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Trends in Corporate Social Responsibility in India

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Abstract:

Introduction: Traditionally followed mindset – capitalism focused only on profits and aimed at only profit maximization. However, in recent times, a new model has emerged – co-operational capitalism which pays emphasis on the profit maximization but also involves the spirit of accountability, cooperation and morals in the social context. Thus, our new age band leaders focus more at profit optimization than just profit maximization.

Objective: To study the noticeable change in accountability from shareholders to a wider range-stakeholder.

Need: The concept of CSR is complex involving various concepts like sustainability, business responsibility reporting and triple bottom line. Thus the main focus of the study is to understand the term CSR and its different meaning attached in different eras.

Research methodology: This study uses qualitative data in order to prepare an explanatory cross sectional paper for the evolution of the concept CSR in India.

Key findings: It was in 1970's that the term CSR was commonly used. Later the last decade twentieth century saw the swing in the perspective from traditional philanthropy to concern for the underprivileged section of the society. Companies' Act 2013 further enhanced the concept of CSR in India by giving it legal binding nature.

Implications of the study: There is a budding consciousness that business cannot prosper in long term in isolation and thus social progress is important for sustainable development.

Keywords: CSR evolution, CSR in India, companies' act 2013.

1. Meaning

India is a nation of numerous contradictions. On the one edge, India has grown as an increasingly prominent participant in the global world and one of the biggest economies of the world. Contrary on the other edge, it is still backed by the presence of large number of poor people living below the poverty line and undernourished kids. Thus an ideal CSR practice is required in India which has both the philosophical and moral considerations which will be able to mitigate this wide gap between the haves and have not sections of Indian population in respect of income, social-economic status and standards. Corporate social responsibility (CSR) is a company's initiatives to evaluate and take responsibility for its effects on environmental and social wellbeing. Corporate social responsibility is a management term through which corporate combines environmental and social concerns in their operations and exchanges with stakeholders. CSR is usually viewed as the mechanism through which a corporate aimat economic, social and environmental balance (Triple-bottom –line- approach) and simultaneously meeting the expectations of stakeholders. In this relation it is necessary to distinct between charity, sponsorships to philanthropy and a strategic business management term, CSR. Through CSR companies directly enhance their reputation and strengthen their brand.

Thus it can clearly be said that

- CSR term is an integrated and holistic approach of core business strategy for answering environmental and social impacts of the company
- CSR focuses on wellbeing of not only company's shareholders but all stakeholders
- CSR is a much wider concept than philanthropic concept and include many other activities.

2. CSR in India

India witnessed the presence of CSR in the country in the form of philanthropic activities. CSR reflected in the active participation of big institutions in India's freedom movement, idea of trusteeship signals the deep-seated existence of CSR in the national character. Traditionally CSR activities are not deliberated but performed, hence only limited documentation is available on specific CSR related activities

The scope of CSR in India has expanded from Institutional building objectives to focusing on implementation of community development projects, however it still dwelling in the arena of philanthropic space. As awareness about CSR is increasing, these

activities have gained a strategic edge to them other than just philanthropic aspect. Recent global trend seems to classify CSR as a business linked action, consequently many big organizations have started notifying the CSR activities undertaken by them via official website display, publishing in annual reports and even CSR reports.

The idea of CSR has been introduced by the Companies Act, 2013 and is promoting disclosure and transparency via its disclose-or-explain mandate. CSR activities listed in the Schedule VII, clearly targets community development as the primary goal. While CSR draft rules which signals that these activities should focus on company's relationship with its stakeholders and also on incorporating CSR into an organization's core operations, thus going beyond the aspect of communities and philanthropy.

3. The Four Phases of CSR Development in India

Indian CSR history witnessed four phases, running parallel to historical development in India, resulting in diverse approaches towards CSR. These phases however are not static and individual attributes of each phase may overlap those of other phases.

3.1. The First Phase

In the initial phase, the primary drivers of CSR were charity and philanthropy. Religion, family values, tradition, industrialization and culture affected CSR activities prominently. Till 1850, during the pre-industrialization era, wealthy merchants apportioned a part of their earnings for setting up religious temples for the society. Along with this, these merchants extended help to co-villagers during the times of epidemics and famines by arranging for money and food stored in their godowns, constituting an integral part of the society. 1850s onwards approach towards CSR changed in India with the arrival of the colonial rule. Major industrial families like Godrej, Tata, Modi, Singhanian, Bajaj and Birla of the 19th century focused on the social considerations as well along with the economic ones, driven not only by religious and selfless motives but also impelled by political objectives and caste groups.

