



Research Article

GOOD GOVERNANCE AND CSR UNDER THE NEW COMPANIES ACT 2013: AN EMPIRICAL EVALUATION OF ANTICIPATED EFFECTIVENESS OF SELECTED PROVISION

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ABSTRACT

The decade of nineties passes through a major transformation in the understanding of the role of business in development. In contrast to the framework of economic globalization, there are rising international demands for firms to be more transparent and more accountable for their economic, social and environmental waves wherever they are working. With the increasing awareness of the negative effects of sourcing from developing countries such as child labour and damages to the environment, CSR has become more and more relevant and firms are working actively with these issues. Enhancing CSR has become a vital part of public policies for private sector development within the framework of international development cooperation. CSR is to be considered as an unhurried choice of enterprise to achieve the three dimensions growth (people, profit and planet) and maintaining relation with various stakeholder on the basis of transparency and social, ecological and economic parameters or is it because they want to be good citizens and do the right thing. The paper is just an attempt to measure the effectiveness of new CSR provisions on good governance despite being a very important issue, there is a very little information at the firm level to understand the CSR in Indian context. However the companies Act 2013 has incorporated certain provision related to CSR. Therefore, it is found that no doubt, new provisions have a potential to bring change but proper implementation is prior condition for getting good governance.

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INTRODUCTION

Corporate Social Responsibility as an insight has existed in India since ages and plays an important role in a developing country. Now Corporates have realized that in addition to profit making, a corporation must involve in trust building by working upon its societal relationships and environmental issues. Because survival of business depends on prosperous and healthy society so that, companies which genuinely adopt the principles of socially responsible behavior are preferred and favored by the society at large, of which the company forms an integral part. Hence, one can say that CSR is basically an act of moral, social and business responsibility with the aim to protect, preserve and nurture human values and promote socio-economic welfare. Under Companies Act, 2013, one of the revolutionary provisions is that of mandating Corporate Social Responsibility (CSR) activities in India. The idea behind this move is this that a Corporation must not only achieve its economic goal but also adopt the principles of corporate social responsibility. Section 135 in the Act states that every company with the prescribed net worth or turnover must necessarily constitute a CSR Committee, with clearly defined composition, activities to be undertaken, budgets

and responsibilities of the Committee, so formed. This would ensure that right steps are taken by companies in pursuance of the CSR provisions of the Act.

For example, some of the issues that have been brought to the fore are regarding the restrictive scope of activities mentioned under Schedule VII which will lead to the polarization of CSR resources. The limited geographical focus as provided under section 135(2) is another issue since it may undermine the idea of inclusive development in the society. On the other hand it can be argued that with the allowing CSR expenditure as a deduction, the funds allocated by companies for social development would voluntarily increase by leaps and bounds, hindering the need of a mandatory provision. Therefore, clarifications with respect to these, and many more Loopholes become the need of the hour to achieve the true purpose with which this provision was enacted. According to the founder of Infosys Mr. Narayan Murthy, “social responsibility is to create maximum shareholders value working under the circumstances, where it is fair to all its stakeholders, workers, consumers, the community, government and the environment.” Hence one can say that social responsibility would mean asking businesses to be more practical and analyse the positive as well as negative effects of their activities and decisions on the people and society at large. In the light of this, the paper explore the impact of effectiveness

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of new provision of CSR on good governance in present scenario. By seeking the opinions of the 60 respondents from corporate sector's executives, govt. officers and Chartered Accountant and Company Secretaries using a well-structured questionnaire.

Objectives of the Study

- To get an overview of CSR provision under Companies Act 2013
- To check the trend of new provisions of CSR on good governance
- To check of significance of changes in trends in governance due to new provision of CSR

Research Design

It is basically an exploratory study. The study is specifically focused to know the new provision of Companies Act 2013 related to CSR and also to check their effectiveness on good governance.

