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## **Corporate Social Responsibility in India–An ethical way beyond profit making**

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### **ABSTRACT**

In recent years, the concept of corporate social responsibility has gained prominence from all avenues. Organizations must realize that government alone will not be able to succeed in its endeavor to uplift the downtrodden society. The present social marketing concept of companies is constantly evolving and has given rise in new concept Corporate Social Responsibility. The vision behind this move is that a Corporation must not only achieve its economic goal but also adopt the principles of corporate social responsibility.

This paper shall discuss the evolution of the concept of Corporate Social Responsibility and how important this is for economy and society. This paper argues that notwithstanding the potential economic costs that may accompany mandated CSR, the provision of the Act are designated thoughtfully to balance the objectives of the corporation and its stakeholders on the one hand and that of the society and its stakeholder on the other. This paper will throw light on the top ten organizations were already involved in successful endeavors for social benefits and spent at par or more than as per guidelines issued by Govt. The problems and issues involved in the Rules issued by the Government would be discussed in detail and the paper would offer suggestions as to how these inadequacies.

Keywords: Corporate Social Responsibility, Companies Act 2013, CSR Committee, CSR rules.

### **Introduction**

Not surprisingly, A large number of Indian corporate run their businesses to focus their financial objectives only and least concerned towards social objectives. A very few organizations involved in the social activities impact on the communities, cultures, societies and environments and these social activities are not done regularly but for the namesake only.

On the other hand we can say CSR is not a new concept in India. In the past some of the

corporates like TATA's and Birla's have been involved in serving the community in many charitable ways without using the label of CSR. A few numbers of other corporates also doing social works through donations and charity events. To build up good reputation is one of the main causes to involve in the charitable events in these days.

The world's business environment has witnessed a revolutionary change in the last 20-30 years. Today, CSR in India has gone beyond merely "charity and donations" and is approached in a more organized way. Now the corporate entities have probably well understood that unless they care for the society, it will be difficult for them to grow and exist in future. In the present scenario, companies have specialized CSR teams that handle to activities to frame policies, strategies and goals for their time bound CSR programs and also allocate funds accordingly. These programs are usually determined by CSR philosophy which have clear objectives and are well defined and are run parallel with main business activities. These CSR programs mainly focused in the range from community development to development in education, environment and healthcare etc.

Currently, corporate increasingly join hands with non-government organizations and use their experts to implementation their social programs. Through CSR corporate entities make significant efforts to improve overall quality of life of the society. Partnerships between companies, NGOs and the government should be facilitated so that a combination of their skills such as expertise, strategic, thinking, manpower and money to initiate extensive social change will put the socio-economic development of India on a fast track.

At the policy level, Government of India started CSR in formal way with the issuance of Corporate Social Responsibility Voluntary Guidelines in 2009 that culminated in the enactment of Section 135 of the Companies Act 2013 (MCA, 2013) making CSR spending as well as CSR disclosure mandatory for specific type of companies.

### **Corporate Social Responsibility**

Corporate Social Responsibility is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives, while at the same time addressing the expectations of shareholders and stakeholders.

Corporate Social Responsibility can be referred as corporate initiative to access and take responsibility for the company's effects on the environment and impact on social welfare. The term "Corporate Social Responsibility" generally applies to companies efforts that go beyond what may be required by regulators of environmental protection groups.

Corporate Social Responsibility has been defined in many ways by different entities like institutions, authors and scholars but one of the most ideal meaning has been provided by the World Business Council for Sustainable Development ,which says " 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 communities and society at large".

Moreover, while proposing the Corporate Social Responsibility Rules under Section 135 of the Companies Act, 2013, the Chairman of the CSR Committee mentioned the Guiding Principal as follows: CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good and demonstrates its commitment in this regard by adoption of appropriate business process and strategies. Thus CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to

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the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental and social objectives with the company's operations and growth.

CSR has become increasingly prominent in the Indian Corporate Scenario because organizations have realized that besides growing their business it is also vital to build trustworthy and sustainable relationship with the community at large. This is one of the key drivers of CSR programs.

