India Inc's Evolving Corporate Social Responsibility Landscape— From Voluntary to Mandatory

One of the major highlights of the proposed new legislation, the Companies Bill 2012, is that specified companies will have to necessarily spend 2% of their average net profits made in the immediately preceding three financial years towards Corporate Social Responsibility (CSR). *"Private companies, while maximising their growth, also have responsibility towards society besides equitable and sustainable growth of the country,"* said Union Minister of State for Corporate Affairs (Independent Charge) Shri Sachin Pilot, while moving the Bill. The CSR spend would be mandatory for companies that have a net worth of ₹500 crore or more, or turnover of ₹1000 crore or more or a net profit of ₹5 crore or more during a financial year. Where the company fails to spend such amount, the Board shall in its report specify the reasons for not spending the amount. Under the new legislation, companies will be encouraged to create Employees' Welfare Fund. The enactment of Companies Bill 2012 will make India the only country that has mandated CSR spend through statutory route.

Bhuvanesh Sharma

(The author is VP Corporate Affairs and Company Secretary, HOV Services Ltd, Pune. He can be reached at bhuvanesh.sharma@hovsltd.com)

The Corporate Social Responsibility (CSR) is not a new concept in India. Ever since the inception, corporates like Bharat Petroleum, Birla Group, Hindustan Unilever, Indian Oil, and Tata Group and ITC to name a few are involved in serving the community. Through donations and charity events, many other organisations have also been doing their part for the society. On the other hand, the CSR programmes of corporations like GlaxoSmithKline and a few others focus on the health aspect of the community. They set up health camps in tribal villages which offer medical check-ups and treatment and undertake health awareness programmes.

CSR is the integration of business operations and values, whereby the interests of all stakeholders including investors, customers, employees, the community and the environment is reflected in the company's policies and actions. *"CSR, if it is implemented with sustainability as a focus, enhances business sustainability, provides new opportunities, develops customer loyalty and improves stakeholder relationship,"* said the former President Abdul Kalam on December 20, 2012 at an award function organised by the industry body, the Associated Chamber of Commerce (ASSOCHAM). *"It should become an integral part of corporate strategy, management practices, business operations, product development and conservation of environment,"* he added.

Corporate Social Responsibility (CSR) can be defined as the economic, legal, ethical, and discretionary expectations that society has of organisations at a given point in time. The concept of corporate social responsibility means that organisations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. A traditional view of the corporation suggests that its primary, if not sole, responsibility is to its owners, or stockholders. However, CSR requires organisations to adopt a broader view of its responsibilities that includes not only stockholders, but many other constituencies as well, including employees, suppliers, customers, the local community, state, and federal governments, environmental groups, and other special interest groups.

The essence of CSR comprises of philanthropic responsibility, corporation responsibility, ethical responsibility, environmental responsibility, and legal & economic responsibility. Put all together, the alternative synonymous for CSR is People, Planet, and Profit, also known as triple bottom line. CSR is slowly evolving in India and the developed countries have even established standards for CSR. In developed countries, however the law does not stipulate for mandatory CSR contributions. Many European countries have, however, specified that companies must include CSR information in their annual report.

It is important for government to ensure that its role does not create an extreme situation where its role becomes an interventionist. The whole world is watching India Inc as to how it implements the Government's mandate on CSR.

In India, the evolution of CSR refers to the changes over time in cultural norms of corporations' engagement and the way business managed to develop positive impacts on communities, cultures, societies, and environment in which those corporations operated. Over the time, way back from 1850 during industrialisation, the charity and philanthropy were main matters of CSR. CSR motives changed during the independence movement in India to more of social reforms to encourage empowerment of women and rural development. Then came the era of globalisation and economic liberalisation where, due to increased growth momentum, Indian companies grew rapidly and, therefore, they showed more interest and were able to contribute towards growth of society and for social cause.

In the earlier days till today also, Indian companies were spending on philanthropic activities and whether such activities be construed as CSR activities, the new regulation is not clear. This will definitely affect the sentiments of companies indulging in philanthropic activities keeping in view the government proposal in the Companies Bill 2012 to make CSR activities mandatory with penal provisions for not complying with. It is important for the Government to ensure that its role does not create an extreme situation where its role becomes an interventionist.

As a broad measure of policy, the Government has prescribed certain areas for making expenditure on CSR activities. The activities are as follows:

(i) Eradicating extreme hunger and poverty;
(ii) Promotion of education;
(iii) Promoting gender equality and empowering women;
(iv) Reducing child mortality and improving maternal health;
(v) Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
(vi) Ensuring environmental sustainability;
(vii) Employment enhancing vocational skills;
(viii) Social business projects;
(ix) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socioeconomic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and
(x) such other matters as may be prescribed.

From the view of the Indian companies, meaning of CSR activities could be different from one company to another. For some companies it means providing lunch to its employees and to another it could be about tackling global warming, environmental issues. Indian companies have a tradition of philanthropy but CSR is totally different.

