CORPORATE SOCIAL RESPONSIBILITY - EVOLUTION

Dr. Rajni Saluja

Associate Professor

University School of Management

Desh Bhagat University

Mandi Gobindgarh

Sangam Kapoor

Research Scholar,

University School of Management

Desh Bhagat University

Mandi Gobindgarh

ABSTRACT

Corporate social responsibility (CSR) is a buzzword worldwide. In today's globalized world, one of the great challenges faced by firms is integration of CSR in business. Stakeholders require a lot more from companies than merely pursuing growth and profitability. CSR has come a long way in India and other emerging markets. From responsive activities to sustainable initiatives, corporates have clearly exhibited their ability to make a significant difference in the society and improve the overall quality of life. This paper focuses on the concept of CSR, its dimensions and relevance in emerging markets with special reference to India.

The concept of Corporate Social Responsibility (CSR) is not new in India. It emerged from the 'Vedic period' when history was not recorded in India. In that period. Kings had an obligation towards society and merchants displayed their own business responsibility by building places of worship, education, inns and wells. Corporate Social Responsibility has been defined and conceptualized in several ways during the past four centuries following a process of analysis, debate and scholarly confrontation around the theme. The concept 'Corporate Social Responsibility' (CSR) refers to 'soft', voluntary self regulation adopted by firms to improve aspects of the company, this can relate to labour, environmental and human rights issues.

Key Words: CSR, Sustainability, Philanthropic approach, Stakeholders

Definition

Despite numerous efforts to bring about a clear and unbiased definition of CSR, there is still some confusion as to how it should be defined.

Corporate Social Responsibility is about companies having responsibilities and taking actions beyond their legal obligations and economic/business aims. These wider responsibilities cover a range of areas but are frequently summed up as social and environmental - where social means *society broadly defined, rather than simply social policy issues. This can be summed up as the triple bottom line approach: i.e. economic, social and environmental.*

Corporate social responsibility (CSR) also called corporate responsibility, corporate citizenship, responsible business and corporate social opportunity is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment.

According to **The World Business Council For Sustainable Development**, "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

CSR is an offspring of business ethics. However business ethics is concerned particularly with moral values, while CSR focuses more on the social, environmental and sustainability issues than on morality. In the words of **A.P.J. Abdul Kalam** "Corporate decision making and policy making is linked to ethical values, compliance with legal requirements and respect for people, communities and the environment around the world." Corporate social responsibility is necessarily an evolving term that does not have a standard definition or a fully recognized set of specific criteria.

The Institute of Directors, UK (2002), "CSR is about businesses and other organisations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organisations interact with their employees, suppliers, customers and communities in which they operate, as well as the extent they attempt to protect the environment",

The European Union (2004),''A concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment, this is done by integrating social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.''

Christina Keiner (2008),'' CSR, as a definitional construct, aims at describing the relationship between business and the larger society surrounding it, and at redefining the role and obligations of private business with that society, if deemed necessary."'

Indian Scenario

The history of CSR in India has its four phases which run parallel to India's historical development and has resulted in different approaches towards CSR.

The First Phase

In the first phase charity and philanthropy were the main drivers of CSR. Culture, religion, family values and tradition and industrialization had an influential effect on CSR. In the pre-industrialization period, which lasted till 1850, wealthy merchants shared a part of their wealth with the wider society by way of setting up temples for a religious cause. Moreover, these merchants helped the society in getting over phases of famine and epidemics by providing food from their godowns and money and thus securing an integral position in the society. With the arrival of colonial rule in India from the 1850s onwards, the approach towards CSR changed. The industrial families of the 19th century such as Tata, Godrej, Bajaj, Modi, Birla, Singhania were strongly inclined towards economic as well as social considerations. However it has been observed that their efforts towards social as well as industrial development were not only driven by selfless and religious motives but also influenced by caste groups and political objectives.

The Second Phase

In the second phase, during the independence movement, there was increased stress on Indian Industrialists to demonstrate their dedication towards the progress of the society. This was when Mahatma Gandhi introduced the notion of "trusteeship", according to which the industry leaders had to manage their wealth so as to benefit the common man. "*I desire to end capitalism almost, if not quite, as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no make-shift, certainly no camouflage. I am confident that it will survive all other theories.*" This was Gandhi's words which highlights his argument towards his concept of "trusteeship". Gandhi's influence put pressure on various Industrialists to act towards building the nation and its socio-economic development. According to Gandhi, Indian companies were supposed to be the "temples of modern India". Under his influence businesses established trusts for schools and colleges and also helped in setting up training and scientific institutions. The operations of the trusts were largely in line with Gandhi's reforms which sought to abolish untouchability, encourage empowerment of women and rural development.

