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A conceptual framework of corporate social responsibility in India

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Abstract

The tool of Corporate Social Responsibility (hereafter referred to as 'CSR') has been introduced under the Companies Act, 2013 (hereafter referred to as 'CA13'), effective from April 1, 2014, to address the social obligations of the corporate world. The objective of CSR is a noble one and necessary for a robust and sustainable development. The general reaction of the corporate industry towards the reform has been positive. Various companies have undertaken extensive projects addressing the socio-economic problems, facing the society at large. In light of the reform, the present paper endeavours to provide a detailed analysis of CSR regime in India. Although proper implementation of CSR will definitely add to the grandeur of the nation, detractors have questioned the need of such obligations in a nation such as India where generally all the policies of the government focus on striving socio-economic equality and development. The reason for imposing such obligations appears to be twofold, firstly, that the protracted problems of socio-economic equality and environmental concerns have proved to be chronic and secondly, the past endeavours demonstrate clearly that a greater extent of participation is needed for reaching the roots of such problems. Bringing the corporate world into the fold of socio-economic obligations would prove to be beneficial for the masses as well as the corporate world.

Keywords: Corporate Social Responsibility, Socio- economic obligations

1. Introduction

Since the 1950s, the corporate social responsibility issues (CSR) have been debated. Secchi (2007) ^[9] and Lee (2008) ^[8] in their latest analyses reported that the definition of CSR has been changing in meaning and practice. In general, CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. 'Ethically or responsible' means treating stakeholders in a manner deemed acceptable in civilized societies. Social includes economic responsibility. Stakeholders exist both within a firm and outside. The natural environment is a stakeholder. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation. CSR may present a win- win situation for society and business. Understanding of the potential benefits of CSR for the competitiveness of individual companies and for national economies can help encourage the spread of CSR practice. The origin of the CSR construct has been traced back to the works of Bowen, particularly his book *Social Responsibilities of Businessmen* published in 1953 (Valor, 2005) ^[10]. Another book by Davis and Blomstrom (1966) ^[3] defined social responsibility as "Social responsibility, therefore, refers to a person's obligation to consider the effects of his decisions and actions on the whole social system. Businessmen apply social responsibility when they consider the needs and interest of others who may be affected by business actions. In so doing, they look beyond their firm's narrow economic and technical interests. In a book series by Walton (1967) ^[11], a foremost thinker on this subject, entitled *Corporate Social Responsibilities*, many aspects of CSR with regard to the role of the business firm and the business persons in modern society have been addressed. This served as a formal attempt to define CSR as "The intimacy of the relationships between the corporation and society" and it was realized that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals" (As cited in Carroll, 1999) ^[2]. Backman (1975) ^[1] has described CSR in forms of some examples:

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Employment of minority groups, reduction in pollution, greater participation in programs to improve the community, improved medical care, improved industrial health and safety—these and other programs designed to improve the quality of life are covered by the broad umbrella of social responsibility (As cited in Carroll, 1999) [2]. CSR can be discerned in these three words that CSR is maximizing returns to shareholders (Zenisek, 1979) [12]. Frederick (1986) [4] identified corporate social responsibility as “an examination of corporations’ obligation to work for social betterment and referred this to as CSR”. “It is important to get the business of businesses right. The primary responsibility of business is social improvement” (Ambani, Chairman of Reliance Industries, 2011)

Global CSR- A Religious Perspective

Most of the people of this planet Earth are religious people. All religions preach philanthropic attitude, the sacred giving, sharing and sacrificing one personal earnings for eternal gain of salvation. In all religions, the people have been motivated to contribute for example Daswandh (1/10 of the earnings) in Sikh religion and Zakat (2.5 % of the earnings) in Muslim religion. In Christianity as well, the humankind is induced towards giving in the following words “At the end of every three years, bring all the tithes of that year's produce and store it in your towns, so that the Levites (who have no allotment or inheritance of their own) and the aliens, the fatherless and the widows who live in your towns may come and eat and be satisfied, and so that the LORD your God may bless you in all the work of your hands” The Deuteronomy 14:28-29. The holy books of different religions, The Holy Bible, The Holy Guru Granth Sahib, The Holy Gita and The Holy Quran preach welfare of human beings and certainly not the inhabitants of a particular national boundary. In the past there has been plethora of instances when the entire world expressed solidarity and deep concern towards the sufferings of the mankind in natural catastrophic events. If there is concern and willingness to sacrifice and help during unfavorable conditions, then the researcher is of the opinion that people need to be sensitive to the pangs of the society in normal course of life as well.

Atypical gap between the Haves and Have - not

United Nations Development Program, in its Human Development Report 2010, entitled as “The Real Wealth of Nations: Pathways to Human Development” measured the number of deprived and the intensity of their deprivation through a newly designed index called MPI (Multidimensional Poverty Index). MPI is a combination of serious deprivations in the dimensions of health, education and living standards. The study revealed a nerveracking figure that 1.75 billion people in the 104 countries covered by the MPI live in acute deprivation in health, education and standard of living. This exceeded the estimated 1.44 billion people in those countries who live on \$1.25 a day or less.

