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## CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE PRACTICES AND OWNERSHIP

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### ABSTRACT

The study aims to analyze whether the firm's ownership has any impact on their corporate social responsibility (CSR) expenditure pattern and disclosure practices. The study also examines CSR schedule and CSR expenditure covered by public and private sector firms over the years and marks the differences in the pattern of CSR disclosure. The paper is descriptive and analytical and draws its sample from S&P BSE Carbonex firms. Data has been collected through secondary sources which include the firm's websites, annual reports, Prowess IQ database, and CSR database (NSE Infobase). The findings of the study may help the management to recognize which CSR activities are being neglected and also assist policymakers in devising policies to improve the level of disclosure and transparency in CSR activities. The findings show that some firms are highly focused on education and health-related activities and less focused on areas such as war veterans, disaster management, protection of flora and fauna, and sports.

**Keywords:** Carbonex firms, CSR Schedule, CSR expenditure, Firms' ownership

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### 1. INTRODUCTION

A firms' concern towards society, the environment, etc. is not a novel concept. Corporate social responsibility (CSR) has been in practice since long back and many authors have written about CSR in their seminal papers. The definition of a firm's social responsibility has changed over time. (Dahlsrud,2008) collected thirty-seven definitions of CSR from the time-frame of 1980-2003, and reports that it is more difficult to trace the evolution of CSR in a specific context than to define it. CSR has been defined in several ways, but the definition that appropriately elaborates it has been the one given by the World Business Council for Sustainable Development (WBCSD). It defines CSR as 'the continuing commitment by

business to contribute towards economic development while improving the quality of life of the workforce and their families as well as of the community and society at large'. Carroll (1991) presented CSR responsibilities of business organization which is well known as 'CSR pyramid'; it presents the various responsibilities of firms towards the betterment of society. These four responsibilities are economic, legal, ethical, and philanthropic. Economic responsibility presents "do what is required by global capitalism", legal responsibility holds that companies "do what is required by global stakeholders", ethical responsibility means to "do what is expected by global stakeholders", and philanthropic responsibility means to "do what is desired by global stakeholders" (Visser, 2006).

In India, all the firms, whose net worth is Rs.500 crores or more; or turnover of Rs. 1000 crores or more; or net profit is of Rs 5 crores, are mandated to spend two percent of average profit of last three years' profit towards the betterment of society.

Firms disclose their CSR practices in line with the legal provisions of this act. Firms spend their prescribed CSR amount for the welfare of society based on twelve schedules listed in the act. Despite following the same act firms differ in their expenditure and disclosure practices. This has attracted the interest of many academicians to research in this arena to decipher this variation.

As noted, the prior literature on CSR differentiates mainly on the nature of business like manufacturing, energy and gas, FMCG, Coal, and Petroleum, etc., and much of the study focused on CSR and firm performance (Famiyeh, 2017; Mackey et. al., 2007). Few studies are conducted to gauge the relationship between CSR activities and controversial industries (Grougiou et. al., 2015; Vollero, et. al., 2018; Garcia, et. al., 2017). CSR activities may be influenced by various factors like firm size, profitability ratio (Pradhan & Nibedita, 2019). We hardly came across any study that analyses the dynamics of CSR activities based on ownership of the firms. The present study tries to fill this gap. For this, the researcher had taken the S&P BSE Carbonex index as a sample and classified all listed firms based on firms' ownership, excluding all finance firms. The study examines the various dimensions mapped by firms under CSR practices over the year by public and private firms and marks the differences in the pattern of CSR disclosure on their annual reports and websites. Data was collected through secondary sources which include the firm's websites, their annual reports, Prowess IQ database, and CSR database (powered by NSE InfoBase). The duration of the study is 2017-2019.

The study tries to make an original contribution that may prove to be beneficial for the policymakers to devise guidelines regarding the effective and comprehensive implementation of the policies. It would also help the management to know how to mold their CSR practices and its disclosure so that all the concerned stakeholders of a company like investors, suppliers, customers, etc. can be informed easily and be able to trace the social welfare activities of firms. It would help the firms to gain profit and maintain goodwill.

