

# **CORPORATE SOCIAL RESPONSIBILITY: THE TOOL TO DEVELOPING INDIA**

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## **ABSTRACT**

Corporate Social Responsibility (CSR) has gradually emerged as one of the key approach for addressing the various aspects of company activities particularly of social and environmental impact. The role of corporations in various activities in society is clearly very high on the agenda. New Companies Act has been introduced in India, which legally mandate the certain classified companies to give at least 2 percent of the net profit to the society as a CSR. Although CSR is a significant milestone in focusing the spotlight on the challenge of changing expectations of society from business<sup>i</sup> but yet companies are increasingly expected to go beyond this. The write up suggests that CSR has some potentials for dealing various issues for the benefit of society but still fails to address three challenges in the business-society relationship i.e. the environment, development and governance.<sup>ii</sup> Some of the important aspects like economic and political issues are yet to be addressed. The write-up also studies the meaning of Corporate Social Responsibility, its origin & evolution and its legal framework in India. It further focuses on the central topic of the study-why CSR is not sufficient enough to discharge its obligation towards the society.

## INTRODUCTION

*'While profit motive no doubt provides main spark for any economic activity, any enterprise which is not motivated by consideration of urgent service to the community becomes outdated soon and cannot fulfill its real role in modern society.'*

– By: J.R.D. Tata

Recent years have witnessed that Corporate Social Responsibility (CSR) is a much talked, discussed and debated subject in contemporary business.<sup>iii</sup> Every company or organization has a policy to contribute towards CSR. It is not wrong to say that companies are a part of society. Companies should not concern only with managing the business environment but also the external environment. Companies play a vital role in developing the external environment through its various activities. Thus, the basic idea of CSR is profoundly established in the conviction that organizations/corporations have an assortment of commitments to their host societies that go well beyond meeting shareholders' expectations of financial returns.<sup>iv</sup>

According to a 2007 survey by the consultancy firm McKinsey carried out among the Chief executive officers (CEOs) of companies, 95 percent of those questioned believe that society is optimistic than it did five years ago that companies will assume public responsibilities.<sup>v</sup> More than half of the CEOs believe that these expectations will further significantly during the next five years.<sup>vi</sup> CSR has emerged as a business approach for addressing the social and environmental impact of company activities<sup>vii</sup>. With increasing expectations placed on business, one need to see and ask if CSR is able to fulfill larger expectations.<sup>viii</sup> Is the CSR has enough potential to deal other challenges in the business-society relationship like the development, the environment, the governance?<sup>ix</sup> Is it sufficient to look an aspect of CSR restricted to Environmental and Social issues? To address all these questions, one has to acquire a brief knowledge about the meaning of Corporate Social Responsibility and its origins and why the need is felt in the society to come out with this concept.

## WHAT IS CORPORATE SOCIAL RESPONSIBILITY?

Interestingly, there is not any precise definition of Corporate Social Responsibility (CSR) has been given yet. CSR is a peculiar beast. The role of business in society keeps on changing; there is no agreement among observers on what CSR stands and till where its boundary lies.<sup>x</sup> Different people have interpreted it differently. Each definition has been given by them while looking at the different perspective of the society and what the society demands for. CSR mean something different to civil society groups from to the private sector.<sup>xi</sup> However, the definition given by one of the most prestigious scholars in the CSR sector is of Carroll. According to Carroll, “an electric field with loose boundaries, multiple memberships, and differing perspectives and multidisciplinary.”<sup>xii</sup> He further said that CSR is a conscientious business should embrace economic, legal, ethical and philanthropic responsibilities.<sup>xiii</sup> Although in India, it has been clearly said by the Government of India that Philanthropic responsibilities do not form a part of Corporate Social responsibility as per the new laws enacted.<sup>xiv</sup> CSR is also defined by the World business Council (2002) as ‘the commitment of business to contribute to sustainable economic development by working with their employees, their families, the local community and society at large to improve their lives in ways which are good for business and development.’ The India- based Tata group, which in one of the world’s largest conglomerates, defines CSR as ‘to look beyond the generation of products to serving the communities in which they functioned.’<sup>xv</sup> Jamsetji Tata and those who followed in his immediate wake set the CSR mandate for Tata companies.<sup>xvi</sup>

