

## **11<sup>th</sup> International Conference, Dhaka, Bangladesh December 5-7, 2014**

### **From Disorganized Effort to an Organized Polarization of Corporate Social Responsibility in India**

**Dr. Sanjeev Kumar Mahajan <sup>1</sup>**

**Dr. Anupama Mahajan <sup>2</sup>**

#### *Abstract*

The modern corporate enterprises exert considerable influence on the civil society, *polity* and the economic scenario of a nation by embracing efforts to improve the society. Unlike the traditional effort made by the business community to appear socially responsible, the current movement world over, lays emphasis on sustenance of the company as an amalgamation of profit as well as meeting social developmental goals. This has been possible owing to significant changes in geo-politics and market place in the world and India is no exception to this. India is a country of myriad contradictions. On the one hand, it has grown to be one of the largest economies in the world and has emerged as an increasingly important player in the emerging global order and on the other hand, its demographic status shows it to have a very high percentage of population living below the poverty line (though the proportion is decreasing year after year. Additionally, the issue of undernourished children needs to be addressed with the seriousness it deserves. This indicates a picture which displays disparities in growth leading to social unrest.

*Key words: Corporate Social Responsibility, Companies Act, 2014, Planning, Strategy, Implementation mechanism.*

---

<sup>1</sup> Professor, Himachal Pradesh University

<sup>2</sup> Professor, Bharati College, University of Delhi

Corresponding email: [mahajan4949@gmail.com](mailto:mahajan4949@gmail.com)

## **11<sup>th</sup> International Conference, Dhaka, Bangladesh December 5-7, 2014**

### **Introduction**

Nations which address these questions on a priority basis have responded proactively while others have done so only when pushed. The Indian Government, as well as regulators, has begun responding to this unrest. The concept of CSR can be explained as the responsibility of the individual enterprise to meet their social obligations towards the society. According to UNIDO, CSR is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their shareholders. It is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives. This is also known as triple Bottom Line Approach<sup>1</sup>. Further, it also helps in addressing the expectations of the shareholders and stake holders. It can be observed from the above explanation that:

- The CSR approach is complete and combined with core strategy for dealing with issues related to social and environmental impact on the activities of the individual company.
- It needs to address the well being of all stake holders and not only the shareholders of the enterprise.

### **Evolution of CSR in India**

The history of CSR has been categorized in to different stages:

#### **Stage I**

In India, the term CSR might be new but not the concept. It has been there since the formative stage of civilization. It has been incorporated in the various religions laws where a part of one's earnings are donated for the benefit of the poor and community welfare. The Hindus call it 'dharmmada' the muslims 'Zakatah, the Sikhs, 'dashaant', call it by whatever name, the concept has been imbibed in the society from the beginning (Baxi and Prasad 2005)<sup>2</sup>. Hence, CSR in India traditionally been seen as a philanthropic activity.

#### **Stage II**

The concept of trusteeship (socio-economic philosophy) as promoted by M.K. Gandhi is also similar to the philosophy of CSR. The philosophy has been followed by many industrialists who admired and acknowledged the concept of trusteeship of M.K. Gandhi. Until now, many believed that the

## **11<sup>th</sup> International Conference, Dhaka, Bangladesh December 5-7, 2014**

practice of CSR in India still remain within the philanthropic space but has moved from institutional building (educational, research and cultural) to community development through various projects (Confederation of Indian Industry 2013)<sup>3</sup>.

### **Stage III**

The third stage can be traced with the introduction of concept of mixed economy and intimately leading to establishment of public sector undertakings to fulfill one of the objectives of The Industrial Policy Resolution, 1956, that is, socialistic pattern of society. Indian Public Sector was entrusted with the task of development of the nation and to ensure equal distribution of resources amongst the people. This saw emergence and enactment of the legislations regarding labour, environment and corporate governance issues. However, the concept of CSR could not be delivered during this period.