The remainder of this paper is structured as follows-the second section includes a review of the literature on CSR Disclosure (CSR D) practices of public and private firms and hypothesis formulation. The third section includes the data selection and methodology of the study. The fourth section comprises the results of a study by analyzing the collected data.

Finally, the fifth section summarizes the findings, implications, and limitations of the research followed by implications and conclusion.

## **2. LITERATURE REVIEW**

### **2.1 CSR Disclosure**

Gatti, L., Vishwanath, B., Seele, P., & Cottier, B., 2018, studied the evolution of CSR disclosure: From 2009 to 2013, the Government of India played an active role in encouraging firms to voluntarily assume greater responsibility for the social and environmental issues plaguing the nation. The CSR Voluntary Guidelines—2009, the Guidelines on CSR and Sustainability for Central Public Sector Enterprises in 2010, revised in 2011 and 2013, and the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business—2011. In 2012, the Securities Exchange Board of India (SEBI) issued a circular—Clause 55 of the listing agreement—according to which major public and private sector firms' (top 100 companies in terms of market capitalization) have to report according to the Business Responsibility Reporting Framework—2012 (Aggarwal & Singh, 2019).

Taking a historical perspective on the evolution of CSR, the concept evolved from the past century and finds a positive relation between societal expectation from firms and how CSR is understood. (Agudelo et. al., 2019) concluded that proper implementation of CSR practices may result in generating a positive shared value. It helps the firms to enhance shareholders' wealth by actively performing for society and reporting CSR disclosure in their annual reports and financial statement.

The present study focused on the CSR disclosure of firms in their annual report which informs the stakeholder regarding the firm's practices towards the betterment of society, environment, etc. through conducting various activities like water management, education, skill development, strategies for reducing carbon emission, etc. But the CSR disclosure may vary from firm to firm; the study tries to explore the difference in the pattern of CSR disclosure based on a firm's ownership.

The firms' ethical practices may impact the financial performance of the firm. There is much literature that presents a positive relationship between them. (Cao et. al., 2016) concludes that disclosure or reporting of socially responsible activities of the business with stakeholders may contribute to the financial performance of the firm and reveals how CSR disclosure of firms from different industries may differ. The study highlighted that firms should undertake CSR activities and their disclosure in such a manner that it should be comprehensively beneficial for both, industry and society. Disclosing of CSR practices is also varies from industry to industry like energy, FMCG, Petroleum, Manufacturing, etc or we can say firms using natural resources in their operation or not (Dewanti, 2018). (Yani et al., 2019) studies the impact of the industry type, profitability, and size of a firm on CSR disclosure through categorizing the sample industry in two profiles i.e., high profile and low profile. High profile firms are those firms that directly impact the environment through their business operation and are much focused on disclosing various environmental protection-related activities. Based on analyzing the influence of all these factors on disclosure of CSR

practices, the researcher concluded that the size of the firm is considered as the most influencing factor. CSR involves the legal and ethical behavior of firms (Dewanti & Widyadmono, 2018).

Under Company Act 2013, the CSR law explains the various activities that might be considered by firms while performing CSR initiatives under Schedule VII. Table 1 explains the areas of CSR expenditure mentioned in Schedule VII.

**Table 1: Schedule VII of CSR under the Company Act, 2013**

1. Hunger, poverty, and healthcare
2. Education and vocation skills
3. Reducing Inequalities
4. Environmental Sustainability
5. National Heritage
6. Armed Force Veterans
7. Sports
8. PM's Relief Fund
9. Technology Incubators
10. Rural Development
11. Slum Development
12. Disaster Management

(Source: The Ministry of Corporate Affair)

## 2.2 BSE Carbonex listed firms

The study has taken CSR practices of non-financial firms listed on BSE Carbonex. The BSE Carbonex, according to the BSE website, "is a 'tilted' version of the S&P BSE 100, with the constituent weights modified in accordance with the firms' relative carbon performance as measured by the intensity of their greenhouse gas emissions and carbon-related policies". The areas in which the firms are assessed are reporting and disclosure, strategy and governance, performance and achievement, and ecosystem action. The firms in the BSE100 are weighted as per these parameters for the Carbonex. The BSE Carbonex is a thematic index, which measures firms' ability to address climate change risk and opportunity. The first of its kind index in the country that recognizes firms that are committed to climate change mitigation. Based on the channelization of CSR funds, the study identified some key areas, in which firms are incurring the expenditure.

