All you need to know on CSR

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International Resources for Fairer Trade

Corporate Social Responsibility (CSR): Definitions

- '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'. -World Business Council For Sustainable Development
- 'A commitment to improve community well being through discretionary business practices and contributions of corporate resources'. – Philip Kotler and Nancy Lee (2005)
- 'A way companies manage the business processes to produce an overall positive impact on society.' – Mallen Baker, Founding Director, Business Respect
- 'A multi layered concept that can be differentiated into four interrelated aspects – economic, legal, ethical and philanthropic responsibilities'. – Archie Carroll (1991)

The Four Phases of CSR Development in India

The history of CSR in India has its four phases which run parallel to India's historical development and has resulted in different approaches towards CSR. However the phases are not static and the features of each phase may overlap other phases.

The First Phase

In the first phase charity and philanthropy were the main drivers of CSR. Culture, religion, family values and tradition and industrialization had an influential effect on CSR. With the arrival of colonial rule in India from 1850s onwards, the approach towards CSR changed. The industrial families of the 19th century such as Tata, Godrej, Bajaj, Modi, Birla, Singhania were strongly inclined towards economic as well as social considerations. However it has been observed that their efforts towards social as well as industrial development were not only but also the driven by selfless and religious motives but also influenced by caste groups and political objectives.[1]

The Second Phase

In the second phase, during the independence movement, there was increased stress on Indian Industrialists to demonstrate their dedication towards the progress of the society. This was when

Mahatma Gandhi introduced the notion of "trusteeship", according to which the industry leaders had to manage their wealth so as to benefit the common man. Gandhi's influence put pressure on various Industrialists to act towards building the nation and its socio-economic development.[2]

The Third Phase

The third phase of CSR (1960–80) had its relation to the element of "mixed economy", emergence of Public Sector Undertakings (PSUs) and laws relating labour and environmental standards. During this period the private sector was forced to take a backseat. The public sector was seen as the prime mover of development. Because of the stringent legal rules and regulations surrounding the activities of the private sector, the period was described as an "era of command and control". The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices. This led to enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure suitable distribution of resources (wealth, food etc.) to the needy. However the public sector was effective only to a certain limited extent. This led to shift of expectation from the public to the private sector and their active involvement in the socio-economic development of the country became absolutely necessary. In 1965 Indian academicians, politicians and businessmen set up a national workshop on CSR aimed at reconciliation. They emphasized upon transparency, social accountability and regular stakeholder dialogues. In spite of such attempts the CSR failed to catch steam.

The Fourth Phase

In the fourth phase (1980 until the present) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In 1990s the first initiation towards globalization and economic liberalization were undertaken. Controls and licensing system were partly done away with which gave a boost to the economy the signs of which are very evident today. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing and able to contribute towards social cause. As Western markets are becoming more and more concerned about and labour and environmental standards in the developing countries, Indian companies who export and produce goods for the developed world need to pay a close attention to compliance with the international standards. [3]

Current State of CSR in India

As discussed above, CSR is not a new concept in India. Ever since their inception, corporates have been involved in serving the community. Through donations and charity events, many other organizations have been doing their part for the society. The basic objective of CSR in these days is to maximize the company's overall impact on the society and stakeholders. CSR policies, practices and programs are being comprehensively integrated by an increasing number of companies throughout their business operations and processes. A growing number of corporates feel that CSR is not just another form of indirect expense but is important for protecting the goodwill and reputation, defending attacks and increasing business competitiveness.[4]

Triple Bottom Line

A commitment to corporate social responsibility (CSR) implies to Triple Bottom Line (TBL) reporting.

The concept of a **triple bottom line** (abbreviated as **TBL** or **3BL**).The three together are often paraphrased as ‘People, Planet, Profit’, or referred to as ‘the three pillars’.

"People" pertains to fair and beneficial business practices toward labour and the community and region in which a corporation conducts its business. A TBL company conceives a reciprocal social structure in which the well-being of corporate, labour and other stakeholder interests is interdependent.

