A STUDY ON VOLUNTARY CORPORATE SOCIAL RESPONSIBILITY IN SMALL COMPANIES UNDER CORPORATE GOVERNANCE

C. Jeyalakshmi, Chettinad School of Law, Chettinad Academy of Research and Education, Kelambakkam, Chennai.

ABSTRACT

This paper examines the relationship between Corporate Social Responsibility (CSR) and Corporate Governance in small businesses. Corporate Social Responsibility (CSR) refers to a company's responsibility towards society and the environment. It encourages companies to consider their social and environmental responsibilities along with their business objectives. Under [1]Section 135 of the Companies Act, 2013, CSR obligations apply to companies that meet the prescribed net worth, turnover or net profit criteria subject to the applicable provisions. Companies that are not subject to mandatory CSR requirements may undertake voluntary social and charitable activities in accordance with the applicable legal provisions. Section 135 governs mandatory CSR obligations, whereas Section 181 deals with contributions to bona fide charitable and other funds, subject to the prescribed legal requirements. Corporate governance refers to the system of rules, practices and processes through which a company is directed and controlled. It promotes transparency, accountability, fairness and responsible decision-making in the interests of the company and its stakeholders. This paper examines the legal framework governing CSR and corporate governance in small companies, with particular reference to the Companies Act, 2013 and the applicable rules. It also analyses the role of the Board of Directors, transparency and accountability in voluntary CSR activities and identifies challenges such as limited financial resources, lack of awareness, inadequate planning and difficulties in monitoring and documentation

Keywords: Corporate Social Responsibility, Small Company, Stakeholders, Corporate Governance.

[1] Companies Act, No. 18 of 2013, § 135 (India).

INTRODUCTION:

Corporate Governance means the system of rules, procedures and processes by which a company is run and controlled. Corporate Governance enables the company to be transparent, accountable and responsible in its dealings with all the stakeholders. Corporate Social Responsibility (CSR) is about the responsibilities that the company owes to the society and environment. The purpose of this paper is to study CSR of small firms with regard to corporate governance and will involve the discussion of [2]sections 2(85), 135 and 166 of the Companies Act, 2013, Schedule VII and the Companies (Corporate Social Responsibility Policy) Rules, 2014. Corporate Social Responsibility can be said to be concerned with the responsibilities for the effect of activities of organizations towards all the stakeholders including employees, customers, community and environment. It includes the activities for promoting quality education through the setting up of schools, scholarships and village adoption for improving educational infrastructure. These criteria apply under Section 135 of the Companies Act 2013 to companies with turnover 1000 crore or above and net worth 500 crores or above. If companies have either of these two eligibility criteria then these companies have to spend at least 2 percent of their net profit on performing CSR activities. A small company under Section [3]2(85) of the Companies Act, 2013 means a company other than a public company which fulfills the criteria of paid-up capital and turnover, subject to some exceptions. Importance of the Relationship Between Corporate Governance & CSR is that good governance will help companies implement and monitor CSR activities in a transparent manner. A small company under Section 2(85) of the Companies Act, 2013 does not become a part of mandatory CSR requirements of Section 135 merely because it is a small company. However, even small organizations may conduct voluntary CSR activities depending on their ability and objectives of conducting business. There may be numerous difficulties such as resource deficiency, lack of awareness, poor planning and monitoring, and documentation that may pose an obstacle to voluntary CSR activities. There are many advantages of conducting voluntary CSR activities by small firms such as fostering relationships with important stakeholders, attracting and retaining employees, creating a good reputation, creating new business opportunities, making the organization stand out among competitors, and improving customer loyalty. Poor planning and monitoring of CSR activities may bring financial problems to small firms.

[2] sections 2(85), 135 and 166 of the Companies Act, 2013, Schedule VII and the Companies
[3] Section 2(85) of the Companies Act, 2013

In that case, corporate governance may help small organizations to conduct CSR activities effectively and responsibly.

RESEARCH OBJECTIVES:

- To study the legal framework of CSR in small companies under Companies Act, 2013
- To protect the environment and support sustainable growth
- To encourage rural development and employment generation

RESEARCH QUESTION:

- Whether the Companies Act, 2013 regulate CSR obligations in small companies?
- Whether CSR is mandatory for small companies under the Companies Act 2013?
- Whether society actually get benefits from CSR initiatives?

