

The New Mandated Corporate Social Responsibility- Opportunities

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Abstract

India is the only country to have enacted a law making it mandatory for companies of certain net worth or turnover or net profit, to spend a fixed percentage of their profit on corporate social responsibility (CSR) related activities. This law has become effective this fiscal year beginning 1 April 2014. Estimates reveal that the annual spend on this category will be to the tune of 12,000 – 18,000 crores. This is a large amount and will become an industry in itself. There are many consulting companies coming up to advise and assist organizations in complying with the regulations. This paper examines the opportunities created by this law for companies involved directly and indirectly in these activities.

Keywords: CSR, CSR law, CSR opportunities, Mandated CSR, CSR in India

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1. Introduction

Corporate Social Responsibility (CSR) has joined the bandwagon of the lingua franca used by governments, companies and the common citizenry. Though it has been in vogue for quite some time, in recent times, the term has been in the front page because of the new legislation in India that mandates companies to contribute a fraction of their profits to the society they are part of. Can CSR, akin to philanthropy, be mandated is a question on many minds. While there is no consensus on that, what cannot be questioned is the fact the benefits of that mandated CSR activities, if well done, are what need to be looked into. Whether companies spend the money willfully or forcefully, if it is for a good cause and for the common good of the society, then there is no second thought about it. The legislation becomes effective the fiscal year (1 April 2014 – 31 March 2015).

Though the law specifies which companies should spend, how much should they spend and on what activities, there are also many grey areas and challenges that companies have to face in complying with the law. Equally, there are also many opportunities that the law provides

for other industries which stand to gain from this mandated annual spend of a large amount. This paper focuses on the opportunities that many players can tap into.

2. CSR - Definition and its Importance

CSR has been defined in many ways. One such definition is “CSR is the voluntary incorporation of social and environmental issues into a company’s business model and operations (European Commission 2001) with intent to please the diverse stakeholders in addition to the obvious shareholders of the company”. CSR also requires that companies produce tangible results through concrete actions. Otherwise, the stakeholders perceive CSR as an exercise in public relations and brand building or in certain cases as an excuse to repair the damaged image of the company. The reports of CSR activities can also serve as a good communications tool, thereby lifting the image of the organization.

Companies have realized that the benefits of CSR are many including winning the trust and therefore implicit approval of the communities in which they operate, hiring good local talent who are usually more loyal, involving and if needed training local communities in the procurement and distribution, thereby contributing to their livelihood. These activities obviously earn the goodwill of the people and increase the company’s reputation. (CII, 2014) CSR has gained such prominence that even Harvard Business School is offering short term executive education programs (Harvard, 2014).

3. Estimated Annual Spend

India is the only country in the world where spending on CSR has been mandated. Section 135 of the companies act of 2013, mandates that all companies, including foreign firms that operate in India, with a net worth of Rs. 500 crores (5 billion) or more, a turnover of Rs. 1,000 crores (10 billion) or more and net profit of at least Rs. 5 crores (50 million), must spend at least two percent of their profit on CSR (Business Standard, 2014). The law is a massive 294-page act that requires companies to set up a CSR board committee, allocate 2% of net profits in the last three years to CSR, and the board’s director to review the activities at the end of each financial year to ensure compliance (Forbes, 2014). According to industry estimates, around 8,000 companies will fall into the ambit of the CSR provisions and this will translate into an estimated spend of Rs. 12000 - 15000 crores (120 - 150 billion) (Business Standard, 2014). With higher economic growth and increase in companies’ profits, this mandatory spending will go up.

According to Times of India (2014), “Though CSR provisions do not offer any great tax savings, companies can claim deductions towards depreciation on assets created for CSR purposes and on expenditure for skill development projects. The expenditure incurred on repairs and insurance in respect of machinery, plant and furniture used for CSR activities, rent, taxes and repairs incurred on buildings or other assets taken on lease earmarked for CSR activity would also qualify for deductions. Companies can also claim deduction towards depreciation on assets used for CSR purposes”.

