CSR Committee Composition and Possible Impacts

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CSR: An Introduction

Corporate Social Responsibility (CSR) has been discussed and debated for many decades now, but there is still no universally accepted definition. There have however been two fundamental characteristics which have underpinned most definitions of CSR. These are: the voluntary and discretionary nature of the activity; and that it refers to actions beyond what are required by the law.

A number of scholars, have since the 1950s or so, attempted to define CSR. But in spite of this, as McWilliams et. al. (2006) posit 'there is a no strong consensus on a definition for CSR. CSR has been used as a synonym for business ethics, defined as tantamount to corporate philanthropy, and considered strictly as relating to environmental policy. CSR has also been confused with corporate social performance and corporate citizenship'.

The definition given by World Business Council for Sustainable Development (2008) is: 'The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

As per the UNIDO website, 'Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line- Approach"), while at the same time addressing the expectations of shareholders and stakeholders.'

Dahlsrud(2008) statistically analysed 37 definitions of CSR, and expounded on the findings in his oft-quoted paper. Through gathering and analyzing these definitions, he found five threads or dimensions widely prevalent: the Stakeholder dimension; the Social dimension; the Economic dimension; the Voluntariness dimension; and the Environmental dimension. He points out that 'none of these definitions actually defines the social responsibility of business.' Rather, they 'describe CSR as a phenomenon.'

Thanks to the large number of definitions, many have taken the view that CSR is very loosely or subjectively defined—to the extent that the definitions are not very meaningful. Frankental (2001) says 'CSR is a vague and intangible term which can mean anything to anyone, and is therefore effectively without meaning'. Lee (1987) defines it as an elusive concept. Others like Preston and Post (1975) call it subjective, ill-defined, etc.

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It may be concluded that while definitions of CSR abound and have been evolving for the last seven decades or more, yet there is no single universally accepted definition.

In India, Section 135 of the Companies Act 2013 came into force from April 1, 2014. The new Companies act replaced the Companies Act, 1956. Companies Act 2013 was a major step forward because it brought up-to-date over a half-century old laws. One element of the new Law was much debated and discussed even before the law came into force. This was Schedule 135 of the Act, which made CSR mandatory for defined size of firms, and laid out how it should be governed, how much should be spent on CSR, on what, how it needed to be implemented and reported. This was unique in the world—few countries had ever mandated CSR spending. The Schedule become law and came into operation on April 1, 2014. With this move, the two important characteristics underpinning all definitions of CSR, viz., voluntariness and 'going beyond the law', are no longer applicable in India. Hence, no definition of CSR to be found in any book any more holds here!

Before looking at this development of mandatory CSR, it would be useful to get a general perspective of CSR in India, to understand the context of the development of this legal provision.

CSR in India

The Public Sector

CSR in the Public Sector is extremely important in the Indian context. As per the Deloitte-Indian Chamber of Commerce (2010) report, the contribution of Central Public Sector Enterprises (CPSE) to the GDP was about 23 per cent in 2009. The report outlines the objectives of setting up CPSEs in India, one of which was to ensure inclusive growth and achieve equity and justice for the community and society. Baxi and Ray (2012) subscribe to this view when they state that 'the concept of fulfilling social obligations is rooted in the very charter of these enterprises.' Hence, the very raison d'etre of CPSEs is driven by societal objectives, going well beyond commercial ones.

Recent Government of India mandates have explicitly laid down CSR requirements of CPSEs in the current-day context. Ministry of Heavy Industries and Public Enterprises, Govt. of India (2007) came out with the 'Guidelines for Corporate Social Responsibility in Central Public Sector Enterprises'. This specified the mandated spend on CSR by these units as a percentage of profits of the previous year (3-5 per cent for less than Rs. 100 crore profit; 2-3 per cent for Rs. 100 to 500 crore; and 0.5-2 per cent for more than Rs. 500 crore). More importantly, it came out with processes, systems and suggestions on how to effectively implement CSR, including what activities could be undertaken, how they could be planned, implemented, monitored etc. The Dept. of Public Enterprises, Government of India, has, subsequently, set up a National Hub for CSR at the Tata Institute of Social Sciences (TISS), Mumbai in to support the PSUs in their CSR.