### **Objective of the study**

The study mainly focused to achieve the following objectives:

1. To understand the basic concept of Corporate Social Responsibility.
2. To determine the challenges in execution of Corporate Social Responsibility
3. Understand the dimensions of corporate social responsibility in India
4. To examine Corporate Social Responsibility Practices and its impact on corporate sector.
5. Analysis about the latest Quantitative attributes and qualitative trends in the field of CSR spending.

### **Research Methodology**

The research paper is an attempt of explanatory research based on the secondary data sourced from institution reports, articles, magazines and journals.

Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type. Keeping in view of the set objectives, this research design was adopted to have greater accuracy and in depth analysis of the research study.

Available secondary data was extensively used for the study. The investigator procures the required data through secondary survey method. Different news articles, Books and Web were used which were enumerated and recorded.

### **Corporate Social Responsibility – Evolution & Development of the concept in India**

India has a long tradition of paternalistic philanthropy. The process, though acclaimed recently, has been followed since ancient times albeit informally. Philosopher such as Kautilya from India and pre-Christian era philosophers in the West preached and promoted ethical principles while doing business. The concept of helping the poor and disadvantaged was cited in several ancient literatures. In the pre-industrialized period philanthropy, religion and charity were the key drivers of CSR. The industrial families of the 19th century had a strong inclination toward charity and other social considerations. However, the donations, either monetary or otherwise, were sporadic activities of charity or philanthropy that were taken out of personal savings, which neither belonged to the shareholders nor did it constitute an integral part of business. During this period, the industrial families also established temples, schools, higher education institutions and other infrastructure of public use.

The term CSR itself came into common use in the early 1970s. The last decade of the twentieth century witnessed a shift in focus from charity and traditional philanthropy toward more direct

engagement of business in mainstream development and concern for disadvantaged groups in the society. In India, there is a growing realization that business cannot succeed in isolation and social progress is necessary for sustainable growth. An ideal CSR practice has both ethical and philosophical dimensions, particularly in India where there exists a wide gap between sections of people in terms of income and standards as well socio-economic status

In the developing world, governments and businesses understand that their respective competitive positions and access to capital increasingly depend on being able to respect the highest global standards. At one end of the spectrum, CSR can be viewed simply as a collection of good citizenship activities being engaged by various organizations. At the other end, it is a way of doing business resulting in a significant impact on community and long-term sustainability.

The essence of CSR comprises philanthropic, corporate, ethical, environmental and legal as well as economic responsibility. An alternative, synonymous to CSR is people, planet, and profit, also known as triple bottom line. In India, the evolution of CSR refers to changes over time in cultural norms of corporations' engagement and the way businesses managed to develop positive impacts on communities, cultures, societies, and environment in which those corporations operated. CSR motives changed during the independence movement in India toward social reforms to encourage empowerment of women and rural development.

In the last decade, CSR has rapidly evolved in India with some companies focusing on strategic CSR initiatives to contribute toward nation building. Gradually, the companies in India started focusing on need-based initiatives aligned with the national priorities such as public health, education, livelihoods, water conservation and natural resource management. Intensive national level deliberations on the potential role and responsibility of the corporate sector in contributing toward addressing social issues were witnessed in the last decade. In last five years the Government of India has also enhanced its focus on persuading companies to participate in addressing social and developmental issues, not only as a part of their social responsibility but also their business practices. Setting an example for the private sector, guidelines regarding expenditure on CSR activities for Central Public Sector Enterprises were issued by Department of Public Enterprises. According to these "Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises" revised by the Department of Public Enterprises (DPE), Ministry of Heavy Industries and Public Enterprises every year, each CPSE shall with the approval of its Board of Directors make a budgetary allocation for CSR and Sustainability activities/projects for the year.

### **Regulatory framework in India**

In India, the concept of CSR is governed by clause 135 of the Companies Act, 2013, which was passed by both Houses of the Parliament, and had received the assent of the President of India on 29 August 2013. The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. The new rules, which will be applicable from the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director.

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The Act encourages companies to spend atleast 2% of their average net profit in the previous three years on CSR activities. The ministry's draft rules, that have been put up for public comment, define net profit as the profit before tax as per the books of accounts, excluding profits arising from branches outside India.

The Act lists out a set of activities eligible under CSR. Companies may implement these activities taking into account the local conditions after seeking board approval. The indicative activities which can be undertaken by a company under CSR have been specified under Schedule VII of the Act.