3.2. The Second Phase

The second phase of CSR, marked by the independence movement, Indian industrialists faced the pressure of demonstrating their dedications towards society's progress. This took place when the notion of "trusteeship" was introduced by Mahatma Gandhi, which devised that Industrialist's wealth management should benefit the common man. Gandhi's influence motivated industrialists to contribute towards socio-economic development of the nation, representing Indian companies to be the 'temples of modern India'. Many businesses established trusts for colleges and schools and setting up scientific and training institutions, and these trusts functioned as per Gandhi's guidance of encouraging women empowerment, abolishing untouchability and rural development.

3.3. The Third Phase

The third phase of CSR which existed during 1960s-1980s witnessed the emergence of Public Sector Undertakings (PSUs), labor laws and environmental standards. This phase supported the element of mixed economy, and thus private sector subsided during this period. While Public sector was labelled as the chief mover of development, private sector on the other hand was surrounded by stringent legal regulations, making this period 'an era of command and control'. Corporate malpractices flourished from industrial licensing policy, restrictions on private sector and high taxes, all this led to enactment of corporate governance legislation. PSUs' role was to ensure fair distribution of various resources like wealth, food etc. among needy, but the effectiveness of public sector was inadequate. Hence expectations regarding development on the socio-economic front shifted from the public sector towards private sector, making their involvement indispensable for the progress of the nation. In 1965, a national workshop on CSR was set up by Indian politicians, academicians and businessman, aimed at reconciliation. This workshop highlighted social accountability, stakeholder's dialogues and transparency. CSR activities failed to catch steam despite such efforts.

3.4. The Fourth Phase

The present phase of CSR is the fourth phase which started in 1980s. Indian companies discontinued their traditional engagement with CSR, and switched it to a sustainable business strategy. With globalization and economic liberalization in 1990s, Indian economy experienced a major breakthrough with the dwindling control and licensing system. Indian companies grew at a rapid pace with the surged growth momentum of the economy, and companies' bent towards social cause contribution increased. Indian market became a production and manufacturing hub for developed nations, and thus in an attempt to match up to international standards, much attention was paid to the aspects of labor and environmental standards.

