



## Impact of mandatory CSR initiatives on Environmental protection and Sustainable Development

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### Abstract

This paper analyses the concept of mandatory corporate social responsibility with special reference on environment protection and sustainable development. CSR concept, consists of a conscious, sustainable action oriented not only on economic aspects, but also takes into account the social and environmental substances associated with the company's environment. The principal objective of corporate social responsibility should be environment protection. As per this notion, an enterprise must limit its use of raw materials and energy, decrease creation of hazardous waste and pollution, protect and restore natural ecosystems, identify adverse environmental effects, introduce methods to reduce environmental outlays, consider conservational goals at the phase of product or service design, impose tools to decrease damages generated to the atmosphere by manufacturing processes, stimulate environmental behavior within the company by saving energy and water in each divisions of the organization. This study aims to assess the impact of Section 135 of the Companies Act 2013, mandatory CSR rule implemented by the Ministry of Corporate Affairs, Government of India for environment protection and sustainable development.

**Keywords:** Climate, Corporate Social Responsibility, Environment, Sustainable Development.

### Introduction

The concept of Corporate Social Responsibility (CSR) originated from three dimensions: ie. Triple P: People, Planet, and Profit. Aupperle (1985). Environmental concern is one of the main features of social responsibility. As a concept CSR, has developed in prominence in the business world. The term "CSR" is used often, many matching and coinciding notions, such as corporate citizenship, business ethics, stakeholder management and sustainability, have evolved. Corporate Social Responsibility means the obligation to act in a manner, which will serve the best interests of the society and which leads in the direction of positive contributions to human betterment. Now business persons identified the fact that social and environmental constancy are two important requisites for the long-term sustainability. They consider corporate social responsibility as both a value and a strategy to ensure corporate sustainability.

### Literature Review

Corporate Social Responsibility (CSR) is referred to the assurance or obligation made by the business organizations to contribute towards the growth and development of the local communities, working force, their families, societies, economy, and the country at large in a continuous manner (Amaladoss & Manohar, 2013). It was found that for legislation Section 135 was



passed in August 2013 which made it mandatory for the large Indian business companies to spend about 2% of the net profits earned by them on conducting activities and actions that are related to CSR activities. It was also made it mandatory to make revelations of such expenses in the financial statements prepared by them and along with that maintain an individual CSR report (Arevalo & Aravind, 2011). As per Cheng, Lin & Wong, (2016) point of views, it was found that about 40% of the companies in India have collaborated with local and state governing bodies to promote and impart CSR activities.

### **CSR in India**

CSR in India has traditionally been a voluntary activity and keeping this in mind an activity that was performed was not measured. The importance of inclusive growth is widely recognized as an essential part of India's quest for development. In line with this national endeavor, Corporate Social Responsibility (CSR) was conceived as an instrument for integrating social, environmental and human development concerns in the entire value chain of corporate business. Ministry of Corporate Affairs had issued 'Voluntary Guidelines on Corporate Social Responsibility, 2009' as a first step towards mainstreaming the concept of Business Responsibilities. This was further refined subsequently, as 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business.

### **The Legal Framework**

The most ambitious attempt at mandated CSR activities for companies came with the enactment of Section 135 of the Companies Act 2013 (MCA, 2013). Section 135 made CSR spending as well as reporting mandatory for the very first time in India and brought the CSR activities of Indian corporates under the preview of corporate law. With the enactment of Section 135 of the Companies Act, 2013, as observed by the Ministry of Corporate Affairs in the Report on the Standing Committee on Finance, India became the first country to include provisions on CSR in Company Law and make CSR expenditure mandatory for corporates based on pre-specified criteria. In the rest of the world, however, CSR is still a voluntary exercise left to the discretion of the corporates.