Clause 135 of the Act lays down the guidelines to be followed by companies while developing their CSR program. The CSR committee will be responsible for preparing a detailed plan on CSR activities, including the expenditure, the type of activities, roles and responsibilities of various stakeholders and a monitoring mechanism for such activities. The CSR committee can also ensure that all the kinds of income accrued to the company by way of CSR activities should be credited back to the community or CSR corpus.

The new Act requires that the board of the company shall, after taking into account the recommendations made by the CSR committee, approve the CSR policy for the company and disclose its contents in their report and also publish the details on the company's official website, if any, in such manner as may be prescribed. If the company fails to spend the prescribed amount, the board, in its report, shall specify the reasons.

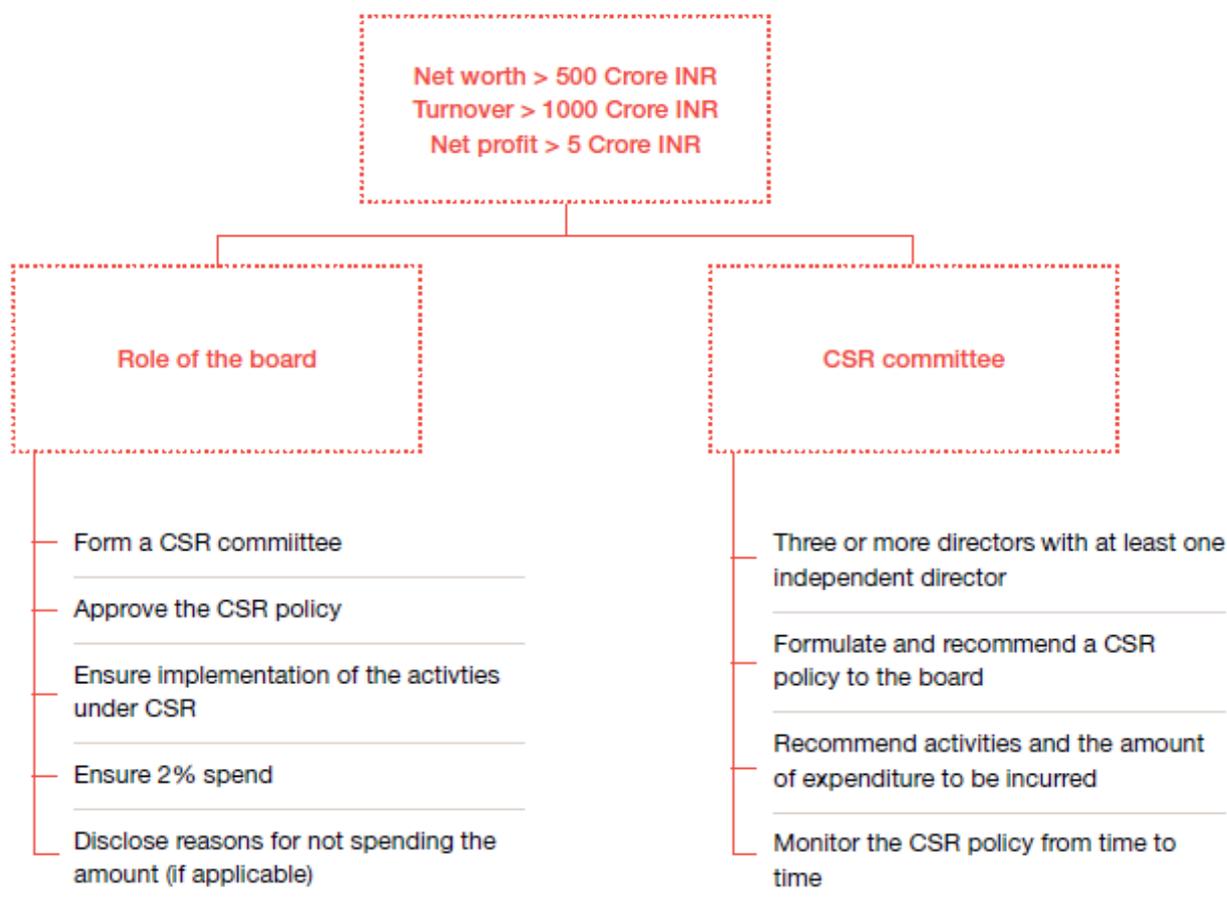
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## Responsibility of the Board and CSR Committee:

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### Role of the board and the CSR committee

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## Challenges of CSR

There are number of challenges to the implementation of CSR. They are enumerated below:

- **Lack of awareness of general public in CSR activities**

There is a lack of interest of the general public in participating and contributing to CSR activities of companies. This is because of the fact that there exists little or no knowledge about CSR. The situation is further aggravated by a lack of communication between the companies involved in CSR and the general public at the grassroots.

- **Need to build local capacities**

There is a need for capacity building of the local nongovernmental organizations as there is serious dearth of trained and efficient organizations that can effectively contribute to the

ongoing CSR activities initiated by companies. This seriously compromises scaling up of CSR initiatives and subsequently limits the scope of such activities.

**• Issues of transparency**

Lack of transparency is one of the key challenges for the corporate as there exists lack of transparency on the part of the small companies as they do not make adequate efforts to disclose information on their programmes, audit issues, impact assessment and utilization of funds. This negatively impacts the process of trust building among the companies which in turn is key to the success of any CSR initiative.

**• Non-availability of well organized non-governmental organizations**

There is non-availability of well organized nongovernmental organizations in remote and rural areas that can assess and identify real needs of the community and work along with companies to ensure successful implementation of CSR activities.

**• Visibility factor**

The role of media in highlighting good cases of successful CSR initiatives is welcomed as it spreads good stories and sensitises the population about various ongoing CSR initiatives of companies. This apparent influence of gaining visibility and branding exercise often leads many non-governmental organizations to involve themselves in event-based programmes, in the process, they often miss out on meaningful grassroots interventions.

**• Narrow perception towards CSR initiatives**

Non-governmental organizations and Government agencies usually possess a narrow outlook towards the CSR initiatives of companies, often defining CSR initiatives more as donor-driven. As a result, corporate find it hard to decide whether they should participate in such activities at all in medium and long run.

**• Non-availability of clear CSR guidelines**

There are no clear cut statutory guidelines or policy directives to give a definitive direction to CSR initiatives of companies. The scale of CSR initiatives of companies should depend upon their business size and profile. In other words, the bigger the company, the larger its CSR programme.

**• Lack of consensus on implementing CSR issues**

There is a lack of consensus amongst implementing agencies regarding CSR projects. This lack of consensus often results in duplication of activities by corporate houses in areas of their intervention. This results in a competitive spirit between implementing agencies rather than building collaborative approaches on issues. This factor limits company's abilities to undertake impact assessment of their initiatives from time to time.

**Schedule VII refers to the activities which may be included by companies in their CSR policy activities related to:**

- Eradicating hunger, poverty and malnutrition, promoting healthcare, including preventive healthcare and sanitation, contributing to the 'Swachh Bharat Kosh' set-up by

the central government for the promotion of sanitation and making available safe drinking water.

- Promoting education, including special education, and employment enhancing vocation skills, specially among children, women, elderly and the differentlyabled, along with livelihood enhancement projects.
- Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups
- Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the central government for rejuvenation of the river.
- Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts
- Measures for the benefit of armed forces veteran, war widows and their dependents.
- Training to promote rural sports, nationally recognized sports and Olympics.
- Contribution to the Prime Minister's national relief fund or any other fund set up by the central government for socio-economic development and relief and welfare of the scheduled castes, scheduled tribes, other backward classes, minorities and women.
- Contributions or funds provided to technology incubators located within academic institutions which are approved by the central government.
- Rural development projects.
- Slum area development

#### **Actual CSR spent against the prescribed Budget:**

A study of top 10 companies reflects that the actual spent on CSR is crossed the mark of prescribed budget of CSR in most of the cases.