## 2.3 Firm's Ownership and CSR Disclosure

The institutionalization of CSR has impacted CSR reporting. Existing literature tries to explore the relationship between a firm's CSR performance and its financial position and exhibits mixed results which include a positive, negative, and neutral relationship between them. (Narullia et.al., 2019) examines the CSR information in measuring the company's value by observing the movement of stock prices of ASEAN countries and found that CSR information impacts the cash flow of a company and the quality of CSR reporting should be improved to enhance the investors' interest. (Moratis & Egmond, 2018) investigated the

relation between firms concerned at different levels about the environment with their earning management but found contradictory results.

Besides CSR report some firms also prepare sustainability and business responsibility reports apart from the annual report. (Ali et.al., 2017) concluded that the nature of the industry is one of the influencing factors in CSR reporting among other firm characteristics like firm size, profitability, and corporate governance in developing countries. Firms are extending the CSR expenditure beyond the legal requirement to expand the long term positive impact of business on society and to balance stakeholder interest and business profit. However, CSR activities remain limited to some common activities. Many prior pieces of literature present that firms are mainly focusing on some specific domain. The author attempted comparative research on public and private sector banks performance by assigning ranks on ten parameters and concluded that the public sector banks are more focused on education, community welfare, financial inclusion, and rural development whereas the private sector banks are mainly expenditure on the areas of education, community welfare, and rural development (Kaur & Bhaskaran, 2015). (Mahapatra, 2019) found that CSR disclosure practices mainly focus on three key community development programs like education, health care, and livelihood programs. (Kansal et. al., 2018) investigated the CSR reporting practices of central public sector enterprises (CPSEs) and concluded that the main area of disclosure is human resource and community development and neglected areas are carbon and greenhouse gas emission (GHG) or environmental issues.

CSR funds are strategically channelized by managers to maximize the market value and to attract more investors and also efficiently communicate with the existing stakeholders. Managers' decisions also impact the implementation of social activities. (Jothi, 2016) examined the perception of managerial executives of selected Indian public and private firms towards the performance of CSR practices and concluded that there is no significant relationship between them. (Mackey et. al., 2007) concluded that managers may channelize more funds in social activities considering investor's perceptions. (Rehman et. al., 2019) analyzed the relations between organizational performance and twenty-three leadership practices in public sector organizations and finds a positive relationship among them. (Verma et. al., 2019) tries to measure the CSR activities of 2013 Forbes listed Indian firms, includes five public and five private-owned firms, and concluded that these big firms are regularly contributing to social activities; these practices are encouraging other firms also to have a look at these types of exercise. So we can say that CSR activities are significantly influencing the societal culture of firms. The current status of corporate activities towards people and the planet by considering BSE SENSEX firms surveyed the detailed green initiative taken by listed firms and concluded that the firms are now more concerned with green products and continuously committed to the sustainable development of society and business (Singha et. al., 2019).

Therefore, in line with previous literature, it has been observed that most of the researchers attempted their studies on CSR expenditure through considering sampled firms based on industry nature, size, etc. but not based on ownership. This presents the gap for the author to consider all non-financial firms under one study to examine the CSR expenditure

and focused dimensions under it. In this direction, the present study investigated companies listed in BSE Carbonex regarding their CSR expenditure and CSR dimensions in the annual report based on firms' ownership.