In keeping with the tradition of Public Sector Units being in the forefront of CSR, new guidelines were enacted in 2013, following the new Companies Act. After the enactment of the new Company Law, it has been clarified that the provisions of Section 135 of the Act and Schedule VII of the Act (CSR Rules) apply to all companies, including Central Public Sector Enterprises (CPSEs). In addition, Department of Public Enterprises (DPE) has formulated Guidelines on CSR and Sustainability for CPSEs (2013). The Guidelines do not supersede or override any provision of the Act, or Schedule VII of the Act, or the CSR Rules, but will only supplement them. It has been clarified that in case of perceived conflict between the CSR Rules and the DPE Guidelines, the former shall prevail in all circumstances.

CPSEs as part of their CSR policies,are also required to include a vision and mission statement of how the CPSE proposes to comply with the Guidelines. The CSR requirement of CPSEs is even more stringent than for private sector companies, because the DPE Guidelines state that even those companies which are not covered under the eligibility criteria based on the threshold limits of net-worth, turnover, or net profit as specified by Section 135 (1) of the Act, but which made profit in the preceding year, would be required to take up CSR activities as specified in the Act and the CSR Rules, and such CPSEs would be expected to spend at least 2 per cent of the profit made in the preceding year on CSR activities. Moreover, in case of failure to spend such amount in any particular year, it is not enough for the CPSE to merely report and explain the reasons but the unspent CSR amount would be carried forward for the next year for utilization for the purpose for which it was allocated. (There are moves to modify Section 135 to make the last provision to in some form applicable to all firms but at this moment, this has not happened).

Government Role in CSR in the Private Sector

The earliest official document in India, devoted to CSR directed more towards the private sector, is probably the ‘Corporate Social Responsibility Voluntary Guidelines’ brought out in 2009 by the Ministry of Corporate Affairs. One can see in this, the roots of two future developments, viz., the ‘National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business’ which were brought out in July 2011 by the same Ministry, and then Section 135 of the Companies Act, 2013.

Securities and Exchanges Board of India (SEBI), vide its Circular dated Aug 13, 2012, mandated that the 100 largest companies should include a Business Responsibility Report, following the framework of the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, as part of their Annual Reports. (In 2015, it moved a resolution to the Board to increase the coverage from top 100 to 500 firms).

Up to this point, the policy direction in India is seen to have been in parallel with international developments. For instance,National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business seem to draw a lot from the UN Global Compact, an initiative to encourage businesses worldwide to adopt, practice and report on sustainability and socially responsible practices. The outlined principles are similar, though the Indian NGV which are more contextualized to the Indian scenario.

The next step in this journey is the passing of Companies Act 2013. One of the sections of this, and one which generated much discussion, was Section 135 which is the basis of CSR in India after 2014. On the whole, industry was against the mandating of CSR before it became law. Apart from the debate on mandating CSR, he UNDP/British Council/CII/PwC study (2002) study threw up certain expectations of industry from government as a quid pro quo for CSR, including tax benefits, speedier project clearances, etc. All this has been put paid to by the law.

Section 135 defines who, how, how much, where, what, with Schedule VII elaborating on the CSR mandate, and identifies the activities which may be covered under CSR.

Subsequent to the passage of the Act, the Ministry of Corporate Affairs notified the Rules with

respect to CSR on February 27, 2014. These Rules framed under Section 135 of the Act, came into force from April 1, 2014. Further clarifications were given subsequently.

Further addendums and clarifications are being brought out. Till now, these have not been aimed at changing the core elements, but have been more in terms of clearing doubts and grey areas.

Mandatory CSR: A New Paradigm

Till 2014, India was moving in the same direction as the rest of the world, with disclosure of CSR being voluntary till 2012, and then mandated by SEBI for the largest firms since 2012. Understanding of what CSR involved was also on the same lines as international understanding. For instance, the Report of Praxis and Corporate Responsibility Watch (2015) opines that the NVG 2011 tried to incorporate learnings and best practices from various countries and international institutions, and put them into a framework, considering the Indian context. The expectation was that the principles would be viewed and adhered to in totality, and not in bits and pieces. There was to be no picking and choosing among the nine principles—all were equally important.

