

## Sustainable Development and CSR— An Emerging Issue



*The Indian economy is one of the largest economies in the world. A large number of the people of India are living in absolute poverty, which shows a picture of uneven distribution of the benefits of growth, which is the root cause of social unrest in the country. Economic development deters the environment and natural resources. The protection of environment and social security were considered as the responsibility of the government. Government and different statutory bodies, in order to respond to this unrest, issued voluntary guidelines on Corporate Social Responsibility (CSR) for social and environmental protection. Now there is a need for an effective participation of business and corporate world to spend some of their profit on CSR. Philanthropy and CSR is not a new concept for the Indian companies. This article attempts to highlight the relationship between CSR and sustainable development, and also elucidates the theoretical and practical contribution of CSR towards achieving the goal of sustainable development in India. It also seeks to discuss the evolution of CSR in India, the legal framework of CSR and the benefits and shortcomings of the CSR provisions under the new Companies Act, 2013. Read on...*



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### Concept of CSR

Corporate Social Responsibility (CSR) refers to running the affairs of a company in conformity with business ethics, transparency, good governance, and being accountable to both the shareholders and the society at large. Business ethics involves fair and honest treatment to all the stakeholders, including the shareholders.

CSR can increase the businesses revenue, by enhancing market access, increasing productivity, including cost-saving, augmenting capital access, reducing risk, obtaining operative licences, retaining and attracting good quality human capital and boosting the brand equity. CSR integrates governance, management, and investment of corporation with social, ethical and environmental concerns, in its business practices.

The concept of CSR can be diagrammatically depicted as shown in Figure 1.

**Figure 1**  
**Concept of CSR**



## CSR—is it philanthropy?

No, the activities with the business contributions to the society by socially beneficial projects, like opening free hospitals, old age home, institutions for physically and mentally challenged children, instituting scholarships for students, are charitable in nature and unconnected with the business of the corporate. CSR is no longer restricted to philanthropy, as the companies are focusing on CSR, as an integral part of their long-term business strategy.

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## Evolution of CSR in India

CSR is not a new phenomenon. Rather its roots exist in the Indian culture. India has one of the richest traditions of CSR, as charity and philanthropy existed in Indian culture from time immemorial. The activities of CSR in India, and even in the world, were not mandatory for the corporate sector. But, for the first time, CSR has been imposed on certain business houses, through the new Companies Act. The history of CSR in India is parallel to the historical development in India. Therefore, CSR can be divided into five phases, namely:-

1. Pre Independence Struggle Era (Before 1850)
2. Independence Struggle Era (1857- 1947)
3. Post Independence Era (1947- 1990)
4. Economy Liberalisation Era (1990- 2013)
5. Current Scenario (2014 onwards)

The above phases of the evolution of Corporate Social Responsibility are briefly described below:

### 1. Pre-Independence struggle era

In the pre-Independence struggle period, CSR was influenced by family values, tradition, culture and religion, along with industrialisation. Till 1850, the richer businessmen shared their wealth with the society by either setting up temples or religious institutions. In this era, construction of temples or religious institutions were considered as the contribution of industrialists or wealthy persons towards society.

### 2. Independence struggle era

The approach towards CSR changed with the arrival of colonial rule in 1850, in the pre-independence era. The second phase related to the struggle period of independence, when Mahatma Gandhi urged the powerful industrialists to share their wealth for the benefit of the underprivileged section of our society. He gave the concept of trusteeship, which helped in the socio-economic growth of India. He influenced the building of trusts for colleges, research and training institutes, to enhance social reforms, like rural development, women empowerment and education. In this phase, the concept of CSR was changed from setting up of religious institutions to setting up of educational institutions also.

### 3. Post-independence era

The third phase was the Post-Independence, *i.e.* from 1947-1990, during which CSR was influenced

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by the emergence of public-sector undertakings (PSUs) to ensure proper distribution of wealth. In 1965, great stress on social accountability and transparency in private sector was given by the academicians, politicians, and businessmen. The policy of industrial licensing, high taxes and restrictions on the private sector resulted in corporate malpractices, which led to enactment of legislation for corporate governance, labour and environmental issues. As PSUs were not very successful, there was a natural shift of expectations towards private sector for their active involvement in socio-economic growth.