### **Stage IV**

The fourth stage (1980's to first decade of 21<sup>st</sup> century in the last decade of 20<sup>th</sup> century saw a new economic policy was initiated towards liberalization, privatization and globalization. This resulted in growth and development of Indian companies. In the era of globalization, the Indian companies were forced to comply with international standards. Similarly, CSR is seen as a global strategy to promote a sustainable development and entails a balanced approach to economic, social and environmental development. This decade also saw the financial crisis that shook all of the world markets but now the corporate sector has recovered from the jolt of the global financial crisis. In order to channelize energy, the government corporate sector and the communities came to join hands in deciding different methods of discharging its social responsibilities. Against this background, the Ministry of Corporate Affairs has brought the set of voluntary guidelines for responsible business.

Each business entity should formulate a CSR policy to guide its strategic planning and provide a road map for its initiatives (Ministry of Corporate Affairs–2009)<sup>4</sup>. According to Corporate Social Responsibility Voluntary Guidelines, it was suggested that the CSR policy should cover the following core elements:

1. **Care for all Stakeholders:** The aim is to respect the interest of stakeholders that is shareholders, employees, people associated with the business, customers and society at large, etc.
2. **Ethical Functioning**

## **11<sup>th</sup> International Conference, Dhaka, Bangladesh December 5-7, 2014**

It involves ethics, transparency and accountability towards all people who were directly or indirectly associated with the business.

### **3. Respect for Worker's Right and Welfare**

Provision of safe, hygienic and humane environment to the employees working in the company. They should provide equal opportunities to all the employees for enhancing the skills for career development and compliance of all the laws in true spirit.

### **4. Respect for Human Rights and Environment**

Companies should respect human rights and measures to check and prevent hazard. More attention should be paid to sustainable development. Also, an effort should be made to respond to the challenges of climate change.

### **5. Activities for Social and Inclusive Development**

It is expected that all companies should be encouraged to undertake activities for economic and social development of all the sections of society living around their area of operation<sup>5</sup>.

### **Current Status of CSR in India**

In the era of globalization and increasing awareness amongst communities' world over CSR has become more demanding and active. This has led to a visible change and pressure on the enterprises to expand their area of jurisdiction to carry out activities to fulfill CSR. Further, to take advantages of these activities, the enterprises are reporting the activities carried out by them on their official websites or annual reports. It is evident that corporate responsibilities have become more dynamic and follow a multi-dimensional approach to adapt to fast changing economic, social and environmental conditions. Though the efforts of CSR are voluntary in nature but the situation demands that the implementation of the initiatives and programmes related to corporate responsibilities should be carried out in a planned and an effective manner.

Hence, business conduct must be in compliance with the existing and relevant laws and regulations. In this context, the Companies Act, 2013 has introduced the idea of CSR to the fore front and through its disclosure is promoting greater transparency and disclosure (Confederation of Indian Industry 2013)<sup>6</sup>. The concept of CSR is governed by clause 135 of the Companies Act, 2013.

### **Governance**

## **11<sup>th</sup> International Conference, Dhaka, Bangladesh December 5-7, 2014**

Clause 135 (1) every company having a net worth of Rs 5 hundred crore or more or a net profit of Rs. 5 crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the board consisting of three or more directors, out of which one director shall be an independent director.

(2) The Boards report under sub-section (3) of the section 134 shall disclose the composition of CSR Committee (The Gazette of India, August 30, 2013)<sup>7</sup>.

Sub Section 3 of clause 135 explains that the CSR Committee is responsible for the CSR Policy indicating the activities to be carried out by the Company as given schedule of the Act. These include:

- (i) eradicating extreme hunger and poverty;
- (ii) promotion of education;
- (iii) promoting gender equality and empowering women;
- (iv) reducing child mortality and improving maternal health;
- (v) combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other disease;
- (vi) environmental sustainability;
- (vii) employment enhancing vocational skills;
  
- (viii) social business projects;
- (ix) contribution to PM's National Relief Fund, etc. Further, it is the responsibility of CSR Committee is to allocate the budget to be spent on the activities and review of policy from time to time. The approved policy should be placed on the Company's Website. The Act also fixes the responsibility of the committee to see that the activities mentioned in the policy are carried out by the company. Further, two percent of the average net projects of the individual company made during the three immediately preceding financial years are spent in pursuance of its CSR Policy. At the end of this clause, it is expected that the Company will give preference to the local area/areas around it where it operates for spending the amount earmarked for carrying out CSR activities.