On 1st April, 2014, the section 25 companies Act, 2013, has been implemented. The Sectors were also defined for doing CSR activities. According to schedule 7 of section 135 of companies Act, CSR community activities should be addressing the below mentioned challenges:

- 1) Eradicating hunger, poverty, malnutrition, promoting preventive health care and sanitation providing safe drinking water.
- 2) Promoting education, special education, employment enhancing vocational skills in children, elderly, women and differently abled and livelihood enhancement skills.
- 3) Promoting gender equality, empowering women, setting up homes and hostels for women and orphans, setting up old age homes, day care centers and other such facilities for senior citizens and measure to reducing inequalities faced by socially and economically backward groups.
- 4) Ensuring environmental stability, ecological balance, protecting flora and fauna, animal welfare, agro forestry, conservation of natural resources and maintaining quality of soil, water and air.



- 5) 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 arts and handicrafts.
- 6) Measures for benefit of armed forces, veterans, war widows and their dependents.
- 7) Training to promote national sports, rural sports, Paralympics sports, Olympic sports.
- 8) Contribution to PMs Relief Funds or any other fund set up by central government for socio-economic development and relief and welfare of SC, ST, other backward classes, Women and Minorities.
- 9) Contribution of funds provided to technology incubators located within academic institutions which are approved by Central Government.
- 10) Rural development project.
- 11) Swach Bharat Abhiyan (PWC, 2014)

Companies may implement these activities by considering the local conditions where they operate after taking board approval. Companies have to present the report in the prescribed format before the Boards for spending 2% of the average net profits of the previous three years on CSR, a responsibility statement that the CSR policy, implementation and monitoring process is in compliance with the CSR objectives, in letter, and in spirit. This has to be signed by either the CEO or the MD or a director of the company. According to Indian Institute of Corporate Affairs, a minimum of 6,000 Indian companies will be required to undertake CSR projects in order to comply with the provisions of the Companies Act, 2013.

### **Environmental Protection**

Out of eleven major areas of CSR activities, the item (Sector) IV refers to activities directly relevant to environment and environmental sustainability. The broad areas include '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'. This is the most positive feature among other scheduled activities under the CSR. These activities are going to contribute in a significant way for the betterment of environment. Different listed areas appear distinct but in fact are interrelated and thus the benefit of good performance in one area may contribute to others. Various elements of environmental protection and sustainability are elaborated in following sections of this article for a better understanding and implementation of CSR provisions. Sector 4 under the provisions of the Companies Act, 2013 meant for Ensuring environmental stability, ecological balance, protecting flora and fauna, animal welfare, agro forestry, conversation of natural resources and maintaining quality of soil, water and air these aims to reduce damaging effects on the environment from business' processes. As environmentalists and climate scientists have been warning for decades, and now world leaders are coming to realise, that the world faces serious environmental challenges, none more urgent than climate change. A failure to act to mitigate the risks associated with this one challenge, as Stern (2006, pii) asserts "could create risks of major disruptions to economic and social activity".



### **Environmental Sustainability:**

Environmental sustainability is a broad term and is a key pillar of sustainable development. It is about meeting human needs without compromising the ability of the environment to support life and render goods and services on a long-term basis. Morelli (2011) defines environmental sustainability as a condition of balance, resilience, and interconnectedness that allows human society to satisfy its needs while neither exceeding the capacity of its supporting ecosystems to continue to regenerate the services necessary to meet those needs nor by our actions diminishing biological diversity. Everything which is done to keep the integrity of the environment comes under environmental sustainability however there is no common guidance about what it means at an operational level (UNDAF, 2009). Dimensions of environmental sustainability may vary from place to place and with time. Hence, while undertaking CSR activities there is need for identification of issues that are relevant to the area and working on those. Currently issues such mitigation of adverse effects of climate change, generation and supply of clean energy, augmentation of water resources and its supply, public health, sustainable consumption and production of resources, environment friendly transport facility, conservation and management of natural resources etc. are some of the issues relating to environmental sustainability. CSR can be of great help in ensuring environmental sustainability, also by developing the knowledge and skills of people, helping in implementation of programs promoting environmental innovation, monitoring the environmental impacts and actions for mitigation of impacts, promoting an environmentally sustainable and responsible culture etc.

