SJCC Management Research Review
Printed ISSN - 22494359
Vol: 4 No : 1 June 2014, Page No: 1-21

Policy Implication of Indian Companies Act 2013 on Corporate Social Responsibilities (CSR) and its Impact on Domestic Company and MNCs Spending

*Dr.P.G.Arul

Abstract

More and more Indian business organizations embrace the practice of CSR under different names such as corporate sustainability, social responsibility, and corporate citizenship. These are well reflected in corporate reports on their respective websites as well as in other surveys and rankings of CSR conducted by organizations such as The Times Foundation and Karmayog. Most business organizations now believe that investing a part of their profits and efforts in the society and natural environment from which they draw resources has positive implications for their own well-being. The benefits of CSR are also substantiated by research focusing on the relationship between CSR activities and firm's financial performance, competitive advantage, reputation and legitimacy, employee attitudes, and synergistic value creation. The recent proposed draft of CSR rules under section 135 of the Companies Act 2013 guiding principles evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus CSR is not charity or mere donation. They use Corporate Social Responsibility (CSR) to integrate economic, environmental and social objectives with the company's operations and growth. In the exercise of the powers conferred under clause (o) and clause (q) of sub-section 3 of Section 134 read with Section 135 and sub-sections (1) and (2) of section 469 of the Companies Act, 2013 the Central Government hereby makes the following Rules, namely: 1. These rules may be called the Corporate Social Responsibility Rules, 2013. 2. They shall come into force on the date of their publication in the official gazette and shall be applicable from the financial year 2014-15.

Key Words: Corporate Social Responsibility (CSR), Companies Act 2013, Domestic and Multinational Companies, Socially responsible business

**Assistant Professor, Department of International Business, Pondicherry University,*

Are there boundaries that need to be drawn to delineate CSR from employee benefits, welfare, creative public relations campaigns, and eye-catching brand building activities, being a responsible citizen by not harming the environment, etc. that need to be addressed. This paper addresses how the policy on CSR through Companies Act 2013 is going to make an impact on domestic and multinational companies in India.

Introduction:

After years of debate, the Indian Parliament passed its first update of the country's corporate law in more than 50 years, which includes several important provisions that modernize India's corporate governance rules. That the Parliament approved the new Companies Bill, which mandates that companies of a certain size spend 2% of their three-year average annual profit towards Corporate Social Responsibility (CSR), is a landmark as it makes India among the first nations to have social welfare spending as part of company statute by law. According to Finance Minister P.Chidambaram, "if corporates spend 2 per cent of their profit on CSR activities, then it will have a multiplier effect in bringing out much greater inclusiveness". Under the new Companies Act, 2013, all profitable companies with a sizable business will have to spend every year at least 2 per cent of their three-year average profit on CSR works. This would apply to companies with a turnover of Rs 1,000 crore and more, or net worth of Rs 500 crore and more, or a net profit of Rs 5 crore and more. The new rules would be applicable from year fiscal 2014-15. If every company that is qualified for doing the CSR does so it can make impact in the areas of environment, skill development, water, sanitation, etc." Table 1 shows the CSR listed activities as per the Companies Act 2013.

Table No:1 Major CSR Activities of Companies in India

Sl.No.	CSR Activities
1	Tree plantation drives
2	Sponsorship of sport events
3	Cleanliness campaigns
4	Health awareness campaigns
5	Employee training programs
6	Consumer awareness campaigns
7	Recycling of waste products
8	Quality control measures

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9	Ethical business practices
10	Social audit
11	Preserving natural resources
12	Pollution control
13	Generation of employment for disabled
14	Scholarships for students
15	Social infrastructure
16	Computer education
17	Women empowerment
18	Help to victims of natural calamities

Starting from 1st April 2014, an estimated 16,000 companies will finally have to start discharging their Corporate Social Responsibility (CSR) as per the new Companies Act 2013. If most companies actually comply with the requirements of spending 2% of their profits on CSR, an estimated Rs.20,000 crore and substantial expertise will flow to the social sector. This tidal wave is going to be an opportunity and challenge for both domestic and multinational companies operating in India. Clearly the funding will be of immense help, given the ocean of needs in India. However, there is also a high risk of money being misspent and stolen. India has nearly three million NGOs. However, many are fraudulent and even many genuine NGOs do not have the capacity to absorb substantial funds.

