

Corporate Social Responsibility in India: An Over View

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Introduction

- ▶ The idea of CSR first came up in 1953 when it became an academic topic in Howard R Bowen's "Social Responsibilities of the Business" book. **World Business Council for Sustainable Development** defined CSR as "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."

- ▶ The Government of India in 1976 had inserted the term “socialist” in the preamble of country's constitution thereby committing itself to ensuring a development process. **But, post liberalization (1991)** can be seen in the context of the larger role being consciously carved for the private sector in an economy which was earlier largely controlled and managed by the State. Now, increasing **acceptance of CSR by large number of corporate.**

Definition of Corporate Social Responsibility

"CSR is about how companies manage the business processes to produce an overall positive impact on society."



Brief History of CSR in India

- **Atharvana Veda** says that **“one should procure wealth with one hundred hands and distribute it with one thousand hands”**.
- The **Yajurveda** says that **“enjoy riches with detachment, do not cling to them because the riches belong to the public, they are not yours alone”**.
- In the **Rig Veda**, there is also a mention of the **“need for the wealthy to plant trees and build tanks for the community as it would bring them glory in life and beyond. Let us walk together, Let us talk together, Let our heart vibrate together”**.

- **Kautilya** also “**emphasized ethical practices and principles while conducting business**”.
- **CSR & Islam:** Islam had a law called Zakaat which **ruled that a portion of one’s earning must be shared with the poor in the form of donation.**
- **CSR & Sikhism:** Similar to Islam’s Zakaat, Sikhs followed what they called **Daashaant.**



What is CSR (macro-level)

Value
creation

Strategic alignment towards CSR, community involvement, stakeholder dialogue, multi-sector partnerships, social investment, institution building, CSR-oriented advocacy.