4. CSR Tracking Progress

How can the success of CSR activities be measured? It is easy to monitor their progress but translating that progress into tangible aspects that reveal their success and convinces all the stakeholders that the money indeed has been well spent is not easy. While there is no one

yardstick or measure such as share price, dividend or net profit, measures have to be developed depending on the activity. In the case of chemical and manufacturing companies operational metric such as tons of carbon emitted is a clear indicator. Social indicators such as the number of people enrolled in adult education programs or the number of children fed are also good indicators. But, for many other activities measures need to be developed.

There is a proven linkage between the CSR activities of a company and its sales, share value, attrition rate, and work stoppage due to strikes and lockouts. Hence, these measures can also be used to gauge the success of CSR programs. However, these are long-term effects and how much CSR contributed to these parameters apart from other practices such as increased productivity, reduced cost, better quality etc. cannot be clearly determined. (McKinsey Quarterly, 2014)

5. Opportunities

There are several opportunities for supporting industries to become part of the ecosystem of CSR i.e., the companies that spend their profits on CSR activities actually give rise to many other business opportunities to other companies, which in itself is a clear benefit to the members of the ecosystem.

5.1 Training

Who in the organization should be vested with these responsibilities at the grassroots level? Typically not many companies have set up separate departments and created positions titled such as VP – CSR or GM – CSR or CSR officer. Often, the human resources department takes up the CSR activities along with other responsibilities. However, most of them are not trained to handle these kinds of activities on a large scale and in a formal way. Hence, there is a large opportunity to train personnel for CSR related work. Coal India, the world's biggest coal miner, has budgeted Rs. 300 crores (3 billion) on 2014-15 for CSR related activities in all of the 85 regions the company has mining operations. It plans to recruit about 120 officers in the CSR cadre in 2014. In India, this is the first time that either a private or public sector company is assembling such a large team dedicated to CSR programs.

Though companies have executed large projects of long duration, the diversity of projects that may fall under the ambit of CSR does pose a challenge. According to Schedule VII of the act, the list of activities includes (CII, 2014)

1. Promotion of education
2. Eradication of extreme hunger and poverty
3. Gender equity and women empowerment
4. Reducing Child mortality and improving maternal health
5. Combating HIV-AIDS, malaria and other diseases
6. Environmental sustainability
7. Social business projects
8. Contribution to Prime Minister's relief fund and other such state and central funds
9. Employment enhancing vocational skills

Consider Coal India again. If the company were to pursue diverse projects such as:

- a) Building schools /colleges/ hospitals or providing sanitation facilities (toilets)
- b) Planting saplings or developing and maintaining gardens/parks

c) Educating adults with evening / weekend schools

Then, the methods needed to track these projects are diverse as the projects themselves. Construction can be monitored easily by measuring the tangible progress. There is no need for maintenance or daily activities to be performed as part of the monitoring.

In the case of planting saplings, the activity does not end with planting alone. It involves, watering them, providing fertilizers and ensuring that cattle do not destroy them. If the saplings are meant to become trees to provide shade then the task is easy. But if the saplings are to become flowering plants and be part of a park, then full time gardeners are needed. This involves recurring expenditures for payroll, procurement of fertilizers, removal of weeds etc.

In the case of adult education, there is no tangible outcome. Progress can be tracked only by measuring parameters such as ability to read and write. If this activity were to succeed, it does not end with just conducting classes. It also involves ensuring that the adults attend them regularly. If they are not regular, then the reasons for absenteeism should be identified and they must be addressed as part of CSR activity. This will involve additional efforts, time and money. It is well known that in rural areas children drop out of school because they are forced to work to supplement the meagre and often irregular incomes of the parents. Or the children attend school without eating breakfast or lunch and hence cannot concentrate in the classroom. In order to succeed all these impediments must be removed as part of the expanded scope. In contrast to this, developing infrastructure (like school) or planting saplings, maintaining a garden involves relatively easily manageable activities. Lastly, for these activities to bear fruits, continuous monitoring and supplementary support are required. In a larger sense, if the value of education is understood and appreciated by the adults then they would ensure that their children are educated. This clearly is the ultimate proof of success of the activity. From the above, it is clear that the CSR department/personnel must be trained on many aspects. The training can be divided into four types – awareness, implementation, tracking and technologies.

