Title : Leadership with Conscience

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Abstract

The revised Companies Bill 2011 has been recently (2013) passed and one of the debated aspects of the Bill is clause 135 which places a high priority on Corporate Social Responsibility(CSR) for business. This clause makes it mandatory for companies with net worth of Rs500 crores or more or turnover of Rs 1000 crores or a net profit of Rs 5 crores or more during a year to spend 2% of its average net profits during the three immediately preceding financial years on CSR activities. There is a need for conscience leadership in the corporate sector to execute this mandate willingly. This paper discusses the approach of the management of large scale companies in Pune towards CSR before it was made legal. Most of these companies have been engaged into CSR much earlier than the mandate was formulated, mainly because the founder and management of these companies strongly believe in doing business by doing good. They consider social contribution equivalent to economic gains. Their actions are not governed by law , and it is this quality of leadership which effects excellence in business.This paper is based on empirical, qualitative research to comprehend the leadership approach through various management actions.

Key terms : Corporate social responsibility, mandate, management approach, leadership

Introduction

For a prosperous and developed India, the important thrust will be on the growth in the number of such creative leaders who can create wealth to their institutions and also contribute to the upliftment of environment and people in their neighbourhood...APJ Abdul Kalam (*8th may 2007, The Hindu*)

The European Commission defines Corporate Social Responsibility(CSR) as "the responsibility of enterprises for their impacts on society". To completely meet their social responsibility enterprises "should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders" *(http://ec.europa.eu/enterprise/policies/sustainablebusiness/corporate-social -responsibility/index_en.htm)*.CSR in India has transcended from being philanthropic, specifically in the large scale companies.The traditional CSR focus has extended from institution building(educational,research,cultural) to community

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development through various projects.CSR vision then basically emanated from the organisation leaders such as JRD Tata, Jamnalal Bajaj and even National leaders like Mahatma Gandhi, Nehru and Shastri. These leaders realised the significance of their company's contribution to the society and thereby could build institutions of excellence.CSR, however has now metamorphosed into being a corporate strategy. The recently amended Companies act 2013 aims at making the corporate sector more transparent, efficient and responsible. Section 135 emphasises the contribution of the corporate sector to the society, thus anticipating its increased engagement in social development. This is a clear attempt to supplement the government efforts of equitably delivering the benefits of growth. The mandate would ensure augmented corporate involvement in social development. In India, a country which has a rich tradition of voluntary corporate participation in National development and a meaningful history of philanthropy, a mandate like this is also likely to tarnish its global image. Through this study it is observed that the large scale corporates in India have been quite proactive in taking up CSR initiatives and integrating them in their business processes.

Rationale

The recent mandate on CSR has placed India on the global map making it the first country in the world to legalise CSR. Corporations globally(specially in developed countries and south east Asian countries) have been voluntarily doing CSR, following the triple bottom line guidelines given by the Global Reporting Initiative, publishing sustainability reports. Infact CSR is an inevitable part of their business strategy. They do not require a mandate, then why do Indian companies need so.Is our corporate sector not adequately proactive towards CSR?Is it reluctant to earmark a part of its profit for community and social development? Is it ignorant about strategising CSR? Is the management approach towards CSR not supportive enough? Isn't the leadership responsible enough to understand their societal obligations, specially when they operate is a country with a poor development index? This paper intends to explore the answers to these questions and endeavours to comprehend the management approach towards CSR before it was mandated. It further analyses the need for CSR mandate in a country which has an enriching tradition of philanthropy.

Objectives

This paper is primarily based on a study conducted by the researcher in the year 2011 to understand the management approach of 40 large scale organisations based in Pune towards implementation of CSR, two years prior to the CSR mandate formulation. It aims at analysing the need for CSR mandate considering the CSR engagement of these corporates prior to the mandate.The paper also endeavours to compare the provisions in the Company law 2013 with the corporate actions before the law was enacted. Through this comparison, the researcher will put forth the relevance, pros and cons of this mandate.

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CSR in India

In India the CSR development is categorised into four phases:

The first phase(1850-1914):CSR activities were mainly undertaken outside the companies and included donations to temples and social welfare deeds.

The second phase (1914-1960) was largely influenced by Mahatma Gandhi's theory of trusteeship, which expressed inherent responsibility of business enterprise to its stakeholder.

The third phase(1960-80): Lal Bahadur Shastri the Prime Minister of India then said that the company must act as citizen of community.Declaration of the Social Responsibilities of business was published in 1965.Jamshetji Tata had said ' *in a free enterprise the community is not just another stakeholder in our business, but infact is the very purpose of its existence*'. Conscience leadership was evident in the philanthropic initiatives by corporate houses such as Tatas, Birlas and Bajaj. It was also obvious in the approach of our national leaders as they steered the public sector organisations towards social responsibility activity.

The New 'Compulsion'

Indian government's first step towards guiding corporates undertake social responsibility was the voluntary guidelines for CSR, 2009.These guidelines given by the Ministry of Corporate Affairs intended to provide clarity to the corporates in CSR and promote businesses' contribution to the benefit of stakeholders and society. Assuming that these guidelines were not adequate in getting companies to do CSR,the next step in this direction was thought of and that was to incorporate a provision in the new law making CSR compulsory.