#### 4. Economic liberalisation era

The fourth phase was Liberalised India when the Indian economy started to liberalise its economic policies. The Indian companies integrated CSR into a sustainable strategy. The period of 1990, when globalisation and economic liberalisation took place in respect of partial withdrawal of control and licensing system; there was a substantial growth in the Indian economy, which led to increased momentum in industrial growth, making it possible for the companies to contribute towards their **social responsibility**. In this phase, the state of mind of the corporate sector changed and charity was accepted as a responsibility.

In this period, companies started CSR activities and the government also introduced voluntary CSR Guidelines, 2009. CSR was not philanthropy and CSR activities were purely voluntary *i.e.* what companies would like to do

**Section 135 of the Companies Act, 2013, which is effective from 1<sup>st</sup> April, 2014, requires a qualifying company to spend on CSR activities at least 2% of its average net profits made in the preceding three financial years.**

beyond any statutory requirement or obligation. To provide companies with guidelines in dealing with the above mentioned expectations, while working closely within the framework of national aspirations and policies, Voluntary Guidelines for CSR were developed. These guidelines mark an important first step towards a movement for greater corporate contribution towards the welfare of society.

#### 5. Current scenario

Companies are often involved in irresponsible practices and their failure in corporate governance has led to the emergence of a law on CSR. There are examples of failures in corporate governance in India, such as the Union Carbide gas leak case in Bhopal; pesticides in colas with depletion of water by PepsiCo; child labour in supply chains of the clothing group GAP and in carpet, garments and sports goods industries; controversial use of ultrasound machines in female foeticide; use of beef tallow by McDonald's in its products and violation of environmental laws by Vedanta.

Activities of business houses which were considered as CSR in different phases are depicted in Table 1 below:

**Table 1: CSR Activities in Different Phases**

Phase	Period	Emphasis	Major Activities
<i>Pre-Independence Struggle Era</i>	Before 1850	Charity and religious activities	1. Setting up of temples and religious institutions.
<i>Independence Struggle Era</i>	1857-1947	Economic and social well-being aspects	1. Activities of I <sup>st</sup> Phase. 2. Setting up of institutions for rural development, women empowerment and education.
<i>Post- Independence Era</i>	1947-1990	Emergence of PSUs and social accountability and transparency	1. Activities of I <sup>st</sup> Phase. 2. Emergence of PSU's for proper distribution of wealth. 3. Social Accountability and Transparency among Private sector.

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Phase	Period	Emphasis	Major Activities
<i>Economic Liberalisation Era</i>	1990-2013	Traditional CSR merged into a substantial business strategy	<ol style="list-style-type: none"> <li>Activities of I<sup>st</sup> Phase.</li> <li>Establishment of societies for social upliftment of poor community, conservation of water, setting up of health camps &amp; tribal villages &amp; health awareness programmes.</li> <li>Government introduced voluntary Corporate Social Responsibility guidelines for contributions of corporate in the welfare of society.</li> </ol>
<i>Current Scenario</i>	2014 onwards	CSR mandatory and Inclusive development with sustainable business strategy	<ol style="list-style-type: none"> <li>Activities of I<sup>st</sup> Phase.</li> <li>CSR activities as per Schedule VII of the Companies Act, 2013 which are explained in further paras.</li> </ol>

A list of major CSR activities engaged in by some of the corporate houses is given in Table 2.

**Table 2: CSR Activities of Selected Companies in Recent Years**

S. No	Company/ Corporate House	Industry/ Product Line	CSR Activity undertaken	Year/ Period	Turnover (₹ in crore)	Expenditure Incurred on CSR (₹ in crore)	Perceived Environment/Socio-economic Impact
1	2	3	4	5	6	7	8
1	Britannia Industries Limited	Supply of superior quality food products	Food- based solutions to increase nutrition and energy conservation, including waste management	2011-2012	5,005.66	Not available	Organising programmes for children's optimal growth and development, and creating awareness about the right amount of nutrition to be taken.
2	Bajaj Auto Limited	Manufacturing of scooters, motorbikes and three-wheeler vehicles and supply of spare parts	Education, Health, Women-Empowerment, Self-Reliance, Rural Development, Environment and Natural Resources	2012-2013	20,618	51.73	Developing confidence among poor people, providing primary health care services at the door-steps of the poor.
3	ONGC Limited	Production of Petrofied Oil and natural Gas	Education, health care, entrepreneurship schemes, Infrastructure support including roads, bridges, schools, hospitals, and environmental protection	2012-2013	83,309	261.58	Provision of healthcare facilities to elderly people and employment-related computer training.
4	Aditya Birla Chemicals (India) Limited	Manufacturer of bulk and specialty chemicals	Education, Healthcare, Women Empowerment, and Agricultural improvement plans, recycled water	2012-13	840.85	Not available	Creates more jobs, provide education in rural areas, opened hospitals.
5	Havells India	Manufacturing of Domestic Appliances	Provides mid day meal to about 50,000 students in about 350 schools, Runs a mobile medical vans, set-up medical check-up champs, Contributing to the societies during natural calamities.	2012-13	4,506.37	Not available	Increased the number of children to attend school.

