# The journey from 'ERR' to CSR

## The new provisions in the Companies Act, 2013 are a good opportunity for corporate India to move beyond 'Just Public Relations'

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Corporate attempts at doing anything other than business are seen with suspicion. This partly stems from the melding of two viewpoints – the first, widely held not only by political leaders and bureaucrats, but also by common people, is that "welfare and development is the job of the government". The second is the aphorism credited to Milton Freidman — "the business of business is business". You combine these two beliefs and any attempt at a company trying to do developmental work can be met with scepticism, at the least and cynicism at worst.

To make matters worse, there is ample evidence that many companies, sometimes well-known ones, "engage in rampant robbery" (ERR), colluding with politicians and bureaucrats, to maximise profits. Some are responsible for destroying the environment, be it through the reckless construction of hydro-power dams in the Himalayas by the Jaypee Group or mining in the pristine forested areas inhabited by tribals by Vedanta. Land grabbing in the name of special economic zones (SEZs) or regular projects showed the insensitivity of companies and political leaders and bureaucrats to the interest of local communities. It met with stiff local opposition to the point where not only did Reliance have to abandon its biggest SEZ in Raigad, Maharashtra but even the Tatas had to leave Singur, West Bengal. In the backdrop of this type of behaviour by companies, people become cynical and, thus, companies need to do something about restoring their collective credibility. Therefore, companies should embrace rather than resist the new provision in the Companies Act, 2013 that requires them to spend two per cent of their profits on corporate social responsibility (CSR) activities.

The late 20th century taught the world of business a lot. Company after company from the global Fortune 500 list learnt, usually after several nasty experiences, that fooling consumers, trampling over communities in the neighbourhood of their factories, ignoring or buying their way around the host country government regulations and polluting the environment, all in the name of "maximising shareholder value" was a recipe for disaster and, in fact, destroyed shareholder value. Starting with pioneers such as Ray Anderson of Interface Inc, the world's largest carpeting company that went from being a major contributor of non-bio-degradable solid waste in 1994 to 100 per cent recycling in a few years, CEO after CEO have been crossing the floor and telling Mr Friedman what they hear from activists, that "the sustainability of business is sustainability".

In India too, corporate behaviour is changing. While many companies are engaged in "just public relations" (JPR), printing colourful brochures and newspaper ads extolling the odd dispensary or a bus-shelter they financed, even JPR has become more imaginative and user-oriented. Recently, to celebrate the opening of its 11,000th branch, the State Bank of India gifted electric fans and drinking water devices to 11,000 needy schools. But there is serious work happening as well. ITC Ltd, Coca-Cola, Pepsi and Hindustan Unilever are just some examples of companies that have made a huge turnaround with respect to resource and energy use. ITC has also reached out to millions of farmers through its e-Choupal network and enabled them to get better prices for their produce. Its support of non-governmental organisations (NGOs) in livestock development helps increase milk production. Hindustan Unilever Ltd (HUL) has built a whole new channel for distributing consumer products to smaller villages through the network of Shakti Ammas, who are women retailers of HUL products. The Tata Steel Rural Development Society works for rural development around the company's plants. SRF is well-known for running the Shri Ram Schools but also supported watershed development in a big way around its factory. There are many other companies doing good CSR work in their own areas such as Hindalco, NTPC and Excel Industries. Of course, many of these efforts also create goodwill, save costs or help build new markets for the companies. This adds to profits, but it also conserves the environment or creates some other social benefit.

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Completely arms' length philanthropy is practiced by the Tata Trusts, which together give out over ₹500 crore a year from the post-tax profits of Tata Sons Ltd, the holding company of the group, for developmental activities that have absolutely no connection with the Tata companies. It will take a long time for the majority of Indian companies to reach the level of disinterested giving of the 100-year-old Tata philanthropies, but meanwhile, companies can engage in genuine CSR activities by funding good NGOs. The latter enables companies to support valuable activities in which they may have no internal competence, such as rural development, health care, education and vocational training.

One fear that has been expressed is that many companies will use the CSR money to fund politicians' front NGOs, to buy favour from them. Though this is a genuine fear, it can be obviated by ensuring the creation of a list of credible NGOs. Indeed, the CII Industry-Civil Society interface, has already started doing so. But fears of misuse should not hold CSR back. Companies badly need to restore their collective creditability and this is a golden opportunity for them to do so.

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