SOCIAL IMPACT OF CORPORATE SOCIAL RESPONSIBILITY IN INDIA

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ABSTRACT

Corporate social responsibility is a management concept whereby companies integrate social and environment concern in their operation and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic environment and social imperatives (“Triple-Bottom-Line-approach”) while at the same time addressing the expectation of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and Charity Sponsorships and Philanthropy. Even though the latter can also make a valuable contribution to poverty reduction will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that.

Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of workforces and their families as well as of the local community and society at large. On 08 August 2013 the parliament of India passed the much awaited companies bill under the new companies act 2013 which has replaced nearly six decade old legislation governing the way corporate function and are regulated in India, all profitable companies with a sizeable business would have to spend every years at least 2 percent of three years average profit on CSR works. This would apply to the companies with turnovers of Rs.1000 crore and more or net worth of Rs. 500 crore and more or a net profit of Rs. 5 crore and more.

Key Words: Corporate Social Responsibility, Economic Environment.

INTRODUCTION

According to world business council for sustainable Development, 2001 CSR is “the commitment of business to contribute to sustainable economic development working with employees, their families and the local communities”. Corporate social responsibility is a management concept whereby companies integrate social and environment concern in their operation and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic environment and social imperatives (“Triple-Bottom-Line-approach”) while at the same time addressing the expectation of shareholders and
stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and Charity Sponsorships and Philanthropy. Even though the latter can also make a valuable contribution to poverty reduction will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that. Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of workforces and their families as well as of the local community and society at large.

On 08 August 2013 the parliament of India passed the much awaited companies bill under the new companies act 2013 which has replaced nearly six decade old legislation governing the way corporate function and are regulated in India, all profitable companies with a sizeable business would have to spend every years at least 2 percent of three years average profit on CSR works. This would apply to the companies with turnovers of Rs.1000 crore and more or net worth of Rs. 500 crore and more or a net profit of Rs. 5 crore and more. The government has left the canvas wide open for the companies to decide on their own about the CSR (corporate social responsibility) activities they wish to undertake to comply with the new companies act 2013 . The new rules, which would be applicable from the next fiscal 2014- 15, also require the companies to set up a CSR committee of their board members, including at least one independent director. “This money would not come to the government of India. It is the company’s money and they can spend as per the decision taken by the CSR committee of their board.

Corporate affairs minister Sachin Pilot said that our assessment is that if every company that is qualified for doing the CSR does so, then Rs. 15000- 20000 crore would be spent in a year in various project such as environment , skill development, water sanitation. “We have left the canvas very wide as we thought it would be proper to make it restrictive. The companies have been asked to give preference to their local area of operation for such CSR activities, while those not being able to spend the required amount would need to specify the reasons for the same in their annual CSR report. The companies would need to create a CSR corpus comprising of 2 percent of net profit, while any income from this corpus and surplus arising out of CSR activities would need to be credited back to the CSR corpus. As per industry estimates, the mandatory CSR rules would apply would too close to 9000- 10000 companies.

Given that almost a third of the country’s population lives in poverty and penury. CSR provides Indian corporation la readily available and highly impactful opportunity to prove and establish the legitimacy of their action by moving beyond charities and vanilla rural development activities more objectively it will tend to counter balance to some extent ,the impact of the huge negative externalities that commercial activities tend to create in the developing societies they operate in , also new business model emerging out of these innovative hybrid partnership may give rise to unforeseen fortuitous result that will give a boost to enhance growth in this emerging market.

In this paper, I aim to discuss the contemporary understanding of CSR practiced by companies operating in India through their CSR initiatives novel implementation approach and stakeholder issue and concern.

THE FOUR PHASES OF CSR DEVELOPMENT IN INDIA

THE FIRST PHASE

In the first phase charity and philanthropy were the main drivers of CSR. Culture, religion, family value and tradition and industrialisation 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 merchant 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 1850s onwards, the approach towards CSR changed. The industrial families of the 19th century such as Tata, Godrej, Bajaj, Modi, and Singhania were strongly inclined towards economic as well as social consideration. However it has been observed that their efforts 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 “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 environment standards. During this period the private sectors was forced to take a backseat. The public sector was seen as the prime mover of development. Because of the stringent legal rules and regulation 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 as effectively only to 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 until the present) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In 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 and labour and
environment standards in the developing countries, Indian companies who export and produce good for the developed world need to pay a close attention to compliance with the international standards.