On the flip side, the vast majority of companies, even otherwise sophisticated and well intentioned ones with long tradition of philanthropy, do not have much of a clue about how to put their money and talent to good use. They often confuse CSR with charity and end up practicing "Cheque book philanthropy - which is simply writing cheques for random request without any real strategy and, therefore, with very little sustainable impact. Unfortunately, many other companies are busy finding all the loopholes that will enable them to evade their responsibility. Given this backdrop, how do you approach CSR sensibly?

It is important to realize that CSR isn't just about compliance with a new Act. It is strategic. Done well, CSR contributes to building corporate reputation and trust. This is critical because trust in business is very low, and people are disgusted with corrupt business practices and crony capitalism. CSR is also a fantastic way of engaging employees. There is a growing desire among educated people to 'give back' to society, and a company's social initiatives are an excellent outlet for this desire.

Companies all over the world are under increasing pressure to demonstrate that they are responsible citizens, with about 70 percent of large companies in Europe and the Americas reporting on their corporate social responsibility (CSR) initiatives. Despite this, the very concept of CSR remains controversial and has attracted strong opinions on both sides from academics, executives, social activists, and NGO officials. One point of controversy is whether companies should be legally required to report on their CSR activities. There are already mandatory CSR reporting requirements in several countries, including Sweden, Norway, the Netherlands, Denmark, France, and Australia. The following table No.2 shows the CSR rule as per the Companies Act 2013 in an encapsulated form.

Table No: 2 Rule of the Game of CSR

1. What is the 2 per cent requirement?
The act requires that companies set up a CSR board committee, which must consist of at least three directors, one of whom must be independent. That committee must ensure that the company spends "at least 2 per cent of the average net profits of the company made during the three immediately preceding financial years" on "CSR" activities. If the company fails to spend this amount on CSR, the board must disclose why in its annual report.
2. Who must follow this requirement
The requirement will apply to any company that is incorporated in India, whether it is domestic or a subsidiary of a foreign company, and which has (1) net worth of Rs. 5 billion or more (US$83 million), (2) turnover of Rs. 10 billion or more (US$160 million), or (3) net profit of Rs. 50 million or more (US$830,000) during any of the previous three financial years. This means that about 8,000 companies will spend a combined total of up to Rs. 150 billion (US$2 billion) annually on CSR activities.
3. How How will the requirement be enforced?
The board committee is responsible for reviewing, approving, and validating the company's investments in CSR. Prior to each annual meeting, the board must submit a report that includes details about the CSR initiatives undertaken during the previous financial year. The board's independent director helps ensure the credibility of this process. However, the act does not provide any guidance on what constitutes acceptable reasons for which a company may avoid spending 2 per cent on CSR.

4. How does the act define "CSR"?

The act defines CSR as activities that promote poverty reduction, education, health, environmental sustainability, gender equality, and vocational skills development. Companies can choose which area to invest in, or contribute the amount to central or state government funds earmarked for socioeconomic development. While this definition of CSR is broad and open to interpretation, it clearly emphasizes corporate philanthropy rather than strategic CSR. The act does, however, specify that companies "shall give preference to the local area and areas around where it operates."

5. Will this positively or negatively impact CSR in India?

In a country such as India, where one-third of the population is illiterate, two-thirds lack access to proper sanitation, and 400 million people still live on less than US$2 a day, the passage of the Companies Act should be hailed as a positive step forward in ensuring that business contributes to equitable and sustainable economic development. But there are also a number of reasons to think it may not greatly improve CSR. Indian companies still equate CSR with corporate philanthropy rather than considering CSR as a holistic view of the impact business has on society and the environment through its operations. By reinforcing this view, the bill could distract business leaders who are ready to embrace strategic CSR.