5.1.1 Awareness

What is CSR and what activities fall under the umbrella?

How is it defined in the law? What are the “dos and don’ts” as per law?

How to choose the projects? What are the criteria?

How to balance company’s interests and compliance with the law?

How to effectively spend all the money allotted for CSR? and so on. (In 2011-12, Coal India spent only 15% (Rs. 82 crores) of its budget of Rs. 554 crores on CSR)

A training that answers the above questions is required.

5.1.2 Implementation

The second part of the training would be to train the team on how to mobilize resources within and outside the organization? How to use external consultants and experts if needed? How to monitor and track these projects? How to assess success? As mentioned earlier, these measures may not be direct or tangible.

5.1.3 Tracking

The third part of training would be to how to audit these projects? How to check for compliance with law, financial mandates etc. What documentation is needed for the expenses incurred? Auditing these projects may also require new standards and processes that will evolve slowly.

5.1.4 Tools and Technologies

The staff should also be trained on the use of information technology. Today the use of information technology (IT) is increasing in every sphere from the mundane to the arcane. This section outlines how IT can be used in various aspects of CSR. In the broad sense, IT can be used in all the phases – planning, execution, assessment, monitoring, documenting and reporting - of CSR activities.

Automation

This refers to use of IT tools to replace humans with computers. Basic activities can be automated which will reduce the dependence on people, eliminate or minimize errors, increase productivity, and reduce the time taken to process data. Examples of such activities are:

Data Entry: Simple details about different activities can be stored in a spreadsheet like Microsoft Excel or similar applications.

Expenses: The money spent can be tracked using a financial package. This software does not have to have sophisticated features. Basic functions will suffice.

Repository

All the data related to CSR activities must be stored in a single repository at the corporate level. Access to this database should be authenticated, authorized, and logged. This repository will assist in monitoring, preparation of reports and compliance with law. The corporate database contains all the information related to the company's CSR activities. Access to that must be provided only on a restricted, need basis. Depending on the sensitivity of the data, in addition to the usual login-password feature, there can be additional authentication mechanism such as biometrics (fingerprint). Also, not all the authorized users should have access to the entire repository. Different levels of authorization can be set up so that people are given access only to the information they need to perform their duties.

5.2 Corporate Communication

When large sums are spent, it should be well publicized to create an impact and boost the image of the company. For this, the public relations or corporate communications wing should be active and work closely with the CSR people to ensure adequate media coverage, publicity given for these activities. This will entail promoting these activities on the web site and face book page of the company, preparing good reports and also write/talk about it in the press. Today, social media is the big thing and not many companies have specialists to use this medium to its fullest potential and take maximum advantage out of it. This will entail hiring new people with these skills to be part of CSR team.

Thus, it is seen that the new law will provide many opportunities for support industries in the realm of general training, technical training, web design, corporate communication and social media.

6. Conclusions

India has become the first country in the world to mandate a minimum amount to be spent by select companies on Corporate Social Responsibility related activities. Estimates reveal that the annual spend on these activities will be of the tune of Rs. 12,000 – 15000 crores. This large sum of money will be pumped into the economy under various schemes. If companies develop good strategies, adopt best practices for implementation, do thorough assessment, meticulous tracking and show clear progress and where possible in tangible terms, then they can use this law to boost their revenue, profits, customer satisfaction and all stakeholders' goodwill in the long term.

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