RESEARCH HYPOTHESIS:

The current corporate governance structure can support voluntary CSR activities for small companies, but the lack of legal certainty and limited financial resources can affect the implementation of such activities

COMPANIES ACT 2013

The Companies Act, 2013 contains provisions related to the regulations governing companies operating in India. This Act provides details on the duties of directors and the management of companies. The primary objective of companies is earning profit, but activities of companies can have societal and environmental impact as well. Hence, there is a responsibility of companies to improve lives of people and preserve environment. Corporate Social Responsibility is one of those means by which companies can participate in such activities. Section 135 of Companies Act, 2013 addresses CSR. This section applies to those companies which satisfy the financial thresholds of the Act. Schedule VII includes activities in which companies may indulge themselves for CSR purposes, such as education, health care, poverty alleviation, environmental sustainability, rural development and gender equality. The

Companies (Corporate Social Responsibility Policy) Rules, 2014 provide details about the planning and execution of CSR activities. The CSR spending is not mandatory for all companies. As per[4] Section 135(1) of the Companies Act, 2013, a company shall be deemed to fall within the CSR obligations if in the immediately preceding financial year, the company satisfies one of the following criteria: net worth of ₹500 crore or above, turnover This is significant when analysing small companies. Just because the company is labelled as a small company does not mean that CSR will be applicable to the said company. It must be evaluated based on the financial status of the company. In case the company fulfils any of the criteria under Section 135(1), then the said company would have to comply with the said CSR provisions. Section 135(5) provides the quantum of money that a company that is eligible to comply with CSR should spend on CSR. The company has to spend at least 2% of its average net profits in the previous three consecutive financial years as per Section 198. The company must also make sure that the money is being spent on permitted CSR activities.

ROLE OF THE BOARD OF DIRECTORS IN CORPORATE GOVERNANCCE:

The Board of Directors has a significant role in the functioning and decision-making processes of any business entity. Directors' ought to give equal importance to their profits and the welfare of the employees, the shareholders and society at large. Moreover, they must see that the company complies with all legal and regulatory requirements and acts responsibly. According to Section 135 of the Companies Act, 2013, the role of the Board is to monitor the CSR initiatives undertaken by the company. The Board of Directors is expected to approve the CSR policy and see to it that the money required is utilized for eligible purposes. For instance, if the company gives financial assistance for the education of poor children, then the Board must ensure that the money is utilized for this purpose. The proper documentation needs to be maintained, and the proper disclosures regarding the same need to be made in the report of the company. In case the requisite expenditure does not happen, the cause for the same needs to be explained in the Board's Report and the relevant laws with respect to unspent CSR expenditure need to be complied with. According to[5] Section 166(2), directors need to act in good faith in the best interest of the company, its members, employees, the community and the environment. According to Section 135(9), if the amount of expenditure which needs to be incurred on CSR is less than ₹50 lakhs, there is no requirement of forming a CSR committee, and the Board of

[4] Section 135(1)135(5) of the Companies Act, 2013
[5] Section 166(2) of the companies act 2013

Directors performs all functions.

CSR POLICY AND IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES:

CSR Policy and Implementation of CSR Activities

A Policy for CSR gives an organization idea about how it can be helpful for the society and make use of its resources for the welfare of the society. Through a policy for CSR, the organization is guided in selecting appropriate projects, setting objectives, and evaluating the outcomes. The Companies Act, 2013 (Section 135), the Companies (Corporate Social Responsibility Policy) Rules, 2014, and Schedule VII in India regulate the CSR projects.

Voluntary Contributions under Section 181

[6]Section 181 enables the Board of Directors to make contributions to the truly charitable or other funds. But if the aggregate of the contributions made in a financial year exceeds 5 percent of the average net profits of the company for the last three financial years, prior approval by way of resolution in a general meeting becomes essential. This section would apply to those companies that want to contribute to charitable activities on a voluntary basis.

Amendments to the CSR Framework

Section 135 has been amended by the Companies (Amendment) Act, 2019, and the amendments include provisions regarding the management of unspent CSR amount. These amendments have become applicable from 22 January 2021. Besides, the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 have made certain amendments in the CSR policy. Additionally, the Companies (Amendment) Act, 2020 has made some amendments in respect of Section 135(7) relating to penalty and Section 135(9) in relation to the duties of the Board. According to[7] Section 135(9), in case the amount to be spent on CSR is not more than ₹50 lakh, there is no need to constitute any CSR committee.