The revised Companies Bill 2011 has been recently (2013) passed and one of the debated aspects of the Bill is clause 135 which places a high priority on Corporate Social Responsibility(CSR) for business. This clause makes it mandatory for companies with net worth of Rs500 crores or more or turnover of Rs 1000 crores or a net profit of Rs 5 crores or more during a year to spend 2% of its average net profits during the three immediately preceding financial years on CSR activities.The other enforcements are:-

a. Constitution of a CSR committee: The committee which falls within the above criteria is required to constitute a CSR committee of the Board comprising minimum three directors.

b. Formulation of CSR policy: by the CSR committee which shall indicate the activities to be undertaken, the amount of expenditure to be incurred.

c. CSR activities specified as eradicating extreme hunger and poverty,promotion of education,gender equality and empowering women, promoting health, environmental sustainability, vocational skill training, Contribution to Prime Minister's National relief fund or any other fund set up by the central or state government for socioeconomic development and welfare of scheduled castes and

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tribes,other backward classes, minorities and women.

d. Allocation toward CSR: to be at least 2% of the average net profits of the company made during the three immediately preceding financial years .

e. Disclosure and reporting: A report disclosing the composition of CSR committee along with details about the CSR policy developed on the company's website. The CSR expenditure should be stated in the financial statements.

f. Reasons for non spending: The CSR provision follows a "comply or explain" approach, which requires company to furnish details of the spending and report the reasons for not spending the amount.(*'Handbook on Corporate Social Responsibility in India',www.pwc.in*)

It is estimated that an inflow through this compulsion will amount to as much as 20000 crores INR , which is a mammoth contribution towards socio-economic development.

Management approach

In the study conducted by the researcher in 40 large scale Pune based companies to understand the management approach towards CSR inferred the following findings:

1. It was observed that most of the companies were aware and used the Voluntary guidelines of Ministry of Corporate affairs for undertaking CSR.
2. All the companies had specific budget for CSR, and one fifth of the corporates spent 1% of PAT. However only 2% spent on CSR
3. Most of the companies had formalised a CSR policy and many of them had done it in between yr 2000 and 2010.Management took care to publish their policy on company website and annual reports.50% companies had CSR presence on their website.
4. Most of the companies had framed their CSR based on societal need.
5. 11 out of 40 companies had a formal structure in the form of CSR department or cell to undertake CSR, where as many companies had formed a trust to execute CSR. However in majority companies CSR was the Human resource department responsibility
6. In most of the companies all the levels (top, middle and lower) were involved in CSR and management involvement was explicitly seen in these companies. It framed the CSR guidelines, decided the activities and in some companies KRAs were also defined for CSR.
7. More than half the companies measured the impact of their CSR activities and few companies used professional tools such as SAN.
8. In nearly all the companies CSR awareness was created amongst employees at the time of induction and later through intranet, AGMs and annual report. Employee involvement was also encouraged in many companies.

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A field study and interactions with the beneficiaries done to witness the work of these companies gave an insight into the meaningful work done by some corporates such as Kirloskar Pneumatics, Suzlon, Bharat forge, Kirloskar oil engines, Zensar etc.The age of the corporates did not have any relation with the CSR done.It was the management approach which influenced the seriousness with which CSR was done.

Discussion

The above inferences show that corporates have been engaged in CSR to a lesser or greater extent much before the CSR provision was incorporated in the Companies act 2013.The process of institutionalising it has just initiated and there is a positive change in the management approach towards CSR in most of these companies. Infact, the companies engaged on greater extent in CSR, did so because of the managements' CSR vision. And this intent was in the absence of a mandate.However, the Indian corporates can do better, alike their western counterparts.In the study done there was only one company which had earmarked 2% of PAT for CSR where as most of them spent 1% or less on CSR .If this is compared with CSR in the western countries the contribution is meagre .Considering the rich history of giving in India, corporate leaders national concern, national leaders 'trusteeship' philosophy and above all the social development status of India, the management of companies need to think and act with conscience. India today fares extremely poor on the Human development front. Government efforts in social development are inadequate and therefore corporates should make CSR their business strategy and engage on a much larger scale, with greater footprints. This could only be done if the management of these organisation thinks beyond the profit, mandate and leads with conscience. The advantage would be sustainable business for themselves and holistic development for the country.

On the other hand, a mandate will compel the companies to institutionalise CSR.The study stated above has inferred that many corporates, established for decades were not actively engaged in CSR as it was not on their priority agenda. In some, the management approach was disinterested. The new law will encourage or compel companies to think seriously about CSR.The CSR committee will be a key way for companies to set out a strong strategy that links to their core business. Management will now think of a more strategic CSR model. Reporting CSR spends and making it public will ensure good corporate governance. India being the first country to having mandatory CSR will lead to an enhanced overseas repute. The repercussion of the mandate will be seen in next few years and will depend on how ethically leadership of the companies accept it.

But the question here is..is mandating CSR a sign of leadership with conscience..is this a mark of business excellence? Does it signal that the government has less faith in the corporate action? Instead of focussing on making CSR mandatory, awareness needs to be created amongst the Indian companies on how and why CSR is important.

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Conclusion

Clause 135 of the Companies Act 2013 has been introduced with the objective of encouraging corporates in India to undertake CSR. The intent of the regulatory authorities is good, and immense contribution from the corporate sector is expected through this act. But if the corporate is not in a position to accept it willingly will surely endeavour to find loopholes in its execution.It could lead to irregularities in revenue account and more corruption. Companies with conscience leadership are already doing CSR without a mandate. Therefore ,whether there is a mandate or no the corporates need to be proactive in doing CSR.It should be a business strategy and not remain an 'add on'. This can only happen if the leaders of today's organisation understand clearly their responsibility towards the society and Nation. Leadership with conscience is the central key for excellence in business.

Resources

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