"Planet" (natural capital) refers to sustainable environmental practices. A TBL company endeavors to benefit the natural order as much as possible or at the least do no harm and minimise environmental impact.

"Profit" is the economic value created by the organization after deducting the cost of all inputs, including the cost of the capital tied up. It therefore differs from traditional accounting definitions of profit. In the original concept, within a sustainability framework, the "profit" aspect needs to be seen as the real economic benefit enjoyed by the host society.[5]

Public Sector Undertakings –Socio-Economic Development of India & CSR

The government of India formed public sector undertakings (PSUs) with the purpose of building industrial capacity, creating employment opportunities and improving the socio-economic condition.Both, central public sector enterprises (CPSEs) and state level PSUs have played a vital role in supporting the socio-economic development of the country. They are actively involved in various areas of CSR such as education, healthcare, improving infrastructure, social empowerment, vocational training and environmental protection among others. With a high degree of support from the government, CSPEs acts as a catalyst of social enterprise by providing such diverse services for grass root development.

Over the past two decades, India has emerged as one of the world's strongest emerging markets and PSUs have played a vital role in achieving this growth and development. In order to sustain this growth, CSR initiatives have become important as they form a crucial part of the companies' strategic decision-making process. In order to integrate this into their business models and achieve the nation's aim of inclusive growth, the revised CSR and sustainability guidelines issued by the Department of Public Enterprises (DPE) in December 2012 (effective April 2013) are expected to play a crucial role. The revised guideline has urged the CPSEs to embrace a robust CSR practice that is in the interest of all stakeholders.

Key Highlights of the Revised CSR and Sustainability Guidelines for CPSEs

- CPSEs expected to formulate their policies with a balanced emphasis on all aspects of CSR and Sustainability – equally with regard to their internal operations, activities and processes, as well as in their response to externalities. Earlier guidelines focused mainly on CSR activities for external stakeholders.
- Earlier, CSR and sustainable development treated as two separate subject areas and were dealt with differently for the purpose of memorandum of understanding (MoU) evaluation. However, now they are combined into a single set of guidelines for greater transparency.
- The revised CSR and sustainability budgetary allocation for CPSEs is as under:

PAT of CPSE in the previous year	Budgetary allocation (as % of PAT in previous year)
Less than Rs. 100 Crore	3% - 5%
Rs. 100 Crore to Rs. 500 Crore	2% - 3%
Rs. 500 Crore and above	1% - 2%

- CPSEs to take up at least one major project mandatorily for **development of a backward district.**
- CPSEs expected to act in a socially responsible manner at all times. Even in their normal business activities, CPSEs should try to conduct business in a manner that is beneficial to both, business and society.
- CPSEs have to disclose the reasons for not fully utilizing the budget allocated for CSR and Sustainability activities for a year. Further, if the CPSEs are unable to spend the earmarked amount for CSR in a particular year, it would have to spend the amount in the next two financial years, failing which, it would be transferred to **'Sustainability Fund'**.
- Emphasis is placed on the scalability of CSR and Sustainability projects, in terms of their size and impact, rather than on their numbers.
- Employees to avail the infrastructure facilities created by the company from its CSR and Sustainability budget, provided the facilities are originally created essentially for the external stakeholders, and the use of these facilities by the CPSE's employees (internal stakeholders) is only incidental and confined to less than 25 percent of the total number of beneficiaries.

Securities and Exchange Board of India (SEBI) - Making CSR Reporting Compulsory

CPSEs have to follow the SEBI Guidelines on Corporate Governance.

- SEBI vide its circular CIR/CFD/DIL/8/2012 dated August13, 2012 has made it mandatory for top 100 listed companies (by market capitalization) to report certain critical information as part of their business responsibility.
- This includes how much the company is spending on CSR as a percentage of its net profit, the number of stakeholders' complaints received and resolved, details of any pending case filed by stakeholder against any unfair trade practice, irresponsible advertising or anti-competitive behaviour adopted by the company.
- The provisions of this circular shall be applicable with effect from financial year ending on or after December 31, 2012.
- This will enable the shareholders to have a better understanding of the manner in which their companies' function and adopt responsible business practices.
- The circular exhorts the companies to follow the **National Voluntary Guidelines** (NVG) **on** social, environmental and economic responsibility that have been formulated by Ministry of Corporate Affairs in July 2011. [6]

About NVG- http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

Companies Bill and CSR – Clause 135

According to Clause 135 of the Companies Act, 2013, every company with a net worth of Rs 500 crore or more, or turnover of Rs 1,000 crore or more, or a net profit of Rs 5 crore or more in a financial year.