Also, by CSR being made mandatory, companies may treat it as a "check the box" exercise rather than looking at it as ways to innovate and generate a return from doing social and environmental good. And most companies will comply by channeling funds to community organizations that are addressing one of the priority topics mentioned. There is no shortage of organizations that will be willing to accept these funds—there are an estimated —but few organizations have the capacity and the skill to effectively manage projects that can have a large-scale impact. In an effort to meet the spending obligations, companies may not do the right thing due to want of diligence to select high-impact, credible organizations. It's too early to say what the real impact of this act will be, especially given that passing it and enforcing it are two different things. But with the controversy around the CSR provision, and the lack of specificity and detail, there is an opportunity for leading companies to influence the way the CSR mandate is interpreted. Given the immense need and tremendous business opportunity in India, this can only be a good thing.

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Table 3 -Top Companies in Indian (both Domestic and MNCs) spending on Corporate Social Responsibility

SR NO.	COMPANY	REVENUE	AVG PAT	ACTUAL SPEND	2% OF PAT
1	INDIAN OIL CORPORATION	442,459	7,783	83	156
2	RELIANCE INDUSTRIES	368,571	21,138	288	423
3	BHARAT PETROLEUM CORPORATION	223,315	1,438	8	29
4	HINDUSTAN PETRO-LEUM CORPORATION	195,891	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	147,197	13,056	71	261
8	TATA STEEL	135,976	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	66,366	9,334	49	187
15	LARSEN & TOUBRO	64,960	4,818	70	96
16	ESSAR OIL	63,428	-201	NA	N/A
17	MAHINDRA & MAHINDRA	63,030	2,948	22	59
18	MANGALORE REFINERY & PETROCHEMICALS	57,214	1,066	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	78
23	STERLITE INDUSTRIES (INDIA)	43,116	6,831	7	137
24	CHENNAI PETROLEUM CORPORATION	45,397	392	3	8
25	ADANI ENTERPRISES	39,416	1,940	14	39
26	ICICI BANK	37,995	6,366	24	127
27	PUNJAB NATIONAL BANK	37,447	4,460	NA	89
28	WIPRO	37,308	5,152	NA	103
29	MARUTI SUZUKI INDIA	40,050	2,162	12	43
30	JSW STEEL	36,964	1,569	32	31
31	INFOSYS	33,734	7,128	26	143
32	STATE TRADING CORPORATION OF INDIA	30,905	60	NA	1
33	CANARA BANK	30,816	3,313	NA	66
34	BANK OF BARODA	30,488	4,262	NA	85
35	RUCHI SOYA INDUSTRIES	30,332	167	0	3

Source: Time of India dated 29th March 2013

CSR Spending by Public Sector Undertakings (PSU's) in India:

The Corporate Social Responsibility Guidelines issued by Department of Public Enterprises in April, 2010 are applicable to all Central Public Sector Enterprises (CPSEs) irrespective of any "Ratna Status". Corporate Social Responsibility is a company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders. Through CSR, the organizations serve the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations. The thrust of CSR in public sector is on inclusive growth, sustainable development and capacity building with due attention to the socio-economic needs of the neglected and marginalized sections of society. Under these guidelines, CPSEs have to create mandatorily, through a Board Resolution, a CSR budget as a specified percentage of net profit of the previous year. Expenditure range for CSR in a financial year is 3-5% of the net profit of previous year in case of CPSEs having profit less than Rs. 100 crore; 2-3% (subject to minimum of Rs. 3 crore) in case the profit ranges from Rs. 100 crore to Rs. 500 crore and 0.5-2% in case of CPSEs having a net profit of more than Rs. 500 crore in the previous year. Loss sustaining companies are not mandated to earmark specific funds for CSR activities but may achieve this objective by integrating business processes with social processes, wherever possible. The CSR budget has to be fixed for each financial year and funds are non-lapsable. Special stress has been laid on the proper monitoring of the CSR projects undertaken. The Boards of the CPSEs are responsible for the implementation of the CSR activity which forms a part of the annual Memorandum of Understanding (MoU) signed between CPSEs and the Government. As per the CSR new guidelines, the CSR projects/activities may be undertaken as far as possible in the periphery, where a company carries out its commercial activities. Where this is not possible, the CPSEs may choose to locate CSR projects anywhere in the country. CPSEs are also free to choose CSR activities within the frame work of DPE guidelines with the approval of their Boards. The following Tables show Total funds allocated for Corporate Social Responsibility and the funds utilized out of the same for the last three years upto 2011-12 (till September, 2011) in case of Maharatna and Navratna CPSEs are:

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Table No:4 MAHARATNA – CSR SPENDING

S. No.	Year	Total funds allocated for CSR (Rs. Crore)	Percentage of Profit After Tax (PAT) of previous year	Funds utilized for CSR (Rs. Crore)
1.	2009-102010-112011-12 (till Sep. 2011)	43.81262.28553.33	2.112.735.09	40.14152.3337.26
2.	2009-102010-112011-12 (till Sep. 2011)	37.69131.1195.60	1.281.281.28	46.85128.4148.80
3.	2009-102010-112011-12 (till Sep. 2011)	16.7472.3745.52	0.200.830.50	20.4072.216.48
4.	2009-102010-112011-12 (till Sep. 2011)	322.52335.35378.48	2.02.02.0	268.87219.0321.86
5.	2009-102010-112011-12 (till Sep. 2011)	80.0094.0064.00	1.301.391.30	78.7968.9522.94

Source: Ministry of Heavy Industries & Public Enterprises

Table No: 5

Public Sector Undertaking spending on CSR (Navaratna Spending)

Sl. No.	Name of the CPSE	Year	Total funds allocated for CSR (Rs. Crore)	Percentage of Profit After Tax (PAT) of previous year	Funds utilized for CSR (Rs. Crore)
1		2009-102010-112011-12 (till Sep. 2011)	2.592.741.84		2.592.080.35
2	Bharat Heavy Electrical Limited	2009-102010-11	3.1421.55	0.10.5	6.014.30
		2011-12 (till Sep.2011)	30.05	0.5	1.8
3	Bharat Petroleum Corporation Limited	2009-102010-11	14.7222.0	2.01.43	14.1218.23
		2011-12(till Sep. 2011)	7.73	0.5	1.5
4	GAIL (India) Limited	2009-102010-11	55.9169.54 (includes carry forward amount of financial year 2009 10)80.95 (includes carry forward amount of financial year 2010-11)	2.02.0	45.7848.43
		2011-12 (till Sep. 2011)		2	14.85
5	Hindustan Aeronautics Limited	2009-102010-11	No specific allocation of money for CSR, as CSR Policy was notified formally during November, 2010 5.00	-PAT of 2010 -11 is yet to be declared	3.901.79
		2011-12 (till Sep. 2011)			0.17
6	Hindustan Petroleum Corporation Limited	2009-102010-112011-12 (till Sep.2011)	15.0015.0030.78	2.411.542.00	13.8420.103.59

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7	Mahanagar Telephone Nigam Limited	2009-102010-112011-12 (till Sep. 2011)	Since MTNL is in losses, no specific allotment is made under CSR head		
8	National Aluminium Company Limited	2009-102010011	12.728.141	1.01.0	12.728.14
		2011-12 (till Sep. 2011)	0.69	1	10.69
9	NMDC Limited	2009-102010-112011-12 (till Sep. 2011)	80.0081.5680.13	1.901.800.57	83.0762.2337.24
10	Neyveli Lignite Corporation Limited	2009-102010-112011-12 (till Sep. 2011)	5.9012.4712.98	0.721.001.00	8.1913.231.02
11	Oil India Limited	2009-102010-112011-12 (till Sep. 2011)	20.0025.0051.90	0.950.952.00	24.1229.4015.00
12	Power Finance Corporation Limited	2009-102010-112011-12(till Sep. 2011)	Nil11.8913.10	—0.50.5	—1.931.00
13	Power Grid Corporation of India Limited	2009-102010-112011-12 (till Sep. 2011)	12.6720.4126.97	0.751.001.00	4.3115.586.62
14	Rashtriya Ispat Nigam Limited	2009-102010-112011-12 (till Sep. 2011)	12.7515.4012.00	0.952.001.82	9.3711.735.39
15	Rural Electrification Corporation Limited	2009-102010-112011-12 (till Sep. 2011)	3.185.0012.85	0.250.250.50	0.311.370.27
16	Shipping Corporation of India Limited	2009-102010-112011-12 (till Sep. 2011)	9.413.775.67	1.01.01.0	2.035.84 (including the balance carried forward from the previous year1.13

Source: ***Ministry of Heavy Industries & Public Enterprises***

Note: The status of Maha Navarathna and Navarathna and Mini Navarathna companies are determined based on the following: How much a public sector company can invest without government's approval is determined by its status. Maharatna company can invest upto 5000 crore or 15% of its net worth in a project. Navaratna company can invest upto 1000 crore. Miniratna companies can invest upto 500 crore or an amount equal to their net worth.