Then came Companies Act 2013, whereinboth CSR spending and disclosure became mandatory for a very large number of firms. Hence, in a short time, India transitioned from a situation when CSR was purely a firm-level decision determined by the management depending on their motivation or pressures, to a situation when government acted as facilitator for CSR (through helping in information dissemination, issuing guidelines, fostering dialogue etc.), to government taking a much more proactive and direct role. Further, while not defining CSR, the understanding narrowed down to CSR as a certain set of actions.

Looking to the constructs of Schwartz and Caroll (2003) wherein a three-domain approach is presented whose core domains are economic, legal, and ethical responsibilities, now CSR in India is essentially in the legal domain. While the motivations may be ethical or economic, at the current moment, these are probably over-shadowed by the legal requirement. Moreover, it is now difficult to gauge the motivation, as the bottom line has been set as per the law. Wood (1991) mentions three principles of Corporate Social Responsibility—Legitimacy, Public Responsibility and Managerial Discretion. Now managerial discretion in CSR is now completely removed in terms of whether or not to undertake CSR, for the large firms falling in the purview of the law. The 'what' (within the prescribed framework) and the 'how' may still be in the realm of managers. Coming to Frederick (1986, 1994), traces the development of CSR understanding from the pre-1970s 'CSR 1', which was the perspective of 'corporations' obligation to work for social betterment'; to the change around 1970 to 'CSR 2' which was a move to 'corporate social responsiveness'; and then to 'CSR 3' which tends towards 'corporate social rectitude.' It would seem that CSR-India (to coin a term for post-2014 CSR in India), is closest to CSR1 and somewhat close to CSR 2, but not at all in the direction of CSR 3. If we examine the law from perspective of Moir (2001), legally mandating CSR as done in India, and the way it has been mandated, would definitely increase both the factors mentioned by him—viz., the focus by business on CSR and by society on actions of business. As per White (2005), with the evolution of thinking on CSR, there should be an Alignment of CSR with business objectives, an Integration of CSR and an Institutionalization of CSR. It would seem that the law is definitive in pushing towards the last, i.e., Institutionalization, through putting CSR squarely on the Board responsibility, mandating a Board sub-committee, policy and program determination. However, it is not clear if the first two, viz., Alignment or Integration will happen directly as a consequence of the law, and it may even be speculated that it may push in the opposite direction, as the Law specifies the kind of activities to be undertaken, irrespective of the business. Coming to the stages of organizational learning as laid out by Zadek (2004) who defines the five stages of organizational learning on CSR as Defensive, Compliance, Managerial, Strategic and Civil, irrespective of where they were before, companies in India are in the compliance stage now, because the requirements are new and they are learning how to go about meeting these. As per Matten and Moon (2004) classification, CSR in India today seems to come under the 'Implicit' category because the 'corporations' responsibility for society's interests are agreed and assigned to corporations'.

While the CSR law in India is definitely 'mandating' and 'facilitating' as typified by Fox et. al. (2002), it focuses on one small part of their overall definition of CSR. The law could well be in response to Zadek's(2001) assertion that governments may try to shore up their legitimacy by moves like this. The law's focus on national priorities like Swachchh Bharat and Skill India is obviously in the direction of aligning business sector to achieving national priorities, something that the UN's Sustainable Development Innovation Brief (2007) mentions as a reason why governments get involved in CSR. This is also in line with proposition of Bichta (2003) that governments are now looking at 'shared responsibility' to achieve social goals. It is also in line with the thinking of Moon (2002) that this could be a way for the government to cope with the pressure for greater governance and to meet social challenges of poverty and inequity. It sits well with the analysis of Ward (2004) that there is increasing perception in developing countries that CSR is a public policy issue. The law is in the direction desired by Midttun (2005), with business becoming a significant partner of governments in achieving social good.

