CSR: not just charity

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Post the compulsory mandate on CSR, are companies taking CSR more seriously?

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Earlier this year, India became the first country to legally mandate Corporate Social Responsibility (CSR), thus making it clear that the development agenda is better achieved with shared responsibilities. As per the Companies Act, every company registered under the Companies Act (or any of the previous versions of the Act) with a net worth of rupees 500 crore or more or a turnover of rupees 1000 crore or more or a net profit of rupees five crore or more during any financial year has to spend at least two per cent of its average net profit made during the three immediately preceding financial years on CSR.

The new government has put its weight behind the CSR law with the Prime Minister's development priorities such as sanitation, skill-development, vocational training, etc influencing where companies spend money. In fact, the Indian Institute of Corporate Affairs, which is facilitating the law's rollout for the Ministry of Corporate Affairs, estimates that only 16,000 of the 950,000 companies registered in India meet the criteria. According to the study, India Inc is likely to spend rupees 22,000 crore on CSR once the law is implemented. But the critical question is - will rupees 22000 crore be spent in accordance with national priorities?

Six months after the grand law came into force, implementation is slow, prompting officials to slash spending estimates since companies don't expect to meet their targets in the first year. Moreover, there are several points of ambiguity around the law such as whether it is applicable to multinationals with Indian operations, or applies to international units of Indian companies or whether companies need to execute projects only in the areas identified in the law or go beyond this scope.

While the Act lists nine broad areas, which encompass much that results in social good, the country itself is under an intense debate of development versus growth and welfare-based development. The industry has to work hand-in-hand with the government to create necessary enablers to innovate and adapt to the changing environment. Even though CSR has existed in India well before the new law, companies need to be sensitised regularly.

Though the law mandates that companies disclose where and how the funds are spent, is the structure defined by the Companies Act complicated? The law requires companies to formulate and publish a CSR policy, and set up a CSR committee with three board members and an independent director. CSR projects can be done by a company's own non-profit foundation, which many large Indian companies have set up for philanthropy, or through not-for-profit organisations registered in India that have been running for at least three years. Smaller companies can pool their funds or contribute to a government-development fund.

However, for CSR committees to take cognizance of the rules and implement effective CSR initiatives is not easy. With the need to disclose the amount and route of CSR spends, there is also a possibility that organisations spend good money behind initiatives that figure much lower in the development agenda. While all such spends are likely to yield a laudable outcome, organisations should adopt a structured approach and participate in nation-building in a way that is beneficial to all stakeholders including themselves.

Philanthropy should not be about offsetting bad corporate practice but displaying responsible behaviour that abets inclusive economic growth. Joint value-creation becomes possible when the corporate works with the government(s) and the community it works and lives in. The Act, however lacks teeth in this respect since it does not penalise for

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non-conformance beyond asking such companies to furnish an explanation for their failure to do so.

If India is to take its rightful place in the 21st century, companies need to be innovative in their CSR implementation and create joint value partnering together to take the nation forward.

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