

# Corporate Social Responsibility

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## The principle of give and take

Many Industries worldwide have been spending part of the company's profits for social welfare activities, either on their own or through charitable trusts and foundations created for such activities. This is based on the principle returning to society some social benefits, for what the industry is taking from society. Companies take resources in the form of land, water, raw materials, energy and human resources and the like from the Society. They create technologies, products, services, employment and thereby enhance wealth and welfare and contribute to National GDP. Some companies have also been involved in several charitable activities to serve the society. The Ford Foundation and Rockefeller Foundation in the West and the Trusts / Foundations established by Tatas & Birlas in India, setting up educational and research institutions are early examples. In India several other private industries have made excellent contributions to Society through CSR activities. These include Brooke Bond Hindustan Lever, Godrej, ITC, Reliance, Infosys, Wipro, and many others. For the government owned PSUs, social welfare activities were embedded as a responsibility right from their inception/ establishment and

many PSUs have made excellent contributions for enhancing health care, hygiene and education and for community and rural development.

More recently governments of some countries including India have made it mandatory for Corporates to spend a specified percentage of their profit for education, training, employment of weaker sections of the society, poverty eradication, homes for the poor, health & hygiene and such other socio-cultural, welfare and charitable activities. The principle behind such 'Corporate Social Responsibility', as it is termed, is to give back to society some additional benefits for the utilisation of natural resources such as land, water, minerals, air, energy as well as human resources by the industry. CSR Policy provides an excellent opportunity to companies to make contributions to society in fields other than their main business, and enhance their esteem and brand value. It is also an opportunity to be an involved participant in the country's socio-cultural development.

## CSR Rule 2014 (India)

In India, Companies Act 2013, Section 135 and Schedule VII and CSR Rules 2014,

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notified by the Ministry of Corporate Affairs, have come into effect from April 2014 of the Companies Act Section 135, defines the threshold limit for applicability of CSR to a Company in terms of the Company's Net worth, Turnover and Profit whose Net worth is equal to or more than Rs. 500 crore and / or Turnover per year is equal to or more than Rs. 1000 crores and / or profit equal or more than 5 crores in a financial year. CSR Rules are applicable to Indian companies, Joint Venture Companies (JVCs), and also to branch and project offices of a foreign company in India.

Each qualifying company is required to spend each year a minimum of 2% of average net profit for the immediate past 3 financial years on CSR activities. Each such company is required to constitute a CSR Committee by the Board of Directors, consisting of 3 or more directors and senior Management Representatives. The CSR Committee shall formulate the CSR Policy, listing the activities to be undertaken under CSR, the amount of expenditure to be incurred on these activities and recommend to the Board. The CSR Committee is also required to monitor the activities and expenditure, after the approval of the recommendations made by the CSR Committee and report to the Board periodically.

If Company fails to spend the minimum required amount, the same shall be reported with reasons to the Board, which should form part of the disclosures in the annual report. As per Rule 8 of Companies Act 2013, a brief on the policy, projects, programs, amount spent, achievement etc. should be reported as Annexure to the Board Report, and web-link. The Company is required to display on its website, the Company's CSR policy,

plans, projects and progress as reported in the Annexure to the Board Report for public to view. This provides an opportunity to highlight the company's contributions to the Society through CSR and gain appreciation of public, enhance trust, reputation and enhance Brand Value.

CSR Activity and spending is restricted to certain specific areas depending on National Priorities and specified in Schedule VII of Companies Act 2013. These are:

- (a) Eradicating hunger, poverty and malnutrition, promoting health care, sanitation and making available safe drinking water at affordable cost;
- (b) Promoting education, including skill development, enhancing vocational skills especially among children, women, elderly, and the differently abled for employment of livelihood enhancement.
- (c) 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 backward groups;
- (d) 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;
- (e) Protection of national heritage, art, culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries, promotion and development of traditional arts and handicrafts.

- (f) Measures for the benefit of armed forces veterans, war widows and their dependents;
- (g) Training to promote rural sports, nationally recognised sports, Paralympics sports and Olympic sports;
- (h) Contribution to the Prime Ministers National Relief fund or any other fund set up by the Central Government for Socio-economic development and relief and welfare of the Scheduled casts, ST and OBC, minorities & women.
- (i) Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;
- (j) Rural development projects.

CSR activity should not be in the normal course of business of the Company, directly or indirectly. Activities for the benefit of employees of the Company and their families and contribution to political party/s will not qualify as under CSR. Companies are allowed to build their own CSR activities, but shall not exceed 5% of total CSR Expenditure of the Company in each Financial year. Companies are allowed to collaborate with other companies for undertaking projects or Programs. However, in such collaborative projects, reporting should be separate in Board Annexure, specifying the Company's share. It is expected that 95% or more of CSR spending and associated activities are through Registered Trusts, Societies or Charitable organisations. This can be the Holding or subsidiary or associate company Under Section 8. Other independent charitable Trusts / Societies / Organisations should have good track record of three years in undertaking similar programmes or projects.

