expectations of the society from these corporate to give something in return to the society with whose explicit or implicit help these entities stand where they are.

The vedic philosophy of “Sarva loka hitam” i.e. “the well-being of all stakeholders”, has regained importance in the current business environment. The concept has evolved over the years and now used as strategy and a business opportunity to earn stakeholder goodwill. The Various initiatives of CSR in Coimbatore region and overall report of auditing firm(KPMG) .

1. Introduction

CSR scheme motivate the company to make a positive vibration in the society and stakeholders including consumers, employees, investors and communities. Business ethics which is the part of applied ethics examines ethical principles and moral or ethical problems that can arise in a business environment.

- Ethics is a conception of right or wrong conduct. Ethics tells us when our behaviour is moral or immoral. It associates with the fundamental human relationship and how we think and behave towards others and how we want them to think and behave towards us.
- Ethics relates to the methodized principles derived from social values. It deals with the moral choices that we make in the course of doing our duties with regard to the other members of society. Hence, it is relevant in the context of a society only.
- Ethical principles are universal in nature. They authorize obligations and virtues for everybody in a society. They are important in business and politics as well as in every human desires.
- There exist no sharp boundaries between ethical and non-ethical. Therefore, people often face ethical dilemmas wherein a clear cut choice becomes very difficult.

- The concepts of equity and justice are implicit in ethics. Fair and equitable treatment to all is its primary aim.
- Ethics and legality of action do not necessarily coincide. What a society interprets as ethical or unethical ends up expressed in laws. The legality of actions and decisions does not necessarily make them ethical.
- For example, not aiding the victims of flood is unethical but not illegal.

1.1. Corporate Social Responsibility under the Indian Companies Act 2013

India's new **Companies Act 2013** (Companies Act) has put forward the several new provisions which change the face of Indian corporate business. One of such new provisions is Corporate Social Responsibility (CSR). The concept of CSR rests on the ideology of give and take. Companies take resources in the form of raw materials, human resources etc. from the society. By performing the task of CSR activities, the companies are giving something back to the society. Ministry of Corporate Affairs has recently notified **Section 135** and **Schedule VII** of the Companies Act as well as the provisions of the Companies (**Corporate Social Responsibility Policy**) Rules, 2014 (**CRS Rules**) which has come into effect from **1 April 2014**.

According to section 135.

- (1) 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 might 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.

1.2. Applicability

The following companies are required to constitute CSR committee –

1. Companies with net worth of **Rs. 500 Crores or more, OR**
2. Companies with turnover of **Rs. 1000 Crores or more, OR**
3. Companies with net profit of **Rs. 5 Crores or more.**

If any of the above financial strength criteria is met, the CSR provisions and related rules will be applicable to the company. These companies are required to form CSR committee consisting of its directors. This committee oversees the entire CSR activities.

2. Composition of CSR Committee

Type of Company	Composition
Listed	Three or More Director including at least one Independent Director
Unlisted & Private	Three or more director , Independent director is mandatory required to be appointed.
Private having two Director	Two Director
Foreign	At least two person, one which must be company's representative in india

3. Role of board of directors

The board plays an important role in CSR activities. The role of Board are as follows –

1. Approve CSR policy.
2. Ensure its implementation.
3. Disclose the contents of CSR policies in its report.
4. Place the same on Company's website.
5. Ensure that statutory specified amount is spend by the company on CSR activities.

It is important to note that there is no penalty if the specified amount is not spend on CSR activities. In such case, the board's report should specify the reason for such short spending.

4. CSR – Spending, Policies & Activities

Few important points of CSR spending are as follows –

- The companies covered by **section 135** are required to spend **at least 2% of their average net profits during the three immediately preceding financial years.**
- The section postulates that “**net profit**” shall be **calculated in accordance with the provisions of section 198.**
- Company will give **preference to the local area and areas around it where it operates**, for spending the amount earmarked for CSR activities.
- Where the company **fails to spend such amount, the Board shall, in its report, specify the reasons for not spending the amount.**
- The **CSR committee** will **formulate and recommend CSR policy to the Board.**
- The policy will indicate the **activities to be undertaken by the company as specified in Schedule VII.**
- The **CSR Committee shall recommend the amount of expenditure to be incurred** on the activities referred in CSR Policy
- The **CSR Policy of the company will be monitored by CSR committee** from time to time.

As per schedule VII, the following activities may be included by companies in their CSR policies:

1. Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water.
2. Promoting education, including special education and employment enhancing vocation skills especially among children or women or elderly and the differently abled and livelihood enhancement projects.
3. Promoting gender equality and empowering women and setting up homes and hostels for women and orphans; setting up old age homes, day care centers and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
4. Ensuring environmental sustainability and ecological balance, protection of flora and fauna, animal welfare and agroforestry, conservation of natural resources and maintaining quality of soil, air and water.
5. Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art and setting up public libraries and promotion and development of traditional arts and handicrafts.
6. Measures for the benefit of armed forces veterans, war widows and their dependents.
7. Training to promote rural sports, nationally recognized sports, para Olympic sports and Olympic sports.
8. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio- economic development and relief and welfare of the Scheduled Caste, the

Scheduled Tribes, other backward classes, minorities and women.

9. Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government.
10. Rural development projects.

5. Net Profit considered for CSR Spending

Net Profit means the net profit of a company as per its financial statement prepared in accordance with Section 198 of the Act, but shall not include the following, namely: -

- Any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise.
- Any dividend received from other companies in India, which are covered under and complying with the provisions of section 135 of the Act.
- Profit from premium of shares/Debentures.
- Profit from sales of Forfeited share.
- Profit in terms of capital natures (in terms of undertaking of company or any part of thereof).
- Profit from the sale of immovable property/fixed assets/any capital nature.
- Any surplus change in carrying amount of an assets or liability recognized in equity reserves.

Following shall not be considered as expenditure:

- a) Income tax and any other tax on income
- b) Compensation, damages or other payments made voluntarily
- c) Loss of capital natures including loss on sale of undertaking of company or any part of thereof
- d) Any transfer to assets/liabilities revaluation/equity reserves.

6. Income Tax Deductibility

As per the notified rules, it has been clarified CSR spends excludes "activities undertaken in pursuance of the normal course of business of the company". If expenditure on CSR is not one contemplated under Section 37 of the I-T Act—which provides for allowance of any expenditure not being in the nature of capital expenditure or personal expenses of the assessee laid out exclusively for the purposes of the business or profession—we have tax issues emerging. The dilemma is if any expenditure on CSR is considered by the taxman as not expended wholly or exclusively for the purposes of the business, on the backdrop that the CSR rules excludes "activities undertaken in pursuance of the normal course of business of the company", shall this contribution be considered as permissible CSR spending. From a technical perspective, there is good ground to suggest that the required-to-spend amount is perceived by the legislature to be mandatory in nature.

Therefore if we review the recent finance act 2014 along with the above said explanation, some changes in the regime is required as it will lead to disallowance of the CSR expenditure.

7. Impact of CSR Provision

The new Companies Act 2013 was much awaited. With the new Act coming into force, lots of new provisions came in picture. One such new provision was relating to CSR activities. This provision was much argumentative. Many companies said that this new provision will create financial burden on them as they need to spend specified percentage of their profits. Now, since the new Act is in force, every company is following the new regulation. Considering the intent of law that companies take so many resources from society they should give back something to it, the provision of CSR is justified. Also there are few good points for Companies like:

1. The companies can spend less than specified percentage. In such case the board need to reveal the reason for lower spending in its report.
2. The Institute of Chartered Accountants of India (ICAI) also issued a guidance note that clarifies that no provision is required in books of companies for CSR spending. The need to book only actual expenditure.

Also the above spending will help in benefitting the underprivileged who are deprived of basic necessities. Since the new provision is only one and half year old, it is difficult to analyze its benefit. But in long run the society as a whole would surely stand benefitted from it. In cost benefit analysis of this provision, its sure that its benefit will exceed its cost.

8. New provision of CSR under companies amendment act 2017

In section 135 of the principal Act,— (i) in sub-section (1),— (a) for the words "any financial year", the words "the immediately preceding financial year" shall be substituted; (b) the following proviso shall be inserted, namely:— "Provided that where a company is not required to appoint an independent director under sub-section (4) of section 149, it shall have in its Corporate Social Responsibility Committee two or more directors."; (ii) in sub-section (3), in clause (a), for the words and figures "as specified in Schedule VII", the words and figures "in areas or subject, specified in Schedule VII" shall be substituted; (iii) in sub-section (5), for the Explanation, the following Explanation shall be substituted, namely:— 'Explanation.—For the purposes of this section "net profit" shall not include such sums as may be prescribed, and shall be calculated in accordance with the provisions of section 198.'

9. CSR initiatives of familiar companies-with special reference to coimbatore city

9.1. CSR - ROOTS GROUP OF COMPANIES

Social responsibility and the will to serve immediate communities are both values deeply embedded in the DNA of the Roots Group. From implementing environment safety norms to devising policies for legal use of resources within the organisation, Roots and its team takes its commitment to betterment seriously. A pre-determined percentage of the total

group turnover has always been allocated to community development causes. Roots Care Trust has five divisions that focus on key areas of social development:

- Environment
- Medical,
- Education,
- Social and
- Spiritual.

All members of the Roots community volunteer in medical camps and take an active role in spreading awareness of diseases and disorders. Education initiatives include providing uniforms and study support material, addressing basic infrastructure in local schools and construction of amenities like toilets and water tanks for the schools. Academically brilliant students are motivated to pursue higher education and are funded by the Trust.

Social development is focused on the adopted village of the group—Kathirnaickenpalayam. From building toilets and other sanitation facilities, members of the group have been able to magically make change the hamlet. Roots is a powerful propagator of road safety. In liaison with the government and traffic divisions of Coimbatore city, the group embarked on a series of road safety signboards. Members also volunteer at traffic signals during peak hours, to ease out traffic. Every member of the group engages in active tree planting and awareness programmes on environmental preservation.