CSR

A Strategic Focus As early as 1978, Mintzberg opined that “the strategic decisions of large organizations inevitably involve social as well as economic consequences, inextricably intertwined; there is no such thing as a purely economic strategic decision”. In recent research work (Hazlett *et al.*, 2007) it has been felt that in examining CSR

from a strategic point-of-view, the use of CSR must be genuine as an Impact - management strategy at the core of the business”. Proponents of CSR claim that it is in the enlightened self-interest of business to undertake various forms of CSR (as cited in Baker, 2006). A report by the World Business Council for Sustainable Development stated in its introductory section on corporate social responsibility that “Business benefits accrue from the adoption of a broader world view, which enables business to monitor shifts in social expectations and helps control risks and identify market opportunities. Such a strategy also helps to align corporate and societal values, thus improving reputation and maintaining public support”, (World Business Council for Sustainable Development, 1999). At the same time, corporate social disclosure practices have always grabbed hold of the attention of various researchers, business houses, academicians, NGO’S, environmentalists, accounting professionals. Broadly and in most popular terms, CSR is how companies manage their business processes to produce an overall positive impact on society. Having said this, it is also plausible that the constituents of CSR vary from company to company, as there have always been conflicting expectations of the nature of companies’ responsibility to society. So, corporate social responsibility can be understood from different angles like internal and external, individual and collective. In internal CSR focus of company’s activities is on shareholders, workers and investors where external corporate social responsibility the beneficiaries are civil society groups, community at large, other companies and suppliers etc. The concept of corporate social responsibility has slowly matured from philanthropy to sustainability business strategy on one level and from self regulation to multi stakeholder concept at another level.

Need For Corporate Social Responsibility

First of all, the pressures of globalization have forced the companies to decentralize production/marketing facilities. So, integration between the global approach and local orientation is a recent phenomenon called basically globalisation of production facilities. This process has raised the sensitivity of the corporate world to the needs of the local communities. Secondly, the growing awareness of the world to environmental issues, global warming, climatic changes (though already matured but it has bounced back with more vigor than ever before. The worsening global climatic conditions and emergence of carbon trading markets and Kyoto agreement with ‘Cap and Trade systems’ has also forced the companies to sit up and respond to the environmental and societal needs. Next, the burns inflicted upon by the markets upon the companies taking CSR irresponsibly have been quite serious and vindictive. The CSR works as an image booster and these days adusting (using the mainstream media itself to strike at dominant marketing messages and send alternative messages), is increasingly being used as a perfect marketing tool, making the world listen to firms’s brand messages which otherwise do not serve their purpose of enhancing sustainability. A report published by Center for Social Markets (CSM) in 2001 in a survey based report titled “Corporate social responsibility –perceptions of Indian business” found the ranking of reasons for Corporate social responsibility and reported that ‘Increasing awareness’ and ‘Reputation’ topped the list, with ‘Community group pressure’ and ‘Public opinion’ quoted as the least important.

Bureau of Public Enterprises

The Bureau of Public Enterprises which regulates Central Public Enterprises puts some additional disclosure requirements in their annual reports. In addition, Criminal Procedure Code (CPC) in 1898 under sec 133 empowers the District Magistrate to abandon industries which cause water pollution. Information under section 217(2A) of the 12 Companies Act, 1956 read with Company (Particulars of employees) Rules, also requires some information to be disclosed regarding the employees. Factories Act, 1948 makes provisions for minimum facilities for the workers and cleanliness of the factory premises.

Presidential Directives and Guidelines

Presidential Directives and guidelines issued by the Government of India from time to time regarding reservation for Schedule Castes, Schedule Tribes and Other Backward Classes in letter and spirit. Liaison Officers are appointed at various Units/Offices all over the Country to ensure implementation of the Government Directives. Government Directives need public companies to disclose information on reservation for Persons with Disabilities and Ex-Servicemen and their representation.

CSR expenditures being made mandatory as a part of the proposed Companies Bill- An unfinished effort: According to the Draft Bill, proposed by The Parliamentary Standing Committee on Finance, the companies were expected to earmark two per cent of their net profits towards CSR activities every year. The law was meant to be applicable for a) All companies with a net worth of Rs. 500 crore or more, or b) A turnover of Rs. 1,000 crore or more or 13 c) A net profit of Rs. 5 crore or more. It is also important to look at the view presented by Mukesh Ambani Chairman of Reliance group, who commented that "The purpose of any business cannot be only profit. Profit for the shareholders is important. But unless entrepreneurs have a larger purpose and businesses that change lives of millions of people, a sustainable business cannot be created". He also commented that "We will have to move from a model of CSR to a model of Continuous Social Business through enterprise and entrepreneurship,". He also suggested creation of world class institutions with a soul."

Conclusion

It can be concluded that the CSR is still searching for a universally accepted definition and a standardized method of measurement of the CSR disclosures. It seems that the need for the disclosure of CSR information is well recognized. The above discussion also summarizes the regulatory regime in India with regard to social responsibility. It can be concluded that the regulatory environment governing some issues of CSR has been disjoint and non-mandatory. So the CSR disclosures still fall in the category of voluntary disclosures. In the light of the research problem presented in the earlier section of this chapter, nonintegrated legislation, it becomes important to understand patterns of the CSR disclosures made by the companies.

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