A giant leap backwards on CSR:

India's great missed opportunity

By Wayne Visser

How India's new mandatory CSR legislation and 'clean green' policies are taking companies in the wrong direction

Misguiding the arm of the law

In my last blog on sustainable business in Nigeria, I ended with the call for better policy on corporate social responsibility (CSR) – and a caution against mandating CSR directly, as Nigeria has proposed. This is unfortunately a lesson that India has failed to heed. In the past week, major reforms to the country's Companies Act of 1956 were approved. Many of the changes are a laudable attempt to bring India's business sector up to date with international trends in corporate governance, transparency and anti-corruption.

Sad to say, however, through this legislation, India is taking giant leap backwards on CSR. The new Companies Bill requires companies with profits over 50 million Rupees (USD 816,000) in the past three years to spend at least 2% of their profits on CSR. At a time when most of the world has moved beyond defensive and philanthropic modes of CSR, towards promotional, strategic and transformative approaches, India's policy virtually guarantees that its companies will remain stuck in an out-dated charitable mind set.

The Indian legislation allows companies the freedom to choose the issues that their CSR efforts will tackle, which at least in theory allows some scope for strategic alignment of social and environmental issues with business activities. The policy also suggests that failure to spend the required percentage on CSR – or to adequately explain the reasons why – can result in penalties. However, the problem in India as in many developing countries is that the capacity to monitor and enforce is severely challenged by weak, failing or corrupt governments.

India – along with Nigeria and Malaysia, who are also pursuing the mandatory CSR line – should learn from the United Kingdom's mistakes. Britain created something similar – a Minister for CSR – in 2003, and eventually abandoned it in 2010 as a largely ineffectual strategy. The reason it failed in the UK, and will most likely fail in India, is the same reason that CSR departments often fail in companies: lack of integration into the core functions of the organisation, and lack of political or economic clout.

In my view, governments should focus on effective regulation of the issues that sustainable business is trying to address (biodiversity loss, labour conditions, climate change, transparency, etc.) rather than regulating sustainable business activities per se. India could have learned valuable lessons from South Africa's corporate governance reforms, which integrate sustainability, or from the UK and USA's legal reforms on social enterprise, or from Canada and Spain's community development companies. Instead, by regulating CSR directly, they are more likely to create bureaucracy, stifle innovation and invite corruption.

Strengthening inclusive business

There are some more other aspects of the new Companies Bill, which could inadvertently have a bigger positive impact on socially responsible business than its mandatory 'CSR tax'. For instance, the ability to file class action suits has been bolstered, which could allow stakeholders to take legal action against irresponsible companies. The bill also requires that companies disclose the difference in salaries between directors and employee, thus addressing one of the most neglected issues in CSR and sustainability, namely equitable income distribution.

This equity clause comes closer to the transformative agenda that is so urgently required in CSR, not only in India, but around the world. It builds on the promising trend of inclusive business that has been building in India over the past decade. Long before Michael Porter and Mark Kramer's idea of 'creating shared value' (CSV) was introduced, India became a seedbed of innovation for 'bottom of the pyramid' (BOP) strategies, following work by CK Prahalad, Stuart Hart and others.

One of the BOP cases I investigated in some detail when I did my CSR lecture tour of India in 2010 is A Little World, a rural microbanking enterprise. Anurag Gupta, the Indian social entrepreneur who founded the company, has used mobile phone and biometric scanner technologies to make banking accessible and affordable to poor households. As a result, a 'mini-branch' costs only USD80 to run per month, and millions of illiterate, undocumented villagers can get low-value bank accounts for the first time in their lives. The case study is written up in detail in my book, The Age of Responsibility, and remains a great example of inclusive business.

Green does not always mean good

There are also many inspiring examples in India of how clean technologies like renewable energy and water purification are bringing vital utilities to poor households. However, research by fellow Cambridge academic, Emma Mawdsley, suggests that some of these success stories mask ongoing inequalities of development in Indian society. She presents extensive evidence of how, for example, Delhi's 'clean, green' campaign has mainly benefited the middle and upper classes, while the poor have suffered.

This pattern of social injustice is reflected in the way Delhi is tackling its air pollution problems, with policies that impact badly on the poor. Small polluting industries were relocated with little or no compensation for owners or workers. Older vehicles that do not use Compressed Natural Gas (CNG) sold to other city transport fleets, thus displacing rather than reducing pollution. Even the focus on air pollution represents a middle-class priority, rather than the most pressing need of the poor—clean, available water.

Looking at the issue of water, Mawdsley is similarly critical. The poor are often criminalised for water theft (estimates indicate that as much as 50% of Delhi's water is unaccounted for in official meter readings and thus 'wasted'), while the authorities turn a blind eye to middle- and upper-class illegality. This common practice involves the falsification of meter readings and technologies that can enhance water amounts extracted from already legal connections or from illegal/unregistered ground water sources (through tub and bore wells).

Mawdsley concludes that 'the pursuit of profitable environmental policies, technologies and change is desirable if we are to move towards greater sustainability, but the political and social nature of their impacts must be recognised. "Green" does not automatically mean "good". There will always be winners and losers, but there is a real danger in India at least that the drive towards greater sustainability will have some regressive social outcomes.'

From my own experiences and research, I believe India is certainly a space to watch on sustainable business, and its progress is far from being a foregone conclusion. Whereas there is a sense of order and control in China's great transition, India is far more chaotic and unmanaged (or unmanageable?). It is almost as if there is a grand experiment in sustainable business – democratic, messy, ad-hoc Indian style, versus controlled, managed, sanctioned Chinese style. Which will prevail is a question for future historians. I think it's too soon to place bets on either. If we're lucky, both will succeed in their own way.

Article reference

Visser, W. (2013) A giant leap backwards on CSR: India's great missed opportunity, *Wayne Visser Blog Briefing*, 14 August 2013.

Source

Part 9 of 13 in Wayne Visser's Searching for Sustainable Business blog series for CSRwire

***

Part of the WAYNE VISSER BLOG BRIEFING Series