9.2. CSR - ELGI EQUIPMENTS LTD - ALWAYS BETTER

The ELGI group of companies has a long history of implementing socially focussed welfare activities. Having established Coimbatore as its industrial base and headquarters, Company has been engaged in education and community development projects in and around Coimbatore for a number of decades at present. Company has always contributed its mite to enhancing societal sustainability along with economic and environmental sustainability. Company always believed that serving the community around it in some form is one of the purposes of its business. Enhancing human excellence and improving quality of life is Company's endeavour. Corporate Social Responsibility ("CSR") activities of Company are independent of the normal conduct of Company's business. Going forward, CSR activities are expected to cover other areas too. ELGI Equipments is carrying forward the legacy of founder, Mr. LRG Naidu, of giving back to the community. ELGI has undertaken several projects in the fields of education, vocational training and community health and advancement as part of its commitment towards enriching the lives of the under-privileged sections of society. The companies CSR activities are focused on socio-economic and health and educational aspects of society.

9.3. CSR - TVS & SONS

The Company aims at spending a certain defined portion of its net profit for the betterment Indian society through:

- Providing financial and other assistance to students for basic and higher education who belong to socially economical weaker sections.

- Supporting efforts for community health, providing healthcare and medical facilities in slums and areas inhabited by weaker sections.
- Supporting efforts for providing drinking water and sanitation facilities at schools, colleges etc.
- Taking proactive measures for the well-being of society, as per needs.

Planning & Implementation

Identification of Thrust Areas and Strategic Initiatives:

For purposes of focusing Company's CSR efforts in a continued and effective manner, the following four Thrust Areas have been identified:

- Healthcare and Medical facility
- Education and Literacy Enhancement
- Drinking water and Sanitation
- Contribution to the Prime Minister's National Relief Fund

The Company will contribute for above thrust areas by itself or either through specialized agencies, trusts, societies, etc.

9.4. CSR - ROBERT BOSCH ENGINEERING & BUSINESS SOLUTIONS PVT LTD

Robert Bosch Engineering and Business Solutions Private Limited through the years has been loyal to the fundamentals that drive the Corporate Social Responsibility (CSR) charter. The Social Responsibility charter is aligned to their vision towards extending 'Smart Solutions' to create long lasting value. All initiatives are broadly classified into 3 heads:

- University Research
- Education and Environment
- Holistic Village Development

9.5. LAKSHMI MILLS-A LEGACY OF TRUST

Founded in 1910, Lakshmi Mills is one of India's oldest yarn and fabric manufacturing company. The company is a publicly listed entity based in Coimbatore, Tamil Nadu having a workforce of over 2000 people. The production processes at Lakshmi Mills are on par with global standards. Research and development initiatives have resulted in excellent business practices earning the company numerous certifications and accreditations in the textile industry. At Lakshmi Mills, corporate social responsibility is a way of doing business and the company encourages community initiatives.

9.6. CSR-SHANTHI GEARS LIMITED

The Company shall seek to impact the lives of the disadvantaged by supporting and engaging in activities that direct to improve their wellbeing. We are dedicated to the cause of empowering people, educating them and in improving their standard of living . While we will undertake programmes based on the identified needs of the community, education and healthcare shall remain our priority. Across the different programme areas identified by the company, it would be our endeavour to reach the disadvantaged and the marginalised sections of the society to make a meaningful impact on their

lives. We are committed to identifying and supporting programmes aimed at:

- Empowerment of the deprived sections of the society through education, access to and awareness about financial services and the like.
- Provision of access to basic necessities like healthcare, drinking water & sanitation and the like to underprivileged.
- Work towards eradicating hunger and poverty, through livelihood generation and skill development.
- Encouraging environmental and ecological balance through a forestation, soil conservation, rain water harvesting, conservation of flora & fauna and similar programme.
- Furtherance of rural sports, nationally recognized sports, paralympic sports and Olympic sports through training of sportspersons.
- Undertake rural development projects.
- Any other programme that falls under CSR purpose listed in Schedule VII of the Companies Act, 2013 amended from time to time and which are aimed at the empowerment of disadvantaged sections of the society.

10. Availability of information by KPMG the World Famous Auditing Firm

As on 30 September 2017, of the N100 companies analysed, the following documents have been captured from

the public domain and evaluated for, 'India's CSR reporting survey 2017'.

CSR policy	98 companies
Annual report	100 companies
CSR disclosure in the prescribed format	97 companies

11. Conclusion

In conclusion, this paper has shown that corporate social responsibility is a vital element for many business corporations. It has been shown that there are many different areas in which a company may choose to focus its corporate social responsibility. The first area of focus in corporate social responsibility is with regard to the environment. Other areas that should be considered in the development of corporate social responsibility programs are education, health, nutrition and employment. "Social responsibility investment combines investors' financial goals with their obligation and dedication to factors that ensure the well-being of society such as environmental friendly practices, economic growth and justice in society" (Anderson 9). These elements are not only aspects of corporate social responsibility, but also a show of the ethical standards of a company. It can be concluded that Social corporate responsibility and the maintenance of high ethical standards is not an option but an obligation for all business.

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