Corporate Social Responsibility: A Brief Study in the Indian Context

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Abstract

Social responsibility is a way of giving back to the society for what the society gives to us. It is a continuous process that creates an urge to commit oneself for the betterment of society. Over the years, the idea of social responsibility has taken a bigger form and is not limited within the confines of personal responsibility. Today, institutions or corporates are expected to adhere to social norms amidst carrying out business activities, both in the Indian as well as in the international scenario. A corporate's way of discharging obligations towards the society for whatever resources it has obtained from it towards performing business operations is called Corporate Social Responsibility (CSR). In the Indian scenario, many corporates from long back have willingly engaged themselves in social activities. But then, some have deliberately engaged themselves in corporate malpractices as a result of which, many rules and regulations like the Companies Act, 2013 have come into place to monitor such malpractices.

KEY WORDS: *Social Responsibility, Continuous Process, Social Norms, CSR, Rules and Regulations, Companies Act, 2013*

Introduction

Social Responsibility can be viewed from an individual point of view and from a company's point of view as well. When viewed from a corporate angle, such responsibility takes the shape of Corporate Social Responsibility (CSR). Time and again, there have been many debates as to whether and how corporates can be held morally or socially responsible for their good and bad activities just like natural persons, subject to the basic reality that a corporate is an inanimate entity having no human feelings of its own and individuals typically act on behalf of it. Apart from the fact that corporations are typically regarded as 'artificial persons' in the eyes of law implying they have certain rights and responsibilities in society just as a natural person and possess a distinct legal form, the other two logical assertions favouring corporates to be morally responsible are that they have agency independent of their members (Moore 1999a); and they have a definite organizational culture (G. Moore 1999) that shapes the decisions of persons working in the corporation. Also, the fact that all corporate activities have social impacts of one sort or other- positive, negative, or neutral- it is onus on the corporations to take responsibility for such impacts.

Prominent international CSR Models

Many models have been developed with respect to corporate social responsibility. The most accepted model of CSR is Archie Carroll's 'Four-part model of Corporate Social Responsibility' as initially proposed in 1979 and further refined in later publications. Carroll (1991) considers CSR as a multi-layered pyramid formed of four interrelated components- economic, legal, ethical and philanthropic responsibilities. Once economic responsibilities required of corporations are discharged (providing employees with fairly paid jobs, supplying products at fair price), the satisfaction of legal responsibilities is required of them by society. Subsequently, the fulfilment of ethical responsibilities (i.e., doing what is right even when corporations are not compelled to do so by the legal framework) is expected by the society over and above economic and legal expectations. At the tip of the pyramid, there are philanthropic responsibilities, the fulfilment of which is desired of corporations without being expected or required, thus making it a little less important than the other three categories.

As a matter of fact, Carroll's model is found to be almost in line with John Elkington's Triple Bottom Line (TBL) framework or 3P Model framed in the year 1998. The 3Ps in the TBL Model are People, Planet and Profit where 'people' indicates social responsibility, 'planet' indicates economic responsibility and 'profit' indicates economic responsibility. According to Elkington, a business cannot just have one single goal of adding economic value; rather it has an extended goal of contributing to environmental and social value too.

CSR in the International Context

In the international context, the influence of CSR has been much stronger, especially in the US for a long while. As for Europe and other areas of the globe, the CSR concept has started to carry weightage more recently. The fact that corporate accountability matters and corporations have other justifiable responsibilities beyond their economic responsibilities; and that some corporations are lately getting themselves involved in socially irresponsible activities which go against public interest, have been instrumental in bringing forth a number of legislations. The birth of Sarbanes Oxley Act (2002) was a manifestation or a reaction to the corporates' wrongdoings which took place in US in relation to incidents like the Enron scandal (2001) and the Worldcom scandal (2002). Another significant development has been the UNGC initiative (2000) that encourages corporates to voluntarily engage in and report on healthy business practices revolving broadly around themes of human rights, labour welfare, environment and anti-corruption.

CSR in the Indian Context

CSR in India has witnessed a sea change over the last century spreading over many phases. However, four broad phases remain very prominent. (Gahlot, 2013). In the first phase (1850-1914), it was observed that influential families like the TATAs during those times were inclined to engage in CSR, driven by the ideology of charity and philanthropy. Another observation was also made that such philanthropy might have been the result of caste group pressure and political motives. The next phase (1914-1960) witnessed businesses following Mahatma Gandhi's concept of "trusteeship". The increased pressure mounting on business houses to demonstrate their efforts towards social as well as industrial development led them to establish trusts for schools and colleges and also 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 (1960-1980) was marked by the advent of mixed economy. Initially, the public sector was seen as the prime mover of socio-economic development and private sector was forced to take a backseat subject to command and control. The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices. This further gave birth to legislations on corporate governance, labour standards and environmental issues. The public sector continued to remain effective only to a limited extent even after PSUs were set up; this was the point when the need for co-existence of private sector along with public sector was felt in the Indian economy again. In the fourth phase (1980-2013 and continuing), a radical transformation was witnessed. With the formulation of the Liberalization, Privatization and Globalization (LPG) model of Indian economy in 1991, the restrictions on the private sector in terms of licensing and other allied aspects were considerably done away with which gave a boost to the economy. Companies started gaining prosperously and were able to hold the growth momentum. This state motivated some Indian companies to abandon their traditional engagement with CSR and integrate it into a sustainable business strategy. (Gahlot, 2013)