[6] Section 181 Companies (Amendment) Act
[7] Section 135(9) of the companies act 2013

MEANING AND CHARACTERISTICS OF SMALL COMPANY:

A small company is an organization that conducts its operations on a comparatively small scale and possesses less capital. Small companies help the economy by providing employment opportunities and fostering entrepreneurship. According to Section 2(85) of the Companies Act, 2013, a small company shall mean a company which is not a public company and which fulfils the conditions relating to paid-up share capital and turnover prescribed under the act. As per Companies (Specification of Definition Details) Amendment Rules, 2025, effective from 1st December 2025, the paid-up share capital should not exceed ₹10 crore and the turnover for the immediately preceding financial year should not exceed ₹100 crore. There are certain companies that do not fall under the ambit of this definition irrespective of whether they fulfil these financial limits or not the public companies have been excluded under Section 2(85). The other thing that needs to be taken into consideration is the fact that distinction should be made between the definition of the small company and the requirements of CSR. This is because it is section 2(85) that makes out whether a company is small or not and section 135 provides different figures for CSR.

FEATURES OF A SMALL COMPANY:

1. Limited financial resources: small firms have limited financial capacity and should be cautious about handling finances.

2. Limited business operations: small firms have limited operations and deal in a particular good, service or market niche.

3. Fewer employees: small firms have limited employees that carry out different business functions.

4. Organizational simplicity: In small businesses, decisions are made by either the owner himself or a small managerial team.

5. Limited obligations: Eligible small firms have relaxed obligations in terms of company laws and make it easier for them to comply with these laws through fewer costs and efforts.

6. Creation of employment: small firms create employment opportunities for people through their business operations.

7. Insufficient resources for CSR: Due to insufficient resource, some smaller firms may have difficulty undertaking major CSR initiatives. Nevertheless, the smaller firms may engage in different programs related to education, healthcare, and environment voluntarily.

8. Focused on growth and sustainability: small firms are focused on growth and sustainability.

PRINCIPLES OF CORPORATE GOVERNANCE:

It is defined as the way through which rules and practices are used to manage and control an organization. It helps the Board of Directors and management to make decisions taking into account the interests of all parties including shareholders, employees, consumers, suppliers, and society.

Transparency: Companies must maintain proper documentation and report their financial situation and activities in a proper manner. It has been seen that Section 135 of the Companies Act, 2013 also provides for the requirement of CSR disclosures.

Duty to Accountability: The Board of Directors and management must be accountable for their decision making and actions. The section 166 of Companies Act, 2013 provides duties of directors which include good faith and in the interests of the company and its stakeholders.

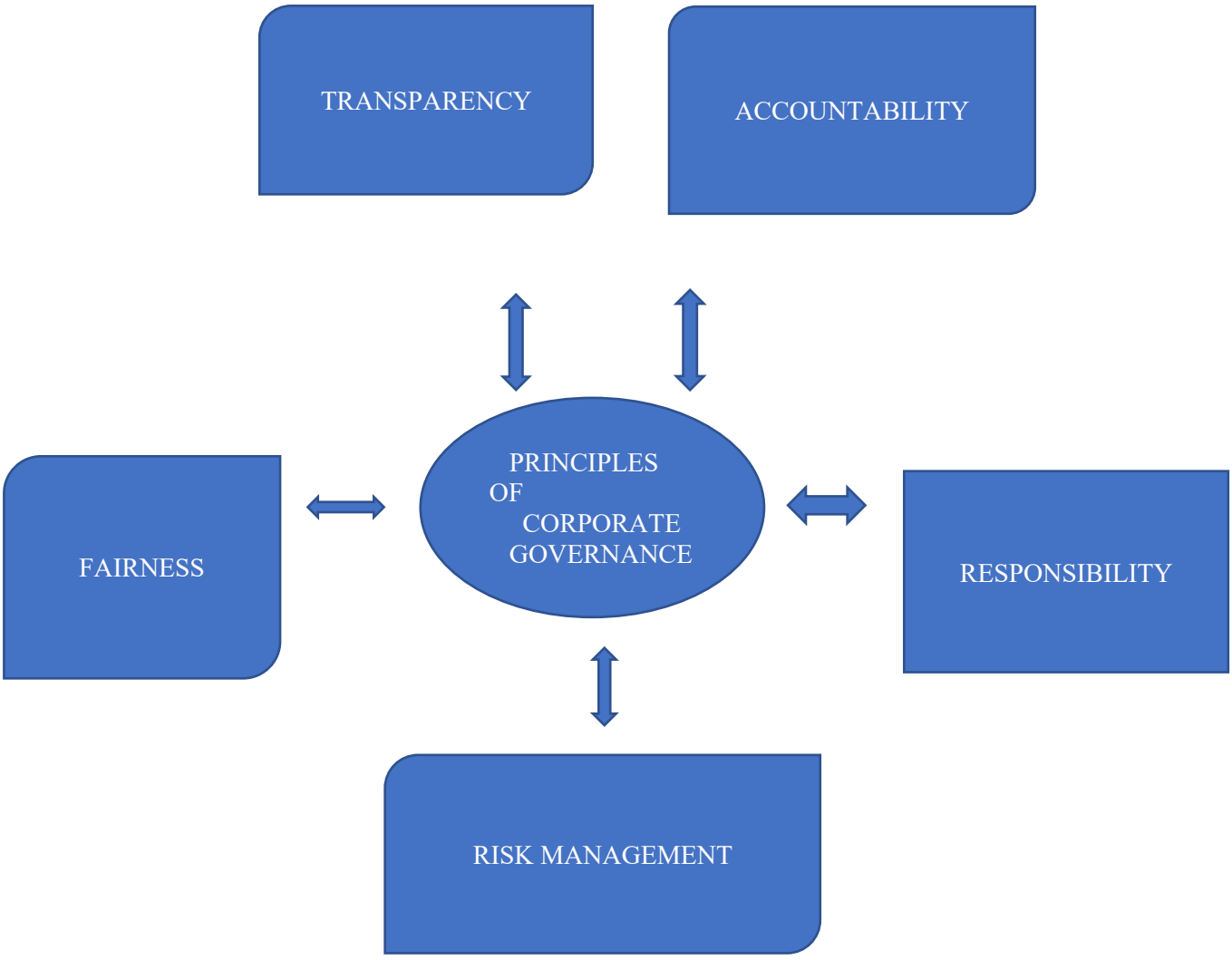
Duty to Fairness: Companies need to behave fairly towards their stakeholders including shareholders and respect their interests. The concept of fairness also requires the treatment of stakeholders in an unbiased way and consideration of employees, customers and suppliers.