**ISSUES & CHALLENGES**

Many companies think that corporate social responsibility is a peripheral issue for their business and customer satisfaction more important for them. They imagine that customer satisfaction is now only about price and service but they fail to point out on important changes that are taking place worldwide that could blow the business out of the water. The change is named as social responsibility which is an opportunity for the business. Some of the drivers pushing business towards CSR include:

**THE SHRINKING ROLE OF GOVERNMENT**

In the past, government have relied on legislation and regulation to deliver social and environmental objectives in the business sector. Shrinking government resources coupled with a distrust of regulation has led to the exploration of voluntary and non-voluntary initiative instead.

**DEMAND FOR GREATER DISCLOSURE**

There is a growing demand for corporate disclosure from stakeholders, including customers, suppliers, employees, communities, investors, and activist organisations.

**INCREASED CUSTOMER INTEREST**

There is evident that the ethical conduct of companies exerts a growing influence on the purchasing decisions of customer. In a recent survey by Environment international more than one in five consumers reported having either rewarded or punished companies based on their perceived social performance.

**GROWING INVESTOR PRESSURE**

Investors are changing the way they assess companies’ performance and are making decision based on criteria that include ethical concern. The social investment forum reports that in the US in 1999, there was more than $2 trillion worth of assets invested in portfolio that used linked to the environment and social responsibility. A separate survey by environment international revealed that more than a quarter of share-owning Americans took into account ethical considerations when buying and selling stocks. (More on socially responsible investment can be found in the Banking and investment section of the site.)

**COMPETITIVE LABOUR MARKETS**

Employees are increasing looking beyond pay checks and benefits, and seeking out employers whose philosophies and operating practices match their own principles. In order to hire and retain skilled employees, companies are being forced to improve working conditions.

**SUPPLIER RELATION**

As stakeholders are becoming increasing interested in business affairs, many companies are taking steps to ensure that their partners conduct themselves in a socially responsible manner. Some are introducing codes of conduct for their suppliers, to ensure that other companies’ policies or practices do not tarnish their reputation.

The concept of CSR had different meanings depending on the stakeholder and their depending on specific situation of the enterprise expectations can also vary. A CSR project can begin in response to a crisis or adverse publicity that a company may suffer (in 2012-13 ITC Ltd. Earned a revenue of RS. 27136 crores from the business of cigarettes which
was 56% of total revenue. In the same year, this segment contributed to profits of Rs. 8694 crores which was 82% of total profits. ITC Ltd sells 80% of the cigarettes in the India, where 275 million people use tobacco products instead of knowing that smoking is injurious to health. The motive for launching CSR can vary between philanthropy with demands focusing on poverty alleviation, tackling unemployment, fighting inequality or forcing companies to take affirmative action.

The following challenges for CSR are listed below:

**LACK OF COMMUNITY PARTICIPATION IN CSR ACTIVITIES**

There is a lack of interest of the local community in participating and contributing to CSR activities of companies. This is large attributable to the fact there exists little or no knowledge about CSR within the local communities as no serious efforts have been made to spread awareness about CSR and instil confidence in the local communities about such initiatives. The situation is further aggravated by a lack of communication between the company and the community at the grassroots.

**NEED TO BUILD LOCAL CAPACITIES**

There is a need for capacity building of the local non-governmental organisations as there is serious dearth of trained and efficient organisation 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**

There is an expression by the companies that there exists lack of transparency on the part of the local implementing agencies as they do not make adequate efforts to disclose information on their programs, audit issues, impact assessment and utilization of funds. This reported lack of transparency negatively impacts the process of trust building between companies and local communities, which is a key to the success of any CSR initiative at the local level.

**NON-AVAILABILITY OF WELL ORGANISED NON-GOVERNMENT ORGANISATION**

It is also reported that there is non-availability of well organised non-governmental organisations 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. This also builds the case for investing in local communities by way of building their capacities to undertake development projects at local levels.