In terms of typology of roles of government given by Joseph (2003), the Indian law as originally set outcould be said to fall into the 'hard framework with soft impact', where there is legislation and mandatory disclosure. However, it seems that consequences for not meeting the requirements will harden. It does not seem that the law may have much of the positives laid out by Hopkins (2004) like avoiding exploitation of labour or bribery, or significantly improving business. However, one important positive that he has pointed out has come into play, viz., that companies now know what is expected of them and there is a level playing field. However, the minuses that do need to be borne in mind as mentioned by him, that may become significant in the near future, are additional bureaucracy and rising costs of compliance, as well as increase in costs of operations.

It would seem that the law bears out the assertions of Emylon and Knudsen (2012): that a government may have various and multiple reasons to adopt a CSR stand—to reduce the negative effects of business on society and environment, to meet welfare needs, emerging social demands etc.

If one were go by discussions of Horrigan (2010) and Fox and Prescott (2004) of rationales for government involvement in CSR, the law would be more in terms of supporting national social objectives, rather than gaining national competitive advantage or a way of responding to global challenges.

All in all, opinions of scholars seem to be that the government has the right to govern CSR. However, the way it has been done in India is probably unexpected and is certainly without precedent. Gupta (2016) expects that when the dust on the CSR law settled, a 'new socio-economic and business environment will emerge' and that there would be more 'ethical businesses and responsible business practices in operation.'

The Characteristics of CSR in India Before 2014

Jones (2013) tracing the history of CSR development across the world, says that apart from the Western world, the CSR concept was significantly developed only in Japan and India in the early 19th century. The stand of Jamsetji Tata, as per Jones, shaped the corporate culture here towards 'service to the wider community and high ethical standards'. But even more, he focusses on the perspective of Jamnalal Bajaj, which leads to his opinion that it was 'in India that a more radical view of corporate responsibility emerged.' He outlines the following views and actions of Bajaj to substantiate this: Bajaj's financial support to the freedom struggle; his and his family's active participation in Gandhiji's movement; his view that business had the patriotic duty to free India from the British. Even more radical, he opines, is Bajaj's affirmation of Gandhiji's trusteeship model of capitalism and his insistence that it mattered how business made money.

Sagar and Singla (2004) stress that CSR is a tradition in India and that it is deeply linked to spiritual values. They opine that trust is key to relationships in India and CSR is part of this trust relationship between business and society.

Lee (2009) in his white paper too emphasizes that CSR is a tradition in India. He makes the point however, that there are distinct features of CSR in India. Though 80 per cent of corporates are undertaking CSR, there is very limited international recognition of this. A significant reason for this is that as per Indian tradition, firms do not like to talk about their giving.

White (2005) opines that as far as India is concerned, 'the Gandhian model of voluntary commitment to public welfare and social needs is at least as influential in shaping corporate purpose as are doctrines… that equate corporate purpose with privatization.'

Dhanesh (2015) concludes that the drivers for CSR in India are both 'moralistic and economic', with the former being more dominant. The moralistic dimension stems from the foundation of thinking based on dharma and related concepts, and the economic dimension from 'external pressures.' He finds that in India, it is not either/or with regard to these two drivers, but rather, that the two co-exist quite comfortably and in a complex web.

Sundar (2001) traces the development of Indian CSR as follows: The first phase (before 1800), the author opines, was basically philanthropy guided by religious beliefs. The second phase CSR (till 1914) essentially comprised donations to temples and social causes. Between the two Great Wars, the author says, was when Indian businesses grew hugely, and the Independence movement was apace. Businesses were highly influenced by Gandhian thought and supported the nation's efforts for industrial and social development. Their agendas were influenced by the political and social issues of the time. The author terms 1960-80 as third phase CSR. Legal regulation of business and public sector thinking dominated the mind space and CSR was accordingly shaped, though the discussion of responsibilities of businesses as corporate citizens had started. Chahoud (2006) follows this schema and sees 1980 to 2006 as the fourth phase of CSR which was mainly externally oriented, and philanthropy and community-development dominated.

