

Analytical Study of Corporate Social Responsibility : Indian Context

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ABSTRACT

Corporate social responsibility has drew attention in recent years and there has been much academic interest and talks about the social role of companies , its obligations to the society from where its deriving profit ,ethical and moral aspects of business. Corporate social responsibility as a topic of discussion has been developed over years and many academic works have been done to shape the meaning as it has today. Traditionally, many approaches were proposed for the responsibility like Corporate Social Responsibility, The triple Bottom Line, Stakeholder theory etc. Many definitions of corporate social responsibility has emerged and almost all of them refers to the ethical principle that an organization should be responsible for how its behavior might affect society and the environment, adherence to rules and regulations, morally doing things right even if doing otherwise does not violate the rule. In India corporate social responsibility was more or less viewed as social work or philanthropic work and not included as such in the day to day activity. However, Government of India, under companies' act 2013, introduced the Corporate social responsibility under sectionp 135 and notified Schedule VII, list of activities that can be taken under CSR. After this we have seen good response from corporates towards CSR spend. As per the data of ministry of corporate affairs, the CSR Spend in India is largely skewed, if we see sector wise and state wise spend and many companies have not even reported the spent citing different reasons. As of now there is no penalty for non-adherence to CSR spend, more or less it seems the spend by most of the companies has been forced just because of CSR rules, and very few have spent above the limit prescribed under CSR rules. In India CSR is still at nascent stage and evolving day by day, and a concerted effort from all stakeholders, awareness, proper policy response from government and realization of fact that if all stakeholders do something for the society then it would be beneficial for everyone in long run, even for the companies as they also form part of ecosystem. There are many issues with CSR in India ,as it is evident from last three year facts since CSR notification. Lack of proper reporting by firms, citing vague reason for non-adherence and taking up of projects without proper planning are some of the many problems. CSR is fundamentally an inspirational exercise, and it is very difficult to legislate aspirations. This paper delves into the evolution of corporate social responsibility in Indian context and brief history of CSR in India and brings forth the CSR development and success so far.

Keywords: CSR, Social Responsibility, Stakeholder Theory

I. INTRODUCTION

“The Price of Greatness is Responsibility”

- Sir Winston Churchill

This statement by Sir Winston Churchill aptly says a lot about the responsibility one has towards society. Every individual or entity deriving social, economic or any other profit or livelihood from a social order, has natural and moral responsibility towards them. The term “corporate social responsibility” has it genesis in this.

Ethical practice and responsibility are synonymous to greatness.

What is CSR?

Corporate Social Responsibility is an initiative is a process by which an organization ensure ranges of responsibility like, compliance of ethical practices, being aware of social cost involved in the processes and take positive steps to reduce them under framework, adoption of environment effective and sustainable process. Before we discuss the detail of CSR Rules in India, let's have a look at it genesis and global context.

Theoretical Context:

With corporate responsibility in talk and many traditional views were provided. The three theoretical approaches discussed below:

1. Corporate Social Responsibility
2. The triple Bottom Line
3. Stakeholder theory.

1. Corporate Social Responsibility:

This is based on conception that the corporate earning profit has moral obligation to community. As a specific theory of the way of corporations interact to the surrounding community, it composed of four specific obligations:

1. **Economic obligation:** Responsibility to make money
2. **Legal obligation:** responsibility to adhere to rules and regulations
3. **Ethical Obligation:** do things right morally.
4. **Philanthropic obligation:** contribute to the social cause even if it's outside the purview of business.

Taking from top to bottom, the obligations is decreasing and company usually press for top obligation than the lower ones in decreasing order. This means that businesses must attend to the Economic, Legal, Ethical, and Philanthropic responsibilities in that order. This does not mean that the economic responsibility to maintain a profitable business always trump the other three. It means that a business which is profitable must also act within the bounds of the law, and that they must act within the bounds of ethics. Problem arises during the conflict of obligations and that is the dilemma of CSR.

II. The triple Bottom Line

This approach take cares of not only economic responsibility but also take into account it social realm and environmental effects.

There are two keys to this idea. First, the three columns of responsibility must be kept separate, with results reported independently for each. Second, in all three of these areas, the company should obtain sustainable results.