### **Reporting**

If the company fails to spend such amount, the Board shall, in its report specify reasons for not spending the amount order clause (0) of the sub section (3) of section 134<sup>8</sup>.

## **11<sup>th</sup> International Conference, Dhaka, Bangladesh December 5-7, 2014**

### **Advantages of Good CSR Initiatives**

In a world overflowing with complexities, the major challenge before the enterprise is to look after the interests of the communities. Discussed here are some of its advantages:

#### **1. Provision of license to operate by the Communities**

Apart from the values and ethics of the individual companies, some of the important stakeholders influence the business activities by the government through laws and regulations and other control mechanisms. Apart from issuing of license by the government to operate in the respective area, the communities also affect the outcome of business activities. Hence, a desirable CSR programme helps the organization to instill confidence among the communities there by precluding trust deficit.

#### **2. Captivating and retaining talented employees**

CSR communities of the company help the organization to attract, retain and motivate its employees to participate in CSR activities. It reflects the organizational culture and goodwill of the organization.

#### **3. Supply Chain**

Many organizations have started innovative initiatives by involving local communities into their supply chain. It has resulted into providing opportunities to the people to generate more income sources on one hand and on the other, the organizations are assumed of secured supply chain.

#### **4. Improved Corporate Goodwill**

CSR Initiatives have helped the companies to enhance its goodwill by operating effective CSR programme.

### **Planning and Strategy Development**

The activities of CSR of a company are shaped by the social, economical and environmental challenges at the area of operations. The goal is to develop a CSR strategy that addresses the immediate social needs to be fulfilled on the local agenda. In a country like India with more than 30 percent of population living below poverty line, the company should manufacture products which can serve the low/middle income consumers to help the nation in fulfilling social

## **11<sup>th</sup> International Conference, Dhaka, Bangladesh December 5-7, 2014**

purpose. Further, providing basic and improved courses in skill development will ensure availability of trained and skilled workers. All this is possible only if the company lays stress on planned CSR activities integrating it with the needs of the company.

### **Formulation of CSR Policy & Strategy:**

The Companies Act, 2013 requires that every organization should be socially responsive. The activities mentioned in VII Schedule of the Act refer to carrying out of activities of the company which are different from the objectives the company. Secondly, the company should provide a list of activities to be undertaken during the period consideration. Recognizing the importance of sound institutional framework to achieve the desired results, a good CSR practice requires that a company should always prefer to have long term vision, policy and strategy. This should be reviewed year after year to expect desired results. While setting the goals, a dedicated budget should be provided on the basis of the guideline provided under clause 135 of the Companies Act, 2013.

### **CSR Strategy Development**

A company's CSR activities must be based on social, economic and environmental challenges of the society. Hence, an effective strategy should address the most urgent social needs on the local agenda, that is, to whom it matters followed by its jurisdiction to carry out the activities and identifying opportunities to achieve the corporate objectives.

Therefore, it is desirable to have well planned CSR activities. It will help the company to integrate sustainable CSR activities into their routine so that marginalized groups in their jurisdiction can be taken care of. So, the purpose of strategy development is to bridge the gap between companies' culture and society as a whole, creating a measurable impact.

### **Implementation Mechanism**

Implementation refers to decisions, processes and activities which ensure that CSR commitments of the Company are carried out as per law fulfillment of CSR commitments to help the company to gain goodwill in the market. Implementation of commitments can be implemented in the following ways:

#### **a) CSR decision making strategy**

## **11<sup>th</sup> International Conference, Dhaka, Bangladesh December 5-7, 2014**

Effective decision making structure ensures that it can fulfill the desired commitments and customer needs. It is essential that there should be a correlation between the Company's goals and CSR goals. Accordingly, decision making structure should be created which is concerned with transparency, accountability and performance.

### **b) CSR Plan should include measurable targets**

CSR structure identifies the role of employees at each level who are responsible for taking quick action based on SMART guidelines SMART (Industry Canada)<sup>9</sup>.