The Third Phase

The third phase of CSR (1960–80) had its relation to the element of "mixed economy", emergence of Public Sector Undertakings (PSUs) and laws relating labour and environmental standards. During this period the private sector was forced to take a backseat. The public sector was seen as the prime mover of development. Because of the stringent legal rules and regulations surrounding the activities of the private sector, the period was described as an "era of command and control". The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices. This led to enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure suitable distribution of resources (wealth, food etc.) to the needy. However the public sector was effective only to a certain limited extent. This led to shift of expectation from the public to the private sector and their active involvement in the socio-economic development of the country became absolutely necessary. In 1965 Indian academicians, politicians and businessmen set up a national workshop on CSR aimed at reconciliation. They emphasized upon transparency, social accountability and regular stakeholder dialogues. In spite of such attempts the CSR failed to catch steam.

The Fourth Phase

In the fourth phase (1980 - 2015) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In the 1990s the first initiation towards globalization and economic liberalization were undertaken. Controls and licensing system were partly done away with which gave a boost to the economy the signs of which are very evident today. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing and able to contribute towards social cause. Globalization has transformed India into an important destination in terms of production and manufacturing bases of TNCs are concerned. As Western markets are becoming more and more concerned about labour and environmental standards in the developing countries, Indian companies which export and produce goods for the developed world need to pay a close attention to compliance with the international standards.

Corporate Social Responsibility -History

The concept of CSR has a long and varied history. It is necessary to trace evidences of the business community's concern for society for centuries. A survey of the literature on studies related to Evolution and Understanding of concept, Awareness, Motivation, Perception and Behaviour, Reporting Practices towards Corporate Social Responsibility Practices in Small and Medium Enterprises specifically has been made to identify the current status of research on the topic. The brief abstracts of these studies have been given below:

Priyanka Verma and Anupam Singh (2016)

"Fostering Stakeholders Trust through CSR Reporting: An Analytical Focus'' reveals that a true and sincere corporate communication leads to the building of stakeholders' trust. It also assessed the extent and nature of CSR reporting by Indian companies. The results indicated that there is no significant relationship between a firm's profitability and its corporate social disclosure (CSD). However, a firm's ownership (private sector or public sector) has influence on CSD practices. The findings also suggest that firm size has a positive association with CSD under the community development theme. This implies that large companies with public visibility favour community development. Finally, the study ends with a conclusion that has strong managerial implications: sincere and honest social reporting can develop a better relationship with all stakeholders.

Sumona Ghosh (2015)

The study aims to explore the establishment of a pattern of participation of corporate social responsibility (CSR) activities amongst private sector companies as reflected in the respective company documents in the public domain, taking absolute profit as the parameter. The study showed that the most preferred CSR activities were education, health and environment. Drinking water and sanitation and urban upliftment were the least preferred activities. Significant correlation was observed with respect to various CSR activities that the companies were responsive to. Companies belonging to the manufacturing sector and the diversified sector have shown the highest responsiveness towards such activities. Companies have attached the highest importance (Level 1) to the following CSR activities: education, environment, health, rural upliftment and others.

Shubhashis Gangopadhyay (2014)

The theoretical literature and empirical studies on CSR have systematically shown that CSR plays a significant role as an important part of a company's competitive strategy. Companies can compete by lowering prices without reducing the quality of the product, or by improving the quality without any significant increases in its price. Firms use their social activities as a signal to win over consumers who stay loyal to them and employees who prefer to work for them. However, such signalling works as a competitive strategy only if participation in such activities is voluntary.

Dr. M. Ramana Kumar (2013) in his study on CSR (Analysis of select Indian Private and Public sector companies) tried to analyse the CSR activities carried out by Indian Private (Reliance Industries Ltd.) and public sector companies (ONGC) and also study the Indian government policies and programmes of CSR. The study revealed that though the Indian public and private firms are making efforts in the CSR areas, still there is a requirement of more emphasis on CSR. The study found that there is a significant difference in the CSR practices of RIL and ONGC as the CSR budget of ONGC is more than RIL during the year 2009-10, 2010-11, and 2011-12 and average CSR score of ONGC is more than that of RIL during 2009 to 2013.

Brammer, Jackson & Matten (2012) study entitled as “Corporate Social Responsibility and institutional theory: new perspective on private governance” in Social economic review depicted that CSR is not only a voluntary action but is beyond that. In this study, CSR has been defined under institutional theory. The institutional theory stated that corporate social activities are not only voluntary activities but are a part of interface between business and society. Regulation/ governance are necessary for enhancing the corporate performance of businesses through CSR. The theory also suggested the form in which companies should take its social responsibilities; whether historical, political or legal form.

