CORPORATE SOCIAL RESPONSIBILITY-

A DIRE NEED

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"So long as millions live in hunger and ignorance, I hold every person a traitor who, having been educated at their expense, pays not the least heed to them" –

Swami Vivekananda.

These words of Vivekananda have been our constant inspiration to do our bit to the society we live in. Responsibility is one of our core values, and we extend it to what we ought to do with regard to our own social and environmental surroundings.

Abstract:

Corporate social responsibility (CSR) is gaining more and more importance day by day. CSR is not only drawing the corporate magnates into its circumference, but is also luring educationists, social activists,reformists, from all over the world to delve deeper into it. Changing market scenario, globalization,ethical consumerism all are adding heat to the CSR concept. More and more organizations are showingtheir commitments towards CSR either for enhancing their corporate image or to be in competition.Emergence of different marketing innovations demands direct linkage of corporate social responsibilitypractices with the business corporate strategies.

Introduction:

Corporate Social Responsibility is a gesture of showing co's commitment towards society's sustainability and development. It is the ethical behavior of the company towards the society.It is disappointing to learn that Indian companies are not serious about CSR despite the mandate being stipulated in Section 135 of the Companies Act, 2013.

The transition from Millennium Development Goals to Sustainable Development Goals requires India Inc to contribute significantly through CSR. The CSR ambit is comprehensive in that the Government has recognised 10 major areas for spending: promoting education, promoting gender equity, ensuring environmental sustainability, promoting sanitation, promoting availability of safe drinking water, eradicating hunger, poverty and malnutrition, promoting preventive healthcare, protecting national heritage, spending for the benefit of armed forces veterans, war widows and their dependents, and contributing to the Prime Minister's Relief Fund.

The distortions

The Act requires a class of companies (companies with net worth of ₹500 crore or more / with annual turnover of ₹1000 crore or more / with a net profit of ₹5 crore or more) to mandatorily spend 2 per cent of the average net profit of the preceding three years on CSR activities, establish a CSR committee, and report CSR activities. In fact, in fiscal 2015, smaller listed companies (outside the ambit of the CSR legislation) have relatively spent more on CSR than bigger ones (Crisil CSR Yearbook 2015).

Even though CSR expenditure is not eligible for tax deduction (according to Finance Act 2014), certain areas of investment are attractive to companies. For example, a company's contribution to the Prime Minister's Relief Fund and to other funds set up by the Central/State government for socio-economic development is eligible for 100 per cent tax deduction without any maximum limit, according to Section 80G of the Income Tax Act 1961.

