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CORPORATE SOCIAL RESPONSIBILITY ISSUES AND SUSTAINABILTY

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ABSTRACT

The corporate social responsibility rules, which came into force from April 2014, make it mandatory for large Indian firms to set aside at least 2% of their average net profit for socially responsible expenditures. CSR is a term describing a company’s obligation to be accountable to all of its stakeholders in all its operations and activities. The Companies Act, 1956 is replaced with the Companies Act, 2013 and CSR has been made mandatory for a particular class of companies. There has to be an all-inclusive growth of the companies. Perhaps keeping this in mind, Indian law makers brought this law. This paper aims to provide an assessment of the response by firms to these rules. It examines the extent to which these rules have led firms to comply and the extent to which their implementation over the financial year 2014-15 has contributed additional funds towards the social development of the country. The analysis is based on firm-level data sets of Indian firms for 2010-15. We find that following the implementation of these rules there has been an increase in the number of firms that are spending on CSR initiatives as well as the total amount spent on CSR activities. However, the distribution of CSR expenditures amongst firms is extremely unequal.

Keywords: Corporate social responsibility rules, CSR, Implementation, CSR initiatives, CSR expenditures

INTRODUCTION

The United Nations Sustainable Development Goals have highlighted the challenges of achieving economic prosperity, social inclusion, and environmental sustainability. However, these challenges cannot be met by governments alone. Corporations have large resources, knowledge and capacity to contribute to sustainable development and there is an increasing expectation of proactive socially responsible behavior from them. This goes beyond the earlier held view that the sole responsibility of the firm is to increase profits for its shareholders (Friedman 1970).

Socially responsible management has typically been defined as private firms doing more than that required by applicable laws and regulations governing the environment, worker safety and health and investments in the communities in which they operate. These efforts are typically voluntary and contribute to the environmental quality and social development agenda of society. While altruism, personal environmental values and attitudes of managers may lead some firms to make their business more socially responsible (for example, Benabou and Tirole 2010; Nakamura et al 2001; Ervin et al 2012), such efforts need to be in the self- interest of firms to be adopted widely and be sustainable in the long run.

WHAT CORPORATE SOCIAL RESPONSIBILITY ENTAILS

To engage large corporations to contribute towards the social development agenda in India, Section 135 of the enacted Companies Act, 2013 mandates a minimum spending on CSR initiatives. The provisions of Section 135 (referred to as CSR rules hereafter) became effective from 1April 2014. This makes India the first country in the world where it is mandatory for large firms (defined in terms of net profits, net worth or turnover) to set aside at least 2% of their average net profit made during the three immediately preceding years for socially responsible expenditures.

The purpose of this paper is to provide an assessment of the response by firms to the CSR rules have. It examines (1) the extent to which the CSR rules have led firms to comply and increase the share of profits being spent on CSR activities; (2) the extent to which implementation of the CSR rules over the financial year 2014-15 has contributed additional funds towards the social development of the country; (3) if the compliance with these rules has resulted in shrinking of firms' other charitable donations; and (4) the types of CSR activities undertaken by firms.

We have undertaken this analysis by examining reported data by firms over the period 2010-15 to compare CSR expenditures before and after the enactment of CSR rules as well as across large and small firms at a point in time. We have used data from the Prowessiq database, which is the largest available firm-level time series data set on financial variables of Indian firms and has over 38,000 firms in its database. This database is a product of the centre for Monitoring Indian Economy(CMIE).

We find that following the implementation of the CSR rules there has been an increase in the percentage of firms reporting expenses on CSR from 10% or below in previous years to 48% in 2014-15. The percentage of firms spending 2% on CSR expenses has also increased .However, only 19% of the firms that come under the purview of these rules are spending 2% or more; that is, 81% of such firms are not complying. Interestingly, these 19% of firms in 2014-15 are spending 40% of the total expenditure on CSR by all the firms that come under the purview of these rules. So, the 11% of firms spending more than 2% are making up for the 78% of the firms that are not spending enough on CSR. This suggests a very unequal distribution of CSR expenditures by firms. In terms of activities, CSR expenditure has been mainly directed towards health, education, environment, and community development.

CSR RULES: A BACKGROUND

The CSR rules in India define CSR more narrowly as expenditures that contribute to the social development agenda of the country. These rules specify that expenditures that benefit the company directly or its employees will not be considered as CSR activities in compliance with the CSR law. Instead, the company is expected to make these expenditures outside its area of operations. It specifies CSR as activities that go beyond a firm's internal efforts at being environmentally or socially responsible to those that meet the larger societal needs like eradicating extreme hunger and poverty; promoting education; promoting gender equality and empowering women; reducing child mortality and improving maternal health; combating HIV/AIDS, malaria and other diseases; ensuring environmental sustainability; employment enhancing vocational skills; social business projects; contribution to the Prime Minister's National Relief Fund (PMNRF) 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, Scheduled Tribes, Other Backward Classes, minorities and women; and such other matters as may be prescribed.

