

## CSR & Social Governance

### (Chapter 1)

(Total= 20 marks)

Time - 1 Hr

**Answer the following question.**

#### Case Study 1

Economic growth is possible only through consumption of inputs available in the environment and society. The harnessing of natural resources has a direct impact on the economy, the environment and society at large. Corporate Social Responsibility (CSR) is a concept whereby organizations serve the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations. Corporate social responsibility is not about just giving randomly but about bringing benefits to all the stakeholders, including customers, employees and community at large.

Corporate Social Responsibility is the way companies manage their businesses to produce an overall positive impact on society through economic, environmental and social actions. Corporate social responsibility (CSR), also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business/ businesses. Business depends for its survival on long term prosperity of the society.

CSR has been defined by different people giving it a varied dimension. According to Michel Hopkins "Corporate Social Responsibility is concerned with treating the stakeholders of a company or institution ethically or in a responsible manner. 'Ethically or in a responsible manner' refers to treating key stakeholders in a manner deemed acceptable according to international norms."

European Union has defined CSR thus "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis." According to Business for Social Responsibility (BSR) "Corporate social responsibility is operating a business in a manner which meets or excels the ethical, legal, commercial and public expectations that a society has from the business."

The Corporate Social Responsibility and Corporate Governance are inextricable in today's going perception of the society. The Corporate Governance and business ethics make the concept of Corporate Social Responsibility inevitable. As Winston Churchill once said "With great power comes great responsibility", social responsibility cannot be avoided.

Corporate Social Responsibility is an important business strategy because, to some extent a consumer wants to buy products from companies he trusts, a supplier wants to form business partnership with companies he can rely on, an employee want to work for a company he respects, other concerns want to establish business contacts with companies seeking feasible solutions and innovations in areas of common concern.

#### **Questions:**

**(5 marks each)**

1. How does Corporate Social Responsibility (CSR) contribute to the long-term sustainability and reputation of a business. Discuss the strategic advantages a company gains by integrating CSR into its core operations.

#### **Answer**

The CSR is important to the corporate to sustain in the environment and thus has the following significance:

(i) Reduction in operative cost: corporate social responsibility helps companies in reduction in operating cost, this may include recycling, water conservation, energy efficiency etc..

(ii) Increased Sales and Customer Loyalty: The customers also recognize those companies which are socially responsible. This results in increased sales and content customers.

- (iii) Higher productivity and Quality: Company as an essential of its triple bottom line, focuses on improving the working conditions of its employees, people in its supply/distribution chain, which helps in increased productivity with better quality
- (iv) Access to Capital: The companies with strong CSR have increased access to capital that might not otherwise have been available. Even the lending institutions are cautious and are considering this as an important parameter of granting loans.
- (v) Boost in Brand Image and Reputation: CSR is an essential brand building tool used by companies to enhance its reputation amongst the stakeholders.

2. What are the key principles outlined in the National Guidelines on Responsible Business Conduct (NGRBC)?

**Answer**

**PRINCIPLE 1: Businesses should conduct and govern themselves with integrity, and in a manner that is Ethical, Transparent and Accountable**

**PRINCIPLE 2: Businesses should provide goods and services in a manner that is sustainable and safe**

**PRINCIPLE 3: Businesses should respect and promote the well-being of all employees, including those in their value chains**

**PRINCIPLE 4: Businesses should respect the interests of and be responsive to all its stakeholders**

**PRINCIPLE 5: Businesses should respect and promote human rights**

**PRINCIPLE 6: Businesses should respect and make efforts to protect and restore the environment**

**PRINCIPLE 7: Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent**

**PRINCIPLE 8: Businesses should promote inclusive growth and equitable development**

**PRINCIPLE 9: Businesses should engage with and provide value to their consumers in a responsible manner**

### Case Study 2

In 2009, the Ministry of Corporate Affairs (MCA), Government of India issued the 'Voluntary Guidelines on Corporate Social Responsibility' as a precursor towards mainstreaming the concept of business responsibility. In June 2011, the United Nations Human Rights Council (UNHRC) adopted the United Nations Guiding Principles on Business and Human Rights (UNGPs) which India has endorsed.

Accordingly, MCA released a set of new guidelines in 2011 titled as National Voluntary Guidelines on the Social, Environmental and Economic Responsibilities of Business (NVEGs). These guidelines were expected to provide guidance to businesses on what constitutes responsible business conduct.