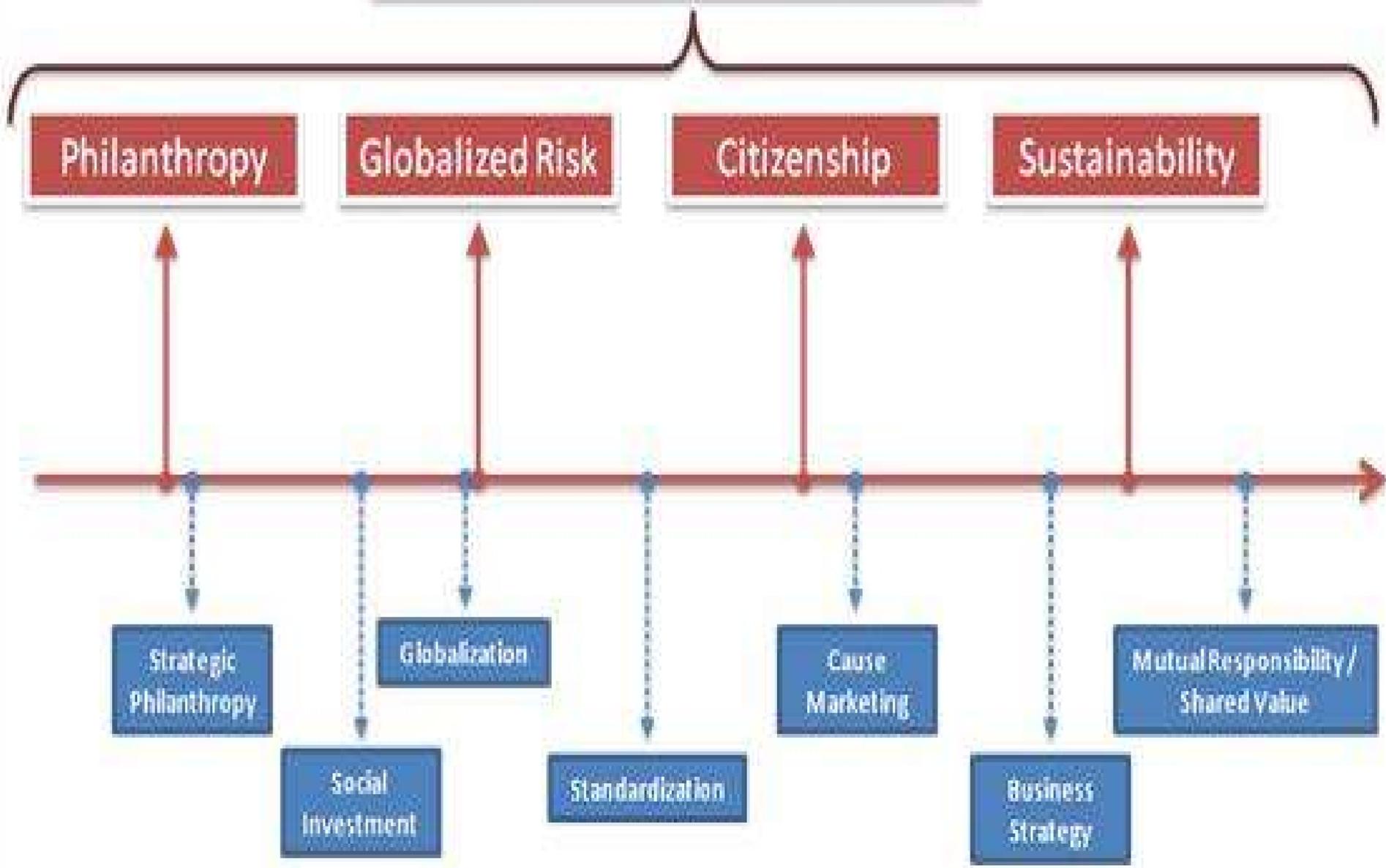
Harm
minimisation

Social and environmental auditing and reporting, voluntary standards, codes of conduct, multi-sector partnerships, stakeholder dialogue, eco-efficiency measures.

Compliance

Legislation, inspection, criminal and civil prosecution, foreign direct liability (for overseas subsidiaries), industry standards.

CSR Evolution



Phases of CSR in India

1st Phase (1850 – 1914)	2ndPhase (1914– 1960)	3rd Phase (1960 – 1990)	4th Phase (1990 onwards)
<p>Mainly Philanthropy and Charity during Industrialization. Organization solely responsible to Proprietor and Manager.</p>	<p>During the Independence struggle CSR used as a tool for Social Development. Organization is for proprietor, managers and employees</p>	<p>CSR under the aegis Of mixed economy. Organizations Responsibility towards proprietor, managers and other Environmental Factors.</p>	<p>CSR in a globalized world in a puzzled state. Organizations Responsibility towards Proprietor, Managers, Environment and Public in general.</p>

Significance of CSR

- **CSR helps in strengthening the relationship between companies and stakeholders.**
- **It enables continuous improvement and encourages innovations.**
- **Attracts the best industry talent as a socially responsible company.**
- **Provides additional motivation to employees.**
- **Mitigates risk as a result of its effective corporate governance framework.**
- **Enhances ability to manage stakeholder expectations.**

Drivers of CSR

- **Care for all Stakeholders**
- **Ethical functioning**
- **Respect for Workers' Rights and Welfare**
- **Respect for Human Rights**
- **Respect for Environment**
- **Activities for Social and Inclusive Development**



