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Corporate Social Responsibility: A Business Imperative

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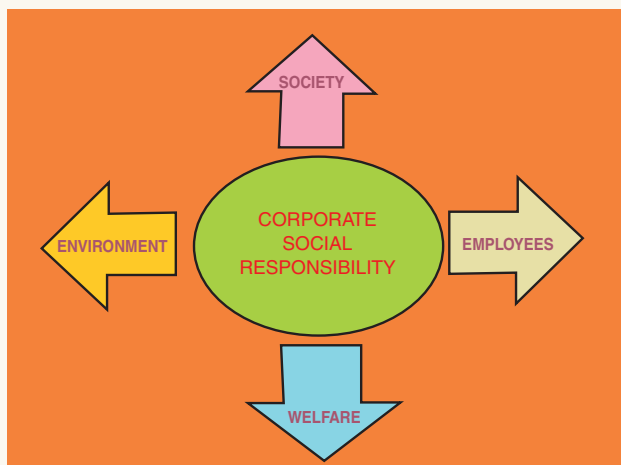
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"Earn your crores but understand that your wealth is not yours; it belongs to society. Take what you require for your legitimate needs and use the remainder for society".—Mohandas Karamchand Ghandhi

Corporate Social Responsibility (CSR) refers to the operations of a company in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has from business. CSR is interchangeably used with several terms like business ethics, corporate citizenship, social and environmental responsibility, corporate sustainability, corporate conscience, social performance.

World Business Council for Sustainable Development defines Corporate Social Responsibility (CSR) as "The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."



According to CSR Asia, "CSR is a company's commitment to operating in an economically, socially and environmentally sustainable manner whilst balancing the interests of diverse stakeholders."

Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line- Approach.)

All the stakeholders have some expectations from the business. The following table reflects the expectation of different stakeholders from the company:

Employees	Fair wages along with proper and safe working conditions and job-security, empowerment, social security, fair policies relating to recruitment, termination, career development and performance appraisal
Shareholders	Fair and regular dividend along with increase in the market capitalization of their investments.
Customers	Quality and socially desirable products or services at fair prices and on fair terms along with prompt delivery and satisfactory after-sale services. Consumer protection and prompt redressal of grievances

Government	Company to be a law-abiding citizen who is paying its taxes fully and honestly and in an ethical manner
Competitors	Company shall not engage itself in unfair or unrestricted trade practices so as to oust competitors from the market.
Creditors	To make timely payments of interest and pay off the principal as per the contract.
Community	To engage in social welfare programs like development of township, up-liftment of rural and backward areas, provision of clean drinking water, health, education for all, etc. and associate with social causes and invest in sustainable development programs for the community

Difference between Corporate Philanthropy and CSR

When a business decides to donate a portion of their profits to a charity, this action qualifies as philanthropy. It can be a one-time or ongoing commitment to give money to a nonprofit organization, and that organization uses the money to further its mission. Corporate Social Responsibility encompasses any practice that improves the lives of your work force, community and the environment. Usually top management decides when and how to donate and to whom to award grants. On the other hand for corporate social responsibility to succeed, every employee and every department must play a role. So Corporate Philanthropy has a narrower and more limited scope whereas CSR has a much broader scope as it addresses the overall attitude of an organization toward its employees, customers, the environment, local community, and the society at large.

The concept of socially responsible organizations is not new to India. It just needs to be adapted to the present scenario. CSR is no longer philanthropy, though still largely voluntary, it is seen as imperative for sustainable business. It acknowledges the debt that the corporation owes to community within which it operates. It defines the corporation's partnership with social action groups in

providing financial and other resources to support development plans, especially among disadvantaged communities. Socio-economic inequalities provide compelling reasons for corporates to make a business case for CSR.

The benefits of CSR are enormous for companies which adapt it into their business strategy. It creates goodwill with customers, government agencies, investors, media and public at large. Socially responsible investment by ethical companies brings in higher returns on a long term basis. Market valuation of the companies today are largely determined by public perception of the business measured by its business ethics and social acceptance.

CSR spending in India

CSRidentity.com, together with Forbes India has collected the data of India's top companies and ranked them 1-100 based on Net Sales for the Financial Year 2012 and their amount spend for CSR activities (Annexure 1). It is noted that there are many companies, even among the top 100 firms by revenue, who don't report their CSR spends or even declare the social causes they support.