The CSR rules require every company with a net worth of Rs.500 crore, or a turnover or Rs. 1000 crore, or a net profit of Rs. 5 crore or more during any financial year to constitute a CSR committee of the board of directors. This committee will recommend to the board a CSR policy for the company as well as the amount of expenditure to be incurred on CSR activities and monitor the implementation of this policy. The company is required to disclose its CSR policy in its annual report and on the company's website. Firms may undertake such expenditures directly or through trusts, societies, or Section 8 companies operating in India, which is not set up by the company itself.

The CSR provisions under the Companies Act, 2013 grew out of the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Businesses released by the Ministry of Corporate Affairs in 2011 that promoted responsible business practices. However, these rules still remain voluntary guidelines as there is no formal penalty for non- compliance. If a company fails to spend at least 2% of its average net profit on CSR activities, its board is only required to provide an explanation for not spending that amount in its annual report and on its website.

Many firms in India were undertaking voluntary CSR, philanthropic, and other charitable activities even before the announcement of the CSR rules. Examples in the private sector include Birlas, Tatas, Hindustan Lever, Jindal, and Wipro and in the public sector include Oil and Natural Gas Corporation (ONGC), Indian Oil, National Thermal Power Corporation (NTPC), and Gas Authority of India Limited (GAIL). But, the recent rules have made such expenditures mandatory for all large firms.

We now present some anecdotal evidence of the type of CSR activity firms in India are engaged in for altruistic or strategic reasons: Aditya Birla spends Rs.250 crore annually to develop model villages which are supposed to be self-sustainable. The programme covers 5,000 villages, reaching out to 7.5 million people out of which 60% live below the poverty line (adityabirla.com). Public sector companies like ONGC, Indian Oil, NTPC, and GAIL have been undertaking renovation and maintenance activities for temples and monuments around their operational area.

Some multinationals like Coca-Cola was found to have pesticide residues above the permissible limit in India. To recover its image, in June 2007, Coca-Cola implemented a water stewardship programme and committed itself to reducing its operational water footprint and to offset the water used in the company's products through locally relevant projects. It carried out many projects on water harvesting and management thereafter. Hindustan Unilever initiated a project in India by the name "Shakti." It recruits village women, provides them with access to microfinance loans, and trains them in selling soaps, detergents, and other products door-to-door. This not only increases the market size for the company but also improves household income of the villagers, contributes to public health by providing access to hygiene products and leads to women's empowerment (Rangan et al 2015).

CSR ACTIVITIES OF FIRMS IN 2014-15

In this section, we analyse what kind of activities firms are undertaking under their CSR obligation. This information is not available in the Prowessiq data set. We collected data from the annual reports of randomly selected 50 firms for the financial year 2014-15.

Broadly, we have identified the following areas in which CSR activities are undertaken by the firms: education; healthcare; community development; protecting and sustaining the environment; promoting gender equity; skill development; and other activities like contribution to the PMNRF, disaster relief, etc.

Education: The firms are undertaking a range of activities to promote, provide and support education and educational institutions. While some firms like Bajaj Auto make generous donations to various schools, colleges and universities, firms like Hindalco directly fund and supervise the construction of school buildings and provide the required infrastructure to the school. Many firms such as Finolex and Birla have their own schools and colleges that are managed and funded by the firms themselves. Firms such as Indian Oil Corporation give away academic scholarships to the meritorious student. Maruti Suzuki has tried to improve the state of affairs in government schools.

Healthcare: This sector amounts to the largest share of firms CSR expenditure. With a goal of providing better healthcare facilities, firms undertake activities like organizing health checkup camps(Reliance Capital), schemes to combat malnourishment (Tata Steel, ITC, and JSW steel), etc. Some firms like Bajaj Auto provide financial assistance to hospitals (to help them acquire better medical equipment and also encourage medical research) Essar Steel India and Bank of Baroda have made significant contributions to the provision of mobile medical facilities to make healthcare facilities accessible. Though most of the firms are carrying out their CSR activities in this sector in the rural areas, there are a few firms that have worked towards improving the medical facilities in the metropolitan cities of Mumbai and New Delhi (for example, Bank of Baroda, Hindustan Times Media, and Jaypee Infratech.

Community Development: Community development includes activities that contribute to the betterment of the society and benefits the members of the society. Some of the activities that are undertaken include: protection of national heritage (Bombay Dyeing and Bajaj Auto), promotion of traditional handicrafts, art and culture(Essar Oil and Tata Steel), setting up of orphanages and old age homes (JSW Steel), construction of village roads, halls, drainages(Grasim Industries) and running free bus services for the people (Essar Steel). These activities are undertaken in cities like Mumbai, Delhi, and Coimbatore as well as in the rural areas in states like West Bengal, Bihar, Punjab, and Uttarakhand.