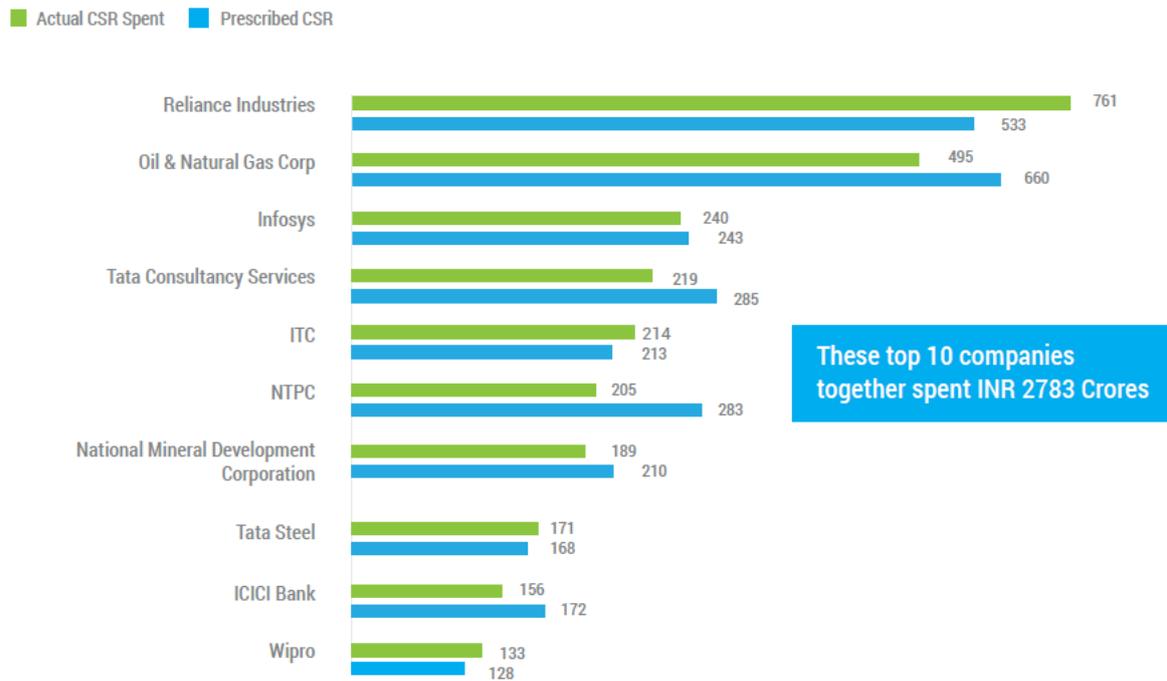
Study also reflects that most of the companies who could not spend the prescribed CSR budget, havenot given any specific reason for not spending the full prescribed amount, andinstead chose to give a generic commitment to spend the remaining amount inthe next financial year.

Companies are still facing issue in identifying credible partners or are notaware how to find good CSR implementation partners. Some of the companieshave mentioned that they are still setting

up internal processes to bring implementation partners on the board.

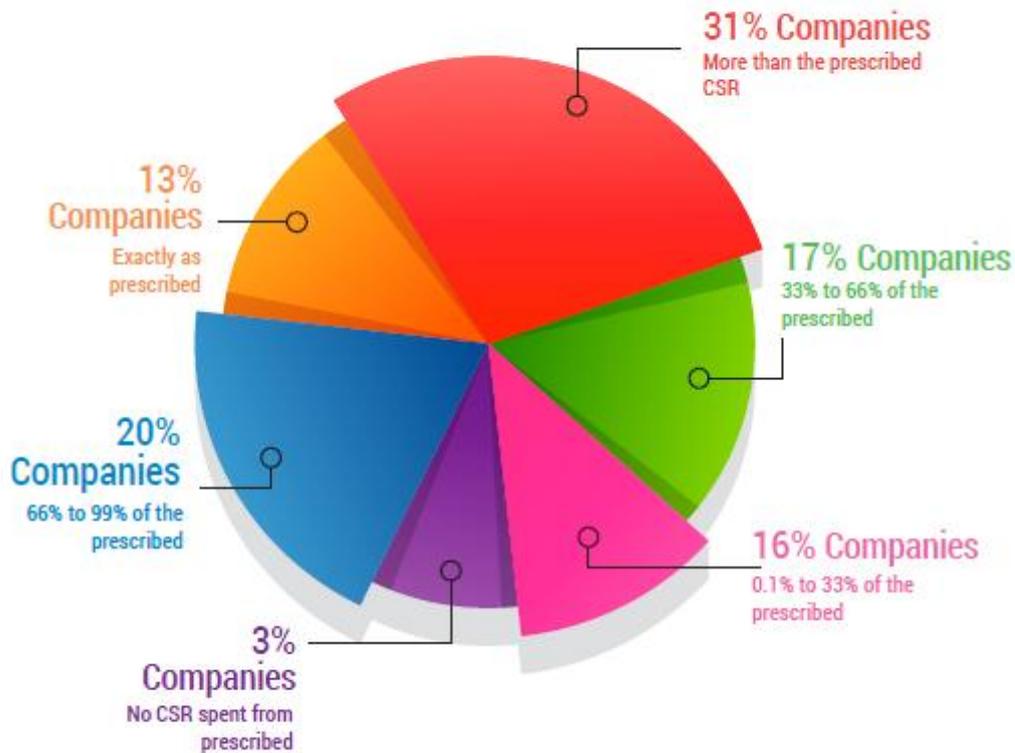
A good number of companies contributed more than 50% of their prescribed CSR budget to PM Relief fund.