**VISIBILITY FACTOR**

The role of media in highlighting good cases of successful CSR initiatives is welcomed as it spreads good stories and sensitizes the local population about various ongoing CSR initiatives of companies. This apparent influence themselves in event-based programs, in the process, they often miss out on meaningful grassroots interventions.

**NARROW PERCEPTION TOWARDS CSR INITIATIVES**

Non-governmental organisation and government agencies usually possess a narrow outlook towards the CSR initiatives of companies, often defining CSR initiative more donor-driven than local in approach. As a result, they find it hard to decide whether they should participate in such activities at all in medium and long run.
NON-AVAILABILITY OF CLEAR CSR GUIDELINE

There are no clear cut statutory guidelines (till 2012) or policy directive to give a definitive direction to CSR initiatives of companies. It is found that the scale of CSR initiatives of companies should depend upon their business size and profit. In other words, the bigger the company, the bigger is its CSR program.

LACK OF CONSENSUS ON IMPLEMENTING CSR ISSUES

There is a lack of consensus amongst local 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 local implementing agencies rather than building collaborative approaches on issues. This factor limits company’s abilities to undertake impact assessment of their initiative from time to time.

CURRENT STATE OF CSR IN INDIA

CSR is not a new concept in India. ever since their inception, corporate like the Tata Groups, and Indian Oil Corporation, to name a few, have been involved in serving the community. Through donations and charity events, many other organisations have been doing their part for the society. The basic objective of CSR in these days is to maximize the company’s overall impact on the society and stakeholders. CSR policies, practices and programs are being comprehensively integrated by an increasing number of companies throughout their business operations and processes. A growing number of corporate feel that CSR is not just another form of indirect expenses but is important for protecting the goodwill and reputation, defending attacks and increasing business competitiveness.

Companies have specialized CSR teams that formulate policies, strategies and goals for their CSR programs and set aside budgets to fund them. These programs are often determined by social philosophy which have clear objectives and are well defined and are aligned with the mainstream business. The programs are put into practice by the employees who are crucial to this process. CSR programs ranges from community development to development in education, environment and healthcare etc.

For example, a more comprehensive method of development is adopted by some corporations such as Bharat Petroleum Corporations Limited, Maruti Suzuki India Limited, and Hindustan Unilever Limited. Provision of improved medical and sanitation facilities, building schools and houses, and empowering the villagers and in process making them more self-reliant by providing vocational training and a knowledge of business operations are the facilities that these corporations focus on. Many of the companies are helping other peoples by providing them good standard of living.

On the other hand, the CSR programs of corporations like Glaxo SmithKline Pharmaceuticals’ focus on the health aspect of the community. They set up health camps in tribal villages which offer medical check-ups and treatment and undertake health awareness programs. Some of the non-profit organisations which carry out health and education programs in backward areas are to a certain extent funded by such corporations.

Also corporate increasingly join hands with Non-governmental organisations (NGOs) and use their expertise in devising programs which address wider social problems.

For example, a lot of work is being undertaken to rebuild the lives of the tsunami affected victims. This is exclusively undertaken by SAP India in partnership with Hope Foundation, an NGO that focuses mainly on bringing about improvement in the lives of the poor and needy. The SAP Labs centre of HOPE in Bangalore was started by this venture which looks after the food, clothing, shelter and medical care of street children.
CSR has gone through many phases in India. The ability to make a significant difference in the society and improve the overall quality of life has clearly been proven by the corporate. Not one but all corporate should try and bring about a change in the current social situation in India in order to have an effective and lasting solution to the social woes. 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 changes will put the socio-economic development of India on a fast track.

P&G flagship corporate social responsibility program shiksha is an integral part of our global philanthropy program Live, Learn & Thrive. Now in its 8th year, shiksha has till date helped 2, 80,000 underprivileged children access their right to education. The program has built & supported over 140 schools across India in partnership with NGOs like Round Table India (RTI), Save the Children (STC), Army Wives Welfare Association (AWWA) and Navy Wives Welfare Association (NWWA), amongst others.

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