### 3. METHODOLOGY

This research is descriptive and analytical and considered the S&P BSE Carbonex index as a sample of the study. The BSE Carbonex consists of 98 firms including financial and non-financial firms. After excluding all finance firms the final sample of the study is 77 firms. Further, these 77 (41 public sectors & 36 private sectors) firms are classified into the public and private industry based on ownership. But due to the data unavailability of three firms, they are excluded from the sample so the final sample for the study is 64 firms. The CSR disclosure practices of firms are analyzed through data collected from secondary sources, which includes firm's website, annual report, Prowess IQ database, and CSR database (NSE Infobase). The time frame of the study is from FY 2016-2017 to FY 2018-2019.

### 4. DATA AND ANALYSIS

In this section, the researcher analyzed the collected data through appropriate tables and graphs. The analysis includes the firm's CSR expenditure each year and the firms' focus on individual CSR schedule. Firms' are expenditure their CSR amount according to each schedule requirement and reporting it in the annual report under "CSR report" and on the website.

#### 4.1 CSR Spending

CSR activities are no longer voluntary it is a mandatory practice. The study analyzes the CSR expenditure and studied the dimensions of CSR activities of public and private firms listed in Carbonex indices. The study has collected data from three sources. Financial dataset (such as average net profit, CSR prescribed amount, the amount spent by firms) is collected from the Prowess IQ database<sup>1</sup> and schedule related dataset is collected from CSR database<sup>2</sup> and firms annual reports and website.

Table 2 shows the percent and their average net profit of the last three years of the year 2017-2019 of each ownership firm, which comprises BSE Carbonex.

**Table 2: Ownership of the Firm and Average Net Profit**

Firm's Ownership	Total	% of Total	Average Net profit of last three financial years (in million)		
			2017	2018	2019
Public	39	53%	33744.11	29657.82	40252.8
Private	35	47%	42929.52	47001.63	50760.03
<b>Total</b>	<b>74</b>				

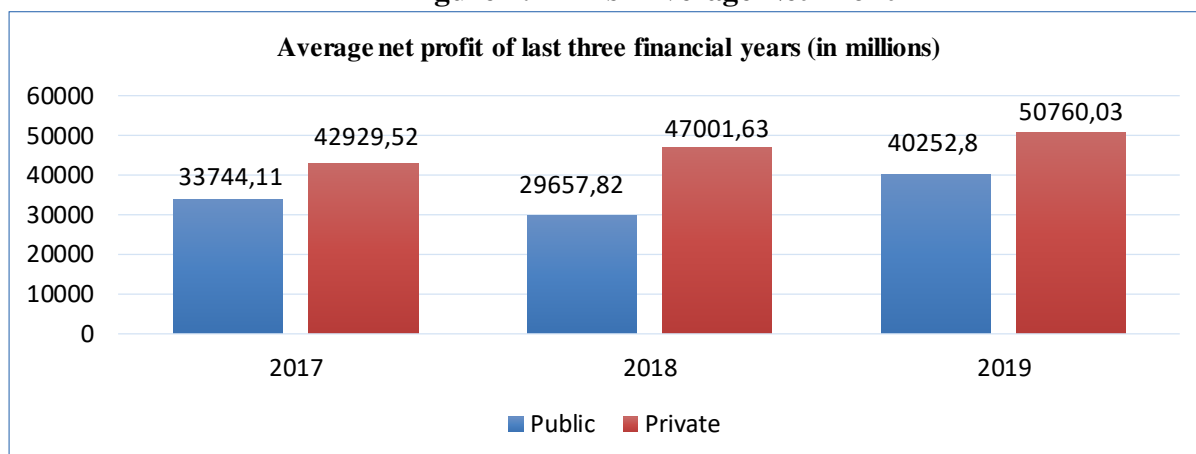
Sources: Author's calculation & CSR database

The above table shows the percent of ownership in S&P BSE Carbonex. The public firm shares 53% and the private firm shares 47% ownership in the Carbonex index.

