

METACORP

FINANCIAL Chronicle Weekend March 8, 2014

Rules will stifle initiative

Acknowledging voluntary initiatives, allowing flexible integration of CSR necessary



LAST week's announcement by the ministry of corporate affairs, has paved the way for a mandatory CSR regime in the country. As per the new requirement, every firm that has net worth or turnover or net profit beyond specified thresholds, shall spend at least 2 per cent of its average net profits towards CSR activities starting April 2014.

Activities that will constitute CSR have been provided under schedule VII. The companies (corporate social responsibility policy) rules 2014 provide clarity as far as implementation of the provision is concerned, but at the same time, the rules have limited the scope of CSR activities to those enshrined under schedule VII only. This is restrictive since CSR is subject to various interpretations and as yet does not have a universally accepted definition.

There is another objection that industry has raised with respect to such a stipulation. For companies to be able to creatively innovate and integrate CSR strategies within their businesses, corporate boards should determine the constituents and objectives of the company's CSR initiatives. It is only then that a company would be able to create enduring sources of livelihood and other societal value through these initiatives.

CII had suggested that the power to decide CSR activities should be vested with the boards, a recommendation that was aligned with the very premise of the Companies Act — an Act built on self-governance and enhanced disclosures.

It was suggested that the scope of CSR be kept as wide as possible with scope for inclusion of additional intervention areas. Further, at the cost of sounding immodest, I would like to add that industry bodies are best placed to suggest ways in which social responsibili-



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ty could be integrated into business persuasion and should be encouraged by the government to prepare voluntary guidelines for effective result-oriented discharge of this obligation by corporates.

CII had originally opposed mandatory inclusion of corporate social responsibility in the law, representing that the law should, at best, provide an enabling framework rather than a narrow and prescriptive one for encouraging corporates to undertake CSR responsibilities. Nevertheless, the government decided to introduce the provision as part of the law with the stated intent to provide a structured framework to the activities that companies are able to undertake through their profits.

Implementation of this provision is bound to raise challenges because of the

rather prescriptive manner in which the rules have been drafted. For instance, the act specifies that companies must give preference to local areas where they operate. Such requirements with respect to what would constitute corporate social responsibility and where it needs to be undertaken, I fear, may unsettle ongoing projects and initiatives. Not only that, it may also stifle innovation since companies would be bound to undertake only those activities that are specified in the act and rules.

None can deny that community development is ingrained in the Indian social system and therefore CSR initiatives have been deeply embedded in the corporate culture from the very beginning. In view of some path-breaking initiatives undertaken by corporates across the spectrum

— in rural development, in agriculture, in rehabilitation post-natural calamities, for poverty alleviation, skilling, education, etc. — the government should have given space to corporates to comply with the provision in a manner best suited to each one of them.

This would help industry develop pioneering strategies and undertake meaningful CSR initiatives in a self-responsible manner. The provision in its current form is onerous and may just shift the focus from 'comply with conscience' and relegate it to another tick-box compliance — which, I am sure was not the intent at all! I still think social responsibility should be allowed to be integrated into business persuasion by companies in a gradual manner instead of being mandated forcefully.

Only then will it be em-

bedded into business strategy in a willful manner. CII itself has been cognisant of the need for a consolidated platform for conduct of social work by corporates. With this intent in mind, CII had about three years ago set up the CII Foundation to undertake a wide range of developmental and charitable activities and initiatives pan-India by enabling industry for infusing inclusive development.

The focus areas of the foundation include gender equality and women empowerment and safety; education; skilling, employment and livelihoods; environment sustainability, including water; public health & sanitation; disaster management etc. Over the last three years, CII Foundation has undertaken significant projects and has already made its humble mark in society.