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1	2	3	4	5	6	7	8
6	Tata Group along with group companies	Salt to Software Group	Spend their money on a wide range of programmes such as skills development livelihoods, education, health and nutrition, bio-diversity and disaster relief.	2013-14	6,17,212	660	Improves the health of the poor, Supporting Primary Education and Skill development programmes.
7	Wipro	Information Technology	Water Recycling, Health care projects, education programs to 500 migrant workers' children in Bangalore with magic bus, 25,000 saplings planted by about 25,000 farmers in Villupuram district of Tamil Nadu.	2013-14	387,651	16	Provide education to migrant workers' children, green and clean environment, reduces pollution. Retains and promotes women in science.
8	Infosys	Information Technology	Set up organisations devoted to the cause of the destitute, the rural poor, the mentally challenged, and the economically disadvantaged sections of the society.	2013-14	46,917	240	To train the Trainer and help to uphold many sections of the society.

## Recent trends of corporate sector in CSR activities

A number of companies have taken the initiative to spend its profit on CSR activities and the brief of some of the companies are explained below:

### Non-banking companies

- ❖ Ford launches its community program in Sanand to provide safe drinking water to 1,500 children.
- ❖ ITC Initiatives for e-Choupal network, Social and Farm Forestry Programme, Watershed Development Programme, and Women's Empowerment Programme.
- ❖ Oil India Limited (OIL) explores new CSR initiative to start a co-operative dairy business along the lines of Gujarat's successful 'Amul' model.
- ❖ Tata Motors launches CSR initiative in Indonesia focusing on community-based solutions.

### Banking companies

- ❖ ICICI Foundation launches skill development academy for economically weaker sections to help them earn a sustainable livelihood.
- ❖ Canara Bank set-up 64 self employment training institutes, established UDAAN for Skill Development & Recruitment of Graduate Unemployed youth of Jammu & Kashmir,

constructed toilets for girls, provided safe drinking water facility to Flouride affected villages.

## Relevant provisions of new Companies Act

Section 135 of the Companies Act, 2013, which is effective from 1<sup>st</sup> April, 2014, requires a qualifying company to spend on CSR activities at least 2% of its average Net profits made in the preceding three financial years. The average Net profits shall be calculated in accordance with the provisions of Section 197 of the Companies Act, 2013 and the recognised CSR activities are listed in Schedules VII of the Act, and if a company falling in the criteria, fails to spend the required amount, it shall have to explain such failure in the Board of Directors report.

**The Board of Directors of the company shall form the CSR Committee to assist the Board with its oversight of the company's policies and practices involving the environment, vendor workplace conditions, employment practices, community affairs, sustainable product sourcing, corporate charitable activities, governmental relations, political activities and diversity in employment. The CSR Committee shall operate under the charter adopted by the Board.**



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## Companies covered in CSR provisions

The statutory provisions for CSR apply to companies which meet atleast one of the three criteria:

1. Its net worth is ₹500 crore or more.
2. Its annual turnover is ₹1,000 crore or more.
3. Its net profit for any one of the previous three financial years is ₹5 crore or more.

## Prescribed CSR activities

CSR activities are required to be undertaken by a company in accordance with its CSR policy and decisions of its statutory CSR Committee. The CSR activities shall have to be undertaken within India. The provisions equally apply to foreign companies registered in India.

The funds given to political parties and the money spent for the benefit of the company's employees and their families shall not count as CSR activities. The company shall not have the freedom to pick and choose any new activity other than those specified in Schedule VII of the Act.

The Union Ministry of Corporate Affairs has also set up, through the Indian Institute of Corporate Affairs, the National Foundation for CSR, in partnership with the World Bank. The World Bank is supporting the Government of India in developing and co-ordinating the CSR activities across the country through workshops, knowledge missions, international seminars, and training programmes.

