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UNDERSTANDING THE CONCEPT AND PROCESS OF CORPORATE SOCIAL RESPONSIBILITY AT GLOBAL LEVEL AND IN INDIA

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The concept of corporate social responsibility emerged in Europe in 1920s. Boards of Directors of various companies started focusing on good corporate governance by incorporating corporate social responsibility in their governance policies. In India social responsibility of businesses is rooted in the culture of business from ancient time. But the measure landmark was seen on 01st April, 2014 when the Companies Act 2013 came into effect and it opened new horizons of corporate social responsibility. Section 135 of the Companies Act 2013 states that every company having net worth of Rs. 5000 million or more, or turnover of Rs. 10000 million or more or net profit of Rs. 50 million or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board and the Committee would comprise of three or more Directors, out of which at least one Director shall be an Independent Director. Under this Act, company shall ensure spending in every financial year, at least 2% of the average net profit on the activities of corporate social responsibility. With this background, in the present paper an attempt has been made to understand the concept and process of corporate social responsibility at global level as well as in India.

I. Concept and Definition of Corporate Social Responsibility

Corporate social responsibility is an integral part of corporate social governance for any company. Corporate governance has direct bearing on corporate social responsibility. The OECD (Organization for Economic Cooperation & Development) Report on 'Principles of Corporate Governance' provides an important starting point to understand the concept and definition of corporate social responsibility (OECD, 2015). According to this Report, in addition to their commercial objectives, companies are encouraged to disclose policies and performance relating to business ethics, the environment and, where material to the company, social issues, human rights and other public policy commitments (OECD, 2015: 43). Furthermore, the Report highlights the importance of environmental and social standards and states that the Board is not only accountable to the company and its shareholders but also has a duty to act in their best interests. In addition, Boards are expected to take due regard of, and deal fairly with, other stakeholder interests including those of employees, creditors, customers, suppliers and local communities (OECD, 2015: 51).

Iskander & Chamlou (2000) in the Report of World Bank Group on Corporate Governance focus upon public policy framework of corporate governance. According to them, from a public policy perspective, corporate governance is about nurturing

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enterprise while ensuring accountability in the exercise of power and patronage by firms. The role of public policy is to provide firms with the incentives and discipline to minimize the divergence between private and social returns and to protect the interests of stakeholders (Iskander & Chamlou, 2000: 4).

Shocker & Sethi (1974: 69) define the term corporate social responsibility as subject to multiple interpretations, but implies considerations by the corporation of interests of groups other than those with direct ties to the firm. An ever-growing number of individuals, groups and institutions are endeavouring to monitor corporate actions and inactions for indications so socially responsible behaviour and to develop strategies for exerting pressure on corporations to change their behaviour in a manner that is more in accord with the expectations of one or more of these groups.

Makower (1994: 13) has explained corporate social responsibility as it stems from a deeply held vision by company leaders that business can and should pay a role beyond making money. It includes an understanding that what companies do and make has a variety of direct and indirect impacts on those both inside and outside the company, from customers and employees to communities and the natural environment. Therefore, a company goals, missions, and policies must take into account this entire range of constituencies. So, having one or more commendable programmes doesn't make a company socially responsible unless those programmes are part of a larger vision. But a company can be socially responsible without having an all-star roster of programmes and practices.

In India social responsibility in businesses is rooted in the culture from ancient times. Balasubramanian (1998:2) states that India has a rich tradition of governance standards from ancient times. The consistence practice of dharma or righteousness in conduct has been a key commandment in the scriptures. Accountability to society at large and to its sub-sets has been a prescribed norm, though it may not always have received the level of compliance that it deserved.

While there is no single, commonly accepted definition of corporate social responsibility, it generally refers to business decision-making linked to ethical values, compliance with legal requirements and respect for people, communities and the environment. With this explanation, we can make an interpretation that corporate social responsibility can be explained as: *Corporate* - means organized business, *Social* - means everything dealing with people, and r*esponsibility* - means accountability between the two.

A commonly acceptable definition is given by Holme & Watts (2000:8) in the Report of World Business Council for Sustainable Development titled 'Corporate Social Responsibility: Making Good Business Sense'. According to them, "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 community and society at large."