Data Collection

Through a well-structured questionnaire responses in relation to provision of CSR of new Companies act 2013 were taken and responses were derived from the corporate executives' chartered accountant and company secretaries and government officials through Google document survey. About 60 responses were received in this regard and from them 2 are incomplete. However responses of 58 respondents are analysed to measure the effectiveness of new provision of CSR on good governance.

Tools and Techniques

Responses are analysed through IBM (SPSS) for further elaboration about the concept to check the impact (relation between new provisions of CSR on good governance) regression analysis and F test is applied on derived responses and significance is checked at 5% level of significance.

Hypothesis of the study

- H₀- New provision of CSR does not lead to good governance
- H₁-New provision of CSR leads to good governance

Scope of the Study

The paper had covered selected provisions of CSR mentioned under new companies act, 2013. Under this, it is to be taken care that how these changes had effect on governance. Time and resources constrained the scope of study.

Analyses and Interpretation

- Observations
- Impact Analyses & Interpretations

Finding based on observations are as under

Will the activities as are included in CSR Policy of the company undertaken by the company lead to good governance.

57 responses

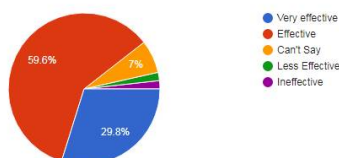


Figure 1

More than 75% respondents gave support to the fact that implementation of corporate social responsibility will lead to good governance in various companies and approximately 10% respondents cannot predict its effectiveness in corporate sector.

Will it be effective that Employee's welfare is kept out of CSR activities

57 responses

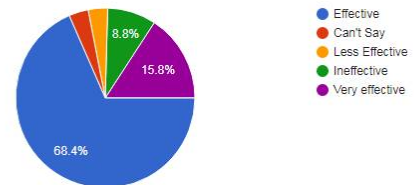


Figure 2

From figure 2 it can be easily observed that keeping employees welfare activities out of CSR will lead to good governance because more than 75% responses indicate that employee's welfare should be kept outside from CSR activities.

Will taking care only CSR activities inside India in Disclosure of board report on CSR lead to good governance

57 responses

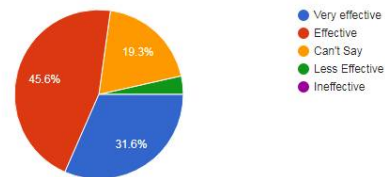


Figure 3

According to the survey conducted to evaluate how CSR leads to good governance, 77% respondents have that opinion that taking care of only CSR activities inside India in disclosure of board reports on CSR will leads to good governance and approximately 33% respondents thought that this step would be completely ineffective in corporate sector. 20% are neutral in this regard.

Will the Fixing the limit for CSR One Turnover of rupees thousand /crores or more lead to Good Governance

57 responses

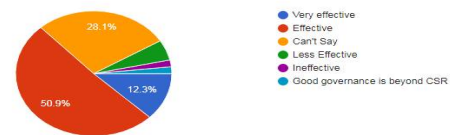


Figure 4

According to the above data more than half respondents have the opinion that if we fix the limit for CSR turnover of rupees one thousand crore or more than it will prove to be very beneficial for corporate sector of India and will leads to good governance.

Will Fixing the limit for CSR In form of net profit of rupees five crores or more leads to good governance

57 responses

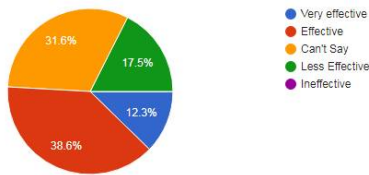


Figure 5

As per the above data 54.4% respondents have the opinion that fixing the limit of CSR in form of net worth of rupees five hundred crore and more would be very effective and leads to good governance

Will the provision related to fixing the portion of profit spending in every financial year lead to good governance

57 responses

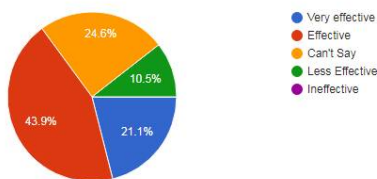


Figure 6

In the survey conducted for measuring the effectiveness of CSR activities in the corporate sector o According to the above data 63% respondents have the opinion that provision related to fixing the portion of profit spending in every financial year will be very effective and leads to good governance and 26% respondents thought that it would be effective to fix the portion of profit in every financial year.

