Corporates Should Live up to Responsibilities

The government has done well to frame rules for corporate social responsibility (CSR) practices. In the absence of such rules, it has been an open sesame for corporates. The situation was so bad that any spending could be passed off as CSR activity. Under the new rules, it is now mandatory for companies with a certain minimum assets, turnover and profits to spend at least 2 per cent of their net profit on CSR. The rules will also be applicable to multinational companies operating in India. More significantly, the rules define what constitutes CSR activity. Public health, sanitation, old age homes, war widows' welfare are some of the areas covered.

It had become common practice for the proprietors of companies to float NGOs run by their family members and divert CSR funds to them. Donations to political parties can also not be described as CSR spending. Besides, the corporates have a responsibility to the area where they operate. They cannot function in a vacuum. For instance, for every rupee they earn as profit, the community has to pay a higher price. It can be in the form of the polluted air they breathe and the polluted water they drink. Thus, CSR isn't an imposition but a reminder that the corporates owe it to the people and environment for their profits.

However, in its enthusiasm the government seems to have overlooked the adverse consequences of some conditions imposed on corporates. For instance, it has been made mandatory for companies not to make any profit on its CSR activities. While it is proper to insist that profits should be used for additional CSR work, it is improper to rule out profit. CSR is not philanthropy. A distinction has to be made between the two. There are companies like Unilever which has increased the sale of soaps while popularising the concept of washing hands. After all the corporates have a responsibility to their shareholders also. There has to be a balance between the two.

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