<sup>1</sup>Prowess IQ database is maintained by Centre for Monitoring the Indian Economy (CMIE)

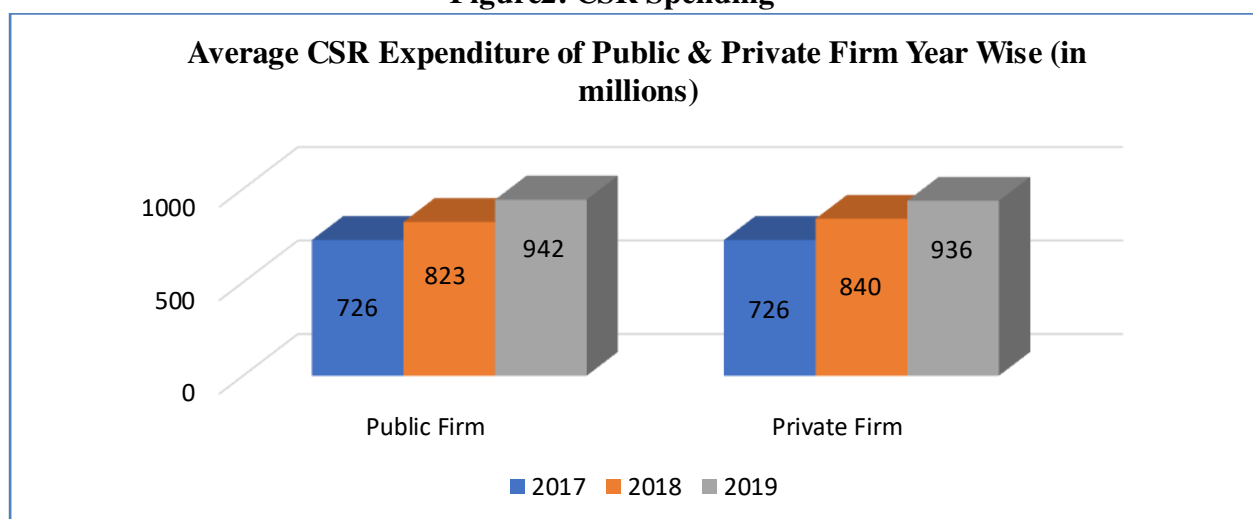
<sup>2</sup>CSR database is maintained by NSE InfoBase



**Figure 1: Firms' Average Net Profit**

Source: CSR database (NSE Infotech)

The above figure shows the average net profit for three financial years. According to law, the firm has to spend 2% of its average net profit towards the betterment of society. The average net profit of private firms is increasing year by year, in comparison to the public sector.

**Figure2: CSR Spending**

Source: Prowess IQ database

Figure 3 shows the average actual amount of CSR expenditure made by both the firms in three years'. In the figure, it can be seen that both types of firms are expenditure on CSR activities and the amount is increasing too, this marks that the firms are becoming more committed towards the betterment and upliftment of society and are giving back to society enthusiastically without considering it as a burden.

#### 4.2 CSR Schedule and Firms' Ownership

**Table 3: CSR Expenditure (Schedule Wise) disclosure  
(In lacs)**

SCHEDULE	2017		2018		2019	
	PUBLIC	PRIVATE	PUBLIC	PRIVATE	PUBLIC	PRIVATE
<b>Schedule VII</b>	3,881	3,552	4,515	3,441	5,170	5,790

(1)	Schedule VII	2,656	4,757	3,627	4,907	3,956	5,881
(2)	Schedule VII	426	947	301	1,036	657	1,388
(3)	Schedule VII	2,124	2,308	1,391	4,187	1,233	5,346
(4)	Schedule VII	1,037	511	1,354	548	430	655
(5)	Schedule VII	252	1,212	231	1,719	436	992
(6)	Schedule VII	822	591	592	540	679	1,175
(7)	Schedule VII	387	613	434	4,130	528	834
(8)	Schedule VII	419	1,042	402	2,050	1,058	1,223
(9)	Schedule VII	1,621	1,828	1,483	1,777	2,549	2,124
(10)	Schedule VII	335	1,488	402	2,050	774	1,223
(11)	Schedule VII	0	0	0	0	489	997
(12)	Schedule VII						