### **Benefits of good environmental and sustainable business practices**

- Ensuring business by complies with environmental legislation and adopting environmental and sustainable best practice can benefit.
- Reducing the use of energy can save money.
- Reducing use of raw materials can cut costs by minimizing waste and lowering waste disposal bills.
- Reducing the use of water can cut water bills and also lower waste water disposal costs.
- Recycling equipment and materials could make money and save on disposal costs.
- Taking steps to prevent environmental damage will reduce the risk of incurring costs and of having to carry out potentially expensive remedial work in the event of an environmental incident.
- Business could also enjoy other benefits. Many government organizations and large companies will only work with businesses who take their environmental responsibilities seriously. This may also find it easier to attract investment from banks and other sources of finance.

Sustainable development can create opportunities for business. As well as making financial savings, firms can enhance their reputation and brand value by fostering customer loyalty and motivating staff. Organizations can also use sustainable development as an opportunity to encourage innovation, increase investment and open new markets.

**State of Environment: Sector Wise CSR expenditure**

Management of environmental performance is a critical issue for the organizations in India both the public and private sectors. Environmental management refers to the control measures implemented by an organization to minimize the adverse environmental impacts of its operations. After the implementation of the Companies Act, 2013 it is widely recognized that a positive and proactive approach towards environment issues can lead to opportunities to improve business performance. The positive approach to environmental considerations will be even more important with the move towards a low carbon economy to combat climate change. The concept of CSR has gradually crept into mainstream business practice, reflecting the changed conditions in which business operates. Environmental management is an integral part of effective CSR. Below mentioned is an assessment of CSR expenditure of 58216 companies for the year 2014 to 17 who have filed their Annual Financial Statements till 31st December, 2017 with MCA.

**Development sector wise assessment of CSR expenditure 2014 to 2017**

Sl.No	Development Sectors	2014-15	2015-16	2016-17
1	Clean Ganga Fund	5.47	32.65	24.23
2	Education/ Differently Abled/ Livelihood	3188.09	4881.26	5123.83
3	Encouraging Sports	57.61	137.58	172.53
4	Environment/ Animal Welfare/ Conservation of resources	853.99	963.22	1282.34
5	Gender equality / Women empowerment / old age homes / reducing inequalities	189.92	337.44	434.75
6	Health/ Eradicating Hunger/ Poverty and malnutrition/Safe drinking water / Sanitation	2525.92	4545	3397
7	Heritage Art and Culture	117.37	117.58	296.85
8	Other Sectors ( Technology Incubator and benefits to armed forces and admin overheads and others* )	9.5	37.15	58.71
9	Prime Minister's National Relief Fund	228.18	213.7	150.7
10	Rural development	1059.34	1369.52	1507.45
11	Slum area development	101.14	14.3	49.81
12	Swachh Bharat Kosh	113.86	324.72	165.09
13	Any other Fund	277.09	326.88	412.38
14	NEC / Not mentioned	1338.39	1065.22	388.86
	<b>Total Amount (In Cr.)</b>	<b>10065.9</b>	<b>14366.29</b>	<b>13464.6</b>

Table. 1 An assessment of CSR expenditure of 58216 companies for the years from 2014 to 17 who have filed their Annual Financial Statements till 31st December, 2017 with MCA