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Multinational corporations (MNCs) are under growing pressure to display socially responsible behaviour in their global operations (Jones 2005). However, global corporate social responsibility (CSR) and the management of CSR behaviours are not widely understood, even though individual national business environments are increasingly promoting them (Bennett 2002; Mohan 2006). To counteract this, there are several emerging voluntary initiatives and guidelines seeking to improve global CSR (Mohan 2006). MNCs are "complex, differentiated networks marked with internal heterogeneity and the complexity of managing across dispersed and diverse units" (Mohan 2006, p. 10). This has several implications for MNCs' management of stakeholder relations across the multiple environments (Bennett 2002). Global CSR management involves cross-border transfer and management of CSR practices, from one part of the MNC to another, as well as the management of local CSR practices suited to the local context of the subsidiary units (Detomasi 2007; Mohan 2006). Business is an inseparable and embedded part of society (Jones 2005). In addition to its economic role, MNCs also have several other roles and responsibilities, particularly towards their stakeholders (Bennett 2002; Jones 2005). Business responsibilities therefore tend to be discussed in reference to stakeholders of the business and the wider society (Mohan 2006). The term CSR refers to an organization's responsibility for integrating stakeholder concerns in routine business activities (Bennett 2002). The numerous and diverse stakeholders of MNCs include global customers, investors, creditors, employees, international organisations, national governments, non-government organisations, activist groups, local and global communities (Bennett 2002; Mohan 2006; Detomasi 2007). British companies are expected to contribute as much as 100 million pounds per year for **Corporate Social Responsibility (CSR) work** in India under the country's new Companies Act. Britain's top businesses in India, including Rolls Royce, John Lewis Partnership, Standard Chartered, JCB, Pearson, BAE, HSBC, PwC, AoC, KPMG, British Airways and Rio Tinto,

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Table No: 6 Top 10 MNCs CSR Initiatives in India

1.	Microsoft	• Through the Bill & Melinda Gates Foundation (Microsoft) focused socially-relevant enterprises, chose just two areas of effective and measurable action: education and healthcare. The foundation then made worldwide eradication of polio akin to a business goal and is confident of achieving it in the next six years. Microsoft's work in digital literacy has not only helped nearly 40 million children, it has also inspired product innovation such as Multipoint Server that enables many children to concurrently share a single PC
2.	I B M	• IBM, India the Community Relations team focuses on primary education and in deploying technology to improve the quality of life of the disadvantaged section of the community. Similarly, there are groups that address the issues of diversity, environmental citizenship and university relations.
3.	Nokia Corporation	**Corporate taxation** • Nokia says that, "as a good corporate citizen Nokia pays the amount of tax legally due and observes all applicable rules and regulations in each country where it operates". • **Employees:** As a result of Nokia's new strategy (switch to Windows Phone) there was a large number of job losses. In order to help employees affected by the reductions Nokia established a support program called Bridge. • **Environmental design:** A dedicated design for environment (DFfE) specialists work actively throughout every product development project at Nokia, verifying legal and voluntary target compliance, as well as promoting sustainable alternatives for materials and other design considerations. • **Materials:** In 2012 Nokia banned the use of radioactive substances in all products, packaging, and internal production processes.