Source: CSR database

**Figure 3: CSR Expenditure– Schedule Wise  
(In lacs)**

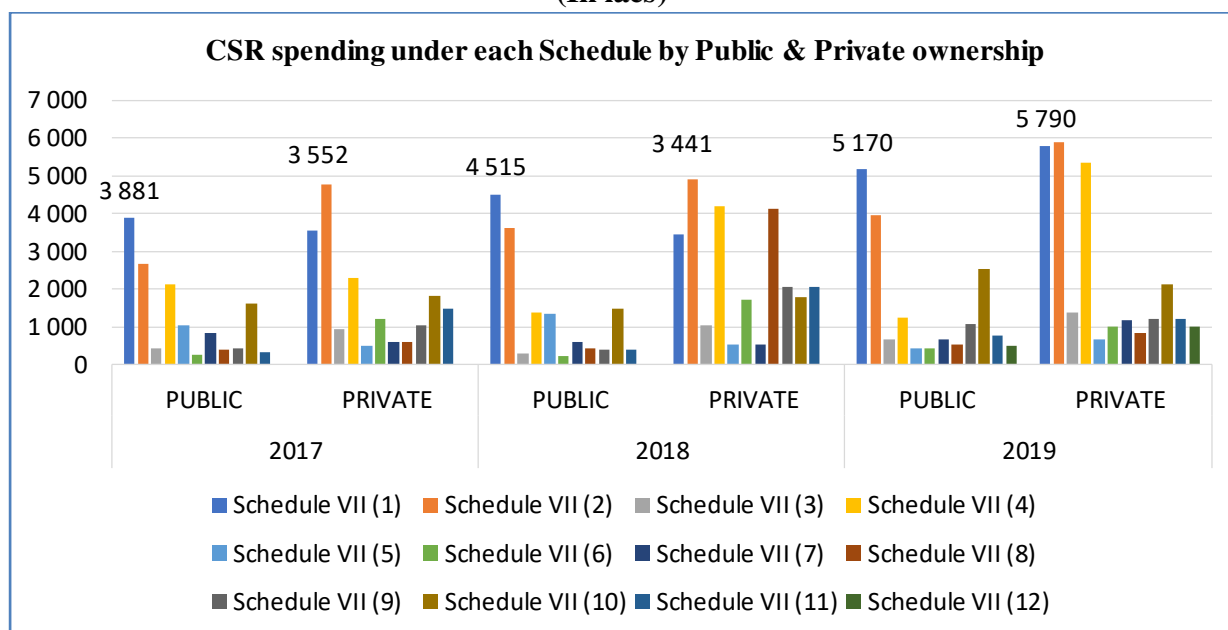




Table 3 and figure 3 shows the average amount of schedule-wise CSR expenditure by public and private firms from 2017-2019. Through analyzing three years of data it is found that public firms are more concerned with Schedule VII (1, 2, & 3) compared to other Schedule subheads. In schedule VII (1) approx 3,881 lacs in 2017; 4,515 lacs in 2018; 5170 lacs in 2019 are spent by public firms. In schedule VII (2) approx 2,656 lacs in 2017; 3627 lacs in 2018; 3,956 lacs in 2019 and schedule (3) firms had spent 426 lacs in 2017; 301 lacs in 2018; 657 lacs in 2019, all these values are average of overall expenditure schedule-wise over the year. Comparison with private firms on schedule VII (1) they had spent approx 3,552 lacs in 2017; 3,441 lacs in 2018; 5,790 lacs in 2019 and on schedule VII (2) the amount of expenditure is approx 4,757 lacs in 2017; 4,907 lacs in 2018; 5,881 lacs in 2019.

These figures give glimpses of CSR expenditure on dimensions or scheduled wise. Based on these figures, we can conclude that the CSR expenditure by public and private firms are different, every firm has its core area of CSR spending. But to some extent both firms also have some common expenditure areas like education, skill development, health & sanitation, reducing in-equality, promoting girls' education, providing scholarships for higher education, hosting various health camps on special diseases, etc. Here, both firms had neglected schedule 12 in the years 2017&2018, but in 2019 the private firms had spent more on this schedule compared to public firms. Compared to the public firm's private firms are more concerned about environmental-related activities like using alternative technology to reduce greenhouse gas emission (GHG) and carbon footprints. But most little focused areas are war veterans, constructing old age homes, and slum area development.