Ensure that the company spends in every financial year, at least 2 % of the average net profits

CSR Committee

- An unlisted public company or a private company is not required to appoint an independent director
- A private company having only two directors on its Board shall constitute its CSR committee with two such directors.

Permissible CSR Activities

i. Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water;
ii. Promoting education, including special education and employment enhancing vocation skill especially among children, women, elderly and the differently abled and livelihood enhancement projects
iii. Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backwards group;
iv. Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water;
v. Protection of national heritage, art and culture including restoration of building and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;
vi. Measures for the benefit of armed forces veterans, war widows and their dependents;
vii. Training to promote rural sports, nationally recognized sports, paralympic sports and Olympic sports;
viii. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;
ix. Contribution or funds provided to technology incubators located within academic institutions which are approves by the Central Government;
x. Rural development projects

Failure to Comply

While a company is not subject to liability for failing to spend on CSR, a company and its officers are subject to liability for not explaining such a failure in the annual report of the board of directors. There is currently no guidance as to what constitutes a sufficient or statutorily valid explanation for failure to spend in the board report.

A company and its directors are liable even if they fail to report on CSR activities that were actually conducted. Failure to explain is punishable by a fine on the company of not less than 50,000 rupees and up to 25 lakh rupees. Further, officers who default on the reporting provision could be subject to up to three years in prison and/or fines of not less than 50,000 rupees and as high as 5 lakh rupees.

Notified Rules on Ministry of Corporate Affairs (MCA) Website

Guiding Principle

- CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies;
- CSR is not charity or mere donations
- CSR is a way of conducting business, by which corporate entities visibly contributing to the social good;
- Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits;
- They use CSR to integrate economic, environmental and social objectives with the company' s operations and growth.

1. Companies activities may generally be conducted as projects or programmes (either new or ongoing) excluding activities undertaken in pursuance of the normal course of business of a company. The CSR Committee constituted under sec 135(1), shall prepare the CSR Policy of the company which shall:

- Specify the sectors in which the projects and programmes are to be undertaken;
- Prepare a list of CSR projects / programmes which a company plans to undertake during the implementation year, specifying modalities of execution in the areas/ sectors chosen and implementation schedules for the same ;

- Focus on integrating business models with social and environmental priorities and processes in order to create shared value ;
- Provide that surpluses arising out of CSR activities will not be part of the business profits of a company.

2. The CSR Committee shall prepare a transparent monitoring mechanism for ensuring implantation of the projects / programmes / activities proposed to be undertaken by the company.

3. Where a company has set up an organization which is registered as a Trust or Section 8 Company, or Society or any other form of entity incorporated in india to facilitate implementation of its CSR activities in accordance with its stated CSR Policy ,

- a) The contributing company should specify the activities to be undertaken by such an organization utilizing funds provided by it ;
- b) The contributing company shall establish a monitoring mechanism to ensure that the allocation is spent for the intended purpose only .

4. A company may also conduct / implement its CSR programmes through Trusts , Socirties or Section 8 companies incorporated in India , which are not set up by the company itself ;

5.Such spends may be included as part of its prescribed CSR spend only if such organizations have an established track record of at least three years in carrying on activities in related areas .