Duty to Responsibility: The duty of responsibility implies that companies must follow all the applicable laws and consider their corporate social responsibility. The section 135 and Schedule VII provide the statutory requirements for CSR activities by the companies within the scope of those sections.

Duty to Independence and Ethical Conduct: The business decision making must be unbiased and free from any undue influence.

Interests of Stakeholders: Businesses must keep in mind the effect of the decisions on their workers, consumers, suppliers, and the local community. In particular, Section 166(2) mandates that directors must act in good faith and in consideration of the interests of the

community and the environment in addition to the interests of the corporation, its shareholders, and employees. The aforementioned principles assist in improving corporate governance by ensuring responsible decision-making and transparency. Small businesses, which follow these principles, will be able to improve the confidence of their stakeholders.



STRUCTURE OF CORPORATE GOVERNANCE:

Corporations Governance Structure refers to the structure within which a company is managed and the key decision makers in the firm along with their responsibilities. The proper corporate governance structure will ensure that the firm utilizes its resources in the most efficient manner possible, prevent mismanagement of finances and improve the relationship among all the stakeholders. Following are the key elements of corporate governance:

1. Shareholders - These are the stock holders of the company who invest in it and have power

in some of the critical decision making of the firm. They have power to appoint directors as per the relevant laws.

2. Board of Directors - This acts as the advisory board which guides the firm in running its operations in a right manner. It makes decisions on vital issues, monitors operations of the firm and the compliance with regulations.

3. Company Officers & Management - These are the officers who run the day-to-day operations of the firm.

4. Employees - These are the people who assist the organization in accomplishing its goals through performing assigned responsibilities.

5. Stakeholders - The customers, suppliers, creditors, and community people are also related to the organization. Their interests need to be kept in mind during business activities

DIFFERENCE BETWEEN CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

ASPECT	**Corporate social responsibility**	**Corporate governance**
MEANING	Company's social and environmental responsibilities towards society	System and process to manage and control a company efficiently and ethically
PURPOSE	Welfare of society and stakeholders, social development	Transparency, accountability, fairness, ethical management
LAW APPLICABLE	Section 135 of companies Act ,2013	Companies Act, SEBI guidelines, Clause 49
ACTIVITIES	CSR, education, health, environment	Board of Directors roles, compliance, Risk Management, policies
NATURE	Mandatory for profit, companies	Mandatory for all companies and large firms
OUTCOME	Social value, good will, reputation	Accountability, trust, efficient management

CHALLENGES FACED BY SMALL COMPANIES IN IMPLEMENTING CORPORATE SOCIAL RESPONSIBILITY

The concept of Corporate Social Responsibility refers to not only making a profit for themselves but also making an effort to contribute to society through providing education, health care, empowering women, protecting environment and etc. Thus, what are the challenges that small companies face in implementing Corporate Social Responsibility (financial constraints, lack of awareness, lack of knowledge, difficulty in planning and implementation, lack of monitoring, transparency issues)

FINANCIAL CONSTRAINTS:

The thing is that small companies usually do not have much financial resources and thus they should use their funds to pay salaries, buy raw materials and rent premises. As a consequence, they cannot afford to allocate additional funds for carrying out social welfare actions.