Netaji and Amran (2012) Their study aims to measure the perception of owners/managers of small and medium-sized enterprises (SMEs) towards corporate social responsibility (CSR). It also seeks to examine whether ownership type causes any difference in the CSR attitudes of small firms owners. The findings of this study revealed that majority of Malaysian SME owners have a philanthropic view towards CSR followed by modern view. Besides, it was found that ownership type causes a significant difference in the perception towards CSR's cost/benefit between sole proprietorship firms and private limited enterprises.

Frisko and Arisandi (2011) have studied the practices of corporate social responsibility (CSR) run by state owned company in Indonesia which tends to focus on strengthening economies of small and medium enterprises (SMEs) through partnership program as per regulation framework. The analysis included examining the background of program, assess it impact to stakeholder, and evaluate the effectiveness of social program done by state-owned company. Eventually, this study expected to provide information about effectiveness analysis of CSR programs for company and government to design proper rules in creating sustainability development for a better future.

Erli and Lasmono (2010) examine consumer perception towards CSR in the developing country Indonesia. This research produced mixed results, suggesting that CSR is still a concept waiting to be applied in the developing country. Consumers are often unaware and unsupportive towards CSR. This is opposite finding of consumer perception in developed countries where most consumers are willing to support CSR launched by corporations. Nevertheless, there is an interesting finding, when consumers have to buy similar products with the same price and quality, CSR could be the determining factor. They would buy from the firm that has a socially responsible reputation.

Sharma et al (2009) Business organisations have woken up to the need of being committed towards CSR. This study is an attempt to explore the engagement of human resource management professionals in undertaking CSR. It suggests Human Resource Management to take a leading role in encouraging CSR activities at all levels. The combined impact of CSR and human resource activities which reinforce desirable behaviour can make a major contribution in creating long term success in organisation.

Reich (2008) argues that the new interest in so-called "Corporate Social Responsibility" is found on a false notion of how much profits a modern public corporation has to sacrifice for the sake of certain social goods, and that the promotion of corporate social responsibility by both the private and public sectors misleads the public into believing that more is being done by the private sector to meet certain public goals than is in fact the case.

Porter and Karmer (2006) has studied the role of .Government, activists and the media that became adept at holding companies accountable for the social consequences of their activities. Many organizations rank companies on the basis of performance of their corporate social responsibility (CSR), and, despite sometimes questionable, these rankings attract considerable publicity.

Raynard and Forstater (2002) describe Corporate Social Responsibility as an increasingly important part of the business environment. The past twenty years have seen a radical change in the relationship between business and society. Key drivers of this change have been the globalization of trade, the increased size and influence of companies, the repositioning of government and the rise in strategic importance of stakeholder relationships, knowledge and brand reputation. The relationship between companies and civil society organizations has moved on from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society. Corporate Social Responsibility (CSR), defined in terms of the responsiveness of businesses to stakeholders' legal, ethical, social and environmental expectations, is one outcome of these developments.

Carroll (1999) traces the evolution of the CSR construct beginning in the 1950s, which marks the modern era of CSR. Definitions expanded during 1960s and proliferated during 1970s. In the 1980s, there were fewer new definitions, more empirical research, and alternative themes began to mature. These alternative themes included corporate social performance (CSP), stakeholder theory, and business ethics theory. In the 1990s, CSR continues to serve as a core construct but yields to or is transformed into alternative thematic frameworks.

The study of literature on CSR and CSRD (Corporate Social Disclosure) paints an ambiguous and even contradictory picture in India as well as at global level. Though some studies can be found in India, but the work is certainly scanty relative to research work at global level. Overall, it has been concluded by most of the studies that the CSR disclosures are low, do not present social information in a consistent manner and social audit reporting in formalized accounting pattern are not being followed. Though size, profitability and industry have been found to be the determinants of CSD but the relationship seems to be moderate and inconsistent. So, a detailed investigation in CSD patterns in India and their association with various corporate characteristics is warranted. Moreover, the perceptions of various groups of stakeholders have not been investigated by earlier studies. So, it has been identified as an interesting area for the current research.