**Development sector wise assessment of CSR expenditure 2014 to 2017**

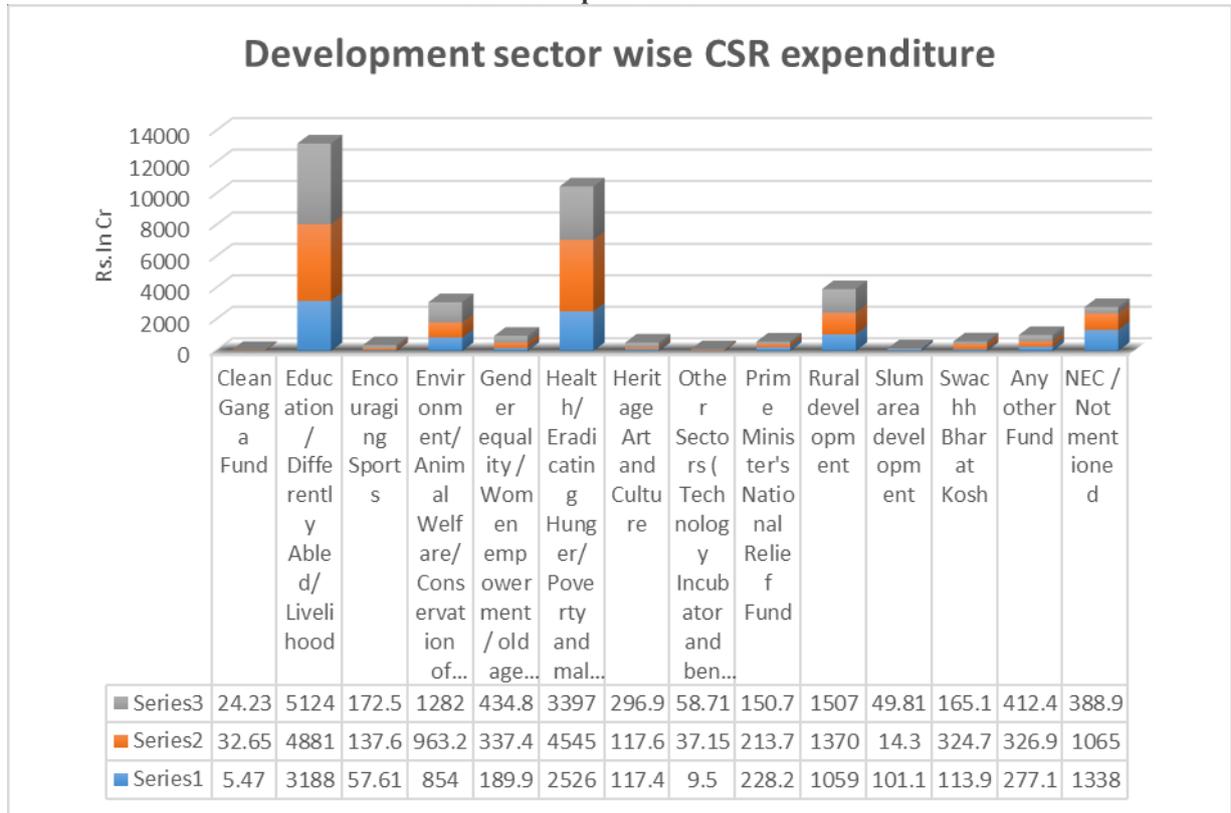


Fig. 1 Sector wise CSR expenditure from 2014 to 2017  
(Source: Ministry of Corporate Affairs, Feb. 2019)

Indian companies are still following philanthropic approach, though the Indian understanding of CSR shifted to sustainable business. From the above data it is clear that community development activities are dominating Indian CSR scenario; which have been viewed as important contribution to their area of operation. If CSR is efficiently implemented major problems of our economy like poverty, illiteracy, unemployment, child abuse, infrastructure, water and other environmental problems can be eradicated. More than developing the community business organizations are having great responsibility towards its environment from where they are getting the raw materials for day to day operations. Below given data shows previous year's environment related spending of Indian companies.

#### CSR spending data of Sector 4 – Environment

S.No.	Environment, animal welfare, conservation of resources related CSR spending	Year 2014-15	Year 2015-16	Year 2016-17
1	Agro forestry	18.12	57.61	42.84
2	Animal welfare	17.29	65.41	75.63
3	Conservation of natural resources	44.6	38.14	114.6
4	Environmental sustainability	773.99	802.07	1049.28
	<b>Total Amount (In Cr.)</b>	<b>854</b>	<b>963.23</b>	<b>1282.35</b>



Table. 2 Sector 4 Environment related CSR expenditure from 2014 to 2017 (Source: Ministry of Corporate Affairs, Feb. 2019)