LACK OF AWARENESS

Some small companies may lack awareness of the concept of Corporate Social Responsibility and its benefits for them and the community they operate in. They might be interested only in earning profits and dealing with the routine business matters.

INSUFFICIENT KNOWLEDGE

Small enterprises might lack personnel who have expertise in CSR activities' planning and implementation. Small organizations might find it difficult to determine the requirements of society, plan activities and utilize their resources accordingly. It might become hard for small companies to implement their CSR activities properly.

PLANNING AND IMPLEMENTATION CHALLENGES

Planning CSR activities demands sufficient time, money and coordination. For instance, if a small enterprise plans to provide study material to students of school, then they need to decide the number of students to benefit from the program and the amount of money required for its implementation. Lack of adequate staffing and resources would make it difficult for small companies to carry out such activities.

LACK OF MONITORING

Implementation of a CSR activity is not enough but the company also has to ensure that it has helped the intended beneficiaries. Small companies lack time and staffing to monitor their activities and keep records.

TRANSPARENCY ISSUES:

Transparency is one of the key issues that come up in the CSR projects where there is not much capacity to monitor the projects. Small companies may find it hard to see whether the funds that are being spent are actually serving the purpose and whether the activities that have been planned will actually benefit the society. This can lower the impact of the CSR projects.

EFFECTIVENESS OF THE EXISTING LEGAL FRAMEWORK

The Companies Act of 2013 lays down the legal framework for Corporate Social Responsibility (CSR) in India. Section 135 outlines the companies which have to adhere to the CSR norms, while the CSR Rules give guidelines on how CSR activities should be carried out. However, small companies may face constraints due to insufficient funding, lack of knowledge and inadequate number of skilled workers. As small companies are not mandated by law to adhere to Section 135 just because they are small in nature, their CSR initiatives would depend on the resources they have and their intention to contribute to society.

NEED FOR IMPROVING CSR PRACTICES IN SMALL COMPANIES

A small business can add value to society in terms of contributing to the betterment of education, healthcare, job creation, and environmental protection. But due to limited financial means and poor planning, small businesses might fail in performing these activities effectively. For making their corporate social responsibility programs more effective, small businesses need to make realistic plans, use their money effectively, and keep records of their activities. Furthermore, they need to understand the requirements of the local community and measure the effectiveness of their activities. Corporate governance can be helpful for small firms in ensuring transparency and building public trust.

FINDINGS:

From the study, it is evident that the CSR regulations in India are regulated according to the

requirements of the Companies Act, 2013. Some of the main findings include the following:

1. Applicability of Section 135: The application of CSR requirements includes companies meeting at least one of the prescribed financial thresholds set by Section 135(1), which include net worth of ₹500 crore or above, turnover of ₹1,000 crore or above, and net profit of ₹5 crore or above in the previous financial year. Being categorized as a small company through Section 2(85) alone cannot determine the applicability of CSR provisions.

2. Importance of corporate governance: Sections 135 and 166(2) stress the importance of responsible management and proper supervision. The directors have to take into account the interests of the community and the environment while doing their work.

3. Mandatory and voluntary acts: The companies included in Section 135 have to adhere to the CSR requirements stipulated therein. Other companies are free to undertake charitable activities as per Section 181.

4. Importance of Legal Awareness: The Ministry of Corporate Affairs came up with CSR FAQs in 2021 to explain significant provisions. It emphasizes the importance of legal awareness in understanding CSR responsibilities and avoiding complications.

RECOMMENDATIONS:

CSR is important in the process of social development however, small businesses can experience certain difficulties due to low financing and other responsibilities. It is possible to overcome those difficulties through provision of legal guidance and encouragement for companies to implement pragmatic approach to CSR.

1. CSR Guidelines for Small Companies

The Ministry of Corporate Affairs is to create simplified guidelines for small companies in order to explain their CSR obligations. Clear guidelines and easy to follow check-lists would help to understand legal provisions without experiencing any difficulties, since small companies do not always have separate departments.

