India has a long tradition of corporate social responsibility (CSR) based on traditions established in the Arthashastra, in the Book of Kings, and in the Vedas and other traditional texts. Yet we see many contradictions to this in India’s current society. In India, CSR is seen as a way of achieving sustainability and addressing some of these issues.

More recently CSR in India has moved from a voluntary activity to a compulsory activity required by law. It came as no surprise that included in the revision of the Companies Act 2013 (see Appendix), the first revision in some 60 years, some major sustainability measures were included. The act defines CSR as activities that promote poverty reduction, education, health, environmental sustainability, gender equality, and vocational skills development.

**What is required?**

The Companies Act 2013 mandates that from 1 April 2014, certain larger companies will:

- Be required to spend at least 2% of the previous 3 years’ average net profits on CSR activities on projects or activities from a set list of possible activities (see Schedule VII to the Companies Act 2013);
- Be required to ‘comply or explain’ the expenditure and any shortfall below the 2% threshold;
- Set up a CSR committee of the board of 3 or more directors, whose members will include at least one independent director; and
- Ensure the board establishes a policy for CSR within the company and will report on the CSR activities.

The Companies Act clauses did not come as a surprise as many recent initiatives, driven by government policies to encourage equitable, inclusive and sustainable growth, led up to this, including:

- 2011 – the launch of National Voluntary Guidelines on Corporate Social Responsibility by the Ministry of Corporate Affairs
- 2012 the Securities Exchange Board of India (SEBI) required listed companies, through its Mandatory CSR Guidelines, to establish and report on CSR activities.

**Initial Results**

Initially CSR activities broadly resulted in charitable and philanthropic initiatives. Companies which had not previously considered CSR initiatives were unsure how or where to start and this insecurity has been the basis of a whole new industry in CSR support. Conferences,
roundtables, newsletters, websites, guidelines, research and advisors on CSR have become commonplace.

Nevertheless, Indian companies have matured quickly into ways and means to embed CSR into the DNA of their companies and their main business practices. Many companies (95%) have taken a lead from government sustainability policies and initiatives in their CSR activities.

Rajashree Birla, chairperson, Ficci-Aditya Birla CSR Centre for Excellence & Ficci CSR and Community Development Committee, said, “Indian industry has and continues to be actively engaged in meaningful CSR. It is encouraging to note that companies have continued to base their CSR programmes according to community needs aligning with the national development agenda, especially those impacting women and children.


Indian companies reviewed in the FICCI survey implement CSR initiatives through company foundations (40%), directly themselves (36%), and also indirectly through NGOs. 65% of all firms undertake CSR activities in partnership with others, either with government entities or other firms.

**Has it been an easy transition?**

It is still early days in the application of the law. However, observers can see the transition was easier for some than others.

- Some Indian companies have been undertaking CSR as part of its mainstream business model for years. For them it seems to have been a rather seamless transition. These include the Aditya Birla Group, Mahindra and Mahindra, and the Godrej Group. Mahindra & Mahindra have been supporting educational initiatives since 1953 through the Mahindra Education Trust. Tata is one such example established by Jamshetji Tata, the founder of the Tatas. They were well set.

There has been a long history of CSR in India and the Tatas have been the role models on this path. Explains the chairman of the Tata Group, Ratan N. Tata, “We do not do it for propaganda. We do not do it for publicity. We do it for the satisfaction of having really achieved something worthwhile.” The Tata Business Excellence Model integrates social responsibility into the framework of corporate management wherein social responsibility is encapsulated as Key Business Process.

- Companies are seeing the link and value to its traditional business activities of sustainability initiatives and they are increasingly reporting their activities and reporting better. Indeed, the Morgan Stanley Capital International Emerging Markets
Environmental, Social and Governance Index\(^1\) (MSCI EM ESG) outperformed the MSCI EM Index in a period over 8 years (2007-2015).

“Sustainable development agenda is at the core of Vedanta’s strategic priorities. As an organization, our commitment towards ‘Social License to Operate’ goes beyond the regulatory compliance and we are focused on the sustainable development, inclusive growth and greater value creation for all our internal and external stakeholders”.

Source: Tom Albanese, CEO, Vedanta Resources, in a speech at the Confederation of Indian Industry (CII) to receive the award for sustainable business initiatives, resulting from analysis of the 100 largest companies ESG reports.

- Companies cite ethical reasons and commitment to community shared value creation as motivators for undertaking CST initiatives well and successfully.

Companies are increasingly looking at integrating their businesses with the community to create shared value. About 49% of [companies surveyed] .. stated creation of shared value as a motivation factor, followed by social good compliance.


- A CSR Committee of the board of at least 3 members, led by an independent director, is mandated. Most companies have a CSR Committee of 3 members and most have outlined the role of a CSR committee which is a good practice which is also mandated by the Act. Also mandated is that the CSR Committee must issue a responsibility statement that implementation and monitoring of the CSR policy is in line with the policy. This is the minimum statement required and few companies, only 10%, disclosed more about the monitoring and implementation of the policy.

The Results

- 97% of companies have a CSR policy in the public domain
- 87% of companies present the CSR report in the prescribed format

BUT

- details of the CSR spend were not disclosed
- the prescribed 2% spend was underspent in many circumstances and reasons were not specified
- 42% did not cover one or more of the prescribed details in the law as required\(^2\).

\(^1\) The MSCI EM ESG Index was launched in June 2013 and data from earlier periods was back-tested.

\(^2\) KPMG Survey, India’s CSR Reporting Survey 2015, KPMG, December 2015.
Other surveys of this legislation indicate that public sector entities, which have been required\(^3\) to spend on CSR since 2010, have underspent and also spent less than their private sector counterparts.