Will specification related to CSR to Formulate and recommend to the Board, a Corporate Social responsibility Policy of the company undertaken by the company lead to good governance.

57 responses

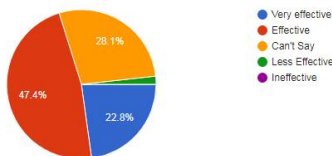


Figure 7

As per responses derived, it can be observed that provision related specification related to CSR to formulate and recommend to the board CSR policy is effective because about 70% responses said that it is effective.

Will these specifications related to CSR to Recommend the amount of expenditure to be incurred on the activities referred to in the clause Monitor the Corporate Social Responsibility Policy of the company from time to time lead to good governance

57 responses

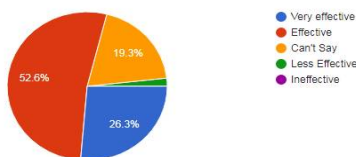


Figure 8

As per the data collected in the above survey for measuring the effectiveness of CSR in good governance more than 50% respondents have the opinion that responsibility policy of the company from time to time leads to good governance.

Will these specifications related to CSR to Monitor the Corporate Social Responsibility Policy of the company from time to time lead to good governance

57 responses

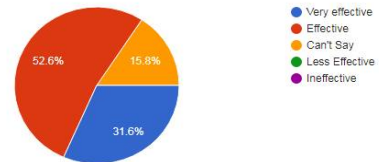


Figure 9

Provision related to Proper implementation of specification recommended to CSR under Companies Act 2013 is also found effective responses derived .Only 15.8 % responses showed neutrality about this while other 84.5% are of the opinion that it leads to good governance also.

Will New CSR reporting system regarding report of CSR be helpful in Good Governance

57 responses

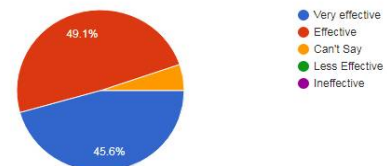


Figure 10

As per the above data about 95% respondents are of the opinion that provision of new reporting system of CSR is effective and it will helpful and leads to good governance.

Will Provision pertaining to independence of Director and Auditor be helpful in good governance

57 responses

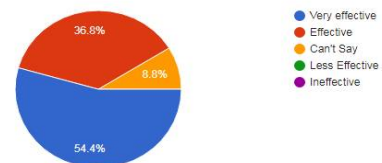


Figure 11

Responses (90%) indicate that provision related to independent director will be helpful to bring good governance.

Impact Analysis and Interpretation

Table 1 Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.745 ^a	.554	.395	.667

- a. Predictors: (Constant), VAR00016, VAR00005, VAR00002, VAR00007, VAR00004, VAR00014, VAR00010, VAR00006, VAR00009, VAR00013, VAR00003, VAR00011, VAR00012, VAR00008, VAR00015
- b. Dependent Variable: Good Governance

Interpretation: Analyses of observation indicate that relationship between provision of CSR and good governance is more than 55%. R- Square value indicate how much of the total variation in the dependent variable (good governance)

can be explained by the independent variable. In this study 55.4% can be explained which is quite large.

Table 2 ANOVA^a

Sum of Squares	df	Mean Square
23.247	15	1.550
18.684	42	.445
41.931	57	

- a. Dependent Variable: Good Governance
- b. Predictors: (Constant), VAR00016, VAR00005, VAR00002, VAR00007, VAR00004, VAR00014, VAR00010, VAR00006, VAR00009, VAR00013, VAR00003, VAR00011, VAR00012, VAR00008, VAR00015

Interpretation: Table 2 depicts that the regression model predicts the dependent variable significantly well. The mean square of dependent variable differ significantly among the different provision.