Figure shows CSR spending on Environment

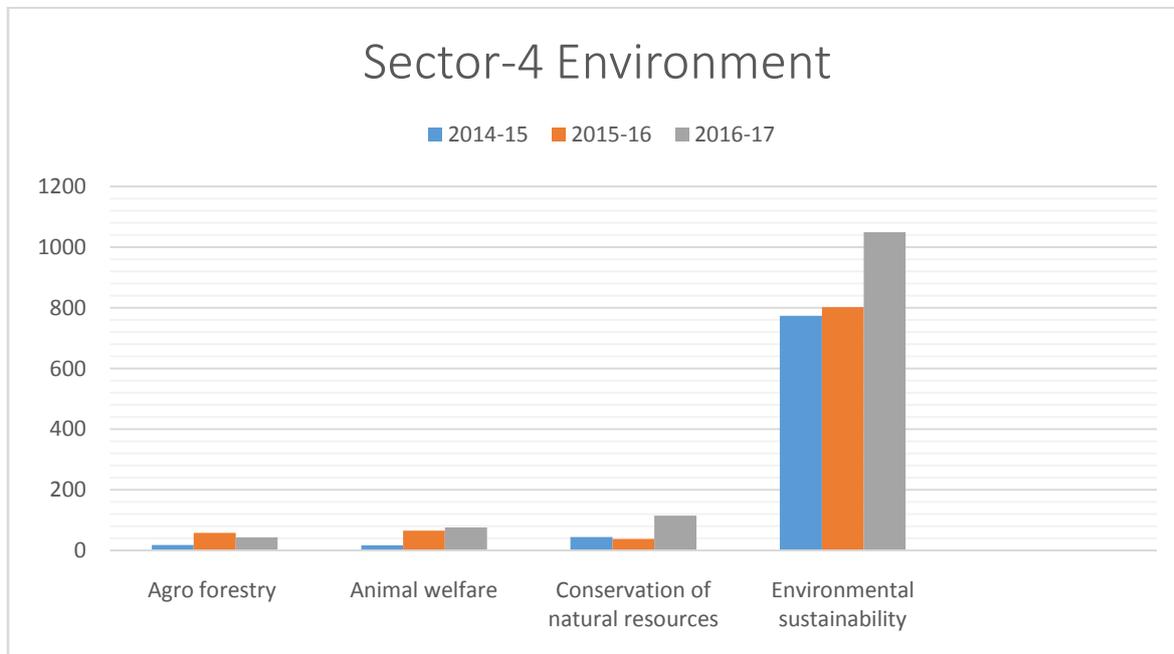


Fig. 2 CSR Spending on environmental initiatives (Source: Ministry of Corporate Affairs, Feb. 2019)

The table 2 lists out the actual spending of Indian companies on environmental related CSR activities which is far below the minimum requirement compared to the companies spending in foreign countries. A perusal of the data shows that the corporates do not have a separate Corporate Environment Responsibility policy; they have only an integrated environmental responsibilities in their Corporate Social Responsibility policies. Today, corporate social responsibility has moved far beyond the traditional system of one time philanthropy and has instead become an all year round responsibility that companies accept for the environment around them, the best working practices and for their local communities. Brand names no longer depend only on quality, price and uniqueness but also on how, cumulatively, they interact with a given company's workforce, community and environment. The challenges of environmental pollution are one of them. It refers to water pollution, air pollution and noise pollution. Owing to its dangerous consequences on the health of society, it requires special attention. Those managing the corporate sector and industry are under a social responsibility to take necessary preventive and remedial measures to safeguard social health and social welfare. Modern industrial society requires vital change in the attitude of company management. Traditional approach of exclusive profit making requires necessary adjustment in the new industrial climate. Every method of decreasing pollution involves some financial expenditure. Major corporations are under a social duty to help, devise and carry out basic strategies to eliminate evils of environmental pollution. Companies under social responsibility are required to give priority and sufficient amount.



## Conclusion

Healthy environment is essential for economic development. It is believed that economy and environment are contrasting to each other. Incorporating environmental elements in CSR activities in the Companies Act 2013 and ensuring it obligatory for the companies are significant positive steps in protecting environment. If implemented properly the CSR can be of great help in protecting environment and achieving environmental sustainability. There is need for sensitizing corporate and business houses towards regarding the importance of the three pillars of sustainable development i.e. economic, social and environmental. The relationship between sustainable development and CSR does not remain on theoretical level but more and more practical initiatives indicate that companies have an increasing role in establishing sustainable development.

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