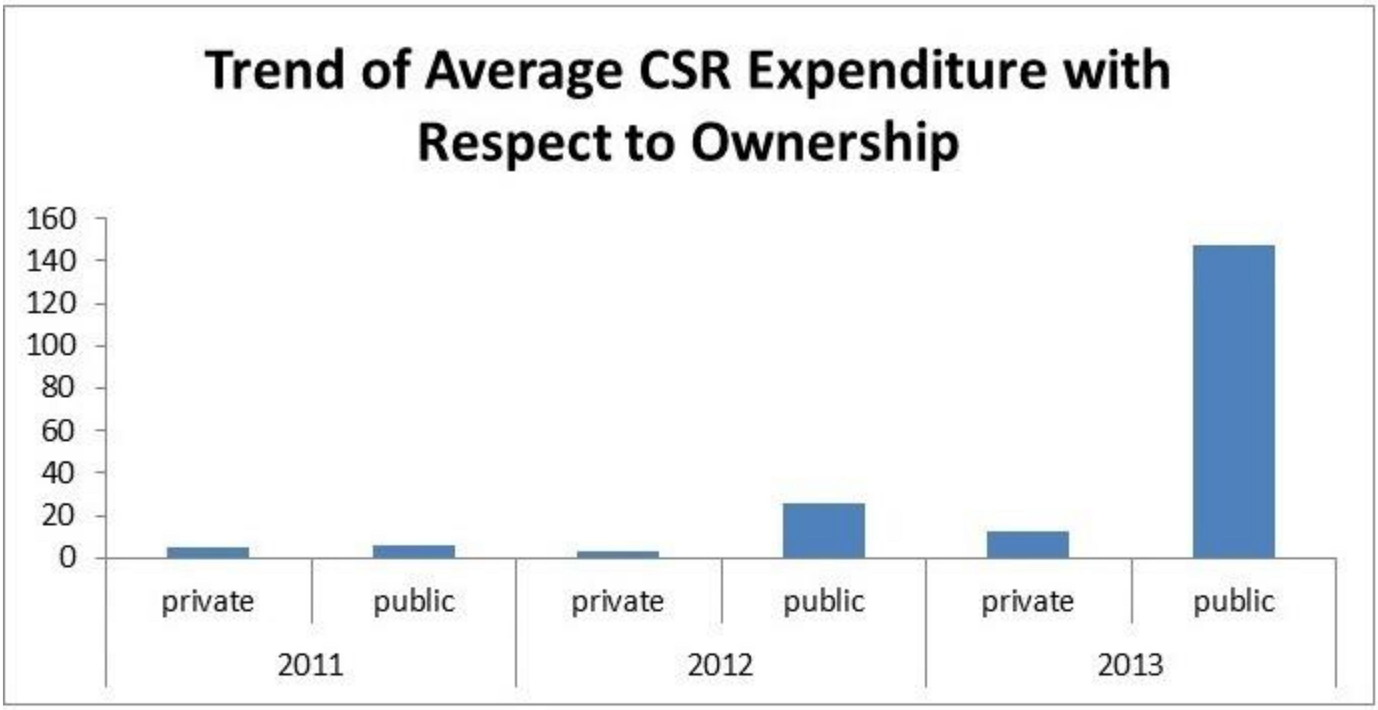
Other investments that attract deductions are payment to PSUs for certain projects (under Section 35AC) and rural development programmes (Section 35CCA). Even the most sluggish company could have met the CSR obligation by simply writing out a cheque in favour of a relief fund and claimed tax deduction!

Why the apathy?

According to the ministry of corporate affairs, 460 companies have cited trivial reasons for either not spending on CSR, or for having spent less than the minimum required. The reasons for this were: (1) The current fiscal was the first year of implementation of the CSR mandate; (2) adoption of long-term social projects; (3) difficulty in finding an implementing agency.

The first and third reasons are unacceptable because information about CSR legislation has been in the air since two years after the formulation of the Companies Act 2013. Companies either have an established foundation to implement CSR; else have an exclusive division that performs CSR activities; many companies also partner with NGOs to implement CSR. Moreover, the National Foundation for Corporate Social Responsibility has been set up as the apex national institution to build an enabling environment for corporates to work in partnership with government bodies and NGOs for sustainable development.