Table 3 Coefficients^a

Model	Unstandardized Coefficients			t	Sig.
	B	Std. Error	Beta		
(Constant)	-.935	1.146		-.815	.419
VAR00002	.043	.101	.052	.421	.676
VAR00003	.169	.161	.160	1.047	.301
VAR00004	.245	.126	.252	1.948	.058
VAR00005	-.069	.116	-.067	-.595	.555
VAR00006	-.153	.116	-.164	-1.321	.194
VAR00007	.093	.127	.099	.734	.467
VAR00008	.196	.151	.206	1.295	.202
VAR00009	.142	.151	.125	.935	.355
VAR00010	-.244	.165	-.206	-1.480	.146
VAR00011	-.295	.192	-.233	-1.536	.132
VAR00012	.076	.245	.049	.310	.758
VAR00013	.430	.224	.297	1.921	.062
VAR00014	-.044	.148	-.039	-.299	.767
VAR00015	.296	.234	.207	1.267	.212
VAR00016	.287	.230	.219	1.248	.219

- a. Dependent Variable: Good Governance

Computed value of F is more than Tabulated value of F in our case (3.484>1.846). With F-value 3.484 and significance level .001(.001<.005), the overall model is statistically significant mean new provision of CSR will lead to good governance.

Interpretation: Table 3 shows that all independent variables (Independent Variable) have significant impact on Good Governance (Dependent Variable). The Quantum of impact varies but significance level is above 0.05. It is also being proved by calculated value of t.

Table 4 Residuals Statistics^a

	Mini mum	Maxi mum	Mean	Std. Deviation	N
Predicted Value	2.01	5.17	4.03	.639	58
Residual	-1.296	1.635	.000	.573	58
Std. Predicted Value	-3.164	1.773	.000	1.000	58
Std. Residual	-1.943	2.452	.000	.858	58

- a. Dependent Variable: VAR00001

Interpretation: Mean of responses is 4.03 out of 5 which means most responses lie between Agree to Strongly Agree i.e. new provisions of CSR leads to Good Governance in Companies. Total of 58 responses have been collected. 1 being least and 5 being most on a scale of 5 have been collected through Questionnaire method. 85.80 % respondents lie in this range.

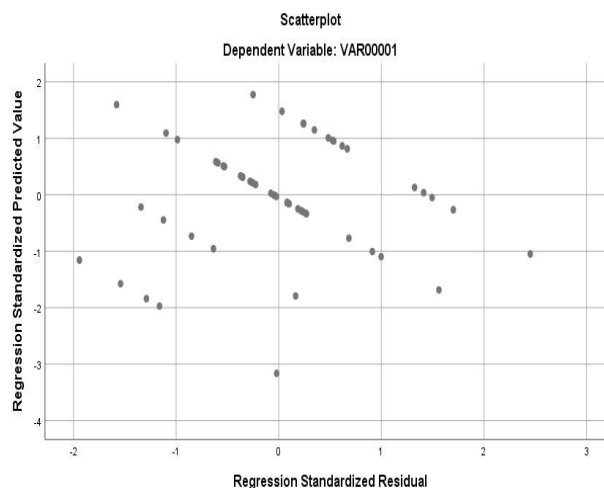


Figure 12

Interpretation: Scatter Plot means a graph in which the values of two variables are plotted along two axes, the pattern of the resulting points revealing any correlation present. Scatter plots are important in statistics because they can show the extent of correlation, if any, between the values of observed quantities or phenomena (called variables). If no correlation exists between the variables, the points appear randomly scattered on the coordinate plane. If a large correlation exists, the points concentrate near a straight line. In this scatter plot, a positive correlation is formed. This means adoption and implementation of new provisions of CSR leads to good governance as per respondents answer to questionnaire.