The reasoning behind this tripartite theory is that if businesses calculate their gains and losses in this way they will be more likely to take actions which are to the benefit of both the business and the community. It is easy, when the numbers are large enough, to ignore the social and environmental dimensions of a business decision. This is because the average business decision is made by comparing the expected costs and benefits in terms of dollars and, only then, considering the other dimensions of that decision. **In order to combat this order of operations, the Triple Bottom Line requires that a business decision be composed of all of these elements from the beginning.** When the data shows each of these dimensions along the same line, and measured with the same metric, it will be much easier to see the impact of a decision and to judge the fittingness of that decision

III. Stakeholder Theory

Stakeholder theory, which has been described by Edward Freeman and others, is the mirror image of corporate social responsibility. Instead of starting with a business and looking out into the world to see what ethical obligations are there, stakeholder theory starts in the world. It lists and describes those individuals and groups who will be affected by (or affect) the company's actions and asks, "What are their legitimate claims on the business?" "What rights do they have with respect to the company's actions?" and "What kind of responsibilities and obligations can they justifiably impose on a particular business?" In a single sentence, stakeholder theory affirms that those whose lives are touched by a corporation hold a right and obligation to participate in directing it.

Definitions of CSR:

Corporate social responsibility refers to "the ethical principle that an organization should be responsible for how its behavior might affect society and the environment"

Business Dictionary defines CSR as "A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates. Companies express this citizenship (1) through their waste and pollution reduction processes, (2) by contributing educational and social programs and (3) by earning adequate returns on the employed resources."

While proposing the Corporate Social Responsibility Rules under Section 135 of the Companies Act, 2013, the Chairman of the CSR Committee mentioned the Guiding.

Principle 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 processes and strategies. Thus CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to 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."

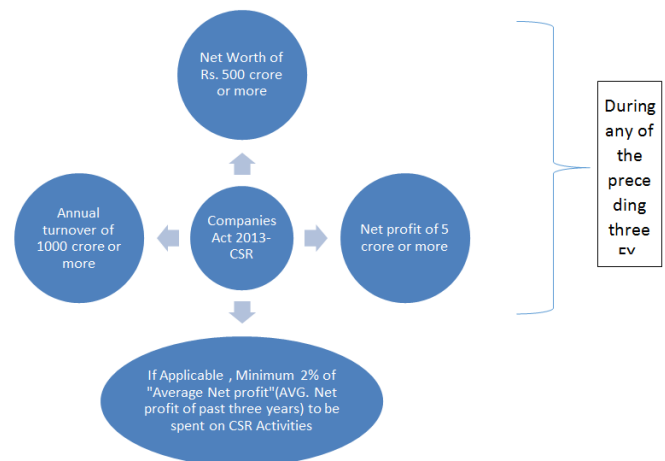
CSR – INDIA

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.

Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 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.

Applicability:

Section 135 of the Companies Act provides the threshold limit for applicability of the CSR to a Company i.e. (a) net worth of the company to be Rs 500 crore or more; (b) turnover of the company to be Rs 1000 crore or more; (c) net profit of the company to be Rs 5 crore or more. Further as per the CSR Rules, the provisions of CSR are not only applicable to Indian companies, but also applicable to branch and project offices of a foreign company in India.



MCA, in exercise of its power conferred under Section 135 and subsections (1) and (2) of Section 469 of the Act and vide notification dated 27 February, 2013 has notified Companies (CSR Policy) Rules, 2014.(the Rules).

These Rules are effective from 1st April, 2014. Projects or programs relating to activities undertaken the Board in accordance with the recommendations of the CSR Committee as per the CSR policy of the Company. The CSR policy shall cover activities specified in Schedule VII of the Act but excludes activities undertaken in the normal course of business of the Companies.

