India: Corporate Social Responsibility – A Business Imperative

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CSR is a business imperative. It is a known fact that CSR is indeed a business imperative, and no business can afford to ignore CSR in order to sustain their competitive advantage. It is now dawning on corporates that CSR is no more a PR or image building exercise but has a lot more strategic significance that is well qualified to be called a business strategy for organizations to flourish and grow!

We quote from an article from the publication Triple Pundit: "Potential partners want to work with a sustainable company for wholly practical reasons: to save money via decreased resource consumption and to avoid the potential for damaging and bad publicity. Employees want to work for a company that's making a difference, and, when the company is under attack, they need relevant information so they can advocate on the company's behalf."

The Companies Act, 2013, which repealed the old company law, i.e., the Companies Act, 1956, has made it mandatory for three classes of companies to set up a corporate social responsibility committee. This committee is in turn required to spend at least 2% of the average net profits of the company made during the last three financial years on CSR activities. The three classes of companies are (i) companies having net worth of Rs 500 crore or more; or (ii) companies having turnover of Rs 1, 000 crore or more; or (iii) companies having net profit of Rs 5 crore or more. The Companies Act has also delineated a list of activities in Schedule VII that would be considered as CSR activities. CSR spend on only these activities are treated as towards meeting CSR obligations.

Industry and professionals alike have grappled with the tax treatment of CSR expenditure. Whether CSR spend may be deducted as business expenditure pursuant to Section 37 of the Income Tax Act or not? Further, whether such CSR spend would qualify for a deduction under Section 80G of the Income Tax Act or not. The first question was answered in the negative by the government by introducing an explanation which clarified that CSR spend is not a permissible deductible under Section 37. However, with respect to claiming it as a Section 80G deduction, the position appears to be that if the CSR spend is, in addition to being a recognized spend under Schedule VII, is also under one of the recognized categories under Section 80G, then such an expenditure may be claimed as a deduction.

Potential employees look to CSR reports and other information to get a sense of the corporate culture. They are reading the reports and asking hard questions — before coming on board. Finally, dialoguing about the tough problems with stakeholders can generate good solutions from the crowd. At Alcatel-Lucent, Christine Diamante, then head of Brand and Corporate Sustainability revealed, it's not just about "being good" — it's about stepping up to solve hard problems and asking for help (internally from employees or externally from customers and other stakeholders).

CSR pressure is increasingly bottom up, not top down

As corporates notice, the pressure for CSR 2.0 is not necessarily coming from the top. It is bottom up, from increasingly engaged and vocal stakeholders.

How can organizations manage this new pressure? Baranowski of BBMG offered several suggestions:

- Do not silo CSR communications from other corporate communications. It is important to have a unified voice across the company.
- Your CSR reporting needs to be dynamic. A static report generated once a year is not sufficient to respond to constantly changing conditions.
- Your message should be one of shared values. It is about the stakeholders, not just about the company.
- Consider a shift to "company AS cause," not "company PLUS cause."
- Pay more attention to engagement and empowerment, and less to information and education.

Diamante further emphasized the importance of really listening. To formulate their CSR strategy, Alcatel-Lucent used an internal social network to solicit solutions from thousands of employees. The suggestions were compiled, and employees were asked to weigh in again on what the company’s top priorities should be. Post extensive discussions and deliberations, three key areas were selected, which now form the basis of Alcatel-Lucent's current sustainability strategy. This was an all-inclusive approach resulting in engaged employees who felt that their concerns were being addressed.

Similarly, customers who care about CSR are twice as likely to reward a company for their sustainability activities. However, they are also twice as likely to punish a company when they are disappointed.

"It's a new world out there, and companies have to engage. If they do not, someone else will tell their stories for them"

It is time for the top management to commit to CSR and to integrate CSR as part of its Business Strategy By doing so, companies in India can present a perfectly well-defined corporate who shows shared values in developing the enterprise for all its stakeholders!

Today, corporates know that they need to imbibe in their core strategic vision the concept of not just financial returns but more importantly, adding the much-needed aspect of social returns to sustain their competitive advantages! If they ignore this, not only will they be left behind by the competition, but they risk their own survival. Many corporates like Uniliver plan to shift their focus from giving quarter to quarter financial numbers to that of giving sustainability numbers and as such, more CEO's and top management need to learn how and why social returns are key to their success and why they quickly need to adopt to these changes!

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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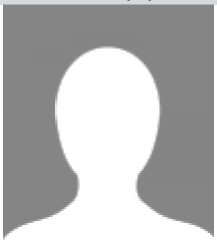

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