		• **Chargers:** Over the last 10 years Nokia has reduced the no-load consumption of its chargers by 73% (i.e.chargers plugged in, but not being actively used for charging).The best-in-class chargers have seen a 90% reduction. • **Emissions:** 40% of the electricity used by Nokia comes from renewable sources. Nokia aims to reduce CO2 emissions by a minimum of 30% by 2020 (from a 2006 baseline).
4.	Pepsi Co	• Social responsibility focuses on consumer rights, market links, an integrated supply chain, education to facilitate technology adaptation, micro-credit and insurance to de-risk input costs. It has added value to the social responsibility program by offering free medical checkups for farmers and farm families including AIDS awareness and organizing women self-help groups (SHGs) for capacity building and empowerment by promoting small-scale entrepreneurship at the village level. Furthermore, the company has initiated water conservation projects in different parts of India.
5.	Dell Corporation	The Michael and Susan Dell Foundation has Barun Mohanty and Debashish Mitter, former senior executives with McKinsey & Co and American Express, to help children living in urban poverty.
6.	Nestle	Through corporate social responsibility programmes but by going a step further to create value both for shareholders and for the communities in which they operate. This year efforts to cut carbon emissions have been recognised by the Carbon Disclosure Project, which ranked us top among 'Global 500' companies. These initiatives are not easy to implement. For Nestlé though the commitment to Creating Shared Value, Sustainability and Compliance is non-negotiable

7.	Coca Cola	HCCBPL's water stewardship initiatives are based on the responsibility to safely return to nature an amount of water equivalent to what we use in all our beverages and their production and ensure continued support to water neutrality.
8.	Procter & Gamble	• PepsiCo links more than 25,000 farmers to markets through its innovative partnership. It has pioneered the concept of contract farming with both backward and forward linkages for agricultural products. It has developed a 'Partners in Progress" model with seed companies, banks, insurance agencies, government departments and other agri-input companies and farmers organizations. Social responsibility focuses on consumer rights, market links, an integrated supply chain, education to facilitate technology adaptation, micro-credit and insurance to de-risk input costs. It has added value to the social responsibility program by offering free medical checkups for farmers and farm families including AIDS awareness and organizing women self-help groups (SHGs) for capacity building and empowerment by promoting small-scale entrepreneurship at the village level.
9.	Citigroup Inc	• Employee Engagement with Communities; and Local Charitable Contributions and Sponsorships. Employability Education for India's Youth Program. The under privileged, rural and semi-urban youth face a whole set of different challenges when seeking employment. • Art and Culture: Citi extends its support to an array of cultural and social causes, as part of its local engagement with communities.

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		• *Micro Finance: For many households the usage of high-quality, low-cost financial services can be a critical step towards achieving financial stability and building long-term financial assets. Sustainable Livelihoods for Rural Producer s Program: E-nabling Micro Savings: Cashpor Micro Credit is a poverty-focused, not-* • *for-profit company that provides microfinance exclusively to women who live below the poverty line in eastern Uttar Pradesh and Bihar.* • *Child Welfare: Children are the future of the nation. In India, approximately 50% of children do not have access to education and more than 50% are malnourished*
10.	Hindustan Unliver's Limited:	• Unliver's work in rural markets has resulted in the Shaktamma rural distribution on model that today drives 10% or more of the company's revenue
11.	Sony Corporation	• Provide products that deliver satisfaction, safety and peace of mind from the customer's perspective. Provide customer service that further enhances customer satisfaction. Enhance usability and accessibility. Promote swift and appropriate disclosure. Achieve continued growth in corporate value Ensure appropriate, transparent and fair procurement practices, in line with the Sony Group Code of Conduct. Ensure that procurement practices are in harmony with the environment and society (including labor issues, human rights and conflict minerals). Support employees with diverse backgrounds

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		• Reduce CO_2 emissions of Sony's business activities and products throughout their life cycle to zero • Reduce the volume of virgin resources used and maximize the use of recycled resources; conserve water resources; and promote the collection and recycling of end-of-life products. Prevent pollution by reducing the volume of chemical substances used. Promote the conservation and restoration of biodiversity and the sustained use of biodiversity-friendly products. .Collaborate with NGOs and NPOs to help address social challenges. Participate in global frameworks. Participate in CSR-related organizations and projects

Source: Compiled from Companies Web Sites

Findings and Recommendations:

Relationship between CSR and Company financial Performance:

Recent meta-analysis studies have reported an overall positive relationship between presence of CSR activities and financial performance

Government Pressure to discharge CSR:

The external environment also poses compulsions for organizations to put together a CSR agenda. For example, in a recent development, the Government of India has proposed in the Companies Bill 2013 that all companies having a net worth of Rs 500 crore or more will have to constitute a committee of three members on their board which would oversee the CSR policy, spending, monitoring and reporting for the company. MNCs are more serious about the government rule and have started the process of CSR allocation and spending.

