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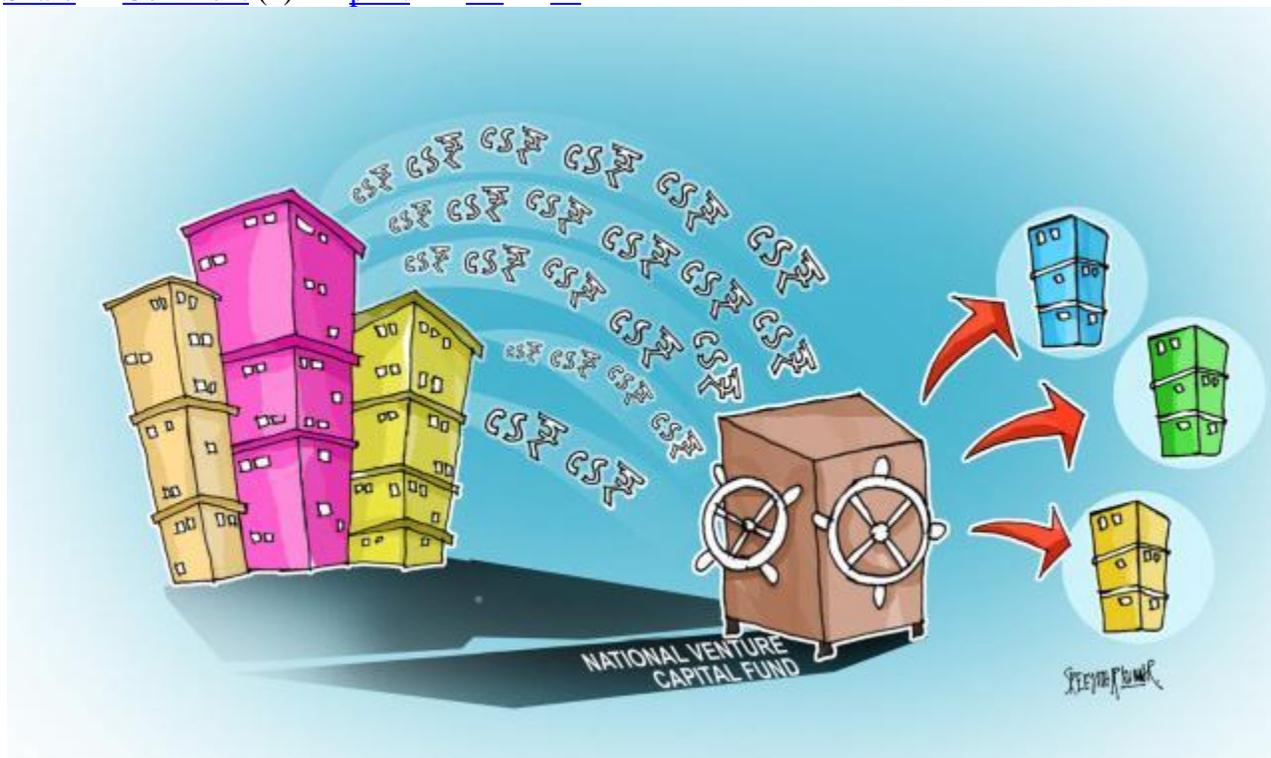
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## CSR: A pragmatic approach

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Instead of focussing only on philanthropy, resources could be pooled to create more ethical companies in the country

The larger role of the corporation in society is a topic that has often produced extreme views. One common view is that corporations, particularly large ones, take away far more from the society than they give back, and hence corporate social responsibility (CSR) is important.

This is certainly true in the case of companies whose operations cause significant and direct environmental impact, displacement of people or loss of livelihoods and these entities must be held strictly accountable to contribute back to the local communities and environment.

## **Looking at implementation**

However, this argument turns weak when measured against many of the newer knowledge/service-based industries that have emerged in the post-industrial era, and which have begun to dominate the economic landscape, particularly in service-sector focussed economies like India. Such industries have a limited harmful footprint on the environment or society.