## 5. CONCLUSION AND DISCUSSION

### 5.1 Conclusion

The study finds that almost all corporations are precursors to CSR commitments in a society. The analysis reveals that in BSE Carbonex indices the ownership of public firms is greater than private firms and both sectors' CSR expenditure is equal or more than the prescribed amount. The implementation of CSR activities by firms is mainly done through their foundation like Cipla Foundation, Reliance Foundation, Tata foundation, Ambuja Cement Foundation, etc., and with some NGO's also. But CSR expenditure dimension wise varies. Based on focus area differences, the researcher marks three indicators i.e. high, moderate, and neutral. Highly includes Schedule VII (1, 2, & 3); which includes education, health, sanitation, fresh drinking water, and reducing inequalities. Moderate consist old age home, sports, disaster management, greenhouse gas emission (GHG), reducing carbon footprint and Neutral focused area are the welfare of war veterans, protection of flora and fauna, slum area and rural area development {Schedule VII (8,9,10 & 11)}.

### 5.2 Implication

CSR is one of the most prominent factors in firm performance and reputation. Stakeholders of firms are always keen to know the financial and non-financial performance of the firm in this competitive environment. Because of this, every firm discloses its projects undertaken under CSR uniquely. CSR institutionalization mandated all the listed firms for disclosing their CSR related activities in the annual report and on the website every year. The finding of

the current study may help the management to recognize which CSR activities are avoided under certain schedules and also assists policymakers in improving the level of disclosure and transparency. Because some industries are highly focused on education and health-related activities and less focused areas are war veterans, disaster management, protection of flora and fauna, and sports. Although these are also an important part of society and need more attention. So the firms' managers and policymaker should mark it as highlighted areas and make more and more efforts towards these areas.

### 5.3 Limitations and Future scope

Although the present study had explained the major part of CSR disclosure practices of public and private firms, those are listed in S&P BSE Carbonex. But still, the study includes some limitations also. The study comprises only public and private non-financial firms listed in the mentioned index; future research can be done in public and private financial firms. The present study is limited to secondary data; the future study can be undertaken by primary data, data can be collected through interviews and questionnaires from firms' CSR committee managers'. Future research can be done by considering the longitudinal study of firms' CSR disclosure practices.

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### Annexure

**CSR Law (Company's Act, 2013)**(as explained by the Ministry of Corporate Affairs)

Companies Act, 2013 ["Act"] is legislation that officially embarked on one of the world's largest experiments of introducing the concept of CSR as a mandatory provision. With the introduction of the new Act, there is a statutory obligation for the corporate to take initiatives towards Social, Environmental, and Economic Responsibilities. The initiatives taken have to be reported to the company and other stakeholders appropriately. Section 135 of the Act and the Companies (CSR Policy) Rules, 2014 ["CSR Rules"] framed thereunder govern CSR in India. The detailed provisions are explained below:

#### Definition of CSR

The Act does not define the term CSR. As per rule 2(c) of the CSR Rules "CSR means and includes but is not limited to:

- (i) Projects or programs relating to activities specified in Schedule VII of the Act; or
- (ii) Projects or programs relating to activities undertaken by the board of directors of a company (Board) in pursuance of recommendations of the CSR Committee of the Board as predicated CSR Policy of the company subject to the condition that such policy will cover the subjects enumerated in Schedule VII of the Act."

#### Applicability

Section 135 of the Act provides for the applicability of the CSR provisions on corporate. Sub-section (1) of section lays down that every company having

- A net worth of Rs. 500 Crore or more; or
- Turnover of Rs. 1000 Crore or more; or
- Net profit of Rs. 5 Crore

During any financial year shall be required to constitute a CSR Committee of the Board consisting of three (3) or more directors, out of which at least one (1) director shall be independent.