## Major CSR activities

Schedule VII of the new Act requires that a company's CSR Policy, formulated by its CSR committee, involves at least one of the following areas:

1. Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation "including contribution to the Swach Bharat Kosh;
2. Promoting education, including special education and employment-enhancing vocation skills, especially among children, women, elderly, and the differently-abled and livelihood-enhancement projects;
3. Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old-age homes, and day-care centres;
4. Ensuring environmental sustainability, ecological balance, protection of flora and fauna,

animal welfare, agro forestry, conservation of natural resources, and maintaining quality of soil, air and water "including contribution to the Clean Ganga Project";

5. Protection of national heritage, art and culture, setting up public libraries; promotion and development of traditional arts and handicrafts;
6. Measures for the benefit of armed forces veterans, war widows, and their dependants;
7. Training to promote rural sports, nationally-recognised sports, paralympic sports, and Olympic sports;
8. 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;
9. Contributions or funds provided to technology-incubators located within academic institutions which are approved by the Central Government; and
10. Rural development projects.
11. Slum area development.

## Steps for CSR activities

1. To set up a CSR committee;
2. The committee should formulate and monitor the company's CSR policy and recommend the expenditure to be incurred on such activities;
3. The Board of Directors' report must disclose the CSR committee and the contents of the CSR policy;
4. The Board is required to ensure that the activities provided under the CSR policy are undertaken and that the company spends at least 2% of the average net profits made by the company in the preceding three financial years in accordance with the policy; and
5. If the Board fails to spend such an amount, it is required to state the reasons for such failure in the report of the Board of Directors.

## CSR committee

The Board of Directors of the company shall form the CSR Committee to assist the Board with its oversight of the company's policies and practices involving the environment, vendor workplace conditions, employment practices, community affairs, sustainable product sourcing, corporate charitable activities, governmental relations,

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political activities and diversity in employment. The CSR Committee shall operate under the charter adopted by the Board.

The purpose of the Committee is to review and evaluate management's goals, initiatives and practices for Social Responsibility; and recommend goals, initiatives and practices for Social Responsibility to the Board of Directors.

## CSR policy

The CSR Policy should be formulated to cover the following elements:

1. Stakeholders' Respect and Care
2. Transparent and Ethical Governance System
3. Welfare of Workers
4. Regard for Human Rights
5. Protection of Environment
6. Social and Inclusive Development.

## Composition of the committee

The minimum number of members in the committee shall be three, of which one director shall be an Independent Director. A private company that does not have Independent Directors can form CSR committees without such directors.

## Meetings of committee

The Committee is required to meet as often as necessary to fulfill its functions but not less than twice a year.

## Duties and responsibilities

The duties and responsibilities of the CSR Committee shall be:

1. To identify, key social responsibility issues that may affect the business operations, brand image or reputation of the company;
2. To re-evaluate social responsibility, in light of changes in public perception, industry's best practices, and evolving priorities and needs in the communities where the Company does business;
3. To review the company's engagement of social responsibility auditors; and
4. To provide oversight of social responsibility reporting to customers, the non-profit sector, industry-peers and partners, and shareholders.

## Fines and/or imprisonment for failure to comply and report

The law does not stipulate any penalties for

non-compliance of CSR provisions. Mere disclosure in the Board of Directors' report about reasons for not spending the amount on CSR is sufficient.

## Benefits of CSR for corporate sector

The corporate sector, by spending the requisite amount on CSR, may be benefitted in different forms which include improvement in financial performance, low operating costs, brand image and reputation enhancement, increase in sales and customer loyalty, more productivity and higher quality, attracts and retain employees, reduced regulatory oversight, more capital access, and safety of products.

## Shortcomings of CSR

The CSR concept is an optimistic view but certain shortcomings still exist. The Act says that the amount will be spent in the local area where business is located. Whereby, most of the companies, in which CSR applies, are working or having affairs of business in major cities only. It denotes that all companies shall spend the CSR amount on a particular area, while rest of the area will be debarred from development through CSR provisions. Tax treatment is also unclear as to whether to treat it as non-deductible income or allowable expenditure.

## Suggestions for better results of CSR

It is suggested that the rules must be further amended to specify that 50 % of the CSR amount shall be spent in the area where business affairs of the company are located, while 50 % must be spent in remote areas which will develop the society in a balanced way.

## Conclusion

The basic objective of incorporating the CSR provisions is to maximise the company's overall impact on the society, as CSR activities would help the company to increase its revenue, enhance market share, increase productivity, attract and retain superior human capital and significantly boost the brand value and reputation. India is the first country in the world to include the concept of CSR in its company law. However, no penalty has been provided in the Act in case a company does not spend the specified amount on CSR activities. ■