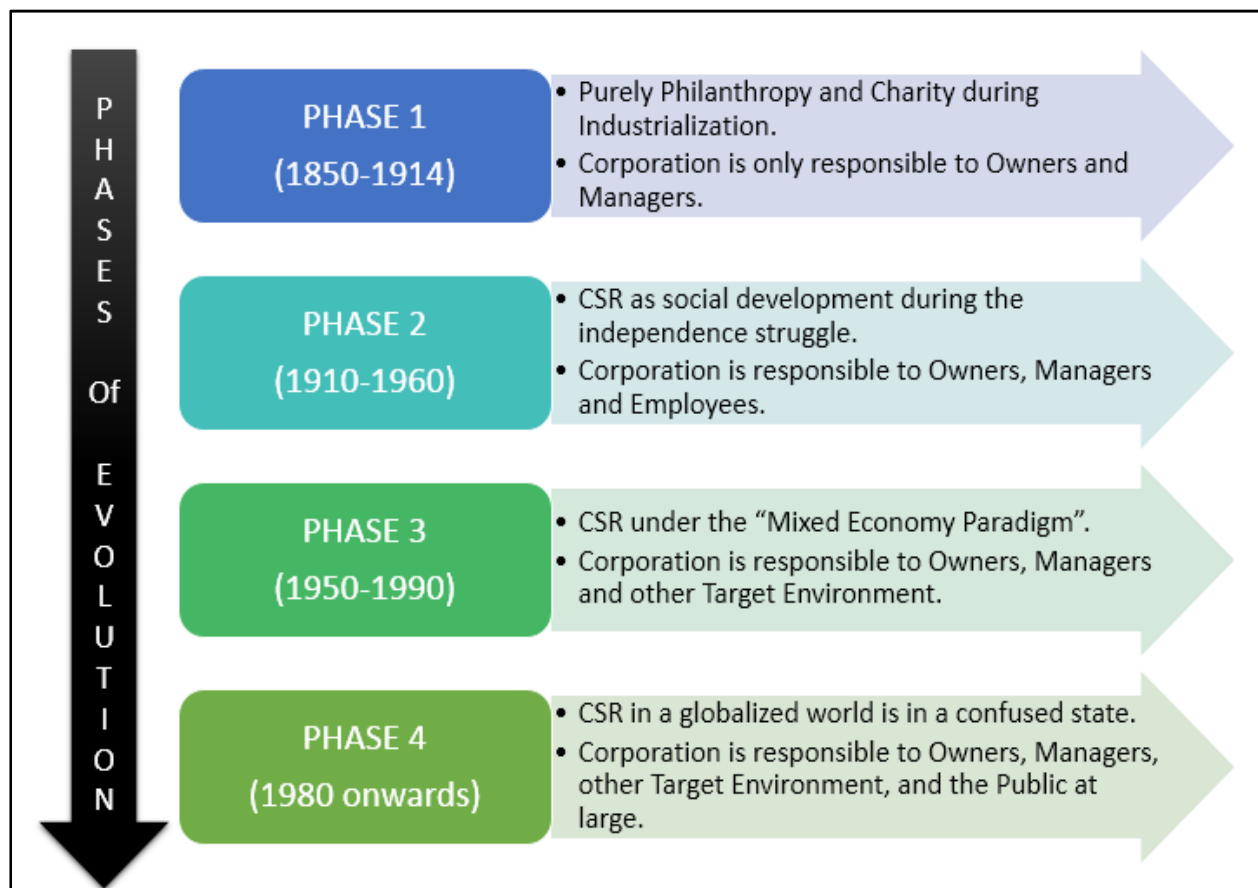


Figure 1

4. Current State of CSR in India

The concept of CSR is deep rooted in the Indian economy since the very beginning, where big corporate houses like Aditya Birla Group and Tata group have been serving the community in various forms of charity and donations activities. However, nowadays the primary objective of CSR has shifted from just philanthropic aspect to a strategic aspect aimed at maximizing company's impact on the stakeholders and society. Companies have started aligning their CSR policies, programs and practices with their core business operations and processes. Corporates realized that CSR is much more than just a form of an indirect expense, but is an integral part of protecting a company's goodwill and reputation in the market, increasing business competitiveness and defending attacks.

Big corporates have CSR teams with specialists, who formulate policies, goals and strategies for successful culmination of CSR programs within the set budgets kept aside to fund these activities. The programs and activities undertaken are guided by well-defined social philosophy objectives and are comprehensively integrated with the mainstream business functions. CSR activities vary from community development oriented programs to development in healthcare, education and environment.

Corporates like Maruti Suzuki India Limited and Bharat Petroleum Corporation Limited have adopted a broader approach towards societal development. They facilitated improvised medical and sanitation amenities, empowering villagers and promoting the concept of self-reliance by arranging for vocational training along with knowledge of business operations, and building houses and schools, thus improving the standard of living of India's inhabitants. Moreover, corporates partner with various non-governmental organizations (NGOs), using their proficiency for effective planning and deployment of programs aimed at solving social problems.

CSR in India has witnessed several phases. Corporates in India have clearly proven the ability to enhance the quality of life of people thus making a significant difference. But in order to gain an effective and an incessant solution to prevalent social issues, not one but all corporate organizations in India to contribute towards the effort of bringing about a change in the current social scenario. Companies, NGOs and governmental organizations should join hands so as to devise such a combination of expertise, skills, manpower, money and strategic thinking so as to trigger an extensive social change to boost India's social-economic progress at a global level.

5. CSR and Sustainability

Corporate sustainability derives its premise from sustainable development philosophy. Brundtland commission defined the concept of sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Thus corporate sustainability refers to the contribution of corporates towards the sustainable development agenda and necessitates a balanced approach to social progress, economic progress and environmental stewardship.

In India CSR tends to focus on the effective utilization of profits after they are earned by an organization. Whereas, sustainability is all about factoring the environmental and social impacts of business operations, in other words it lays emphasis on the way profits are earned. Therefore, Indian practice of CSR is a significant component of sustainability as well as of a responsible corporate functioning.

