Corporate Social Responsibility in India

What is CSR?

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- Corporate Social Responsibility (CSR) is referred as a corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare and to promote positive social and environmental change.
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- It efforts that go beyond what may be required by regulators.
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- The income is earned only from the society and therefore it should be given back.
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What is the legal mandate?

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- Under Companies Act, 2013 any company with a\n\n
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1. net worth of the company to be Rs 500 crore or more or
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2. turnover of the company to be Rs 1000 crore or more or
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3. net profit of the company to be Rs 5 crore or more.
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has to spend **at least 2%** of last 3 years average net profits on CSR activities as specified in Schedule VII and as amended from time to time. The rules came into effect from 1 April 2014.

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- Further as per the CSR Rules, the provisions of CSR are not only applicable to Indian companies, but also applicable to branch and project offices of a foreign company in India.
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- Further, the qualifying company will be required to constitute a CSR Committee consisting of 3 or more directors.
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- The CSR Committee shall formulate and recommend to the Board, a policy which indicates the activities to be undertaken, allocate resources and monitor the CSR Policy of the company.
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- If the company did not spend CSR, it has to disclose the reason for not spending. Non-disclosure or absence of the details will be penalised from Rs 50,000 to Rs 25 lakh or even imprisonment of up to 3 years
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- India is the first country in the world to enshrine corporate giving into law.
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What activities can be carried on?

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CSR is a commitment to support initiatives that measurably improve the lives of underprivileged by one or more of the following focus areas as

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- Eradicating hunger, poverty & malnutrition
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- Promoting education
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- Improving maternal & child health
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- Ensuring environmental sustainability
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- Protection of national heritage
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- Measures for the benefit of armed forces

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- Promoting sports
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- Contribution to the Prime Minister‘s National Relief
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- Slum area development etc.
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How is it beneficial to companies?

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- **Consumers are socially conscious** - Many consumers actively seek out companies that support charitable causes. Therefore CSR attracts customers.
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- **Competitive advantage -** Businesses that show how they are more socially responsible than their competitors tend to stand out.
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- **Boosts employee morale** - CSR practices have a significant impact on employee morale, as it reinforces his confidence on Company’s empathy.
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What is the effect of legislation?

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- **More spending -** The private sector’s combined charitable spend increased from 33.67bn rupees in 2013 to around 250bn rupees after the law’s enactment.
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- **Mainstreaming Charity -** It has brought CSR from the fringes to the boardroom. Companies now have to think seriously about the resources, timelines and strategies needed to meet their legal obligations.
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- But it also has its shortcomings.
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- **Non-compliance -** A survey found that 52 of the country’s largest 100 companies failed to spend the required 2% last year.
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- A smaller proportion has gone further to allegedly cheating by giving

donations to charitable foundations that then return the fund minus a commission.
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- **Roll back -** Charitable spending was used as a big reputation builder for family-led conglomerates with a long tradition of philanthropy. Now it's just about legal compliance. Many companies that were giving more than 2% have scaled back their spending.
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- **Inequality** - One of the challenges for the corporate sector is finding credible charity partners to support. So the bigger charities that are more well-known are being flooded with money leaving out smaller charities.
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- Compounding the problem is that smaller charities often lack the capacity to cope with companies' bureaucratic and operational demands.
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- **Geography -** There is also a geographic bias under the 2% law, with companies funding projects closer to where they are based. Therefore more industrialised states are winning over poorer, more remote regions where development aid is acutely needed.
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- **Politics -** Some companies looking to gain goodwill by backing government-led projects rather than independent initiatives.
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What should be done?

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- What India needs is large-scale social innovation and systems change and mandatory spending achieves a little in this direction.
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- It also deflects pressure on companies to change their business practices.
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- CSR should be more inclusive by which an organization should think about and evolve its relationships with stakeholders for the common good, and demonstrate its commitment by adopting appropriate business processes and strategies.
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- A set of national voluntary guidelines to spell out what responsible business should look like and set out that CSR is more than just charitable giving should be formalised.

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Source: The Guardian

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