Sustainability and Corporate Social Responsibility

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Corporate social responsibility (CSR) issues have made inroad in the vision and mission statements of increasing large number of companies worldwide. More than 90 % of the largest European companies report on the social and environmental impacts of their business activities (Context, 2006). Globally, most of the largest firms publish either a stand-alone report under one title or the other; sustainability report is much in vogue now, or as part of annual report of companies. This is prompted largely by the immense pressure on corporations exerted continuously by the regulators, civil society and other pressure groups including environmentalists. The inequality of incomes, hunger and poverty, depletion of natural resources and deterioration of environment are some of the serious concerns requiring all out efforts of the governments and private sectors.

Although understood universally, there is a lack of consensus on conceptualizing CSR. It refers to ‘a way companies manage the business processes to produce an overall positive impact on society’ (Kotler and Lee, 2005). CSR is about ‘how companies manage the business processes to produce an overall positive impact on society’ (Mallen Baker, 2004). Corporate Social Responsibility is ‘the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large’ (World Business Council for Sustainable Development , 2000).

The conceptualization of corporate social responsibility (CSR) underwent a change over a period of time spanning more than five decades of the last century- from philanthropy or corporate contributions to trusteeship (Hay and Gray, 1974) to corporate social performance (Wood 1974) to stakeholders perspective wherein obligation a corporation to constituent groups are specified (Freeman, 1984). The recent focus on sustainability to create long term value for the company by incorporating economic, environmental and social dimensions into its core business decisions is gaining more acceptability in the literature on conceptualizing the term CSR. This came with the widespread acceptance of the Brundtland Report in 1987 where sustainability was defined as "development that fulfills the needs of the present without limiting the potential for meeting the needs of future generations". Pricewaterhouse Coopers define corporate sustainability as aligning an organisation's products and services with stakeholder expectations, thereby adding economic, environmental and social value (PWC, 2008).

Corporate sustainability is efforts of companies to reduce the negative effects they have on people, the environment, and on the economies where they operate. The idea behind corporate sustainability (CS) is to ensure the longevity of company by incorporating economic, social and environmental aspects into corporate values, governance, policy formulation, operations and reporting. The three pillars of corporate sustainability - economic, social, and environmental are commonly referred to as ‘the triple bottom line’ (TBL) and these are interlinked (Slaper and Hall, 2011).

CSR in India

The notion of social responsibility is ingrained in the Indian Philosophy propounded by several religions- Hinduism, Sikhism, Jainism and also laid down in many Indian scriptures. The Indian ‘business families’- Birlas, Tatas, Shriram, Ambanis, Modis, Goenkas, Mahindras, Wadias have regarding ‘corporate social responsibility’ as an essential way of doing the business although, it has been more in the nature of philanthropy. Health-care by way of charitable hospitals and dispensaries; education by way of free primary schools; empowerment of women through skill and vocational training; child development and scholarship to deserving students for higher education have been the prominent favorite areas of the corporate houses.

The much talked about provision of Indian Companies Act. 2013 passed in August 2013 is section 135 of the Act which contains provisions on CSR obligation on specified companies operating in India. India is the first and the only country in the world so far which mandates compulsory CSR spending by companies. While the detailed rules on CSR spending by companies have been laid down by the Companies CSR Policy Rules, 2014 issued by the Ministry of Corporate Affairs, Government of India, activities to be undertaken and implemented on CSR have been put forth by the Schedule VII of the Companies Act 2013.

The focus of the Indian legislature is on ‘corporate philanthropy’ as some of the activities specified in Schedule VII include eradicating hunger and poverty, improving maternal health, promotion of vocational skills, and contribution to the Prime Minister's National Relief Fund 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, the Scheduled Tribes, other backward classes, minorities and women. However, scope of 'corporate philanthropy' has been widened by 'permitting the companies to contribute to the social and economic development of the country' by including 'social-business projects' within the ambit of CSR activities. Surprisingly the 'Sustainable Development' as a strategy of CSR has been separated from the CSR obligation. Furthermore, it looks surprising that providing for the welfare of employees and workers through low housing, medical facilities, free educational facilities etc have been excluded from the domain of CSR. It is not in line with the international practice. The CSR and Sustainable development should have been clubbed together as was done by the DPE Guidelines on CSR and Sustainability for Central Public Sector Enterprises (http://www.dpemou.nic.in/MOUFiles/Revised_CSR_Guidelines.pdf)

It seems to be more in line with the UN Millennium Development Goals adopted in September 2000 committing member nations to a global partnership to eradicate extreme hunger and poverty; achieve primary education for all; empowering women; and combating diseases such as HIV/AIDS besides environmental sustainability with a deadline of 2015. (http://www.unmillenniumproject.org/). The OECD Guidelines for Multi-national Enterprises adopted in 2011 contains non-binding recommendations on human rights, workers and climate change (http;//oecdwatch.org/about-OECD/guidelines).

Corporate Social Responsibility Voluntary Guidelines 2009 issued by the Ministry of Corporate Affairs put emphasis on socially responsible business practices to ensure the distribution of wealth and well-being of the communities. 'CSR activities are purely voluntary-what companies will like to do beyond any statutory requirement or obligation' (http://www.mca.gov.in/Ministry/latestnews/CSR_Voluntary_Guidelines_24dec2009.pdf). The core elements of CSR policy as laid down by the guidelines includes, care for all stakeholders including employees, shareholders, customers, suppliers and society at large; and environmental and social development.

Companies required to meet CSR Obligation

The requirements as laid down by Section 135 of the Companies Act on corporate social responsibility are applicable to the following companies:

- Companies with a net worth of at least Rs 500 Cr. in any financial year

- Companies with a turnover of at least Rs 1000 Cr. In any financial year
- Companies with a net profit of at least Rs 5 Cr. in any financial year

CSR Obligations

1. **Constitution of CSR committee** – The companies meeting the specified threshold are required to constitute a corporate social responsibility (CSR) committee of the Board consisting of at least 3 directors. The CSR committee is entrusted with the job to formulate and recommend a CSR policy; and to monitor CSR activities of the company.
2. **CSR spending:** Companies above the threshold limit must spend at least 2 percent of its average net profit for its preceding 3 financial years on specified CSR activities. (Net profits mean a company's profit as per its profit and loss account but excludes profits from a company's operating outside India or dividend income received from an Indian company which has met its CSR requirements).

3. **CSR Activities:** Schedule VII of the companies Act exhaustively contains areas/activities where a company may spend money for CSR. These include purposes such an eradicating hunger and poverty; promoting health and education including vocational skills; promoting gender equality, protecting environment and contribution to the PM National Relief Fund and other such funds. There is few exclusion also, noteworthy being projects for the exclusive benefits of employees their families and activities which are part of the normal course of the business of the company.

4. **Reporting:** The statute requires the companies to prepare a CSR report in the prescribed form and include the report in the annual report and publish it on website of the company. The reporting is on CSR policy of the company, CSR committee composition, expenditure on CSR and details on CSR projects.

5. **Failure to spend the CSR Amount:** Where the company fails to spend the CSR amount as per section 135 of Companies Act, the Board of Directors of the company shall specify the reasons for not spending the amount, in Board's report made under Section 134.

Any amount remaining unspent under any ongoing project undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company within a period of thirty days from the end of the financial year to a special account to be opened by the company in any scheduled bank to be called the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer.

If a company contravenes the provisions of the CSR, the company shall be punishable with fine which shall not be less than Rs 50,000 but which may extend to Rs 25 lakhs and every officer of such company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both. However, the imprisonment clause has been made non-operative by the Central Government after a lot of hue and cry in the industry.

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