Lee (2006) in his white paper on CSR in India makes the point that internationally, CSR is evaluated on corporate bottom-line, whereas in India, CSR addresses basic social issues like poverty, health and education. He opines that Western CSR typology should not be applied to India. He states that most companies in India start CSR as a response to their dissatisfaction with prevailing social order and their desire to improve it. He analyses that world over, CSR often stems from founder's desire to create alternative models—alternatives to state; alternatives to community; or alternatives to the market. In India, the first two are more prevalent. Putting this in the context of developing countries, he mentions that out of the three conceptual dimensions, e.g., People dimension; Product quality and environmental dimension; and Institutional dimension (e.g., advocacy), India, like other developing countries, tends to focus on the first dimension, seeing CSR as a means of inclusive growth. He further mentions that in India, creating Foundations is a popular route to operationalizing CSR.

Outlining the Legal Requirements

Section 135 of Company Law (2014) lays down the legal mandate of CSR.

Section 135 states:

(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 shall 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.

(*2*) The Board's report under sub-section (*3*) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(*3*) The Corporate Social Responsibility Committee shall,—

(*a*) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

(*b*) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

(*c*) monitor the Corporate Social Responsibility Policy of the company from time to time.

(*4*) The Board of every company referred to in sub-section (*1*) shall,—

(*a*) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and **disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed**; and

(*b*) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

(*5*) The Board of every company referred to in sub-section (*1*), shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy'.

Downloaded from https://www.mca.gov.in/SearchableActs/Section135.htm. On 6.12.16

Progress Since the Law

CII (Confederation of Indian Industry) has been bringing out a CSR Tracker Report every year since 2015. The Annual CSR Tracker 2017 is the most recent and a comprehensive analysis of CSR disclosures of Bombay Stock Exchange (BSE-listed) companies obligated to practice CSR as per the Companies Act, 2013. The A*nnual CSR Tracker 2017* is based on disclosures of 1,522 companies as compared to 1,270 companies in 2016 and 1,181 in 2015. Based on average net profit of last three years (FY14-16 used for arriving at the applicable two per cent budget), Rs 9,680 crore was the required CSR spend for FY17. The companies have collectively spent Rs 8,897 crore or 92 per cent of the two per cent requirement in FY17. This is an increase of about nine per cent in CSR spends in FY17 as compared to FY16.

To quote the report, some of the other major trends as observed in the past three years are given below:

1. 96.78 per cent companies had a CSR Committee in 2015, which increased to 98.66 in 2016 but declined to 96.91 per cent in 2017, possible due to addition of new companies under the mandate of the Act but which were still not prepared for it fully.

2. The presence of independent Director on the CSR Committee was complied well and also showed an increasing trend in the last 3 yrs with 97.2 per cent companies having independent director in the Committee in 2015 to 98.4 per cent in 2016 to 98.7 per cent in 2017.

3. About 94 per cent of the companies reported to have a CSR policy in FY15. It increased to 95.28 per cent in FY16 and further increased to 95.60 per cent in FY17.

4. In terms of unspent CSR as per the prescribed amount for the year, it was 20 per cent unspent in 2015 which has come down to 8 per cent in both 2016 and 2017. A further decline in 2017 would have been better but this trend was not seen.

5. In terms of geographical areas of CSR spend, the three industrialized states of Maharashtra, Gujarat and Tamil Nadu continued to be the top states in all 3 years.

6. In terms of sectoral areas, health and education continued to be the major areas of spend with around 70 per cent companies spending in these two areas in all three years.

7. In terms of spend channels, there has been an increase of about 83 per cent in FY17 as compared to FY16 in the number of companies spending exclusively through corporate foundations as a channel for programme and project implementation. Those using all the three channels (directly by company, corporate Foundation and 3rd party implementing agency) has seen an increase of 36 per cent.'

Source: CII Annual CSR Tracker 2017 – From Commitment to Impact – CSR Performance of Companies in FY 2017

It can be seen from the above that there is an overall climate of compliance, and companies have increased their focus, spend and CSR activities.

This is an overall healthy trend of compliance. It would be interesting to look closely at some of the largest companies, in regard to the specific aspect of CSR governance through CSR Committee, in a framework of theoretical understanding. This may give some insights for further strengthening CSR in India. This is what this paper aims to do.