## EVOLUTION OF CORPORATE SOCIAL RESPONSIBILITY IN INDIA

The term CSR might be moderately new to India, yet the idea goes back to Mauryan history, where philosophers like Kautilya underlined on moral practices and standards while conducting business.<sup>xvii</sup> CSR has been casually polished in old times in type of philanthropy to poor people and hindered. Indian sacred texts have at a few spots said the significance of imparting one's earning to the deprived segment of society. We have a profound established society of sharing and caring. Until 1850, the affluent executive imparted their wealth to the public by either setting up temples or religious foundations. In times of starvations, they

opened their storage facilities for poor people and hungry. The methodology towards CSR changed with the entry of pioneer tenet in 1850. In the Pre-autonomy time, the pioneers or propagators of industrialization likewise upheld the idea of CSR. In 1900s, the industrialist families like Tatas, Birlas, Modis, Godrej, Bajajs and Singhanias advanced this idea by setting up charitable establishments, instructive and human services foundations, and trusts for community improvement and development.<sup>xviii</sup> It might likewise be fascinating to note that their endeavors for social advantage were additionally determined by political motives. After Independence, it gradually became developed with core emphasize were given upon social reforms like rural development, women empowerment and education. In between 1960 to 1980, CSR was influenced by the emergence of public sector undertakings to ensure proper distribution of wealth.<sup>xix</sup> After 1980 onwards, Indian Companies started to integrate CSR into a Sustainable business strategy<sup>xx</sup> and focus of CSR was given at the time of industrialization and globalization.

Current Scenario of Corporate Social Responsibility (Section 135 of Companies Act, 2013):

In India, the new Companies Act (Companies Act, 2013) has been introduced which has replaced the six decade old Act. It has inserted several new provisions which have given a new outlook of Indian corporate business. One of such provisions is of Corporate Social Responsibility. Ministry of Corporate Affairs has recently notified Section 135 and Schedule VII of the Companies Act, 2013 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.<sup>xxi</sup> The Section 135 has made a mandatory compliance that every company (Both Private limited or Public limited), whether listed or unlisted company, if they satisfy the conditions inserted under the act, need to constitute CSR committee to formulate and monitor the CSR policy of the company. Thus, every company, which has a net worth of the company is Rs. 500 crore or more or a turnover of Rs. 1,000 crore or more or net worth of Rs. 5 crore or more, needs to spend at least 2 percent of its average net profit for the immediately three preceding years on corporate social responsibility activities.<sup>xxii</sup>

The computation of net worth, turnover and net profit in accordance with the Section 198 of the Companies Act, 2013 as per the profit and loss statement prepared by the company in

terms of Section 381 (1) (a) and Section 198 of Companies Act, 2013.<sup>xxiii</sup> The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act.<sup>xxiv</sup> Although it is mandatory for the company to contribute 2 percent amount towards the CSR activities but if it fails to contribute the specified amount then the company needs to mention the specify reasons for the failure in its Board's report. The Companies Act, 2013 does not mandate any fine or penalty in the section for its failure to contribute to CSR activities.

The Companies Amendment, 2019 provide that CSR that is not spent that should be disclose inthe company annual report and transferred to the PM Relief fund within six months of the financial year. Non-compliance would attract penal provision which may attract fine between Rs. 50000 to Rs. 2500000 and person who is in default be punished with imprisonment up to 3 years.

### **CSR IS NECESSARILY USEFUL BUT NOT SUFFICIENT**

With the Companies Act, 2013 came into force; India became the first country which legally requires company to 'give back' to society. Corporate Social Responsibility addresses positive impact on the society. Social obligation is essential to a business since it shows to both consumers and the media that the organization takes an interest for more extensive social issues that have no immediate effect on overall profits.<sup>xxv</sup> These issues might be local, national or worldwide, yet a concern toward the wellbeing and health of others that does not include sales can be seen as excellent if done well.<sup>xxvi</sup> The foundation of a CSR strategy (sometimes alluded to as a sustainability strategy) is a critical part of an organization's competitiveness and something that ought to be driven by the firm itself.<sup>xxvii</sup> This implies having policies and procedures set up which coordinate social, environmental, ethical, human rights or consumer concerns into business operations and core strategy – all in close jointly with stakeholders.<sup>xxviii</sup> It becomes an integrated part of the business and companies to include and implements CSR activities in their culture.