In FY15, CSR spends of the S&P BSE 100 companies aggregated 1.5% of their three-year average profits. Non-PSUs spent 1.6% and the 21 PSUs spent 1.3% of their average profit in the preceding three years, respectively. Given that PSUs had a head start, they should have been in a better position to scale up their CSR activities. Additionally not all [public sector entities] have followed the prescribed disclosure under the Act and not explained the shortfall in CSR spends (as required under the ‘comply and explain’ approach).

Source: IIAS, Institutional Investor Advisory Services, Institutional Eye, 5 January 2016-

*Where Was the CSR Money Spent?*

Some companies directly identify projects themselves for their CSR activities. Others partner with other companies or specified government or other funds, such as The Prime Minister’s National Fund.

<table>
<thead>
<tr>
<th>Break-up of CSR spend as per Schedule VII activities</th>
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<tbody>
<tr>
<td>(Amounts in Rs. mn)</td>
</tr>
<tr>
<td>Hunger, poverty, and healthcare</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Multiple sectors/others</td>
</tr>
<tr>
<td>Environmental sustainability</td>
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<tr>
<td>Rural development projects</td>
</tr>
<tr>
<td>Reducing inequalities</td>
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<tr>
<td>Overheads*</td>
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<tr>
<td>PM’s National Relief Fund</td>
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<td>National heritage</td>
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<tr>
<td>Sports</td>
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<tr>
<td>Armed forces veterans</td>
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<tr>
<td>Technology incubators</td>
</tr>
</tbody>
</table>

*Overheads refer to the expenditure on building CSR capacities of the company and/or implementing agencies*

Source: IIAS, Institutional Investor Advisory Services, Institutional Eye, 5 January 2016-

\(^3\) Required by Department of Public Enterprises guidelines.
Initially some companies had difficulty in identifying projects on which to dedicate their 2% CSR spending. Thus in the initial period there was under-spend. However, it has been made easier for companies as now their CSR commitment can be met by placing any funds or unspent commitments in the Prime Minister’s National Relief Fund.

Examples⁴ of companies approaches to the CSR commitments follow.

Kotak Mahindra Bank conducted Financial Literacy Camps where over 60 activities were conducted in different locations across Maharashtra. Also, Kotak Unnati is a vocational training program for youth drop-outs from schools / colleges. This program includes a financial literacy module developed and co-sponsored by National Institute of Securities Markets (NISM).

Maruti Suzuki conducts a ‘road safety’ program that provides training on driving skill and behavior. For the initiative, the company has partnered with (i) State governments to set up Institutes of driving and traffic research and (ii) Its dealers to set up Maruti Driving Schools. Further, the company is working with 88 Industrial Training Institutes (ITIs) spread across 21 states to upgrade automobile related trades and create employment options for them in automobile service workshops.

Colgate-Palmolive (India) conducts a program called ‘Bright Smiles, Bright Futures’ wherein it reaches out to influencers – such as school teachers and the anganwadi [Pre-school] teachers in communities – to improve oral health. For this program, it has partnered with the Indian Dental Association and committed dental professionals.

**Challenges to Implementation**

There have been many challenges to implementation.

- In many companies, directors had not considered CSR matters as a board responsibility and so to get the leadership for change was difficult.
- Initially companies found it hard to distinguish an approach to CSR from the wide variety of allowable CSR activities.
- It was also not easy for them to establish CSR policies and practices that was companywide and holistic. Some applied the UN Global Compact; others the GRI Sustainability Reporting Guidelines, others had little structure/rationale to their approach.
- Some entities held a narrow view of CSR and viewed it as charity or philanthropy.
- Naturally, there was some apathy and naysayers who did not move to apply the legislation and needed further encouragement.
- Some companies underspent the CSR requirement in the belief that they could avoid

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⁴ These examples are provided in the IIAS, Institutional Eye Newsletter.
Some public sector entities have not fully implemented the CSR regulations, do not spend the full amount and do not explain the shortfall, or do not provide the required disclosure.

There became evident some lack of clarity when applying the law, such as what could be included as a CSR activity and what not, and what vehicles (Trust, Foundations, Family ventures) could undertake the CSR activities for the company in order for them to qualify as the company’s CSR spend. Questions arose about where and how to report on the CSR spend and if the spend could include in-kind contributions. But these now have largely been ironed out.

There was also evident some discordance between other rules and the CSR rules. For example, some CSR activities were eligible for tax deductions of the costs of the activities and other activities did not have this advantage.

Conclusion

India has taken an innovative approach by mandating CSR activities which it believes will result in more sustainable business environment in India. Much has changed since the introduction of the laws but it is early days and the full impact is yet to be seen.
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 Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

The Corporate Social Responsibility Committee shall,—

(a) 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;

(b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

(c) monitor the Corporate Social Responsibility Policy of the company from time to time.

The Board of every company referred to in sub-section (1) shall,—

(a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company’s website, if any, in such manner as may be prescribed; and

(b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

Explanation.—For the purposes of this section “average net profit” shall be calculated in accordance with the provisions of section 198.

Source: India, Companies Act 2013
Appendix 2

Schedule VII Activities

**Activities to be included in CSR Policies**
The following activities to be included by companies in their Corporate Social Responsibility (CSR) Policies:

i) Eradicating hunger, poverty and malnutrition promoting healthcare including preventive health care and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water;

ii) Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects;

iii) Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;

iv) Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund setup by the Central Government for rejuvenation of river Ganga;

v) Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;

vi) Measures for the benefit of armed forces veterans, war widows and their dependents;

vii) Training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports;

viii) Contribution to the Prime Minister’s National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;

ix) Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;

x) rural development projects;

xi) slum area development.

As per the explanation the term ‘slum area’ shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.