The Role of the Board and CSR Committee

It is well documented that the Board composition has significant impacts on certain dimensions of decision making—whether gender of Board members, or the balance between independent and non-independent directors, etc.

Keeping the above in view, as well as the critique of Afsharipour et.al (2014), and the fact that it is the CSR Committee of the Board plays a very significant role, it would be interesting to understand the possible impacts the composition of the CSR Committees may have on CSR. Since the CSR Committee is a sub-committee of the Board, studies related to Board composition with regard to CSR may be held to be true of CSR Committee also, in a very focussed way.

Board Composition and CSR

Ibrahim and Angelidis (1994), studied the relationship between the gender of board members and their overall leaning towards social responsiveness. Through an analysis of survey data of close to 400 Board Members, they coulddecisively conclude that women Board Members are much more oriented towards corporate social responsibility—of course, discretionary in the US context. The study finds that male directors are more focussed on financial performance.

As found by O'Neill, Saunders and McCarthy (1989), age and education were related to the CSR orientation of Directors. The stake (financial) of directors, was also related, implying that independent and non-independent directors viewed CSR differently. However there was no relationship with certain other factors like educational or career background with CSR.

Zahra and Stanton (1988) found that if a Board is dominated by independent directors, it is more likely to have a higher social responsiveness.

Through a large cross-national study, Ibrahim, Howard and Angelidis (2003) concluded that that independent directors showed greater concern about corporate responsibility and were not so focussed on economic performance.

Zhang, Zhu and Ding (2013) looked at two important aspects of board composition—presence of independent directors and the presence of women directors— in relationship with CSR performance, of more than 500 of US's largest companies. These companies were across sectors, covering 64 different industries. They concluded that, 'greater presence of outside and women directors is linked to better CSR performance within a firm's industry'. They opined'that deliberate structuring of corporate boards may be an effective approach to enhance a firm's moral legitimacy'.

Exploring how the diversity of board membership and the strength of women on boards affected firms' CSR ratings, Bear, Rahman and Post (2010) concluded that there is statistically significant relation between gender composition and CSR, with more women directors being positively correlated to better CSR ratings.

Frias Aceituno , Rodriguez Ariza and Garcia Sanchez (2012), examined 568 companies from 15 countries over a two year period and concluded that gender diversity of the Board has significant impact on CSR information dissemination. They demonstrated the role played by certain features of the Board of Directors in the degree of information integration presented by leading non financial multinational firms.

The relationshship between board composition and firm's environmental corporate social responsibility (ECSR) was studies by Post, Rahman and Rubow (2011). Their sample study found that alarger proportion of outside board directors was positivelylinked to more favourable ECSR scores. Firms with boards composed of three or more female directors did better on this score too.

The Indian Context

In India, the Board, as per the new Law, is the ultimate decision maker in regard to CSR. In fact, Afsharipour (2014) critiques the law from this angle. She wonders whether the emphasis placed on independent directors to both advise and monitor the CSR function is really adequate and effective. She opines that in fact the new regime places too much 'discretion and power in the hands of board members.'

The Study

While the Board is the ultimate decision maker, in the new regime it is seen that the CSR Committee plays a key and critical role in defining the CSR of a company. While of course the Board must approve and endorse, and carry the final responsibility, the action lies with the CSR Committee to go into the details from developing the policy to going into the details of the budgets and activities.

Given the key role of CSR Committees in the current Indian context, the study attempts to look at the composition of the CSR Committees of the 30 largest Indian companies, and to juxtapose these with what is known about the presence of the effect of independent and women directors on CSR. In the light of Afsaripour's (2014) critique, it further attempts to look at the background of the CSR Committee members as to their exposure/involvement in social development issues, which may help them to advise and monitor CSR function.

The specific questions sought to be answered are:

1. Are the sample companies compliant with regard to minimum number of directors to be present in the CSR Committee? What is the size of these Committees?
2. Do they have an independent director as mandated? Do they have more than the mandated numbers?
3. Do these Committees have women directors serving on them? If so, how many?
4. Do the Directors on the Committee have a background related to social sector concerns and CSR?