When the importance of social responsibility is recognized as part of a business's foundation,

the impact of such endeavors can have life-changing consequences for recipients of aid and, equally, instill a sense of pride in the people who support and work toward its growth.<sup>xxxix</sup> A business can grow with or without social responsibility, but doing well for others allows a business to reap rewards in many ways.<sup>xxx</sup> A company's public image is helpless before its social responsibility programs and how aware consumers are of them (recollect, this is the greatest impediment – education and awareness)! According to a study by Cone Communications, 9 out of 10 consumers would refrain from working with a company if there were no corporate social responsibility plans.<sup>xxxix</sup> For instance, if a company is intensely included in the act of donating funds or goods to local charitable associations and schools, this improves the probability that a consumer will utilize their product. Moreover, if a company takes good care to ensure the materials utilized as a part of its products are environmentally safe and the process is sustainable, this goes far in the eye of the public.<sup>xxxii</sup>

Many companies think that corporate social responsibility (CSR) is a secondary issue for their business and customer satisfaction more imperative for them. They imagine that customer satisfaction is now only about price and service, but they fail to point out on key changes that are taking place worldwide that could blow the business out of the water.<sup>xxxiii</sup> The change is named as social responsibility, which is a vital opportunity for the business.

### ***Challenges of CSR***

The practical implementation of CSR is faced with a lot of issues and challenges. It is vital for CSR strategies to become fundamental to business strategy and part of the long term planning process. Stakeholders are addressing more on CSR activities of the organizations today. They are challenging the organizations' choices making in this direction. It has become imperative to integrate stakeholders' views.<sup>xxxiv</sup> In India, the CSR supervisors face number of difficulties in managing CSR activities. One of the biggest problems is of lack of budget allocations. Lack of knowledge and lack of support from employees are also a few major problems faced by the managers while managing CSR activities. Thus, it eventually reduces CSR initiatives of the company. Lack of Information about CSR to public also results in less contribution from them towards the society. The rising demand for more transparency and accountability on the part of the companies along with disclosure of information through

formal and improved reporting is also inevitable for the companies.<sup>xxxv</sup> There is a simple jurisprudence behind every successful company that one should give full and honest disclosure of all the related information so that a trust can be built with the stakeholders and consumers but sometimes companies failed to do so. To achieve sustainable growth, these issues need to be sorted out strategically.

### ***Why not sufficient?***

We need to go beyond the Corporate Social Responsibility (CSR) concept in order to maximize the positive contribution that business can make to society.<sup>xxxvi</sup> Experience to date suggests that CSR tools usually fall short to transform the day-to-day running of the whole organization. Indeed, even among the most socially responsible organizations, CSR activities are frequently directed in equivalent to 'business-as-usual' activities, which might eliminate a large portion of the positive increases of these activities.<sup>xxxvii</sup> The payment of taxes to unaccountable governments, relocation of jobs from one country to another, private investments in nations with terrible human rights records, corporate lobbying of governments or tax avoidance may have negative consequences for society.<sup>xxxviii</sup> If we see in the business-society relationship, the key issues are economical & political but still there is no emphasizing given upon these issues and ignored. Even while looking at the aspect of CSR standards, it always excluded from its contents.

The present focus of the CSR agenda is particularly on social and environmental issues but the question arises whether it is sufficient to look only those aspects. Sometimes the economic impact of private investment could be much more damaging than the both social and environmental impact.<sup>xxxix</sup> A 2007 survey is conducted by the consultancy firm McKinsey among 2687 senior executives from around the world asked the question 'Which three issues are likely to have the most impact, positive or negative, on shareholder value for companies in your industry over the next 5 years?'<sup>xl</sup> The response that recurred most often was environmental issues (48 per cent of executives), which is largely due to the recent concern with climate change. The other responses included: 'political influence and political involvement of companies' (25 per cent of executives), 'health care benefits and other employer benefits' (24 per cent), 'Job losses and off shoring' (24 per cent), 'privacy, data

security' (22 per cent), 'pension retirement benefits' (22 per cent)<sup>xli</sup> Now while considering these above mentioned issues including the job losses and political involvement of the firm, the main problem is that it is not mentioned anywhere in the current CSR agenda although they are the key issues which should be addressed with. So practically, it looks quite doubtful that voluntary approach of CSR is capable to address these sorts of issues. To make and strengthen up with new corporate governance reforms which will help companies to make better social and environmental choices and to justify these choices in front of shareholders.<sup>xlii</sup> Policy makers will need to involve in these reforms.

