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Efficacy of Corporate Social Responsibility in Corporate Governance Structures of Family Owned Business Groups in India

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Abstract : The concept of 'Corporate Social Responsibility' (CSR) has often relied on firms thinking beyond their economic interest despite the larger debate of shareholder versus stakeholder interest. India gave legal recognition to CSR in the Companies Act, 2013 which promises better corporate governance. CSR in India is believed to be different for two reasons: the dominance of family business and the history of practice of social responsibility as a form of philanthropy (mainly among the family business). This paper problematises the actual structure of business houses in India and the role of CSR in India. When the law identifies each company as a separate business entity, the economics of institutions emphasizes the 'business group' consisting of a plethora of firms as the institutional organization of business. The capital owned or controlled by the family group is spread across the firms through the interholding (interlocked holding) structures. This creates peculiar implications for CSR legislation in India. The legislation sets criteria for individual firms to undertake liability of mandatory CSR if they are above a certain threshold. Within this framework, the largest family firms which are all part of family owned business groups top the CSR expenditure list. The interholding structures, common managers, auditors and series of related party transactions among these firms help the family to run the business as a 'family business' even when the shares are issued to the public. This kind of governance structure allows family owned business group to show mandatory compliance of CSR even when they actually spend much less than what is prescribed by law. This aspect of the family firms is not addressed by the CSR legislation in particular or corporate governance legislation in general in India. The paper illustrates this with an empirical study of one of the largest family owned business group in India which is well acclaimed for its CSR activities. The individual companies under the business group are identified, shareholding patterns explored, related party transactions investigated, common managing authorities are identified; and assets, liabilities and profit/loss accounting practices are analysed. The data has been mainly collected from mandatory disclosures in the annual reports and financial statements of the companies within the business group accessed from the official website of the ultimate controlling authority. The paper demonstrates how the business group through these series of shareholding network reduces its legally mandated CSR liability. The paper thus indicates the inadequacy of CSR legislation in India because the unit of compliance is an individual firm and it assumes that each firm is independent and only connected to each other through market dealings. The law does not recognize the inter-connections of firms in corporate governance structures of family owned business group and hence is inadequate in its design to effect the threshold level of CSR expenditure. This is the central argument of the paper.

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