

CSR- A Platform of attaining Social Equity in the modern Business World

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Abstract:

Social equity has always been considered as a concept which ought to be given considerate thought and time for ensuring peaceful co-ordination and harmony in existence. Each and every sector of our country needs to adequately and willfully enable the role of maintaining social equity in order to progress and develop effectively. There has been a high necessity for stressing over CSR activities to be firmly practiced by the companies and businesses which fall under the ceiling provided by government, which is also presumably one way of enabling a profitable venture to give back to its society. Thus, social equity is a term which can be understood better as an all-inclusive economic concept that applies concerns of justice and fairness to one and all. Therefore, CSR should work on the Triple Bottom Line concept i.e. taking social, economic and environment factors into consideration. With this as the background, an attempt is being made through this paper to understand and gain an insight into the reality of CSR actually being implemented in modern businesses and companies especially in the current scenario and identify the various problems faced by the companies in order to bridge the gap forming between establishing social equity through the implementing such initiatives.

Key words: Corporate social responsibility, Companies Act 2013, Social equity, modern business, triple bottom line

Introduction

Companies have taken up serious initiatives in the form Of Corporate Social Responsibility (CSR) Activities wherein they ensure that they mandatorily give back to the necessary segments of the society.

In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013. The CSR provisions within the Act is applicable to companies with

- An annual turnover of 1,000 crore INR and more,
OR
- A net worth of 500 crore INR and more,
OR
- A net profit of five crore INR and more.

Objectives of the study:

- To know the reality of CSR in the current scenario.
- To identify the problems faced by companies while implementing CSR.
- To investigate the gaps in achieving social equity through CSR.

Review of Literature

Nargis(2014) described the history for CSR and lists out the reasons for the companies to take up such activities and outlines the law governing CSR in India. The study suggests more CSR activities with respect to education such as building schools and providing amenities to the students.

Chand Singh(2016) studied the CSR eco- friendly initiatives by Indian companies and lists in detail about the issues those plaques CSR such as government and investor's pressure. The challenges include lack of transparency, NGOs and consensus. The study suggests forming a consortium exclusively for CSR and that training and conferences can be organized to pool in new ideas for CSR.

Sandeep(2018) evaluated the reporting practices of 16 public sector companies. Using the secondary data collected from the financials of the companies, a regression analysis on the data. One of the significant findings of the study was that environment and community disclosure have a negative impact on profit after tax affecting the market price of the share. Hence, the study concluded that the companies do not fully disclose such negative information fearing a backlash among its competitors.

Research Methodology

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports. Looking into requirements of the objectives of the study, the research design employed for the study is of descriptive type. The data was procured through secondary survey method.

Modern Business – An overview

A modern business is considered to be a term which can be understood as a business that is established with the aim of using the latest in technology for their benefit, in order to maintain a competitive advantage over their competitors. A modern business has the unique capacity to use the strategies of technology in order to do business everywhere and to stay productive outside the office, even without a connection to the Internet.

Concept of CSR

CSR is the understandably a method of viewing an organization's recognition of its society and assessing their responsibilities in terms of the society's needs. It begins with an assessment of the following aspects of each business:



The company can implement its CSR activities through the following methods:

- Directly on its own
Or
- Through its own non-profit foundation set- up so as to facilitate this initiative
Or
- Through independently registered non-profit organisations that have a record of at least three years in similar such related activities
Or
- Collaborating or pooling their resources with other companies

Problems faced by companies while implementing CSR:

1. **NGOs:**TheCompany can conduct their CSR activities through NGOs. But there has to be proper approval obtained, required number of personnel and the mission for which the company and the NGO are coming together must be the same. There should be a complete synchronization between the two in achieving the goal.
2. **Funding:**There are still many companies in India which grapple with the problem of loss. Since the law mandates 2% of their net profit to be spent on CSR, some companies find it tough to do so. For example, most of the public sector banks are facing huge losses as the provision for NPAs are increasing at a faster rate, resulting in loss for the business. Hence they are not in a position to spend the required profit on CSR. Even RBI has issued directives to public banks to increase their spending.

3. **Legal hurdles:** The Foreign Exchange Management Act (FEMA) has been causing its own share of problems in bringing in funds for CSR. If a company receives funds from their foreign branches for their CSR activities in India, it has to get the approval of the Home Affairs Ministry as well as the RBI. There are more chances of the approvals getting caught in red-tapism.
4. **Obtaining consensus:** The Companies Act requires a company to form a separate committee for implementing and overseeing the CSR process. It has to have executive and at least one independent director on the committee. So there has to be common opinion among all the members to bring about resolution. The other stakeholders such as the employees concern should also be considered for CSR's effective implementation.