Ministry of Corporate Affairs issued India's National Voluntary Guidelines on Environmental, Social and Economic Responsibilities of Business (NVGs) in June 2011. The NVGs are a set of nine principles. Principle eight relates to inclusive development encompassing nearly all aspects included in the CSR clause in Companies Act, 2013. On the other hand, the remaining eight principles incorporates other aspects of business. A widely known sustainability network, The UN Global Compact has 10 principles entailing social, environmental, governance, and human rights issues, and CSR is an implicit element rather than explicit one in these principles.

The concept of CSR and sustainability is converging worldwide; this is evident from the numerous definitions of CSR propounded by different global organizations. The outset of this convergence is noticeable in the recently released draft rules from preamble, related to the CSR clause of the Companies Act 2013, encompassing the idea of triple bottom line approach, which discusses about stakeholders and blending it with the environmental, economic and social objectives. This is also acknowledged in the guidelines issued by the DPE in April 2013 on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises. The new guidelines, have replaced two separate guidelines on CSR issued in 2010 and sustainable development issued in 2011, states the following:

“Since corporate social responsibility and sustainability are so closely entwined, it can be said that corporate social responsibility and sustainability is a company’s commitment to its stakeholders to conduct business in an economically, socially and environmentally sustainable in the manner which is transparent and ethical.

6. The Indian Companies Act 2013

India’s recent Companies Act (Companies Act, 2013) has brought major changes in the realm of Indian corporate business with the addition of several new provisions. Corporate Social Responsibility (CSR) is one such new provision. The philosophy of CSR lays its basis on the give and take ideology. Companies obtains resources in the form of human resources, raw materials etc. from the society. By carrying out CSR activities, these companies are giving back to the society and thus leading to the socio economic development. Ministry of Corporate Affairs has made recent notification regarding Section 135 and Schedule VII of the Companies Act as well as Companies Rule, 2014 (CRS Rules), effective from 1st April 2014

6.1. Applicability

As per the section 135 of companies’ act, the conditions for the applicability of provisions of the CSR to a company are

- a. Total net worth amounting to INR 500 crores or exceeding this, or
- b. Turnover value of INR 1000 crore or higher, or
- c. Net profit earned is INR 5 crore or higher.

Moreover, the scope of this section not only extends to Indian companies but also includes the project offices and branches of a foreign company operating in India.

6.2. CSR Committee

All the qualifying companies are thus legally required to spend at least 2% of their average net profits of the 3 immediately preceding financial years on corporate social responsibility activities. For this qualifying companies are obligated to constitute a CSR committee with 3 or more board of directors. The role of the committee will be the formulation of the CSR policy, recommendation of the CSR policy and the amount of expenditure to be incurred on CSR activity to the board and monitor the company’s CSR policy. On the other hand, Board will take into consideration the recommendation of the committee and approve the company’s CSR policy.