2. Guidance on section 135 applicability:

Guidance from the authorities should explain clearly the circumstances under which section

135 of the companies Act, 2013 will apply to a company .it should distinguish between small company under section 2(85) and applicability of CSR under section 135. detailed guidance and illustrations would be helpful for companies to determine if they satisfy the financial thresholds under section 135 and if they are obligated to implement CSR activities.

4. Clear Instructions Regarding Section 181

Clear instructions regarding Section 181 should also be issued by the Ministry of Corporate Affairs. There should be clarity regarding when Board approval will be needed for certain contributions and when prior approval in a general meeting will be needed. Section 181 says that if the aggregate amount of contributions in any financial year exceeds 5% of the average net profits of the immediately preceding three financial years, prior approval of the company in a general meeting will be needed.

5. Good Corporate Governance Practices

The small firms should adopt some basic corporate governance practices like transparency, accountability, and good decision-making. While making decisions, directors of the firm should not only keep in mind the interest of the firm but also of the community and environment as per Section 166(2) of the Companies Act, 2013. Such practices may help in proper utilization of the firm's resources.

6. Proper Documentation and Reporting

Good record keeping for social welfare efforts undertaken by firms including the amount spent on social welfare programs should be maintained. Simple format for reporting would ease the documentation process for small firms having limited manpower.

7. Identifying the Requirements of Communities

It is imperative that before engaging in any social welfare activities, organizations need to know what the real requirements of the community members are. In case there are no educational institutions in an area where a company operates, it may take up activities like providing books or helping the communities to develop skills.

8. Evaluation of CSR Activities

Organizations must conduct regular reviews of the social welfare activities that they undertake to see if the activities have produced any positive impact. It will enable them to determine if there are any problems in these activities and take decisions accordingly in the future.

9. Promotion of Participation by Employees

Firms need to involve employees actively in community development initiatives depending on their skills and interests. Employees can engage themselves in activities such as planting trees, educational initiatives, cleaning campaigns and environmental campaigns. Engagement of employees can improve teamwork as well as social responsibility among employees.

10. Environmental Responsibility and Good Relations with the Community

Smaller firms can make use of such initiatives as reducing wastage of resources, efficient use of electricity and proper use of resources. It is important for smaller firms to ensure that they have an open line of communication regarding their social welfare initiatives and their outcomes**.**

CRITICAL ANALYSIS

The Companies Act, 2013 states how companies have to adhere to their social responsibilities. Some problems may be faced by smaller companies regarding the understanding and adherence to the mentioned provisions. Firstly, there is a distinction between Sections 135 and 181. Section 135 states that CSR activities are mandatory for companies within the prescribed financial limits. Section 181, however, permits the Board to make donations to charity or other funds provided certain terms are adhered to. Hence, donating to charity is not a substitute for CSR activities required from a company which falls under the purview of Section 135.Another problem relates to the distinction between the meaning of a small company as stated in Section 2(85) and the CSR requirements in Section 135(1). These rules concern various issues. A company cannot assume that it is exempted from CSR duties just because it is considered a small company. Some clarification on the issue will enable the business people to know what financial criteria mean, and whether there are any CSR provisions for them. Small companies may also find it hard to handle the paperwork and other regulations. They do not have adequate people and finances to seek regular legal advice. Reporting and record keeping can increase

the burden of their work. Some straightforward guidelines and methods will help them perform these activities without breaking the law. The position of the directors plays an important role in this respect as well. According to Section 166(2), the directors should perform their duties in good faith and have regard for the interests of the community and the environment. Section 181 concerns contributions to charities and other funds. All these rules promote responsibility of companies, but the latter should adhere to Section 135 as well.

CONCLUSION

In conclusion, this research has demonstrated that there is a need for separate treatment of the concepts of CSR and small companies in accordance with the Companies Act, 2013. The fact that a company can be considered a small company according to the Act does not necessarily mean that the requirements concerning CSR will not apply to such a company. The company must look at the financial thresholds specified in Section 135(1) to find out whether it is required by the law to perform any CSR activities. In addition, this research has shown the differences between the mandatory CSR under Section 135 and donations under Section 181. There are some specific requirements related to these two concepts and companies cannot confuse them. Moreover, the interests of the community and environment are to be considered by the directors of the companies under Section 166(2). In conclusion, there is a need for the small companies to have better knowledge about the legal provisions on CSR. It will contribute to better understanding of the concept and promote CSR among companies.

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