Schedule VII: List the activities to be taken under CSR Activities which may be included by companies in their Corporate Social Responsibility Policies. Activities relating to:

- ✓ eradicating extreme hunger and poverty;
- ✓ promotion of education;
- ✓ promoting gender equality and empowering women;
- ✓ reducing child mortality and improving maternal health;

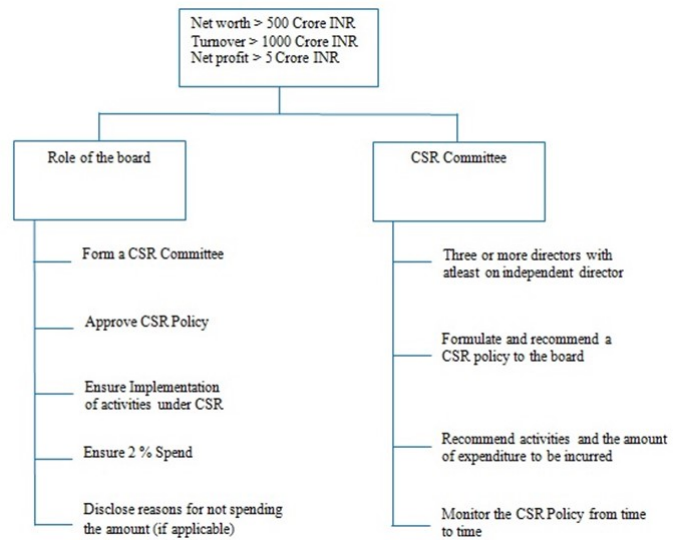
- ✓ combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
- ✓ ensuring environmental sustainability;
- ✓ employment enhancing vocational skills;
- ✓ social business projects;
- ✓ contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and
- ✓ such other matters as may be prescribed.

Once a company is covered under the ambit of the CSR, it shall be required to comply with the provisions of the CSR.

The companies covered under the Sub section 1 of Section 135 shall be required to do the following activities:

- ✓ As provided under Section 135(1) itself, the companies shall be required to constitute Corporate Social Responsibility Committee of the Board "hereinafter CSR Committee". The CSR Committee shall be comprised of 3 or more directors, out of which at least one director shall be an independent director.
- ✓ The Board's report shall disclose the compositions of the CSR Committee.
- ✓ All such companies shall spend, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

It has been clarified that the average net profits shall be calculated in accordance with the provisions of Section 198 of the Companies Act, 2013. Also, proviso to the Rule provide 3(1) of the CSR Rules that the net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Companies Act, 2013.



Story of CSR in India so far:

As per the statistics available from Ministry of Corporate Affairs, let's have trend and journey of CSR during first two fiscal year after its implementation:

In 2015-16

A total of 5,097 companies incurred a CSR expenditure of Rs 9,822.30 crore with private sector entities accounting for the major chunk.

Type	Number of Companies	Amount Spent On CSR
Private	4925	Rs. 6462.10 crore
Public	172	Rs. 3360.20 crore
Total	5097	Rs. 9822.30 crore

In 2014-15

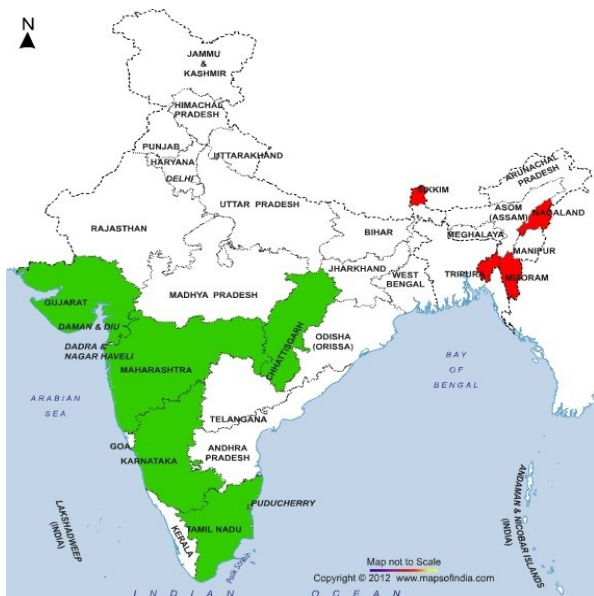
7,334 companies spent a total of Rs 8,803 crore towards CSR work in the financial year 2014-15. While 7,108 private companies saw an expenditure of Rs 6,306 crore, as many as 226 public sector undertakings spent Rs 2,497 crore.