6. Companies may collaborate or pool resources with other companies to undertake CSR activities and any expenditure incurred on such collaborative efforts would qualify for computing the CSR spending;

7. Only such CSR activities will be taken into consideration as are undertaken within India .

8. Only activities which are not exclusively for the benefit of employees of the company or their family benefit of employees of the company or their family members shall be considered as CSR activity;

9. All companies falling under the provision of Section 135 (1) of the act shall report the details of their CSR initiatives as part of the Directors' Report in the Annual Report which should also be available on the Annual Report which should also be available on the company' s website .[7]

Benefits to companies

There are different ways to frame the benefits because they are interrelated, they generally include the following:

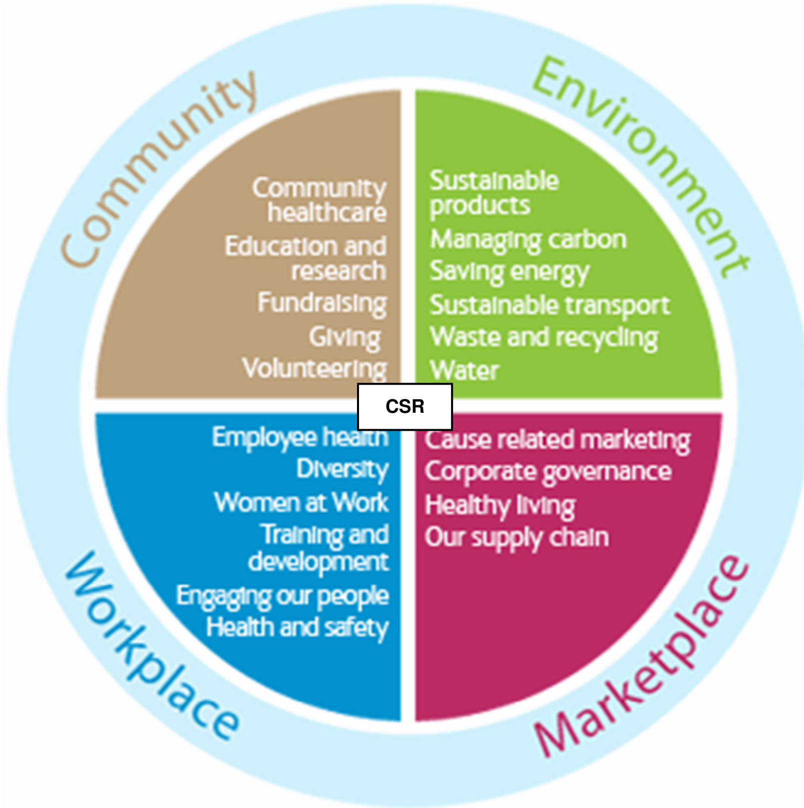
- Stronger financial performance and profitability through operational efficiency gains
- Improved relations with the investment community and better access to capital
- Enhanced employee relations that yield better results respecting recruitment, motivation, retention, learning and innovation, and productivity
- Stronger relationships with communities and enhanced license to operate
- Improved reputation and branding

Benefits to NGOs

- Financial sustainability and funding diversification for projects
- Access to free marketing
- Management skill for improved efficiency
- Better results by changing corporate mentality from within rather than through confrontation.[8]

Points of Concern

- The Companies Bill does not define CSR only contains a list of activities that may be included by a company in its CSR policy. The bill does not prescribe the proportion of funds to be contributed towards any activity.
- 2% spending on CSR is not mandatory for Companies, the rules are in line with the 'Comply or Explain' principle with penalties applicable only if an explanation is not offered. This could really be an escape clause for companies not meeting the necessary CSR requirements.
- Tax treatment to CSR spending by companies whether it is to be treated as non-deductible income since it is an allocation of profit, or, whether it is to be treated as an allowable expenditure under the Income Tax Act.
- Even central public sector enterprises, subject to CSR norms under separate guidelines, will, on enactment of the bill, come within the purview of these new provisions.


Community
Environment
Workplace
Marketplace
Community healthcare
Education and research
Fundraising
Giving
Volunteering
Sustainable products
Managing carbon
Saving energy
Sustainable transport
Waste and recycling
Water
CSR
Employee health
Diversity
Women at Work
Training and development
Engaging our people
Health and safety
Cause related marketing
Corporate governance
Healthy living
Our supply chain

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