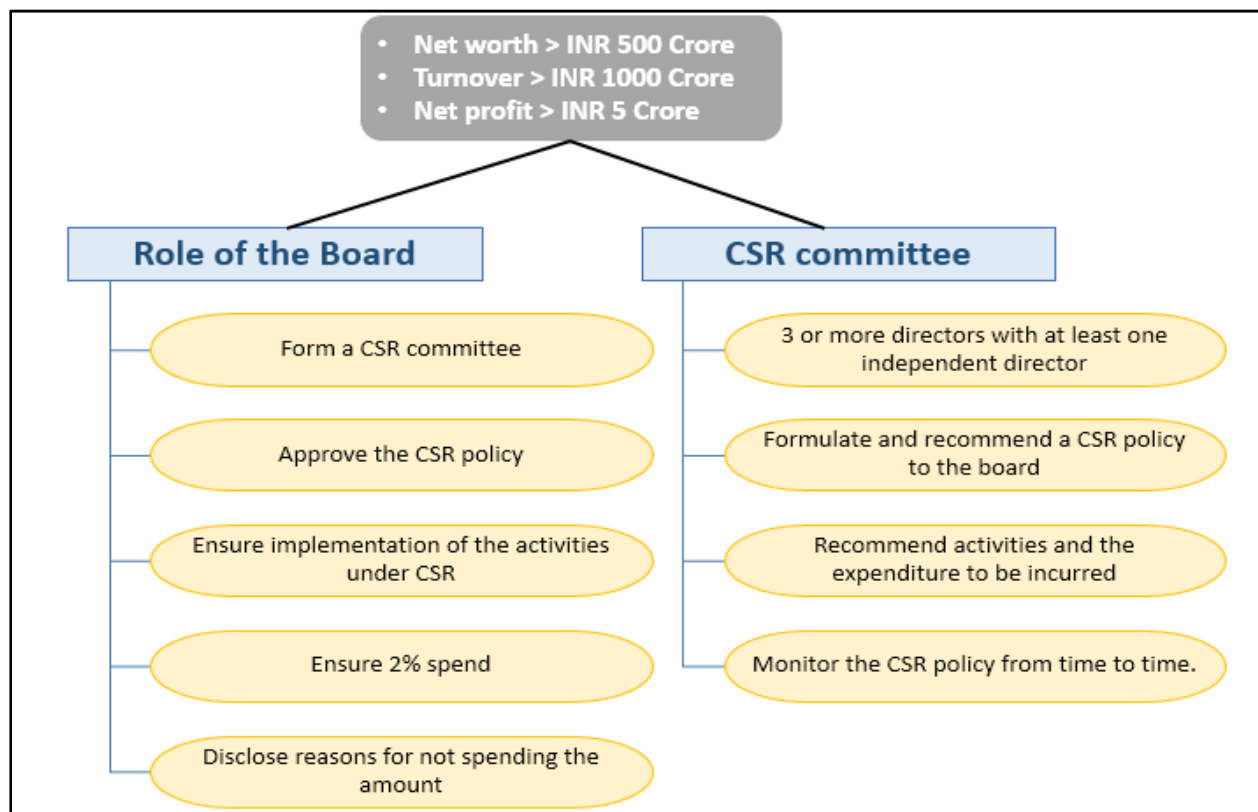


Figure 2

Source-<http://www.motivationsociety.in/csr.php>

6.3. Scope of the Term CSR

As per the CSR definition in CSR rules, CSR includes but its scope is not limited to programs and projects in connection to the specified activities of the schedule and to the activities performed by the board in relation to the recommendations made by the committee as CSR policy provided that so policy is as per the subjects mentioned in the schedule.

6.4. Activities Regarded as CSR

The activities which shall be done by the corporate in order to meet their CSR obligations referred in this sections include activities and measures undertaken relating to eradication of extreme hunger and poverty, promoting gender equality, reducing child mortality, empowering women, promoting education, improving maternal health, enhancing environmental sustainability, social business projects, contributing to funds set up by government for socio economic growth, for reliefs to natural disasters affected areas, for the welfare of the schedule caste, tribes and other backward castes for upliftment of minorities and women and other such matters, measures combating different diseases and many others.

6.5. Preference to LACAL Area

Section 135 of companies' act states that for CSR activities to take place preference should be given to the local and the area where company's business operates.

Company are given an option to work in association with 1 or more companies in order to meet their CSR obligation but each company are in this case required to report individually.

The addition of CSR provision in the new Companies Act 2013, is a favorable step where under the new CSR regime, all corporate businesses satisfying CSR criteria will undertake CSR activities during current year. This will boost the socio-economic development of the country facilitated by efficient professional management of social projects undertaken by corporates in the private sector.

6.5.1. Administration of CSR Projects

A corporate can fulfill its CSR obligation by channelizing its activities through a third party like trust, foundation, society or a section 8 companies that is, companies formed for charitable purposes provided such institutions has proper record of CSR activities of at least previous three years. Small and medium sized companies can also pool their resources in order to carry out CSR activities.

6.5.2. Reporting Requirements

Act requires corporate to follow bureaucratic requirements. It mandates companies to prepare detailed CSR report in a required format informing the composition of the CSR committee, company's CSR projects, amount of expenditure and the details of the individual projects. Such report should be published on the company's website and must be included in the annual report to shareholders.

6.5.3. Failure to Comply

If the company fails to spend the minimum required amount, board is required to make the disclosure of such failures with reasons to the shareholders in its annual director's report. However, act does not say whether such failure is legal offense or punishable.

6.5.4. Critical View Point

- In case of failure of compliance of the act, the act does not state any penal action provision. Only board has to explain the reasons for such non-compliance in its report.
- The limit of net profit to be Rs 5 crores or more as a qualifying criterion to fall under the scope of this act is on a lower side in comparative terms vis-a-vis turnover and net worth limits of Rs 1000 crores and Rs 500 crores respectively. Due to this those companies which do not meet the net worth and turnover limit will fall under this act's scope
- Further the act does not provide any clarity whether a company will have to create a provision for the unspent amount in its financial accounts if it fails to spend the required amount on the CSR activities.
- Initially there was confusion regarding the taxation of CSR activities, now clarification is given that such CSR expense will be taxable, however in respect of some activities tax exemption will be permissible from the financial year 2014-2015. But no clarity is given on what activities shall tax be exempted.