Figure 2: Trend of Average CSR Expenditure with Respect to Ownership

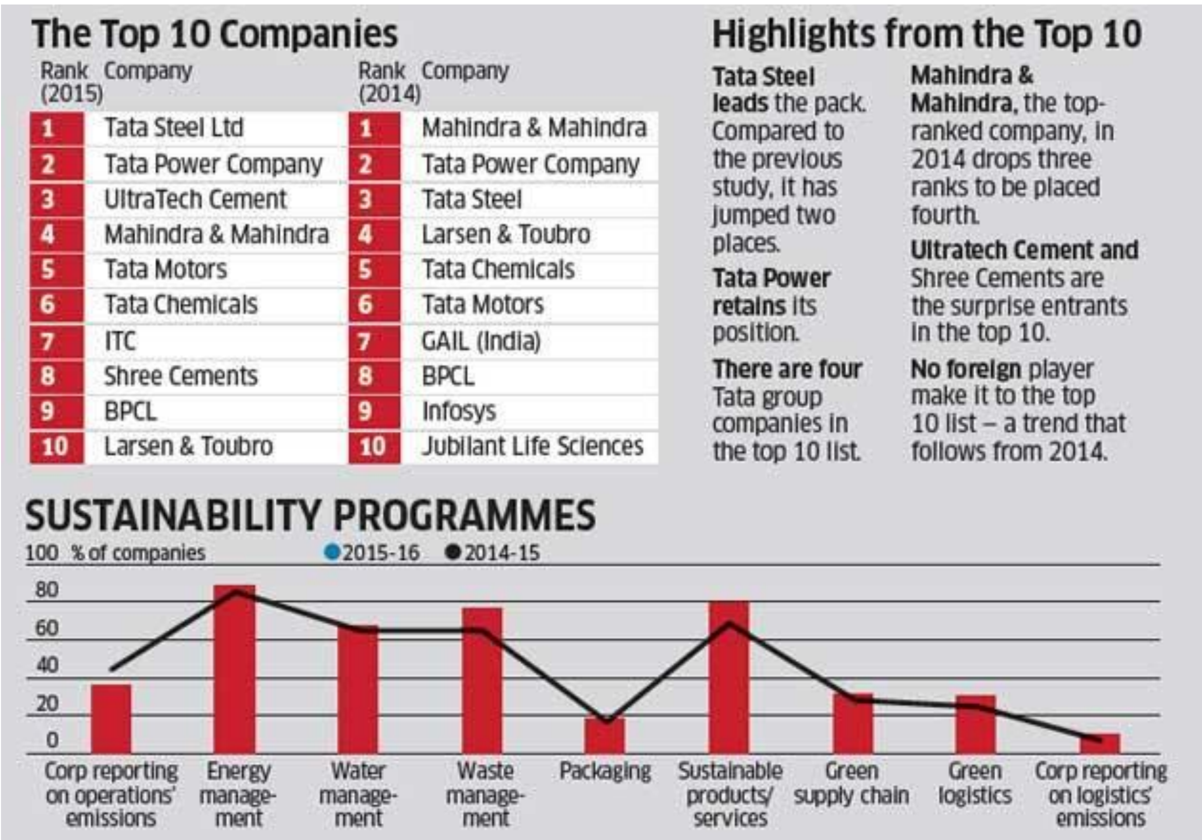


X axis: Year and Ownership; Y-axis: Average CSR expenditure (in million rupees)
Source: Calculated by the authors using Prowess data for the year 2012-13

The second reason is worthy enough to be given a second thought, since long-term investment in social projects leads to benefits over multiple periods and will therefore, fit into the description of 'Capex'. Presently, capital expenditure is not tax deductible. Capex on CSR can be deferred over the period of benefit; the amortisation method needs to be worked out and explicitly stated in the legislation.

For effective CSR implementation, firstly, there is a need to craft an industry-specific CSR mandate by setting weightage to important areas such as environmental sustainability. Companies are subject to varied environmental and social risks depending upon the industry they belong to. Companies belonging to polluting industries should not be allowed to simply write out a cheque for the stipulated CSR expenditure for the sake of compliance. The negative environmental externalities generated by such businesses can be neutralised only by setting mandatory weights/proportion of CSR expenditure to be channelised towards eco-efficiency based projects and investments focused upon ecosystem conservation. During fiscal 2015, only 9 per cent of total CSR funds of India Inc. were allocated toenvironmental sustainability.

Secondly, crafting an industry-specific CSR mandate requires the collaboration of the MCA, the environment ministry, and the Central Pollution Control Board to come up with an industry-wise toxic release inventory (TRI) along the lines maintained by the US Environmental Protection Agency (EPA). Creating this database will not only facilitate the task of earmarking mandatory investment in environmental sustainability, but also help identify the right projects for companies so that they can contribute to sustainable development goals.



The Top 10 Companies

Rank (2015)	Company	Rank (2014)	Company
1	Tata Steel Ltd	1	Mahindra & Mahindra
2	Tata Power Company	2	Tata Power Company
3	UltraTech Cement	3	Tata Steel
4	Mahindra & Mahindra	4	Larsen & Toubro
5	Tata Motors	5	Tata Chemicals
6	Tata Chemicals	6	Tata Motors
7	ITC	7	GAIL (India)
8	Shree Cements	8	BPCL
9	BPCL	9	Infosys
10	Larsen & Toubro	10	Jubilant Life Sciences

CSR is largely about spending monies as a small portion of the profits made. What is germane today is 'how' a company makes its profits in an era of climate and sustainable development challenges.Responsible growth and an adherence to the tenets of sustainability, therefore, is critical for the good of communities, national economies and the world. CSR alone is not good enough. India's 'Top companies for Sustainability and CSR', in its third year, attempts to examine companies, 217 of them, through the CSR microcosm and also on larger issues of sustainability.