The Sample

'The BSE 30, i.e., S&P Bombay Stock Exchange Sensitive Index or S&P BSE SENSEX or SENSEX is free-float market-weighted stock market index. It is designed to measure the performance of the 30 well-established and financially sound companies listed on Bombay Stock Exchange. These 30 companies represent various industrial sector the Indian economy.'

https://www.moneyworks4me.com/

best-index/bse-stocks/top-bse30-companies-list/

This study focusses on the 30 companies making up Sensex at the point of this study, i.e., December 2018. Focussing on large, well-established and sound firms, which are representative of the various industrial sectors in the country, it may be said to representative of large, well governed companies which well represent the Indian corporate world. All of these firms, by definition fall in the purview of Section 135.

The Methodology

The data was collected through examination of the information given on the websites of the concerned companies. The relevant information could be found for 29 out of 30 companies. The details of Board members, their independent status, their background, as well as the composition of the CSR Committee were extracted from the websites.

The information was tabulated and simple statistical operations carried out to reach the conclusions.

Data Analysis

CSR COMMITTEE SIZE

The law requires that the CSR Committee have at least three members. All the firms in the sample (whose data was available), met the minimum requirement. Close to 60 per cent exceeded the minimum set by the law and have more than three members. About 38 per cent had four or five members, and one CSR Committee had as many as eight!

TABLE 1: CSR COMMITTEE SIZE

No. of Members	No. of firms	Percentage of firms against membership size
3	12	41.4
4	5	17.2
5	6	20.7
6	3	10.3
7	2	6.9
8	1	3.4

CSR COMMITTEE: PRESENCE OF INDEPENDENT DIRECTORS

The law, as currently laid down, insists on at least one independent director on the CSR Committee (unless the company did not fall under the requirement of having independent directors, which none of the companies in this sample do).

It is seen that all the firms in the sample complied with the requirement of having independent director. In fact, almost 45 per cent of them have more than the mandated number of independent directors on the CSR Committees.

TABLE 2: NO. OF INDEPENDENT DIRECTORS IN THE SAMPLE FIRMS

No. of Firms	No. of Independent Directors in CSR Committees
13	1
7	2
6	3
1	4
1	5
1	6

In terms of percentage, about 38 per cent firms have over half the CSR Committee made of independent directors.

TABLE 3: PERCENTAGE OF INDEPENDENT DIRECTORS IN THE SAMPLE FIRMS

Percentage of Independent Directors	Percentage of firms
20-30 per cent	17.2
30-40 per cent (including 40)	41.4
40-50 per cent	3.4
50-60 per cent	3.4
60-70 per cent	10.3
70-80 per cent	13.8
80-90 per cent	6.9
90-100 per cent	3.45

CSR COMMITTEE: PRESENCE OF WOMEN DIRECTORS

The CSR law does not state anything about the necessity of having women directors on the CSR Committee. The below table shows that in over 50 per cent of the firms, no woman director was nominated on the CSR Committee.

TABLE 4: NO. OF WOMEN MEMBERS IN CSR COMMITTEES OF THE SAMPLE FIRMS

No. Of Firms	No. of Women Directors
16	0
10	1
3	2

Even where there was a representation of women in CSR Committees, in no case did they make up a majority.

TABLE 5: PERCENTAGE OF WOMEN DIRECTORS IN CSR COMMITTEES

Percentage of Women Directors	Percentage of firms
0-10 per cent	55.2
10-20 per cent(including 20 per cent)	20.7
20-30 per cent	13.8
30-40 per cent	10.3

CSR COMMITTEE EXPERIENCE

On examining the backgrounds and the experience of the CSR Committee members, it was observed that over 82 per cent CSR Committees had at least one member who had some exposure to matters relevant to CSR as defined by the law. Some were involved in NGOs, some in education or healthcare institutions.