### Top 10 companies – By Actual CSR Spent ( INR Cr. ) for FY 2014-15



### Actual to Prescribed CSR Spent Among Companies:

Almost one third companies spent more than the prescribed CSR Budget during FY 2014-15.



<u>Actual CSR Spent Range</u>	<u>No. of companies</u>
More than the prescribed CSR	78
Exactly as prescribed	33
66% to 99% of the prescribed	50
33% to 66% of the prescribed	43
0.1% to 33% of the prescribed	39
No CSR spent from prescribed	7

## Findings

CSR policy functions as a built in self regulating mechanism whereby business monitors and ensures its active participation towards the society. The compliances fulfill the gap realized by the absorption of business benefits.

- The potential benefits of the business – the scale and nature of the benefits of CSR for an organization can vary depending on the nature of the enterprise, as a result it is difficult to quantify.
- Business solutions are often revealed with the smooth functioning of the philanthropic means. The correlation between social performance and financial performance often originates CSR.

- Corporate Philanthropy a result that creates charitable efforts to improve their competitive context along with the quality of the business environment.
- CSR moulds in creating a share value with the formula of corporate success with social welfare.
- CSR dimensions are formed under the foundation of Human capital, natural capital and the environment. Its dimensions involve because of related marketing, promotion, socially responsible business practice, corporate philanthropy and corporate social marketing.

The essence of CSR lays on the investing part of the profit beyond business for the larger good of the society.

### **Suggestions**

CSR, a form of strategic management which could encourage the organization to scan and think literally about its relationship, which will contribute for long term in the dynamic world.

- CSR, as an Accounting Standard could enrole the merits of being socially responsible along with the values to an enterprise.
- CSR is to enhance corporate social objective under areas of net income contribution, Human Resource Contribution, Public Contribution, Environmental Contribution, Product or Service Contribution.
- With the transparency of Social Accounting, it has become at much ease to express social cost and benefits in money terms. Moreover, it is necessary in order to improve the heads of reporting in the context of dynamic socio – economic environment.
- As for the relevance of Carbon finance being evaluated under the Indian context, a major head of CSR is proved to be implemented.
- The challenges are now the flexible modules for the CSR to be implemented, directive to its arrangement with the corporate world.

### **Conclusion**

Therefore, it can be concluded that the recent CSR provision in the new Companies Act has the potential to bring novelty in the corporate field and institutional philanthropy in India. Despite of the various practical difficulties with respect to the implementation of the new CSR provisions, the initiative by the government has been appreciated by many on the ground that it entrusts responsibility on giant corporates to contribute towards social welfare of the society.

However, due consideration must be given to the fact that when CSR is seen in a broader context, it should mean bringing sustainable changes around a company's eco-system and CSR should be seen as a mix of good governance and corporate philanthropy for a company but with a business and financial side to it as well.

This can be backed by the fact that corporate India is already involved in corporate philanthropy and that these funds (which a company is required to spend on CSR activities) could be spent

with more accountability and alignment with the needs of the country. Thus, the core philosophy behind CSR must be 'investing' money rather than merely 'spending' money.

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