The Company, under its CSR Policy, should evolve procedure for selection of such agencies, modalities of utilisation of funds on projects and programmes, maintain, monitor and report. It is mandatory that CSR spending should be only in India for Indian Companies and Foreign Companies with subsidiaries or branch offices in India.

### **CSR Benefits to the Company**

Corporates contribute to GDP and play an important role in the development of the country through the company's products & services, and enhancing the contributions to the country's treasury & wellbeing. CSR activities give industries opportunities to participate in the socio-economic development of the country. CSR activities give a sense of belonging and participation in the development of the society and country. CSR activities provide opportunity to the industry to add value to society and environment through projects to eradicate poverty, diseases, illiteracy, to improve infrastructure, health & hygiene, animal welfare, reduce environmental pollution, provide safe drinking water and to support child health & education and the like.

CSR activities can add value to corporations and enhance their esteem in the society. Some of the benefits are:

- Enhance public image
- Enhance citizen trust & respect
- Enhance brand value of products & services and lead to growth of business, revenue & profit
- Help to attract talented youths to join

as employees / managers and for their retention and committed service

- Protection by the public from unethical and malicious charges against the corporate by vested interests.

Public trust and image based on excellence in CSR can act as a shield against unintended mistakes and unfair criticism. Employees will take pride in working with such companies with enhanced morale & motivation.

### CSR Compliance

CSR Compliance Report / Certificate required by the law should indicate the ‘areas’ and various activities / projects undertaken by the company in each area, actual achievements and money spent in each financial year. The amount spent should be compared with amount under the law which is equal to or more than 2% of the profit. The spirit of the policy is not in spending the money but in achieving the results

in the chosen fields. It may not be practical to match the spending with specified percentage of profit of the particular financial year as the audited financial accounts will be approved by the Board and adopted by AGM in the subsequent financial year. It will be practical to take average of profit of preceding 2 or 3 years. Areas selected by CSR Committee and approved by the Board should be from the list specified in Schedule VII of Companies Act 2013 and as explained earlier in this chapter under CSR Rule 2014 (India). It is possible to have a number of Projects in each area. The name of the project, brief description and the name / address of the Agency through which the project is executed should be indicated. Taking these into account a model CSR Compliance Report is made by the author and illustrated in the table 1. Some projects may run for more than one year and in such cases detailed written brief may be given with cumulative performance to complement the table.

**Table 1 : A Model for CSR Compliance Report**

CSR Compliance Report for Financial year ‘Y’

Turn over for the financial year	: Rs. _____
Net worth for the financial year	: Rs. _____
Profit for the financial year	: Rs. _____
Average profit for the past 3 years	: Rs. _____ (Y-3, Y-2 and Y-1)
2 % of average profit	: Rs. _____
(to be spent on CSR activities in year ‘Y’)	

CSR Activities	Agency	Targets		Achieve Events		Remarks
		Physical	Financial	Physical	Financial	
Area I						
Project 1						
Project 2						
Project 3						
Area II						
Project 1						
Project 2						
Project 3						
Area III						
Project 1						
Project 2						
Project 3						

CSR in a broad sense must address company’s responsibilities for the present and future generations through environmental and eco protection and sustainable development. Over exploitation of natural non-renewable resources and wastage must be checked. It is

desirable for companies to attempt a CSR & Ethical Balance Sheet considering, the broad perspective of CSR environmental balance & sustainable development and include in their Annual Report.



### CSR in Rural India

Just as in the ‘Hind Swaraj’ days (1908), when the rural economy of India was totally based on agriculture and home based craftsmanship ‘industries’, modern SMEs (Small & Medium Enterprises) are flourishing in rural and semi-urban India of today.

Though unheard or not aware of the technicalities of modern Corporate Social Responsibilities (CSR), these SMEs operate within the precincts of certain fundamental principles of CSR without any statutory obligations. Narrated below are few points observed in a casual study.

1. Rural SMEs generate employment and contribute to alleviation of distress to village youth, nearer their home.
2. These SMEs have turned as the backbone of market economy in rural areas, replacing agricultural products that have limited scope of regular employment and income generation.
3. Culture is an outstanding element generating specific forms of moral attitude and behaviour.
4. The Social Responsibility of SME owners is influenced by local and moral traditions.
5. The invisible concept of CSR among rural SMEs adheres to ‘meet the needs of the present without compromising the ability of future generation to meet their own needs.’
6. Though not formally exposed to or even heard of modern Corporate Social Responsibility concepts, the main stream expression for activities of the rural SMEs reflects the basic tenets of the sophisticated CSR and TQM (Total Quality Management) of the organised sector.

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