CONCLUSION AND RECOMMENDATIONS

On the basis of observation and interpretation it can be concluded that the recent CSR provision in the new Companies Act has the potential to bring innovation in the corporate field and institutional philanthropy in India which is capable to bring good governance upto maximum extent. It can be easily understood from the responses derived related to CSR that if new provisions will be implemented properly in corporate sector they will be helpful to bring good governance. However, due consideration must be given to the fact that when CSR is seen in a broader context, it should mean bringing sustainable changes in eco-system and CSR should be seen as a mix of good governance and corporate philanthropy for a company but with a business and financial side to it as well.

The empirical results support a stakeholder theory approach to analyzing corporate social decisions and are consistent with the framework developed by Ullmann (1985). This can be backed by the fact that corporate India is already involved in corporate philanthropy and that these funds (which a company is required to spend on CSR activities) could be spent with more accountability and alignment with the needs of the country. Thus, the core philosophy behind CSR must be 'investing' money rather than merely 'spending' money. Also, absence of any clear policy prescribed for initiation of social business projects has hampered responsible investment by many companies and due to this, many companies have been unable to explore the need to invest in social business projects. Therefore, it has been suggested that concerned official should mandate all companies which are governed by

section 135 to develop specific policies on the lines of ethical business practices, and which acknowledge human rights and the need for environment protection. Also, these must be strictly adhered to and timely reported, and any violation of the same shall be appropriately punishable.

Another suggestion that has been put forth by experts is this that a trained and well-organized team must be formed by every company to ensure that the law is followed in its true letter and spirit.

An organized and critical plan of action shall help the companies in meeting their development challenges of economic growth as well as combating social evils. The government must issue clarifications with respect to the grey areas in the Statute which makes effective and efficient adoption and implementation of the Law impossible. This shall ensure that the provision is accepted by the companies across the country and the objective with which it was incorporated is successfully achieved and the companies are able to involve themselves in wholesome development of the society, living up to the true meaning of the concept of Corporate Social Responsibility and become a responsible entity. There are also a few statistical data available how important CSR is and how much companies pay attention to their reputation.

- Of the total populace, 55% of consumers are ready to pay more for products when they come from socially responsible companies.
- A whopping 65% of the fortune 500 companies in existence offer matching gift programs.
- A total of 17.8 billion dollars is the amount that corporations have given to charities in the last year.

The Pyramid of Corporate Social Responsibility

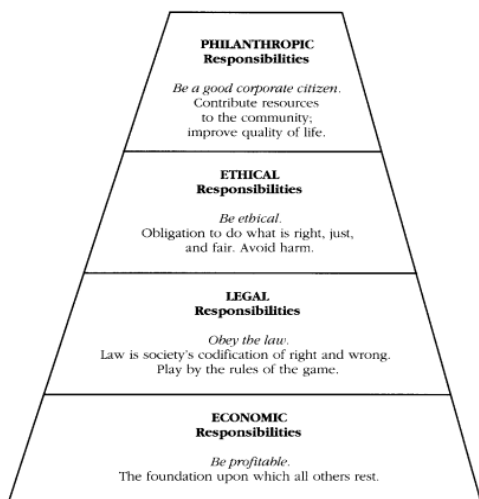


Figure 13

(Source: Carroll 1996)

In summary, the total corporate social responsibility of business entails the simultaneous fulfillment of the firm's economic, legal, ethical, and philanthropic responsibilities. Stated in more pragmatic and managerial ways, the CSR firms should strive to make a profit, obey the law, be ethical and be a good corporate citizen. Emphasis is on building towards an improved ethical organizational climate as manifested by moral values. Moral values provides a moral leadership perspective or orientation that companies may wish to emulate. With the aspiration and preoccupation of

management to follow good moral principles of business that ultimately leads to better society to live in. In nutshell, it can be said that investment in CSR activities today will bring sustainability and success for future.

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