CSR Immense popularity among Corporate:

Due to companies act 2013 with several awards, conferences, and rankings related to CSR, there has increased the spotlight on the importance of CSR, and CSR as a concept has gained immense popularity.

Stake holders Expectations:

There are different expectations from different stakeholder groups, different standards, and different practices leading to a fragmented understanding of CSR. Considering the present scenario, there may be a need for consolidation in the understanding of CSR. To illustrate our point, if we consider the practice of CSR, it can be implemented with both for-profit and non-profit/philanthropic intentions. Some examples of for-profit CSR initiatives are - developing a marketing channel aimed for rural population where a company is empowering poor women entrepreneurs to sell company products or strengthening health delivery systems in rural locations by selling the company healthcare products through the health care delivery system. Examples of non-profit initiatives can range from corporate giving initiatives to community development, initiatives such as livelihood promotion, setting up schools or digging a well in a village.

CSR in their DNA of Business:

Standards of CSR practice not only vary from one company to another but also from one industry to another. Some organizations tailor their CSR activities to reduce harmful effects to the community or environment as a result of the business they are involved in. For example, oil companies focus on improving air and water quality or soft drink companies invest in replenishing water for the community from which they draw water. The CSR activities of companies are targeted to ensure the continued supply of people and products for their operations. For example, companies invest in agricultural promotion programmes for constant supply of quality raw material and technical education programmes for a supply of qualified workforce.

More focus on community:

Diversity in CSR offerings may be fruitful in terms of innovative solutions offered to the target population. They help in building relationships ranging from symbiotic to dependent between the community and the company.

Focus even the Internal Environment:

The CSR programmes are aimed not only at the external community but also towards internal ones (employees and their families) apart from customers and supply chain. As more and more companies like to provide benefits to their employees for greater productivity and retention, it is unclear if benefits provided to employees could also be considered a part of CSR activity.

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CSR for purpose of Branding:

There is also a recent trend where social activism is being mixed with branding. In this case, it is difficult to understand if the activity is a CSR activity or just a branding initiative. It becomes important in this context to understand the intent of organizations practicing CSR. What are their expectations from their own CSR activity towards society and towards their own organization? So, one of the questions that remains to be answered is: Are there boundaries that need to be drawn to delineate CSR from employee benefits, welfare, creative public relations campaigns, and eye-catching brand building activities, being a responsible citizen by not harming the environment, etc.? Or does it really matter as long as the organization is involved in doing some good? In their community/society-based interventions, business organizations follow numerous structures for meeting their CSR obligations/ambitions.

CSR with Government Programmes:

Some organizations work in partnership with the government agencies for their CSR obligations. These partnerships may be carried out by the foundation or the CSR unit or sometimes even independently. It is yet to be assessed which particular structure provides better service delivery for community/ society based interventions.

2% fixed on CSR Restrict some Companies:

Many organizations continue to remain at the same scale of operations in CSR even when their turnover and profit increases manifold. It may be due to a fixed amount of money allocated for CSR rather than a percentage of profit diverted to CSR. This brings us to a few other questions: How much do organizations spend on CSR and how much should they?

CSR by Multinational Companies:

There is an influx of ideas and practices regarding CSR from international organizations. It remains to be seen if CSR is conceptualized and practised differently in multinational *versus* local organizations? Do multinational organizations focus on similar activities across all geographic locations or do they align with the current needs of the local community?

Flexibility in CSR spending for companies:

Do Indian companies run CSR programmes that are more suited to the current context of the community? What happens when there is a calamity or emergency? Does the organization have flexibility to help and spend its resources when an earthquake or flood hits? A more sticky issue is when there is political unrest. Can the organization help the needy, irrespective of which side of the political fight they are in? It has been seen that organizations act in their self-interest when such difficult situations arise.