Key Findings

1. Only top 33% believe in taking a long term view on responsible business.
2. Governance for business responsibility sees improvement.
3. Disclosures are poor as sustainability reporting is inadequate.
4. Sustainability is the heart of high performing companies.
5. Government push makes corporate India step up. Over 39% companies focused on Swachh Bharat. 59% companies surveyed work on solar energy.
6. Energy and materials given the inherent nature of their business try to mitigate the impact on the external world through the business responsibility focus

7. Education and healthcare attracts the largest CSR spends accounting for 45% of the total spends. Empowering women, weaker sections, elderly and armed forced veterans.

The concept of corporate social responsibility is now firmly rooted on the global business agenda. But in order to move from theory to concrete action, many obstacles need to be overcome. A key challenge facing business is the need for more reliable indicators of progress in the field of CSR, along with the dissemination of CSR strategies. Transparency and dialogue can help to make a business appear more trustworthy, and push up the standards of other organizations at the same time. Some of the positive outcomes that can arise when businesses adopt a policy of social responsibility include:

Company Benefits

- Improved financial performance;
- Lower operating costs;
- Enhanced brand image and reputation;
- Increased sales and customer loyalty;
- Greater productivity and quality;
- More ability to attract and retain employees;

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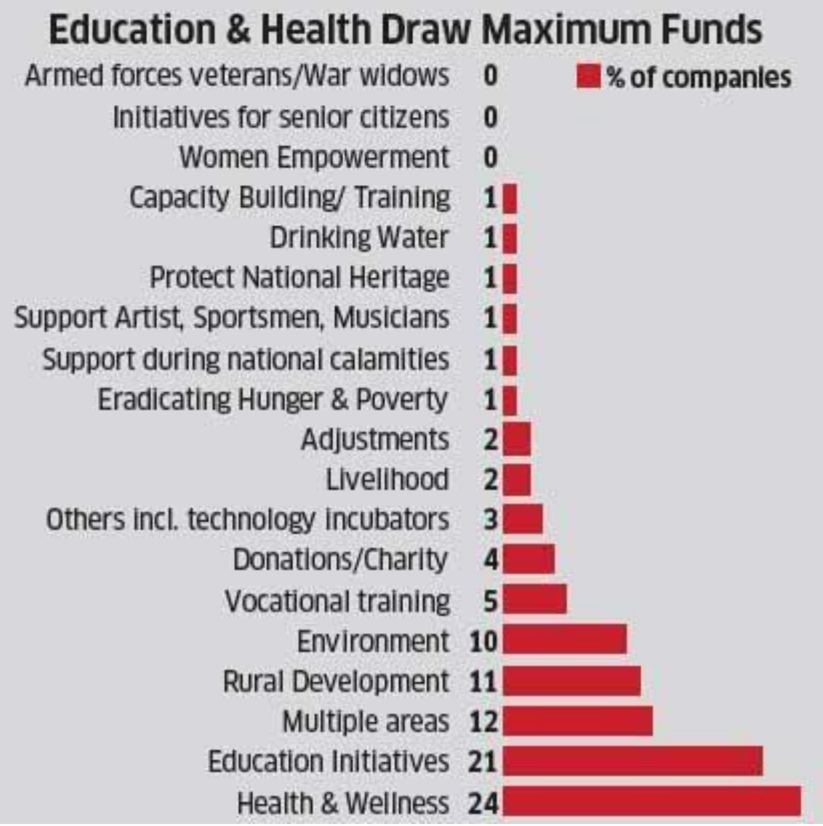
Toppers in Business Responsibility Focus

Sector/Industry	Avg score	Top performer
Energy	59.1	BPCL
Materials	55.2	Tata Steel
Telecommunication Services	53.8	Idea Cellular
Information Technology	50.1	Infosys
Healthcare	48.7	Jubilant Life Sciences
Other Industrials	48.6	Cummins India
Utilities	47.6	Tata Power Company
Consumer Staples	44.2	Coca-Cola India
Capital Goods	42.9	Larsen & Toubro
Consumer Discretionary	37.6	Mahindra & Mahindra
Diversified	34.0	ITC
Financials	30.7	YES Bank
Other Financials	30.7	M&M Financial Services



- Reduced regulatory oversight;
- Access to capital;
- Workforce diversity;
- Product safety and decreased liability.