From the many studies that have taken place in the Indian scenario with respect to CSR, it is found that it was for a long time that doing charity counted as social responsibility and many Indian companies used to hide behind this veil. For them, issues such as corporate transparency, ethics, governance, anti-corruption and accountability were issues not to be considered while considering socially responsible business practices. They considered only their charity projects while framing their corporate responsibility programmes. However, from the year 2009, the picture started to change drastically. The revelation of the Satyam scam in the year 2009 caused a massive moral outrage amongst the general masses. It not only forced Indian companies to re-evaluate their social standing but also, shifted their focus on corporate governance and transparency issues which are eventually an integral part of a company's corporate responsibility programme.

Few Research Inferences

Windsor (2001) in his research tried to find out that whether the organization and society will come closer to each other in future or not and what will be the changing phase of CSR. The study opines that there are three emerging alternatives or competitors to responsibility: (1) an economic conception of responsibility; (2) global corporate citizenship; and (3) stakeholder management practices. The article examines and assesses each alternative and assesses the prospects for business responsibility in a global context. Two fundamentals of social responsibility remain: (1) the prevailing psychology of the manager; and (2) the normative framework for addressing how that psychology should be shaped. Implications for practice and scholarship are considered.

Idowu & Loanna (2007) in their study of twenty companies in U.K., propounded that the U.K. companies have now become ethical in the content of social responsibility as companies disclose its CSR with a view of public benefits, government request and issue information to stakeholders because the companies think that stakeholders of twenty first century are better educated them past.

Vaaland & Morton (2008) in their study found that CSR should be managed by handling unexpected incidents, long term reduction of gap between stakeholders and their expectations and company performance and finally maintaining relationship with society through interplay between actor, resources and activities.

Truscott, Bartlett, & Tywoniak (2009) proposed a paper based on case study methodology. On the basis of the interview of key persons of industries in Australia, the term CSR has been explained. The industrialists revealed that CSR increasingly has become significant. They shared their views of CSR in economic, legal and ethical roles of business in society. Beside this, the industrialists viewed CSR as a model of corporate reputation.

Shah & Bhaskar (2010) in their study discussed that there is a broad relationship between the organization and society. Organization has its existence only with the society. Organization used the resources or inputs of the society like material and human etc. In reverse, the organization provides services to the society.

Brammer, Jackson, & Matten (2012) opine that CSR is not only a voluntary action but beyond that. In their study, CSR has been defined under institutional theory. The institutional theory states that corporate social activities are not only voluntary activities but are a part of interface between business and society.

CSR Rules and Regulations in the Indian Scenario

In 2009, the CSR Voluntary Guidelines were framed by the Ministry of Corporate Affairs to encourage ethical business practices, the guidelines further revised as National Voluntary Guidelines (NVGs) in 2011. The NVGs which revolve around social, environmental and economic responsibilities of business (the concept of Triple Bottom Line embedded here too) requires principle-wise separate disclosure by businesses.

A transitional change in the Indian corporate scenario has been the shifting from Companies Act, 1956 to Companies Act, 2013. Section 135 of the Companies Act, 2013 deals with provisions on Corporate Social Responsibility. With Section 135 coming into place, India became the first country to mandate a minimum spend on corporate social responsibility initiatives subject to fulfilment of a threshold criterion; and Schedule VII of the Act specifies areas/activities/allied activities wherein CSR investment can be made.

Section 135 has laid down the rule that any company whose net worth is ₹ 500 crore or more or turnover is ₹ 1000 crore or more or net profit is ₹5 crore or more during any of the three preceding financial years shall form a CSR Committee of the Board. The Board would ensure that such company spends a minimum of 2% of the average net profits of the three immediately preceding financial years in pursuance of its CSR Policy. It would require the presence of minimum one Independent Director in the CSR Committee.

Conclusion

The present study has made a brief attempt to highlight the concept and importance of corporate social responsibility in the Indian context. It has briefly tried to throw light towards understanding how companies are adapting to the CSR Provisions of Companies Act, 2013 at present. To conclude, we can say that this study is a small step which can be carried forward in the near future to make a more accurate assessment of the impact of these CSR Provisions on the CSR performance of companies.

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