

General Studies – 2 Topic: Government policies and interventions for development in various sectors and issues arising out of their design and implementation.

Corporate Social Responsibility (CSR)

1) Introduction

- The Companies Act 2013 requires large (above a specified threshold level) firms to spend 2% of their net profits on corporate social responsibility (CSR) projects.
- India is the first country to require companies to expend resources on CSR.
- This pool of funds is dedicated to activities that are presumably in the larger public interest.

2) Recent Developments

- The results on CSR expenditures by firms in the fiscal year 2015-16 were released recently.
- Indian firms collectively are more than complying with the CSR law.
- Indian companies spent Rs9,309 crore on CSR projects in 2015-16, which was Rs163 crore more than the amount required by law, and Rs703 crore more than the previous year.

3) Advantages of CSR

- **Improvement in the image of the Corporation**
 - a) Firms spent money on CSR activities that also lead to increasing firm profits, such as inculcating goodwill and good public relations.
 - b) There is evidence indicating CSR spending leads to brand building and employee engagement.
- **Increased Attraction and Retention of Employees**
 - a) An employee with a positive attitude towards the company, is less likely to look for a job elsewhere.
- **Satisfied customers**
 - a) Research shows that a strong record of CSR improves customers' attitude towards the company.
 - b) A good CSR program will always give good publicity and even act as an advertisement for the company.
- **Environmental CSR**
 - a) If the company has invested in an environmental CSR program, it will make sure that its operations do not harm the environment in any way.
 - b) It will also give the company a chance to explore the usage of renewable energy for its operations.
- **Attracts more Capital**
 - a) If the company is engaged in CSR programs, its image gets a massive boost, and so, people invest in its operations heavily.
 - b) Thus helping the country to get valuable foreign exchange.
- **Benefits to the community**
 - a) Charitable contributions
 - b) Corporate involvement in community education, employment and homelessness programmes

4) Challenges

- One of the challenges for the corporate sector is finding credible partners and good projects that they can support.
- Bigger charities that are more well known are being flooded with money

- Smaller charities often lack the capacity to cope with companies' bureaucratic and operational demands.
- More industrialised states are winning over poorer, more remote regions where development aid is acutely needed.

5) Concerns

- There is some evidence that firms that were initially spending more than 2% reduced their CSR expenditure to 2%.
- Spending has not gone to democratically determined priorities, but rather to whatever the companies prefer to emphasize
- Reducing child mortality received no funding and eradicating extreme hunger and poverty received only 6% of the total CSR expenditure.
- There is also an issue of geographic equity. Five states: Maharashtra, Gujarat, Andhra Pradesh, Rajasthan and Tamil Nadu account for well over one-quarter of all CSR spending.
- Indian law does not clearly define CSR for the purposes of expenditures.
- Law does not discuss and define, an enforcement mechanism or penalties for non-compliance.
- Laws only set minimum standards, but do not create an impetus for positive action.
- For example, it would be difficult to require that companies build "excellent" schools; the legal requirement can be met merely by spending money on education.
- Some companies are allegedly cheating the system by giving donations to charitable foundations that then return the monies minus a commission.

6) Way Forward

- It is the government's responsibility to determine high-priority needs of society and target public expenditure in these areas.
- It is the responsibility of the government to help achieve a more egalitarian society.
- Without a coercive enforcement mechanism, it is unlikely that the law will result in widespread compliance and real effectiveness.
- India needs is large-scale social innovation and systems change
- Bring governance and accountability mechanisms into the picture, increasing the likelihood that the funds are being used appropriately and effectively.
- Giving companies choices of large initiatives to which they can contribute both funds and expertise
- A "certificate" for proof of an activity having been carried out - say, a Swachh Bharat certificate representing a cluster of toilets could be "bought" by corporate groups as evidence of their fulfilment of their CSR mandate.
- Audit mechanism that actually authenticates and validates the activity represented by the certificate
- Impact assessment across multiple domains