Benefits to the Community and the General Public

- Charitable contributions;
- Employee volunteer programs;
- Corporate involvement in community education, employment and homelessness programs;
- Product safety and quality.

Environmental Benefits

- Greater material recyclability;
- Better product durability and functionality;
- Greater use of renewable resources;
- Integration of environmental management tools into business plans, including life-cycle
- assessment and costing, environmental management standards, and eco-labeling.

One latest example of CSR

MUMBAI: Mumbai International Airport (MIAL), in its recently launched Sustainability Report 2016, highlighted that the Chhatrapati Shivaji International Airport (CSIA) achieved a 48% reduction in water consumption per million pax in 2015-16 as compared to 2013-14.

In the last three years, the number of flight arrivals and departures at Mumbai airport went up by 35,500 even as the fast-growing airport saw a 30% increase in passenger volumes, taking the number of passengers handled in FY 2015-16 to 4.15 crore. In FY 2013-14, the airport handled 2.18 crore domestic and 1.03 crore international passengers, with a total of 3.2 crore passengers. Three years later, the number of domestic passengers had gone up to 3 crore, while international passenger traffic was 1.16 crore.

"With ever increasing population and expanded industrialization comes an increase in demand for water. The sustainability of our operations relies on our ability to obtain appropriate quality and quantity of water, use it conscientiously and manage it responsibly.

At MIAL, we use water sourced from MCGM*.", report said. (Municipal Corporation of Greater Mumbai*)

"As a responsible organization, we are aware of the environmental impacts of our operations and we strive to conduct our business in a way that minimizes any negative impact on the natural environment.", Mumbai International Airport said.

The quality of stormwater is being monitored regularly to the level of contamination. It has installed three oil water separators at the apron to trap the fuel and oil spillage.

Water withdrawal (KL)

FY 2013-14	***FY 2014-15***	***FY 2015-16***

17,92,035	***16,80,474***	***12,05,441***

The reduction was achieved since the company was able to identify new way to save and plug leakages with the installation of innovative technology.

These innovative meters have helped to identify areas of unaccounted water consumption, leading to significant water savings. As part of its sustainability initiatives, MIAL successfully implemented several measures over the last year.

Conclusion:-

To sum up it can be said that the concept of CSR has the potential to bring a revolution in the development of the economy. With rising fiscal deficit and leakages in the welfare schemes, CSR seeks to address the problems of society in a cost effective manner. The concept has the potential to generate Rs 20,000-25,000 crore[1] every year, which can give a boost to investment in human and physical capital. Presently, CSR expenditure is mostly incurred at the local level through the foundations established by firms. This aligns CSR initiatives with the ideology of the firm and minimises transaction costs for it. For efficient utilisation of funds allocated for CSR and full realisation of potential benefits, these expenditures need a direction.

The recent commitment of Rs 100 crore each, by two leading companies, Tata Consultancy services and Bharti Airtel, as a part of their CSR initiatives to build toilets for girls in schools in the wake of government's Swachha Bharat Abhiyan is only the tip of the ice-berg. Some more thought needs to be given to the most pressing problems of society and whether CSR resources could be utilised to address them. Contrary to some pessimistic voices in the society, CSR expenditure may not affect profits adversely and could help in building the brand name of the firm.

Though the new Companies Act, 2013, which made spending 2% of their profits on CSR mandatory, came into force only in April 2014, the last couple of years have seen a significant increase in CSR expenditure by firms. This can be attributed to the desire of companies to project themselves as socially responsible. The CSR expenditure by firms is affected by the industry to which they belong. Firms in polluting industries spend more on activities related to the environment, while firms in the iron and steel and power sector spend more on local community development, as their projects cause large-scale displacement. They also do it in the hope that it might prevent future boycott and protest movements.

Until now, donations by firms were driven by their interests; it was arbitrary, and in some cases very small in comparison to the size of the firms. The CSR activities of the firms depended upon the nature of their industry and restricted to the area where the firm was located. This was largely driven by factors such as cost minimisation and "visibility" among the consumers. But this may change with the new law. Firms may be driven to diversify their areas of operation and part of population which had been left behind in the development process may gain tremendously from this.

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