In the Indian context, media reports suggest that the government intends to mandate that a fixed percentage of a company's profits must be set aside to be ploughed into CSR projects. There is no doubt that the performance of corporations must be measured with a greater yardstick than mere profits.

However, in this article I argue that a more pragmatic view must be taken of the entire notion that corporations must contribute to society through CSR initiatives in the traditional sense, and that even if a fixed percentage of profits were to be allocated by each firm towards CSR, it must be implemented in a manner that builds on the strengths that professionally-run companies already have, as opposed to tokenism.

## **Recognising the unique contributions**

There is a need to recognise that corporations already make a unique contribution to society and the economy, and this cannot be replicated by other institutions or individuals such as governments, NGOs, universities and others. First, they help create and deliver essential products and services to customers in an efficient manner, while also constantly innovating to improve customer experience. Second, businesses create employment on a large scale, which in turn serves households of employees and helps in the creation of household capital.

Successful businesses also create wealth for their shareholders, which in the case of publicly-traded companies could also benefit thousands of shareholders. Finally, companies do pay taxes on their profits, which in turn help the Government fund its projects. All of the above are usually achieved efficiently in the case of well-managed and ethical companies. In the case of unethical firms some of the above may be compromised, but that is more of a corporate governance issue that needs good regulations.

This is not to suggest that merely being well-run, and ethical absolves the need for any further social contribution on the part of corporations, but only that the larger picture of the social contribution must be taken into account while framing policies.

## **CSR: A national venture capital fund**

Assuming that the route of mandatory CSR contributions is taken, there must be some mechanisms to ensure that this CSR is 'smart' and not just tokenism. One way to do this is to use these contributions to create many more ethical enterprises, and unleash the entrepreneurial energy of the country.

For instance, this could be done for the creation of a national venture capital fund, into which all companies pay their share of CSR funds. All contributing companies could become investors in this fund, and stand to reap the benefits from any successful investments made by it. The Government, too, could match the contribution from participating companies and stand to gain in the process. Additionally, participating firms can be asked to provide advisory, mentorship and infrastructure support to investee enterprises where possible (and where there is no conflict of interest).

This national venture capital fund can open its doors to a wide spectrum of entrepreneurs, who would otherwise struggle to get funding — such as fresh college graduates, rural enterprises, socially-focused for-profit projects and others.

## Helping freshers

The idea is to leverage the vast amount of experience that the country's industry has and transmit it to small enterprises, both in the form of capital as well as expertise.

To make such a thing work, it may be important to structure the implementing agency based on a public-private partnership model, so that the efficiency and intellectual capital of the private sector may be better tapped. Equally important would be mechanisms to ensure that only meritorious entrepreneurs receive funding.

None of this is intended to suggest that the traditional CSR model, based on philanthropy, needs to be discarded. This, too, has its own place, and must certainly be voluntarily adopted by companies in whatever manner they deem fit. As for the mandatory portion of CSR that is currently under consideration, the above model may be a better way to go about it so that funds are not wasted to just meet the norms.

In summary, a pragmatic redefinition of CSR could include two dimensions — first, the traditional model of contributing to philanthropic causes, and second, nurturing and supporting the creation of future entrepreneurs who can in turn build the next generation of enterprises.

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That is a good idea to contribute to a national venture capital fund. Listed small companies who will also be compelled to contribute certain profit percentage to CSR and who do not know to choose CSR projects, will find such a creation of NVC fund easier to contribute. Necessary legislation should be passed in this regard.

from: R.M.Murthy

Posted on: Sep 14, 2012 at 15:32 IST

The author made an excellent suggestion. Here is one example initiative. Cities are struggling with garbage disposal. As part of their CSR program, some corporations may get together and develop a hybrid model. Homeowners and businesses participate in crowdfunding initiative and procure equipment as part of a nonprofit organization. In the second step, they fund entrepreneurs who would rent that equipment at nominal rates, remove garbage from homes and establishments, separate it, process it, sell it, keep the revenue, and profit from the venture. Several other programs can be created and incubated in such a hybrid model.

from: Som Karamchetty

Posted on: Sep 18, 2012 at 02:21 IST

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