7. Triple Bottom Line

One of the way to evaluate CSR is "People, planet and profit" also termed as triple bottom line. "People" represents fair labor practices in the area where business operates. "Planets" stands for sustainable environmental practices. "Profit" is the economic addition earned by the corporate after taking all the cost of inputs including cost of capital into consideration. This approach was expected to help companies to be more conscious of their social responsibilities.

7.1. Business Responsibility Reporting (BRR)

Government of India mandates another reporting requirement, including CSR is by the SEBI. On 13 August 2012, SEBI issued a circular necessitating the top 100 listed companies to report their Environmental, Social and Governance initiatives (ESG). These initiatives are reported in the form of Business Responsibility Reports (BRR) as a section of the annual report. Template for filing BRR has been provided by SEBI. BRR is in accordance with the National Voluntary Guidelines (NVG) recognized by the Ministry of Corporate Affairs in July 2011. Listing agreement has been modified with provisions regarding the incorporation of submission of BRR by pertinent companies. Format of the BRR is also provided in the listed agreement. The BRR obligates corporates to report their performance on the notified nine NVG principles. SEBI also encourages other listed companies to voluntarily present details on their ESG performance in BRR format.

8. CSR Activities of Some Indian Companies

- ITC limited is one of the top private company in India dealing in wide range of businesses. ITC's CSR activities contribute to the growth of the economy, social and environmental development. Working on the concept of - triple bottom line, it focuses on raising agricultural productivity and supporting the rural economy to be more inclusive on social grounds.
- Leading Software Company INFOSYS engages in CSR activities by providing language and computer learning. Under special program, company teaches unprivileged kids various skills. Its activities focus on changing the outlook of unprivileged kids and also donates chocolates, games, etc. to them.
- Reliance industries launches a program called – project Drishti, which aim to work on helping the visually challenged people of economically poor Indians. This project was successful in bringing back the eyesight of more than 5000 people so far.
- Indian Oil Corporation and ONGC are working on the projects which pay attention to the higher education, school construction facilities, providing aid to the deserving children and offering scholarships to the pupils from weaker sections of the society.
- Mahindra and Mahindra launches a new type of ESOP's – Employee social option to help their employees to participate themselves in CSR activities of their choice.
- An automotive industry leader- Maruti Suzuki targets global issues like climate changes and global warming. For this company has made huge investments on environmental friendly products and aims at manufacturing and offering best products to the society. Company has been very aggressively promoting - reduce reuse and recycle concept.
- Tata consultancy services won the Asian CSR award for initiating projects for community development and initiating various programs and working with great sincerity and commitments in incorporating ethical values. Company has launched adult literacy program which takes computer TCS designed literacy model to teach adults.
- GlaxoSmithKline pharmaceutical through its CSR activities invests in health and healthy living. They focus on tribal villages and there they support non- profit organizations which work on improving the education and health of the weaker communities by providing medicines, equipments and funds.
- Baja Electricals Ltd perform its corporate social responsibility in education, environment and rural development.
- Wipro cares aims at initiating educational and healthcare programs for migrated communities' disaster rehabilitation programs and programs on environmental issues.
- BHEL and Indian airlines have been acknowledged for taking steps in disaster management. BHEL has made a great step in this regard and has adopted 56 villages with around 80000 inhabitants.

- SAIL has taken major actions in upliftment of women, education, providing drinking water facilities, health and medical areas.

9. Conclusion

The Corporate Social Responsibility realm stands on the foundation of philanthropic activities like charity, donations, societal developments, relief work, etc., but now this concept has evolved over the period of time integrating the philanthropic approach with concepts such as corporate citizenship, triple bottom approach, strategic philanthropy, shared value, business responsibility and corporate sustainability. There is a budding consciousness that business cannot prosper in long term in isolation and thus social progress is important for sustainable development. The addition of CSR provision in the new Companies Act 2013, is a favorable step where under the new CSR regime, all corporate businesses satisfying CSR criteria will undertake CSR activities during current year. This will boost the socio-economic development of the country facilitated by efficient professional management of social projects undertaken by corporates in the private sector.

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