Benefits of CSR to Key Stakeholders



Society and Environment

Customers

Shareholders

Business Partners

Local Communities

Employees

CSR Communication

Organizational CSR

Individual CSR

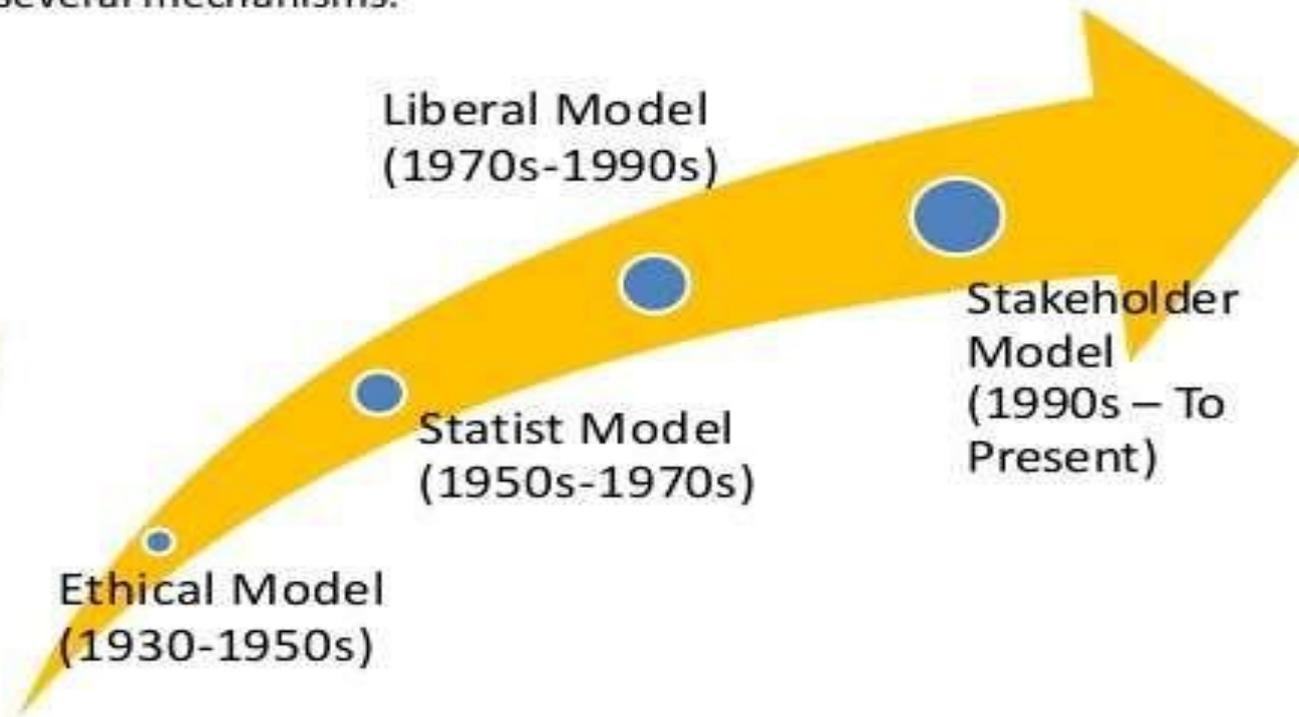
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CSR – Hierarchy Model

Stakeholders Model:

The evolution of CSR in India has followed a chronological order of four thinking approaches, though the stakeholder model came into existence during 1990s as a consequence of realisation that with growing economic profits, businesses also have certain societal roles to fulfil. The model expects companies to perform according to “triple bottom line” approach. The businesses are also focusing on accountability and transparency through several mechanisms.



Four models of Corporate Responsibility (Arora & Puranik 2004)

Model	Focus	Champions
Ethical	Voluntary commitment by companies to public welfare	M.K Gandhi
Statist	Statist State ownership and legal requirements determine	Jawahar Lal Nehru
Liberal	Corporate responsibilities limited to private owners (shareholders)	Milton Friedman
Stakeholder	Companies respond to the needs of stakeholders, customers, employees, communities, etc.	R. Edward Freeman

Key Issues in CSR

- **Labour Rights: Child labour, Forced labour, Right to organize, Safety and health.**
- **Environmental conditions: Water & Air emissions, Climate Change, Human Rights, Cooperation with Paramilitary Forces, Complicity in Extra-Judicial Killings.**
- **Poverty Alleviation: Job Creation, Public Revenues, Skills and technology.**

▶ **CSR Activities in India**

- **Education, Gender equity and Women's empowerment, Combating HIV/AIDS, Malaria and other diseases, Eradication of extreme poverty, Contribution to the Prime Minister's National Relief Fund and other central funds, Social business projects, Reduction in child mortality, Improving maternal health, Environmental sustainability and Employment, Enhancing vocational skills.**

Specific Features of Companies Act - 2013

- **These rules came in to force from 1st April, 2014.**
- **The government of India made it mandatory for companies to undertake CSR activities under the Companies Act, 2013.**
- **The CSR activities will have to be within India, and the new rules will also apply to foreign companies registered here.**
- **Funds given to political parties and the money spent for the benefit of the company's own employees (and their families) will not count as CSR.**

- **The concept of CSR is defined in clause 135 of the Act, and it is applicable to companies which have:**
- **An annual turnover of Rs 1,000 crore or more, or a**
- **Net worth of Rs 500 crore or more, or a**
- **Net profit of Rs 5 crore or more.**
- **An average of the previous three financial years PAT will be considered for calculating the 2% for CSR.**
- **CSR policy of a company should ensure that surplus arising out of a CSR activity will not become part of business profits.**