Note

- All figures are in Rs Crore and have been rounded off to the nearest decimal point.
- Average PAT refers to the average of profit after tax recorded by a company in the last three financial years (FY10, FY11 and FY12).
- NA stands for data 'not available' for companies which do not disclose their CSR spends in their annual reports.
- Revenue figures are indicative of the company's financial performance in financial year 2011-12 (FY12) only.
- 2% of PAT refers to the amount that a company needs to spend on CSR activities as per the government mandate/ provisions of the Companies Bill 2012
- N/A implies not applicable; according to government policy, loss-making firms don't need to invest in CSR.
- Data Sources Ace Equity; CSRidentity.com; company annual reports; company responses via email.

CSR provisions in the Companies Bill, 2012

Corporate Social Responsibility (CSR) has for the first time been legally recognized in India. Clause 135 (under Chapter IX – Accounts of Companies)

SR NO.	COMPANY	REVENUE	AVG PAT	ACTUAL SPEND	% OF PAT
1	INDIAN OIL CORPORATION	442,459	7,783	83	159
2	RELIANCE INDUSTRIES	368,571	21,138	288	423
3	BHARAT PETROLEUM CORPORATION	223,315	1,438	8	29
4	HINDUSTAN PETROLEUM CORPORATION	185,881	1,118	27	22
5	TATA MOTORS	170,678	8,437	15	169
6	OIL & NATURAL GAS CORPORATION	151,121	23,660	121	473
7	STATE BANK OF INDIA	147,187	13,058	71	261
8	TATA STEEL	135,978	3,895	146	78
9	PNB GILTS	104,628	29	NA	1
10	HINDALCO INDUSTRIES	82,549	3,597	28	72
11	COAL INDIA	78,410	11,759	119	235
12	BHARTI AIRTEL	71,506	6,511	33	130
13	MMTC	67,023	129	3	3
14	NTPC	66,368	9,334	49	187
15	LARSEN & TOUBRO	64,960	4,818	70	98
16	ESSAR OIL	63,428	-201	NA	N/A
17	MAHINDRA & MAHINDRA	63,030	2,948	22	59
18	MANGALORE REFINERY & PETROCHEMICALS	57,214	1,088	NA	21
19	TATA CONSULTANCY SERVICES	48,894	8,935	51	179
20	BHARAT HEAVY ELECTRICALS	50,654	5,823	37	116
21	STEEL AUTHORITY OF INDIA	51,428	5,153	61	103
22	GAIL (INDIA)	44,861	3,891	54	79
23	STERLITE INDUSTRIES (INDIA)	43,116	6,831	7	137
24	CHENNAI PETROLEUM CORPORATION	45,387	382	3	8
25	ADANI ENTERPRISES	39,416	1,940	14	39
26	ICICI BANK	37,995	6,368	24	127
27	PUNJAB NATIONAL BANK	37,447	4,490	NA	89
28	WIPRO	37,308	5,152	NA	103
29	MARUTI SUZUKI INDIA	40,050	2,182	12	43
30	JSW STEEL	36,864	1,568	32	31
31	INFOSYS	33,734	7,128	26	143
32	STATE TRADING CORPORATION OF INDIA	30,605	60	NA	1
33	CANARA BANK	30,816	3,313	NA	66
34	BANK OF BARODA	30,488	4,282	NA	85
35	RUCHI SOYA INDUSTRIES	30,332	167	0	3