Type	Number of Companies	Amount Spent On CSR
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Private	7108	Rs. 6306 crore
Public	226	Rs. 2497 crore
Total	7334	Rs. 8803 crore

**As per RTI filed with Ministry of Corporate Affairs for Data on CSR Spend in the FY 2016-17, the data is yet to be compiled.

State Wise Spend:



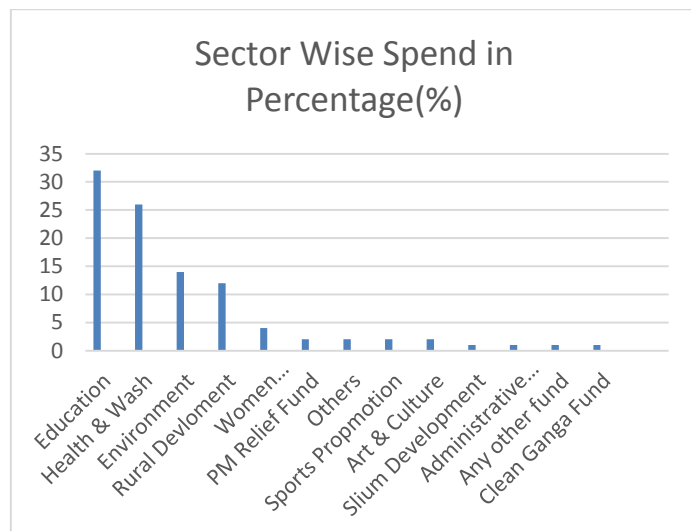
Top five states on CSR Spend	Last five states on CSR Spend
Maharashtra	Lakshadweep
Tamil Nadu	Sikkim
Karnataka	Tripura
Gujarat	Mizoram
Chhattisgarh	Nagaland

Analysis:

We can see the skewed distribution of CSR spend

1. Western/ Developed/ Industrialized states have high spend on CSR compared to less industrialized states.
2. Awareness and proper implementation of CSR is required in these less developed areas as they need it most.
3. Also, there should be policy to encourage companies to spend in other backward areas.

Sector Wise Spend:

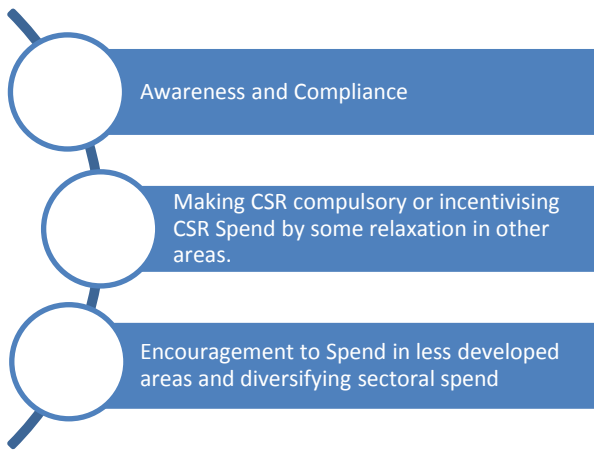


Some Facts based on Ministry of corporate Affairs:

- ✓ Out of 10475 eligible companies, 7334 have reported as of 31st January 2016. Out of these reporting companies only 3139 have done some expenditure on CSR.
- ✓ Out of total prescribed expenditure of 11883 crores by these 3139 companies, 8803 crores have actually been spent. (74%)
- ✓ CSR spent by the top 10 companies is 32% of the total CSR spend in FY 2014-15. (2783 crores)
- ✓ Rest of the 3129 companies have spent ₹ 6020 crores
- ✓ 39 companies have spent on CSR despite incurring losses in previous years.

Way Forward:

Seeing the last two years data, it can be construed that the CSR spend is still at nascent stage in India. Lot of work needs to be done to improve the outcome of CSR. Some of the steps to be taken are as below:



IV. CONCLUSION

Proper CSR Policy and amendment in rules based on success and lacunas so far, and Proper project development so that spend really turns into sustainable development. CSR in India is more or less still viewed as Philanthropic activity. With CSR it is moving in the direction of institutional development to community development projects. It's urgent that people start to realizing that contributing to society is responsibility and not merely a philanthropic activities.

V. REFERENCES

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