Guidelines can be explained as:

- Simple
- Measurable
- Achievable
- Reliable
- Time Bound

These guidelines help the organization to set measurable targets and at the end of the financial year, the performance can be measured.

### **c) Effective Communication Plans**

Information about the CSR commitments of the company and activities to be performed should be communicated to all sections of the society to whom it matters. The company's communication plan should look after the interests of internal and external publics. All activities related to CSR commitments must be communicated to the internal public. Similarly, for people, a good communication can help to bridge the gap between the company and the people that need to be aware of CSR initiatives.

Hence, implementation mechanism is the strategy and commitment to take action on the lines of the Act.

### **Expected Results**

It is evident from clause 135 of the companies Act 2013, that the implementation of CSR vis-a vis business responsibilities in this century is to demonstrate a commitment to society's values and to contribute to social, environmental and economic goals through action. It aims to protect the society from the negative impacts of the activities carried by the company and to ultimately share the benefits

## **11<sup>th</sup> International Conference, Dhaka, Bangladesh December 5-7, 2014**

with stakeholders and shareholders of the company. Lastly, it gives a clear and loud message to the community and shareholders that company can make more profits by doing the business on ethical lines.

### **Critical Assessment**

Not all is good in the new Companies Act, 2013. Given below are some issues that relate the weaknesses of the CSR at present:

#### **1. Not mandatory for all companies**

The Companies Act, 2013 does not mandate CSR for all the companies. However, every company having a net worth of Rs. 500 crore or turnover of Rs. 1000 crore or more during a financial year has to constitute the CSR committee of the Board to identify and implement CSR activities.

#### **2. No provision for evaluation of policies**

Another important drawback of the Act is that there is no mandatory or optional provision for the evaluation of CSR policies. CSR with a view to plug loopholes cannot be examined unless and until the Act is amended.

#### **3. No penalty for failure to comply**

If the minimum amount is not spent, the board is required to give reasons in its Annual Report. It is not clear yet that whether failure to comply this can lead to imposition of any penalty or non compliance can be a punishable offence under the new Act, 2013.

#### **4. Increased administrative Cost**

With the implementation of this Act, the CSR requirement will definitely increase the costs of doing business and the administrative cost which will result in a burden on the common man.

#### **5. Not viable business strategy**

Many business companies feel that pushing business practice for ethical responsibility to company responsibility is not beneficial to the company as CSR increases the cost and reduces profit. This is not considered to be a viable business strategy as a decrease in company's profitability is indeed disadvantageous and detrimental to social welfare in the long term.

### **Epilogue**

## **11<sup>th</sup> International Conference, Dhaka, Bangladesh December 5-7, 2014**

Proponents of the concept of CSR argue that socially responsible practices will always have a positive impact on the overall development of the company and the society. It is further said the sale of the benefits of CSR will vary from organization to organization and would depend upon the nature of activities performed by the companies. However, in the Indian context, an effort has been made from disorganized to organized polarization of Corporate Social Responsibility by introducing clause 135 in the companies Act, 2014. However, it is still taking baby steps and to assess the impact of CSR on social, economic and environmental returns is probably unfair.

### **References:**

www. unido.org/index. Ph.D.?id 413#PP1 as retrieved on 05.11.2014.

Baxi, C.V. Prasad Ajit. 2005. Corporate Social Responsibility. 50. New Delhi: Excel Books.

Confederation of Indian Industry. 2013. Handbook on Social Corporate Responsibility in India.7. Gurgaon : PwC India.

Ministry of Corporate Affairs. December, 2009. Corporate Social Responsibility Voluntary Guidelines. 13. New Delhi: Government of India.

Adapted from Corporate Social Responsibility Voluntary Guidelines.

Confederation of Indian Industry. 2013. Opcit.

Ministry of Law & Justice. August, 2013. The Gazette of India. 80. New Delhi: Government of India.

ibid.

www. icgc.ca as retrieved on 10.11.2014.

**11<sup>th</sup> International Conference, Dhaka, Bangladesh  
December 5-7, 2014**