Discussionand Conclusions

Studies from around the world have shown that larger presence of independent directors and women on the Boards increases CSR engagement. In India, CSR Committees of Boards are the ones most closely engaged in drawing the contours of CSR. The law requires the CSR Committee to have at least three members. In companies required to have independent directors, it was mandated that it was necessary to have an independent director on the Committee. There was not, nor is, any statement on presence of women directors on the CSR Committee. It has also been pointed out by some that the new Indian law places a lot of responsibility for CSR on CSR Committee members and Boards, and speculating if they are really competent to take this responsibility.

It is in this context that it was decided to study the top 30 Indian companies, to understand how these requirements and concerns played out. This was done through a study of the CSR Committee details on the websites of these companies. The largest companies not only set the governance standards for others, but also may be assumed to be better resourced to be able to comply. This information was accessible for 29 out of the 30 websites accessed, and the same have been studied.

CSR COMMITTEE SIZE: As can be seen from Table 1, all the companies studied met the requirement of having at least three members. The law requires that the CSR Committee have at least three members. All the firms in the sample (whose data was available), met the minimum requirement. Close to 60 per cent exceeded the minimum set by the law and have more than three members. About 38 per cent had four or five members, and one firm had as many as eight!

While no correlation is possible or being attempted between size of CSR Committee and the quality or quantum of CSR, this may indicate that firms see the value of large number of perspectives and wide-based discussions on the matter. However, it is also a matter to investigate whether very large Committees are more effective in governing the function.

INDEPENDENT MEMBERS ON CSR COMMITTEE: Table 2 indicates that all the companies which could be studied had at least one independent director and thus met the requirement of the law. What is interestingis that 16 out of the 29, slightly more than half the sample had more independent directors than mandated, with one company's CSR Committee being made up entirely of independent directors! This augers well for CSR, since studies from across the world have shown that presence of independent members gives a fillip to CSR, and the dominance of independent members in almost 45 per cent of the firms, as indicated in Table 3. The presence of more than mandated number of independent directors on CSR Committee in good majority of firms indicates that the value of their presence is internalized in the firms and not necessarily only a matter of compliance. There has been some speculation that requirement of presence of independent director on CSR Committee may be removed. However as per world-wide studies, this would not be a good move.

WOMEN DIRECTORS ON CSR COMMITTEE: Table 4 shows that less than half the firms studied had women directors in the CSR Committees. This is inspiteof the fact that as per law, all these firms are mandated to have women directors on Board.And when they were present, as can be seen from Table 5, they were never in the majority. Research from around the world indicates that presence of women directors enhances CSR orientation of firms. This has neither been mandated in Indian law, nor is the voluntary inclusion predominant. It would seem, based on research, that government may consider mandating this.

BACKGROUND OF CSR COMMITTEE MEMBERS IN CSR-RELEVANT ACTIVITIES: On examining the backgrounds and the experience of the CSR Committee members, it was observed that about 82 per cent of them had some exposure to matters relevant to CSR as defined by the law. Some were involved in NGOs, some in education or healthcare institutions. This would definitely indicate a connect with social development issues at some level, even though it may not be grassroot level engagement or exposure. Several CSR Committee members head the CSR initiatives/ foundations of the concerned corporate itself. This could possibly make for a better quality of discussion and decision making, as the realities of the CSR work of the corporate could be represented and debated in detail, as the Head of CSR would in this scenario is part of the decision making. While this is difficult to mandate (since Board membership is usually decided based on competencies other than exposure to societal issues), it would desirable for Boards and CSR Committees to have expert inputson community and environmental issues.

Limitations

The sample studied is small—only the 30 top firms. Of these, the relevant information was not accessible in the website of one company.

The design of the study was to examine the largest firms. While some research studies indicate that smaller firms tend to follow larger ones in many governance practices, and CSR law applies to medium and large firms, still it cannot be said that behaviour of firms across the size spectrum will follow this pattern.

The literature quoted in the study is all relevant to CSR in a voluntary context. How this is transferrable to a mandatory CSR situation like India may be debateable. Moreover, the available literature is in the context of overall Board membership. This study is with regard to the composition of the CSR Committee, with the assumption that since they are the ones in the new Indian regime who focus on CSR, the two are equivalent. The validity of this assumption may be argued.

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