In NGRBC, the nine thematic pillars of business responsibility are referred to as principles. Each principle is introduced as a statement and followed by a brief description of the essential aspects of the principle. A plain reading of each principle and brief description provides a clear idea of the essential spirit and intent of the principle. Each principle is accompanied by a set of requirements and actions that are essential to the operationalisation of the principle, referred to as the core elements. All principles of the NGRBC are equally important, inter-related, interdependent and non-divisible, and businesses should adopt them to demonstrate their commitment to being a responsible business, and accrue the full benefits of sustainable business strategies.

While the highest governance structure, in the case of companies and corporations is the Board, the responsibility for adoption of the NGRBC in proprietorships, partnerships, and other types of business is assumed in the present context to rest with the owner/s, partner/s, and/or, any other body responsible for the highest level of decision-making and governance functions in the business.

**Questions:**

**(3 marks each)**

1. Whether CSR provisions apply to a company that has not completed the period of three financial years since its incorporation? Mention example also.

**Answer**

Yes. If the company has not completed three financial years since its incorporation, but it satisfies any of the criteria mentioned in section 135(1), the CSR provisions including spending of at least two per cent of the average net profits made during immediately preceding financial year(s) are applicable.

**Example:** Company A is incorporated during FY 2018-19, and as per eligibility criteria the company is covered under section 135(1) for FY 2020-21. The CSR spending obligation under section 135(5) for Company A would be at least two per cent of the average net profits of the company made during FY 2018-19 and FY 2019-20.

2. According to Corporate Social Responsibility, Explain the composition of CSR Committee.

**Answer**

The composition of the CSR Committee for various categories of companies is as under:

- Listed companies - Three or more directors, out of which at least one shall be an independent director.
- Unlisted public companies - Three or more directors, out of which at least one shall be an independent director. However, if there is no requirement of having an independent director in the company, two or more directors.
- Private companies - Two or more directors. No independent directors are required as mentioned in the proviso under section 135(1).
- Foreign company- At least two persons out of which:  
(a) one shall be as specified under clause (d) of subsection (1) of section 380 of the Act, and  
(b) another shall be nominated by the foreign company.

Where the amount required to be spent by a company on CSR does not exceed fifty lakh rupees, the requirement for constitution of the CSR Committee is not mandatory and the functions of the CSR Committee, in such cases, shall be discharged by the Board of Directors of the company.

Q3. Warner Ltd. is an Indian company with a net profit of ₹ 4 Crore, ₹7 Crore, 6 Crore and ₹7 Crore respectively in the last four years. Net profit for each of last four years including dividend of ₹ 1 Crore received from WB Ltd. which is an Indian company. Discuss whether Warner Ltd. is required to spend on CSR activities? If yes, how much it should spend? If no, state the reasons for it.. **(4 marks)**

**Answer**

**Companies to which CSR provisions are applicable [Section 135(1)]:** CSR provisions are applicable to companies which fulfil any one of the following criteria during the immediately preceding financial year:

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

**Amount required to be spent on CSR [Section 135(5)]:** The Board of every company to which CSR provisions are applicable shall ensure that the company spends, in every financial year, at least 2% of the average net profits of the company made during the 3 immediately preceding financial years, or where the company has not completed the period of 3 financial years since its incorporation, during such immediately preceding financial years in pursuance of its CSR Policy.

**Explanation:** Net Profit shall not include such sums as may be prescribed, and shall be calculated in accordance with the provisions of section 198.

As per Rule 2(h) of the Companies (CSR Policy) Rules, 2014, Net Profit means the net profit of a company as per its financial statement prepared in accordance with the applicable provisions of the Act. Net Profit shall not include the following:

- (i) Any profit arising from any overseas branch or branches of the company, whether operated as a separate company or otherwise.
- (ii) Any dividend received from other companies in India, which are covered under and complying with the provisions of Section 135 of the Act.

It is assumed that WB Ltd. is covered under section 135 of the Companies Act, 2015 and dividend received by Warner Ltd. from WB Ltd. will be excluded while calculating net profit for the purpose of CSR provisions.

Thus, net profit of last three years of Warner Ltd. for the purpose of CSR provisions after excluding dividend of 1 Crore will be ₹6 Crore, ₹5 Crore and 6 Crore.

Average Net Profit =  $\frac{6,00,00,000+5,00,00,000+4,00,00,000}{3}$  = Rs.5,66,66,667

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Amount required to be spent on CSR Activities by Warner Ltd. = ₹ 5,66,66,667 × 2% = Rs.11,33,333.

**BEST OF LUCK**