Reality of CSR

➤ Clarity in Definition

Schedule VII of Companies Act 2013 specifies the types of CSR activities that come under the ambit of the term, "Corporate Social Responsibility". For example, the schedule states the promotion of education. But the term education is not clear enough to specify the exact activities which will promote education. Some companies like IOC, contribute to education by providing benches, building walls around the schools etc (info taken from their official website). These do contribute to education but in an indirect method. The direct contribution, ideally, can be in terms of establishing a school in a rural area.

➤ Environmental damages:

The environment that sustains life has also been given importance in CSR activities. The Companies Act also includes environment sustainability as one activity. But in reality many automobile giants like Volkswagen, Jaguar, etc have forged their diesel emissions records by using illegal software, false calculations.

➤ Geographic and sector disparity:

Many modern businesses and companies who top the CSR spending chart have spent more on the respective states: Maharashtra (Rs 2,222 crores), Karnataka (Rs 843 crores) Gujarat (Rs 780 crores). While the spending's on the following states had been meagre: Mizoram Rs 0.08, Nagaland (Rs 0.92 crores) and Tripura (Rs 1.25 crore). This pattern of unequal spending brings in difference among the various states. Sector wise, Education had a highest spending of Rs 5124 crores and lowest spending for Clean Ganga Fund of Rs 24 crore. This pattern of concentrated spending pattern does not give scope for the stakeholder to achieve the goal of CSR. (Source: National CSR Portal)

➤ **CSR as a “one day activity”:**

CSR yields meaningful results only when it is done on a continuous basis. But a few modern businesses conduct CSR as a one day activity. Auditing giants like Deloitte, Ernst and Young have only a day's event for CSR. Their employees can opt for a variety of activities such as going to government schools, old age homes, etc.

➤ **Tax benefits:**

The Companies Act 2013 does not provide for tax exemptions for CSR but certain activities have already been exempted under Income Tax Act, 1961. Contribution to rural development projects, scientific research and Prime Minister's Relief Fund are considered as CSR activities under Schedule VII and are exempted from tax. Such a provision makes the companies to contribute to the activities just to avoid paying more tax.

Gaps in achieving social equity through CSR initiatives:

1. The intention of CSR is not to transform India with the 2% profit stake from the businesses but to develop responsible business conduct. According to the data collected by KPMG, It was found that 52 of the country's largest 100 companies failed to spend the required 2% of their net profits last year, 2017-2018 on CSR
2. An expenditure that does not give higher profits for companies is treated as a tax by them. According to the KPMG report, the corporate tax rate in India(34.61%) is one of the highest in the world, compared to a global average of 24.09%.
3. 160 companies have faced penalty ranging from Rs 25000 to Rs 25lakhs for not spending mandated portion of their net profits for the purpose of CSR.
4. A majority of the modern businesses spend their CSR amount on education and health as it would garner them attention and increase brand value.
5. Modern businesses have been making use of their CSR spending as a way to directly enhance their employee morale and thereby propagate the idea of making this more as a image booster rather than a mode of bridging the gap of social equity in the community as a whole.

Findings:

- The firms that were initially spending less than 2% increased their CSR activity, but those that were initially spending more than 2% reduced their CSR expenditure.
- Moreover, modern businesses get to have edge over inculcating goodwill and good public relations and thereby thrive on boosting their image through CSR initiatives. But its good up to the point

where they contribute and pitch directly for the sake of giving back to the community rather than just eye washing.

- Even to the extent that there has been a real increase in socially beneficial activities, the spending has not gone to democratically determined priorities, but rather to whatever the companies prefer to emphasize.
- Promotion of education accounted for 38% of the total CSR expenditure, while slum development received only 0.37% of the total CSR expenditure. (Source: National CSR Portal)
- It is the government's responsibility to redefine Schedule VII. CSR brings a company to the limelight, as a socially responsible company.

Conclusion:

The concept of CSR and Social equity is not something which is newly found. It is considered to be the responsibility of the modern businesses to ensure that they maintain social equity by involving good principles and practices like ensuring amicable corporate social responsibility initiatives. A robust development sector is central to India's quest for equitable, inclusive and sustainable growth. Building a society which provides equal access to opportunities negates disparities and, is a collective responsibility. Thus, we can conclude by saying that despite the fact that the companies have few drawbacks and problems with respect to the implementation of CSR and attaining the real objective of giving back to the society, and, with reality of the situation which alerts the companies and modern businesses to make sure that CSR ought to be used as a platform for attaining the Social Equity in the modern Business World.

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