SR NO.	COMPANY	REVENUE	AVG PAT	ACTUAL SPEND	% OF PAT
36	HOUSING DEVELOPMENT FINANCE CORPORATION	29,930	3,608	3	72
37	BANK OF INDIA	28,611	2,301	NA	46
38	HDFC BANK	27,808	4,108	NA	82
39	ITC	36,990	5,201	NA	104
40	TATA POWER COMPANY	26,020	1,117	9	22
41	RAJESH EXPORTS	25,654	295	NA	6
42	GRASIM INDUSTRIES	27,899	3,395	19	88
43	RELIANCE INFRASTRUCTURE	24,181	1,229	4	25
44	HERO MOTOCORP	25,235	2,179	33	44
45	HINDUSTAN UNILEVER	24,506	2,404	NA	48
46	IDBI BANK	23,389	1,532	NA	31
47	PETRONET LNG	22,896	804	0	14
48	RELIANCE COMMUNICATIONS	22,193	2,423	NA	48
49	AXIS BANK	21,895	3,347	19	67
50	ADITYA BIRLA NUVO	22,262	654	NA	13
51	SUZLON ENERGY	21,359	-926	8	N/A
52	REDINGTON (INDIA)	21,193	272	NA	5
53	UNION BANK OF INDIA	21,152	1,081	6	40
54	HCL TECHNOLOGIES	20,831	1,778	4	36
55	BAJAJ AUTO	20,541	2,709	10	54
56	IDEA CELLULAR	19,409	859	NA	17
57	ULTRATECH CEMENT	21,502	1,618	NA	32
58	CENTRAL BANK OF INDIA	19,169	960	NA	19
59	JINDAL STEEL & POWER	22,473	3,814	88	76
60	INDIAN OVERSEAS BANK	17,897	943	5	19
61	OIL INDIA	17,215	2,988	50	60
62	JET AIRWAYS (INDIA)	17,190	-642	NA	N/A
63	ORIENTAL BANK OF COMMERCE	15,815	1,260	NA	25
64	ALLAHABAD BANK	15,529	1,486	NA	30
65	SYNDICATE BANK	15,268	1,059	NA	21
66	JAIPRAKASH ASSOCIATES	15,651	1,396	47	28
67	MOTHERSON SUMI SYSTEMS	15,138	291	1	6
68	UCO BANK	14,832	1,009	NA	20
69	TATA COMMUNICATIONS	14,196	-674	1	N/A
70	TATA CHEMICALS	14,045	870	2	17
71	VIDEOCON INDUSTRIES	13,685	-409	NA	N/A
72	ASHOK LEYLAND	14,134	540	NA	11
73	POWER FINANCE CORPORATION	13,075	2,995	13	54

SR NO.	COMPANY	REVENUE	AVG PAT	ACTUAL SPEND	% OF PAT
74	CORPORATION BANK	13,018	1,373	NA	27
75	SIEMENS	13,290	672	1	13
76	GITANJALI GEMS	12,498	349	3	7
77	EID-PARRY (INDIA)	12,646	550	NA	11
78	SHREE RENUKA SUGARS	13,176	290	NA	6
79	INDIAN BANK	12,229	1,070	NA	34
80	PANTALOON RETAIL (INDIA)	12,212	72	NA	1
81	APOLLO TYRES	12,902	473	NA	9
82	MRF	13,187	519	NA	10
83	CAIRN INDIA	11,861	5,108	NA	102
84	HINDUSTAN ZINC	12,061	4,823	8	96
85	ANDHRA BANK	11,362	1,207	NA	24
86	NMDC	11,269	5,737	0	115
87	CROMPTON GREAVES	11,615	601	NA	14
88	JSW ISPAT STEEL	12,124	-820	NA	N/A
89	HCL INFOSYSTEMS	10,858	181	NA	3
90	RURAL ELECTRIFICATION CORPORATION	10,338	2,482	NA	60
91	PUNJ LLOYD	10,313	-18	1	N/A
92	POWER GRID CORPORATION OF INDIA	10,312	2,664	25	53
93	LANCO INFRATECH	10,109	474	4	9
94	RANBAXY LABORATORIES	10,180	-353	NA	N/A
95	SHREE GANESH JEWELLERY HOUSE	10,121	308	NA	8
96	ACC	11,049	1,308	NA	26
97	BHUSHAN STEEL	10,812	854	NA	19
98	ALOK INDUSTRIES	10,018	181	1	4
99	ASIAN PAINTS	10,872	929	1	19
100	UNITED SPIRITS	18,294	244	NA	5
		TOTAL		1,785	5,811

of the Companies Bill 2012 deals with Corporate Social Responsibility.

CLAUSE 135: Corporate Social Responsibility

Who must comply?

Every Company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a CSR Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

What will the CSR Committee do?

- Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII.
- Recommend the amount of expenditure to be incurred on the activities.
- Monitor the Corporate Social Responsibility Policy of the company from time to time.