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- **CSR policy should specify that the CSR corpus will include the following:**
 - a) 2% of average net profit;**
 - b) any income arising thereof;**
 - c) Surplus arising out of CSR activities.**
 - **The companies can carry out these activities by collaborating either with a NGO, or through their own trusts and foundations or by pooling their resources with another company.**
 - **The law also entails setting up of a CSR committee which shall be responsible for decisions on CSR expenditure and type of activities to be undertaken. Prior to each annual meeting, the board must submit a report that includes details about the CSR initiatives undertaken during the previous financial year.**

- **This committee shall consist of three or more directors, with at least one independent director whose presence will ensure a certain amount of democracy and diversity in the decision-making process.**
- **All companies falling under the provision of Section 135 (1) of the Act should report, in the prescribed format, the details of their CSR initiatives in the director's report and on the company's website.**
- **In case a company has failed to spend 2% of the average net profit, the reason for doing so should be mentioned in the annual board report. However, the act does not provide any guidance on what constitutes acceptable reasons for which a company may avoid spending 2 % on CSR.**

CSR Spending in Public Sector Enterprises

PAT (Profit After Tax) of Central Public Sector Enterprises in the Previous year	Range of the Budgetary allocation for CSR and Sustainability activities (as %of PAT in previous year)
(i) Less than Rs. 100 crore	3% - 5%
(ii) Rs. 100 crore to Rs. 500 crore	2% - 3%
(iii) Rs. 500 crore and above	1% - 2%

Challenges of CSR

- ❑ Lack of Awareness of General Public in CSR Activities**
- ❑ Need to Build Local Capacities**
- ❑ Issues of Transparency**
- ❑ Non-Availability Of Well Organized Non-Governmental Organizations**
- ❑ Visibility Factor**
- ❑ Narrow Perception towards CSR Initiatives**
- ❑ Non-Availability of Clear CSR Guidelines**
- ❑ Lack of Consensus**

Key Concerns of the Companies Act, 2013

- **The Act does not prescribe any penal provision if a company fails to spend the stated amount on CSR activities. The Board will need to explain reasons for non-compliance in its report.**
- **The threshold limit of Rs.5 crores net profit for applicability of CSR requirements seems, in comparative terms, to be on the lower side vis-à-vis net worth and turnover thresholds of Rs.500 crores and Rs.1,000crores respectively. This may result in companies getting covered under CSR even when they do not meet net worth/turnover criteria.**

- **It is not absolutely clear whether a company will need to create a provision in its financial statements for the unspent amount if it fails to spend 2% on CSR activities in a particular year.**

- **After some initial confusion over the tax applicable, it is now clear that CSR expenditure will be taxable, although for a few activities tax exemption will be allowed from the financial year 2014-15. However, there is no clarity yet on these activities.**

Suggestions:

- Under the Companies Act – 2013, a company can only be penalized for not filing of details regarding CSR, but no penal action for no-performance. Hence, there should be a clarification for penal action.
- Creating awareness among the general public in CSR activities and improving communication is very important between the companies involved in CSR and the general public at the grassroots.
- There is a need for well organized non-governmental organizations to ensure successful implementation of CSR activities.

- ↑ There is a need for capacity building of the local non-governmental organizations as there is serious dearth of trained and efficient organizations that can effectively contribute to the ongoing CSR activities initiated by companies.
- ↑ There is a need for improving transparency on the part of the small companies as they do not make adequate efforts to disclose information on their programmes, audit issues, impact assessment and utilization of funds, which is a key to the success of any CSR initiative.

Suggestions

- **The role of media in highlighting good cases of successful CSR initiatives is welcomed as it spreads good stories and sensitizes the population about various ongoing CSR.**
- **Broad perception towards CSR initiatives is essential, as non-governmental organizations and Government agencies usually possess a narrow outlook towards the CSR initiatives of companies, often defining CSR initiatives more as donor-driven.**
- **Clear cut statutory guidelines or policy directives are required to give a definitive direction to CSR initiatives of the companies.**

- ▶ **Consensus amongst implementing agencies regarding CSR projects is the need of the hour, because lack of consensus often results in duplication of activities by corporate houses in areas of their intervention.**
- ▶ **As the act does not provide any guidance on what constitutes acceptable reasons for which a company may avoid spending 2 % on CSR, hence it should be clarified.**
- ▶ **The companies in their CSR activities should give more preference for education, environmental issues, poverty elevation programmes, employment generation, roads and power etc.**

Thank You