Promoting Gender Equity: Axis Bank, Reliance Industries, ITC, and Bajaj Auto have been trying to help women through construction of special hostels and homes for working women, providing them training so that they can make a living from it.

Skill Development: Many firms have started schemes under CSR through which they provide vocational and technical education, support Industrial Training Institutes, and encourage entrepreneurship among the youth. ONGC, Hindalco, Berger Paints and Maruti Suzuki have made a notable contribution in this sector.

Protecting and Sustaining the Environment: Ensuring environmental sustainability has been the major focus firms like Tata Steel, ONGC, Reliance Industries, and Tata Motors; Firms like JSW Steel and Power Grid Corporation of India have planted thousands of trees. ONGC, Aditya Birla Nuvo, and Grasim Industries are making efforts to spread awareness about the environment and conserving natural resources. While some firms carry out these activities in their local area where their plants are located, other firms conduct these activities beyond their local area.

Other Activities: Firms also make a contribution to the PMNRF and engage in other activities that cannot be categorized into any of the above- mentioned sectors.

The two sectors where the maximum numbers of firms in our sample have directed their attention to are healthcare and education. These two sectors are closely linked to community development. The next most important sector where firms have directed their CSR activities is sustaining and protecting the environment. Nearly 40% of the firms in our sample has been working towards providing technical education and improving the job prospects of the workers. In terms of CSR expenditure, the maximum amount has been spent on healthcare, followed by education and environmental protection.
In our sample of 50 firms, more than 50% of the firms (18 out of 35) are spending less than the required amount on CSR activities. Many reasons have been cited in the firm’s annual reports for not complying with CSR. One of the reasons is that the schemes implemented by the firms were in a nascent stage when infrastructure and the project parameters and resources were identified and set up, and therefore the entire amount devoted to the schemes could not be spent. Second, the companies were still in the process of evaluating the focus area/locations of intervention for CSR activities to cater to the needs of society and deliver optimal impact. Third, this being the first year after the law has come into effect, formulating new policy, putting new systems and procedures into place, and mobilizing additional resources took up a substantial part of the year.

REVIEW OF LITERATURE

There are many obstacles which are emerging while considering successful CSR strategies in making a business case for CSR, intricacy in integrating CSR with organizational values and practices, the lack of organizational buy-in and assurance to CSR. Other factor which hinders CSR is the lack of time and financial resources to follow CSR practices are directly related to the above three. When an organization finds it difficult to make a business case for CSR or its association with core organizational operations, it will be averse to commit and allocate resources or time to such practices. Moreover, these obstacles also point to another set of findings in the report respondents view csr more so as a mean to manage regulatory impacts, reduce risk and respond to stakeholders concern to a lesser extent as a strategic source of competitive advantage.

Mc Williams (2002) states that, CSR strategies, when backed by political framework & strategies can be used to develop strong firm with long-term competitive benefits.

According to Baron (2001) the use of CSR to attract socially responsible consumers is referred to as a strategic CSR, in the sense that firms provide a public good in conjunction with their business strategy.

RESEARCH METHODOLOGY

The study based on both primary and secondary data. The primary data collected through interview scheduled from 100 respondents. Secondary data collected through various questionnaire, books, journals and websites.

CONCLUSION

India is the first country to mandate a minimum spending on CSR expenditure of large firms. These funds have the potential to complement the government's effort towards social and economic development and protection of environment. The objective of this study was to provide an assessment of the Indian firms' response to the law.

We do find a sharp spurt in the number if firms reporting CSR expenses in their annual reports and also an increase in the number of firms t6hat are undertaking expenses on CSR activities. Yet about 52% of the firms that come under the purview of the law did not report CSR expenditures. There are spillover effects as not only the eligible but non-eligible firms also increased their CSR expenditure. We also observe firm's CSR expenditure to be clustering around 2% of the profits. This suggests that firms that are reporting CSR are trying to comply by the 2% stipulated in the law. There is also evidence that some firms are meeting their mandatory CSR obligation by reducing expenditure on other philanthropic activities such as donation.

The effectiveness of CSR expenditure, however, on development goals would depend on successful functioning of the initiatives taken. For instance, substantial investment has been incurred in the construction of toilets. But, just their construction does not ensure that these will be used. The success of toilets would depend on availability of toilets per person (one toilet in a school is not of much use) and the availability of water. Similarly, cook stoves are distributed to reduce emissions from bio-fuels. Again they will be successful only if households change their cooking behavior and actually use them. However, this was the first year of implementation. How firms respond to the new regulation in the long run needs to be investigated in future.

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