Corporate social responsibility (CSR) is becoming more fundamental to the societal expectations from commercial organizations, with the possibility that spending a certain percentage of corporate income on societal welfare.<sup>xliii</sup> However, with a few exceptions, CSR in India seems to lack focus and ownership towards socio-economic development initiatives such as rural education.<sup>xliv</sup> It is one of the biggest challenges for our country to overcome this problem as majority of people in our country resides in villages where they will not get education due to prevailing poverty and no facility of higher education and this later become unemployment issue. CSR is a good step but it will not be able to solve this problem. So it becomes necessary to look into this aspect. In addition, CSR has less potential for addressing problems like community development and governance. Companies can really benefit if there is a better community development and governance it will lead to less corruption, fewer operational losses, improves corporate reputations etc.<sup>xlv</sup> It could also encourage from improvements in human development and governance, with reference to high level of education, increase in private investment, better public services etc.<sup>xlvi</sup> But Companies approaches to community development is ineffective while they appear to be unwilling to address issues of governance. CSR initiatives will not be tackle some of the key challenges in social and environmental sector unless it addresses governance.

### ***One of the main limitations of Corporate Social Responsibility***

A micro-level project often does not amount to a greater whole. The impact of a CSR initiative may be restricted without the coordination of other companies and stakeholders as project may not be located where it is most needed or efforts may be duplicated.<sup>xlvii</sup> Partnership with



governmental organizations, non-governmental organizations, domestic companies etc can significantly help towards the maximizing the prospective of CSR. If CSR is really want to achieve its societal promise and obligation then there is need to make a shift from micro-level to macro-level projects.<sup>xlviii</sup> Many initiatives taken voluntarily by company are failed to generate societal benefits because the companies does not give much priority and does not address to their stakeholders properly. Stakeholder engagement is often shallow and brief, companies may listen to only those stakeholders who has the biggest bargaining power rather than to those whose interest are most affected. Even sometimes managers make decisions without giving any priority to the interest of stakeholders. A crucial problem is that decisions on social initiatives and environment initiatives are usually made in order to pursue corporate rather than stakeholders priorities, which in turn may limit the ability of Corporate Social Responsibility to bring vital benefits to stakeholders.<sup>xlix</sup> It follows that companies sometimes need to think beyond the profits and think like stakeholders, so that the priorities of the stakeholders do not become sub-ordinate to corporate priorities.<sup>1</sup>

Undoubtedly, CSR may bring certain benefits for the society at large but there are many limitations to voluntary activities. Focusing much on CSR diverted the attention from broader perspective of political and economic solutions to societal challenges. If we want business or companies to fulfill its potential and obligation for serving societal needs then the CSR approach alone is not enough.

## CONCLUSION

Over a last few decades, there has been a steady increase in concern expressed about the social and environmental impact on the society. The expectations of society are increasing towards the social development by the companies. There is a buzzword of Corporate Social Responsibility in almost everywhere in the world. It is very well understood that government alone cannot be succeed to uplift the downtrodden society.<sup>li</sup> Further compulsion to contribute Corporate Social Responsibility has filtered the myth that profit making is not the ultimate goal but building trust, sustainability and increase societal relationship is the focus point. Corporations use the resources of the society, so it is obligation for them to return

to the society by sharing certain percentage of profit. It will directly help in the growth of the society and indirectly help to solve other issues of the society.

CSR is an indispensable tool but still it cannot help to rid away other societal crucial problems like poverty, climate change etc. Every coin has two sides, same with the case of CSR. One side CSR has so many advantages that it became a vital tool to address so many problems prevailing in the society but on the other side, one can see that this alone may not be sufficient to solve the other issues of the society. Companies use political influence sometimes to attain corporate goal related to profit maximization, but they rarely use that influence to encourage improvements in governance.<sup>lii</sup> CSR initiatives most of the times fail to encourage better governance and Corporate activities may also undermine governance. Thus if we want to address the potential challenges and threats of the society, it become crucial to look beyond the CSR.

## ENDNOTES

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