Persons who decide CSR Spending:

Thus again interesting questions are raised: How does an organization decide what to support and what not to? Are there clear or unstated principles of what is within bounds and what is not in deciding about the area of spend. If yes, who states such boundaries? We have been referring to the organization as an entity that can decide and think. However, it is true that it is individuals within the organization who need to take these decisions. So, the question remains — who should think and who should decide within the organization – the owner, the chief, a representative group, the HR department, or the concerned individuals? In most organizations, the CSR efforts are an extension of the philanthropic giving of the owner or decided by the top management; but can a group at the top represent and be sensitive to the ambitions of the employees? Is the view of the employee significant? In the interest of efficiency, it may be decided that a small group can decide where and how the CSR effort may be directed. How- ever, it may in the process drain out the voices of several employees who may feel they have a right because the money that is being generated out of their efforts is being spent. What might be the mechanisms to make these decisions more participative?

Measurement of CSR spending by Companies:

There are also questions about the assessment of the benefits of CSR. How should they be measured? Who should provide the data? Are there indirect benefits or negative consequences that need to be accounted for? Questions such as what makes CSR effective would also need to be answered. Is CSR effective in bringing the desired change in the community? Will it be effective if it helps employees become more committed?

Educate the professionals on CSR through Course Curriculum:

As CSR is gaining prominence, there is a growing need for incorporating social responsibility in management curriculum. Numerous courses in ethics and business responsibility and even specialized MBA in this area are now being offered by major management schools. However, developing knowledge, skills, and more importantly, attitude towards social responsibility and ethics is challenging and requires personal reflection and exploration of self. There is a need to enhance these courses continuously to make them more relevant and useful to management professionals.

Cheque Writer to Investor:

The most important thing, though., is to graduate from cheque book philanthropy in impact investing. Now the companies are going to spend 2% of its pretax profits. This is a big deal and needs to be approached with the rigor of a venture capitalist. There is a need of clear criteria for making grants to the most deserving non-profits organization.

Taxation related Issues:

CSR activities are wide open and companies can engage in a variety of causes – such as poverty alleviation, education, women empowerment, et al. or even contribute towards recognised funds such as the Prime Minister's National Relief Fund. The complexity is that – each such spend could, under current tax laws, have a different tax treatment. For instance, writing a cheque towards the PM National Relief Fund, would entitle the donor company to a deduction, from taxable profits, of the entire donation amount. On the other hand, if a company has constructed a school building in a village, no tax benefit may be available – at least not without a drawn out litigation. Under section 37 of the Income Tax Act, an expenditure which is not capital expenditure and is expended 'wholly and exclusively' for the purpose of a business is allowed as a deduction from business profits (known as business deduction). To illustrate, in the CSR spend context, the moot question in the mind of India Inc is whether constructing and running a school can be regarded as an expenditure incurred wholly and exclusively for the purpose of business? Further, will it be allowed as a revenue deduction even if it is otherwise a capital expenditure? It is issues like these that need to be clarified and now. It is the least that the government can do, especially when it is relying on India Inc to contribute towards the country's welfare.

Structural Strength:

Mutual expectations and impact metrics must be documented in a simple but stringent MoU. There must be a good process for involving employees to work with each grantee to help build capacity in specific areas like finance, IT or marketing.

Company should think CSR as Brand Building:

Instead of seeing CSR as an onerous imposition and a 2% tax, see it instead as a 2% investment in building corporate reputation, employee engagement and innovation. Real CSR not only renews the implicit license to operate given by society to your company, it helps create a functioning society that we can all live in.

Conclusion:

Changing nearly six decades old regulations for corporate reporting, the new Companies Act makes it mandatory for certain class of profitable enterprises to spend profits on social welfare activities. CSR is often called the triple bottom-line approach — Sustainability in Environment, Social Community & Business. The law is here and so is the implementation mandate. However, it remains to be seen how long India Inc takes to redefine the concept and how corporate India moves away from philanthropy to a world of redistribution of wealth. The CSR Rules appear to widen the ambit for compliance obligations to include the holding and subsidiary companies as well as foreign companies whose branches or project offices in India fulfill the specified criteria. There is a need for clarity with respect to the compliance obligations of a company as well as its holding and subsidiary companies. The norms do clarify some doubts that will lead to a more effective CSR implementation. Other provisions of the draft rules relating to (i) restricting CSR activities to India; (ii) using trusts to implement CSR activities; and (iii) inter-corporate pooling, remain unchanged and will provide corporate India various options to fulfill their now mandatory CSR obligations.

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