What will be the role of the Board of Directors?

- Review the recommendations made by the CSR Committee.

- Approve the CSR Policy for the company.
- Disclose contents of the Policy in the company's report/website.
- Shall ensure that the company spends in every financial year, at least two percent of the average net profits.

How much will a company be required to spend on CSR?

- At least 2% of its average net profit made during the three immediately preceding financial years.

What are the activities which may be included by companies in their CSR policies ?

According to Schedule VII, the following activities may be included by companies in their Corporate Social Responsibility Policies

- Eradicating hunger and poverty
- Promotion of education
- Promoting gender equality and empowering women
- Health - reducing child mortality, improving maternal health, combating HIV, AIDS, malaria
- Employment enhancing vocational skills
- Contribution to PM's fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women
- Ensuring environmental sustainability
- Social business projects
- Such other matters as may be prescribed

What does a company need to disclose in the Annual Report?

The Board's report under clause (o) of sub-section (3) of section 134, shall disclose the composition of CSR committee, CSR policy and initiatives , Amount of expenditure incurred on Corporate Social Responsibility activities, reasons in case of failure to spend the prescribed amount.

The Obstacles to CSR in India are:

- Lack of awareness and conviction amongst the managers
- Lack of impact analysis
- Absence of a clear linkage between CSR and financial success
- Lack of enough trained managers to support the CSR process

Measuring Corporate Social Responsibility

Measuring CSR initiative is important to ensure effective implementation of planned strategy and to determine future action plans. Each company can design measuring strategies based on their selected CSR focus areas. There are several ways to measure impact of CSR initiatives- community initiatives, workplace initiatives, environmental initiatives and marketplace initiatives

■ Measurement of Community initiatives

1. Cash value of community support as a percentage of profit.
2. Impact of evaluations carried out on community programs
3. Project progress.
4. Perception measures
5. Positive and Negative media comments

■ Measurement of Workplace initiatives

1. Staff absenteeism
2. Legal non compliance
3. Staff grievances
4. Staff turnover

■ Measurement of Environmental initiatives

1. Overall energy consumption
2. Water usage
3. Quantity of solid waste produced
4. Use of recycled material
5. Environment impact of business

■ Measurement of Market place initiatives

1. Number of product / service complaints
2. Advertising complaints upheld
3. Complaints about late payment of bills
4. Upheld cases of anti corruptive behaviour
5. Customer satisfaction levels
6. Customer retention

Ope-rationalizing Corporate Social Responsibility

In order to operationalize Corporate Social Responsibility initiatives, the company management should formulate CSR policy and describe its linkage with the Vision and Mission Statement of the company. Written CSR policy will ensure a common understanding amongst Board members and will prescribe how much and what a company wants to achieve. To implement CSR policy, management should form a core group or a Committee. The Core group would be responsible to plan, execute, monitor, evaluate, report and communicate the

progress and impact of CSR programs. The core group will also be responsible to identify the resources needed, execute planned activities and sustain the commitment and motivation for responsible business practices. The core group will design the CSR action plan of the company, integrating company values, focus area and available resources. Networking with local NGOs, Government bodies and like minded corporates will facilitate effective and impactful implementation of the CSR action plan. The core group must develop an appropriate monitoring and impact measurement mechanism, and communicate CSR actions to all stakeholders.

CSR—a business imperative

The message is loud and clear: Societal wellbeing is a pre-requisite for business prosperity

Companies should look upon business not merely as a source of income or profit, but as a way of life, as a medium for putting talents to good use, while at the same time affording an opportunity to be of service to the community. Profits will follow. Let us remember that profit is not just a set of figures – but of values.

Companies which put social responsibility before profits shall be the ones who will survive the competitive pressure. CSR needs to permeate

all across the value chain. It has to be realized that the future of business depends upon its ability and willingness to respond to the changing genuine aspirations of the society.

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The Management Accountant — July, 2013 will be a special issue on **‘SUPPLY CHAIN MANAGEMENT’**

Articles, views and opinions on the topic are solicited from readers/authors along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to editor@icmai.in, followed by hard copy to the CMA Bhawan, 4th Floor, 84 Harish Mukherjee Road, Kolkata-700 025 to reach by 8th June, 2013.

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