Legal Framework of CSR

The first formal attempt by the Government of India to put the CSR issue on the table was in the issuance of Corporate Social Responsibility Voluntary Guidelines in 2009 by the Ministry of Corporate Affairs (MCA, 2009). Prior to this, the importance of CSR was discussed in the context of corporate governance reforms, such as in the Report of the Task Force on Corporate Excellence by the Ministry of Corporate Affairs (MCA, 2000). It is in the Voluntary Guidelines of 2009 that the core elements of a CSR policy was spelt out that included care for all stakeholders, ethical functioning, respect for workers' rights and welfare, respect for human rights, respect for the environment and activities to promote social and inclusive development. The Guidelines specifically drew a distinction between philanthropy and CSR activities, and highlighted the voluntary nature of CSR activities that go beyond any statutory or legal 3 obligation. The Guidelines of 2009 were followed in 2011 by the National Voluntary Guidelines of Social, Environmental & Economic Responsibilities of Business, also issued by the MCA (MCA, 2011). These guidelines were reportedly based on the inputs received from 'vital stakeholders' across the country and laid down nine principles for businesses to function in a responsible manner to promote inclusive economic growth at the national level. As in the case of the 2009 Guidelines, the 2011 Guidelines were voluntary in scope wherein corporates were urged to adopt all the nine principles, and to report their adherence to the guidelines based on an 'apply-or-explain' principle. Interestingly, while one of the implementation strategies suggested in the 2009 Guidelines was to earmark "specific amount related to profits after tax, cost of planned CSR activities, or any other suitable parameter," no such suggestion was included in the 2011 Guidelines. The transition from a voluntary CSR regime to a regulated regime came when the Securities Exchange Board of India (SEBI) required the top listed 100 companies, as part of Clause 55 of the Listing Agreement, to mandatorily disclose their CSR activities in the Business Responsibility Reports (BR Reports) accompanying the Annual Reports. This, SEBI opined was in the larger interest of public disclosure and represented a move towards integrating social responsibility with corporate governance. The most ambitious attempt at mandated CSR activities for companies came with the enactment of Section 135 of the Companies Act 2013 (MCA, 2013). India`s new Companies Act 2013 (Companies Act) has introduced several new provisions which changed the face of Indian corporate business. One of such new provisions is Corporate Social Responsibility (CSR). Ministry of Corporate Affairs has recently notified Section 135 and Schedule VII of the Companies Act as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 (CRS Rules) which has come into effect from 1 April 2014.

***Applicability*:** Section 135 of the Companies Act provides the threshold limit for applicability of the CSR to a Company i.e. (a) net worth of the company to be Rs 500 crore or more; (b) turnover of the company to be Rs 1000 crore or more; (c) net profit of the company to be Rs 5 crore or more. Further as per the CSR Rules, the provisions of CSR are not only applicable to Indian companies, but also applicable to branch and project offices of a foreign company in India.

CSR Committee and Policy: Every qualifying company requires spending of at least 2% of its average net profit for the immediately preceding 3 financial years on CSR activities. Further, the qualifying company will be required to constitute a committee (CSR Committee) of the Board of Directors (Board) consisting of 3 or more directors. The CSR Committee shall formulate and recommend to the Board, a policy which shall indicate the activities to be undertaken (CSR Policy); recommend the amount of expenditure to be incurred on the activities referred and monitor the CSR Policy of the company. The Board shall take into account the recommendations made by the CSR Committee and approve the CSR Policy of the company.

Activities under CSR: The activities that can be done by the company to achieve its CSR obligations include eradicating extreme hunger and poverty, promotion of education, promoting gender equality and empowering women, reducing child mortality and improving maternal health, combating human immunodeficiency virus, immune deficiency syndrome, malaria and other diseases, ensuring environmental sustainability, employment enhancing vocational skills, social business projects, contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women and such other matters as may be prescribed. The introduction of CSR provision in the Companies Act is a welcome step and all companies which satisfy the CSR criteria will have to undertake CSR activities under the new CSR regime during current financial year. This step will boost much required social projects with some professional management of the private sector. India became the first country to include provisions on CSR in Company Law and make CSR expenditure mandatory for corporates based on pre-specified criteria. In the rest of the world, however, CSR is still a voluntary exercise left to the discretion of the corporates. What is mandatory at most is the compulsory reporting of CSR activities undertaken by corporates in a growing number of countries, although this too is not the case across all countries.

Conclusion

The concept of corporate social responsibility has gained prominence from all avenues. Organizations must realize that government alone will not be able to get success in its endeavor to uplift the downtrodden of society. The present societal marketing concept of companies is constantly evolving and has given rise to a new concept-Corporate Social Responsibility..Though the concept of corporate governance may sound a novelty in the Indian business context and may be linked to the era of liberalization, it should not be ignored that the ancient Indian texts are the true originators of good business governance. Good corporate governance means governing the corporation in such a way that the interests of the shareholders are protected whilst ensuring that the other stakeholders' requirements are fulfilled as far as possible. India is a fast growing economy and is booming with national and multinational firms. At the same time, the Indian land also faces social challenges like poverty, population growth, illiteracy just to name a few. Therefore it is all the more imperative for the Indian companies to be sensitized to CSR in the right perspective in order to facilitate and create an enabling environment for equitable partnership between the civil society and business.

Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its support to law, ethical standards, and international norms. Consequently, business should embrace responsibility for the impact of its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. CSR-focused businesses should proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public, regardless of legality.

As one of the important shloka (quote) from the Rigveda says **"A businessman should benefit from business like a honey-bee which suckles honey from the flower without affecting its charm and beauty".**

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