The whole world is watching India Inc as to how it implements the Government's mandate on CSR. CSR is not a new concept in India but has been now discussed and talked upon with more gravity by India Inc due to Companies Bill 2012 which provides for all companies to set aside 2% of net profit for CSR activities. The CSR clause in the Companies Bill 2012 covers all companies that have either net worth in excess of ₹500 crore, or turnover of ₹1,000 crore or more, or net profit of ₹5 crore or more. They have to set aside 2% of the average net profit of the preceding three years for CSR activities.

The Bill clearly spells out about which company to comply, how to calculate 2% and how corporate governance will oversee the spend. However, there are many important questions which are undergoing discussion in India Inc, like: Who in the company will be responsible for implementing CSR activities; who will evaluate the CSR activities and their validity; what are CSR activities under the new law.

From the view of the Indian companies, meaning of CSR activities could be different from one company to another. For some companies it means providing lunch to its employees and to another it could be about tackling global warming, environmental issues. Indian companies have a tradition of philanthropy but CSR is totally different. CSR must relate to conducting the business but not as to giving to the local communities in which business operation are conducted. Corporate philanthropy and CSR are two different disciplines, but the difference gets indistinct. There is a perceptible changeover from giving as an obligation or charity to giving as a strategy or responsibility.

The companies in India have been spending on CSR activities and also doing through it different forms like through trust, foundations and will continue to do so but we will have to wait to see what impact after the mandatory spend on CSR is implemented. Moreover, the amended provisions view the CSR spending as individual company rather than from group perspective. This will adversely affect the promoters having various group companies and have consolidation presentation of their financial statements. For example, if there are 10 companies in group making profits, it implies 20% will be set aside, which can be used for repayment of capital finance, if any, or in new business development.

It is imperative upon the companies as to how to view the government mandate, as tax or as an investment. If the money is spent on philanthropic projects unrelated to the business, then it is just like social tax on profits. However, if companies can use the 2% for philanthropic and shared value projects that create new business opportunities, reduce costs, or strengthen their industry cluster, then the same expenditures would take route of an investment that bring fruits back to the company. "The aim is to protect the interests of employees and small investors while encouraging firms to undertake social welfare voluntarily instead of imposing that through 'inspector raj' and make India an attractive and safe investment destination," Shri Sachin Pilot told the Lok Sabha while moving the Bill.

In addition to setting aside 2%, the regulator had required "business responsibility reporting" as a non-financial reporting which should include environmental, social and governance initiatives, outlined as per National Voluntary Guidelines (NVG) that have been formulated by the Ministry of Corporate Affairs. The mandatory requirement is for top 100 listing companies and these companies are required to submit this reporting along with their annual report for the fiscal year ending on or after 31st December, 2012. However, a majority of the top 100 companies do not seem to be prepared yet in formulating their responsibility reports. A recent study conducted by Carbon Masters, a consulting agency in the field of sustainability, to find the preparedness levels of top BSE-100 companies, indicated that 64% of the top affected companies are not prepared to submit SEBI's prerequisite Business Responsibility (BR) report.

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From decades, India business sector generated wealth for shareholders. However, the country continues to grapple with problems of poverty, unemployment, illiteracy and malnutrition. Corporate growth is sometimes seen by regulatory, as widening the gap between India and Bharat (rural India) through its income-skewing competence. The consensus of all the discussions upon CSR happening in corners of India Inc leads to the conclusion that:- 'India needs a new approach to solve social problems and foster growth; Companies have an important role to play; and the Government intends to build companies' capacity to do so.'

The basic objective of CSR is to maximise the company's overall impact on the society and stakeholders keeping in consideration of the following:

Environment: Businesses have a role to play in preserving natural resources and biodiversity while combating pollution and climate change. We are committed to minimising our main impacts on the environment - energy use, business travel and waste management;

Community: Companies need to develop a long tradition of engaging with the communities in which we work by aligning our community involvement with our business activities and client relationships to ensure maximum impact; and

Sustainability: In wider sense sustainability includes both corporate social responsibility and environmental responsibility.

CSR policies, practices and programs are being comprehensively integrated by an increasing number of companies throughout their business operations and processes. A growing number of corporates feel that CSR is not just another form of indirect expense but is important for protecting the goodwill and reputation, defending attacks and increasing business competitiveness.

The Government mantra is that corporates have equal right and duties towards citizens for social upbringing and therefore "Corporate Social responsibility" and "business responsibility reporting" are approaching its way through Companies Bill 2012.■

Exposure Draft: Standard on Assurance Engagement (SAE) 3420

Announcement for the Attention of the Members: Exposure Draft of Standard on Assurance Engagement (SAE) 3420, "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" for Comments

The Auditing and Assurance Standards Board of the ICAI has issued the exposure draft of Standard on Assurance Engagement (SAE) 3420, "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" for comments. The complete text of the exposure draft can be downloaded from ICAI website at the link: http://220.227.161.86/29615aasb19256.pdf

The comments on this Exposure Draft can be sent latest by **June 03, 2013 to:**

Secretary, Auditing and Assurance Standards Board
The Institute of Chartered Accountants of India
ICAI Bhawan, A-29, Sector-62,
NOIDA, Uttar Pradesh – 201 309

Comments can also be e-mailed at: aasb@icai.org