Over The Barrel: Because the business of business isn't just business

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The Indian Companies Act (2013) mandates that Indian corporates, public and private, must allocate at least 2 per cent of their net profits for CSR (Corporate Social Responsibility). The Act defines broadly the social framework within which companies should spend their CSR funds but beyond that, companies have the freedom to identify the projects and determine the modalities of implementation. The Act was gazetted in 2014 and since then, according to the Ministry of Corporate Affairs (MCA), companies have spent Rs 5,922 crore, Rs 7,549 crore and Rs 8,446 crore in 2014, 2015 and 2016 respectively on eligible CSR activities. This is not an insignificant amount but the question does arise: Is the current individualistic model with every company doing its own thing, the optimal model for the utilisation of these statutorily sequestered funds?

There are three reasons for asking this question.

One, corporates have limited experience and expertise in addressing the complexities of social development. That is not their business and whilst they may be genuinely committed to social upliftment, this is not an activity they are trained to lead or manage. They do hire resources to bridge the lacuna but there are many entities with a deeper understanding of social issues and better placed to deploy CSR funds.

Second, the MCA data shows that the bulk of the CSR money (almost 75 per cent) is allocated to just three sectors — education, health (including sanitation and water) and rural poverty. This is, of course, not surprising. These are the most pressing issues facing the country. But this focus raises questions. Is there duplication of effort? Are there inter se synergies to be garnered through cooperation?

Third, the MCA data also reveals a skew in the distribution of the CSR funds. Almost 40 per cent of the money goes to just a few relatively well-developed states — Maharashtra, Gujarat, Karnataka, Tamil Nadu, Andhra Pradesh and Telangana. This is again not surprising given that India's most profitable companies (Reliance, Infosys, Wipro, ITC, IOC, HDFC) invest preponderantly in these states and Section 135(5) of the Act encourages companies to "give preference to the local area and areas around it where it operates, for spending the amount earmarked for CSR activities." The current model, in short, aggravates rather than alleviates existing regional and social disparities.

CSR has been a controversial subject. People like the Nobel Prize winning economist, Milton Friedman, held that business had a singular responsibility to their shareholders and that "the business of business was business". The Economist magazine had declared CSR to be a "fad" when the concept was first introduced into the corporate vocabulary. Corporates have indeed, for long, regarded CSR as little more than a business necessity. A "price" to be paid to hold onto their operating license; a peg on which to claim they run a "principled" business; an integral part of their public relations exercise. They did not spend money on social projects because of an underlying social commitment or moral suasion.

This attitude has, in my view, undergone a subtle but definitive shift in recent years. I believe an increasing number of Indian companies, especially large-cap professionally managed companies have woven social responsibility into the fabric of their corporate values. Their leaders have distanced themselves from the Friedmanite dictum. They, of course, hold themselves responsible for their "business" but not to create value just for the benefit of "business". They acknowledge a responsibility towards stakeholders that falls outside the boundaries defined by the shareholder

community.

I am sure I will be accused of looking at corporates through rose-tinted lenses. I will be told that the juxtaposition of profits and principles is inherently contradictory — a la jumbo shrimps. This criticism may have substance but it does not negate, at least in my view, the reality of increasing corporate involvement in social issues.

It is this positive trend that encourages me to offer a different model for CSR expenditure. I suggest that corporates pool their CSR funds into a common “CSR trust” and allow an autonomous body to manage and disburse the funds.This body should be a confederation of corporates, NGOs, domain experts and government. Its role should be to define the CSR agenda, identify the CSR projects, select the local partners, allocate the resources and oversee implementation. I believe such a collaborative model would be an improvement on the present individualistic approach for the following reasons.

One, it would enable the pooling of knowledge and experience, the sharing of best practice and the leveraging of scale economies. Two, It would provide a forum for learning from the grassroots experience of NGOs and the local community. Three, it would facilitate back-office synergies and reduce duplication of efforts (as mentioned, CSR money is concentrated on just three sectors). Four, it would allow for a more equitable geographic distribution of funds. And finally, it would provide a platform for the delivery of holistic solutions developed by leveraging the financial and non-financial assets of corporates and by creating development “joint ventures” between companies with complementary assets and skills. Thus , for example, a JV between Reliance JIO, TCS, Unilever and Larsen and Toubro could bring to a CSR project on education not just the hardware of a school building , tables and chairs but also Internet connectivity by Jio , IT by Wipro, marketing skills by Unilever, vocational training by Larsen and internship by all. And thereby generate sustainable income generating opportunities.

The government is responsible for social development. Corporates cannot replace them in this role. But governments need help. Corporates can make a meaningful contribution especially if there is a platform that allows them to offer the totality of their skills, technology and resources. The above model for CSR provides such a platform. The corporates will no doubt initially resist the dilution of control over this discretionary fund. But this resistance might weaken if they are assured that a collaborative model will generate a greater bang for their social buck. The Niti Aayog should convene a meeting of the custodians of the “CSR trust” and ascertain the corporate response.

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