II. Methodological Framework

In the present research paper an attempt has been made to understand the concept and process of corporate social responsibility at global level as well as in India. Following are the objectives and research questions of this research paper.

Objectives

i) To understand the concept and process of corporate social responsibility at global level and in India.

ii) To understand the best practices of corporate social responsibility at global level and in India.

iii) To critically analyse the provisions of corporate social responsibility in the Companies Act 2013.

Research Questions and Hypotheses

i) What is the historical background of the concept and process of corporate social responsibility at global level and in India?

ii) How do best practices of corporate social responsibility work at global level and in India?

iii) What are the special features in Companies Act 2013 related to corporate social responsibility?

iv) How Companies Act 2013 will make impact in making societal developmental interventions under corporate social responsibility?

These research questions will help in developing research hypotheses for further research in future to understand the concept and process of corporate social responsibility at global level as well as in India with more depth.

III. Process of Corporate Social Responsibility

As early as 1919, F.W. Taylor and Henry Gantt asked business managers to get involved in the community services. In India, it commenced a little before we got independence with Sir J.R.D. Tata, setting up the Iron and Steel industries, solely for philanthropic purposes. Over the past decade, a growing number of companies have recognized the business benefits of the policies and practices related to corporate social responsibility. Their experiences are bolstered by a growing body of empirical studies, which demonstrate that corporate social responsibility has positive impact on economic performance of business and is beneficial to shareholders value. Companies have also been encouraged to adopt or expand corporate social responsibility interventions as the result of pressures from customers, suppliers, employees, communities, investors, activist organizations, and other stakeholders. As a result, corporate social responsibility has grown in recent years in high speed with companies of all sizes. Business and corporate sectors are developing innovative strategies for making interventions under corporate social responsibility.

Public and various stakeholders are looking to the private sector to help with myriad complex and pressing social and economic issues. In many countries companies; multinational companies in particular, are relying less on government instead adopting their own policies to govern matters of environmental performance, working conditions and ethical marketing practices. As stakeholders are taking interest in corporate social responsibility, many companies are realising that they are responsible for their own performance under corporate social responsibility. In a tight labour market, many workers, customers, investors, regulators, community groups, environmental activists, trading partners, and others are asking companies for more and more detailed information about their social performance. Recent years have seen a growth in the breadth of topics consider under the umbrella of corporate social responsibility.

In present scenario, society is currently witnessing a gradual redistribution of power. Power seems to be flowing to groups such as citizens and consumers. It ultimately shapes the structure of institutions, values and perceptions in society. These in turn shape and restructure marketing, which has led to the development of social marketing. As the idea of social marketing developed, the further need to serve the society developed. The corporate houses have realised that what they take from society have to be returned to it. This realisation has led to the emergence of the concept of corporate social responsibility.

Based on reviews of literature citied above, corporate social responsibility has gained immense importance in business and corporate houses due to the following reasons.

i) Changing expectations of stakeholders regarding business
ii) Shrinking role of Government
iii) Increased customer interest
iv) Supply chain responsibility
v) Growing investor pressure
vi) More competitive labour markets
vii) Demands for increased disclosure
viii) Business ethics, values and principles
ix) Legal compliance, accountability, and transparency
x) Commitments to socio-economic development
xi) Environmental concerns
xii) Human rights, workers' rights, and welfare
xiii) Market relations and sustainability

Based on reviews of literature citied above, corporate social responsibility has also positive impact in business and corporate houses as mentioned below.

i) Shareholder value (change in stock price and dividend)
ii) Revenue (changes in revenue due to change in market share and new markets)
iii) Operational efficiency
iv) Access to debt and equity capital
v) Customer attraction and retention
vi) Creation of brand value and reputation
vii) Human capital
viii) Risk management
ix) Innovation
x) License to operate

Corporate social responsibility has very close relationship with corporate governance. According to McGregor (2000:11), "Corporate governance is the process whereby people in power direct, monitor and lead corporations, and thereby either create, modify or destroy the structures and systems under which they operate. Corporate Governors are both potential agents and change and also guardians of existing ways of working. As such, they are therefore, a significant part of the fabric of our society. This is often forgotten in the business of making money and responding to a competitive market."

According to Pointer & Orlikoff (2002:2), "Governance is a team support. Boards exercise collective influence; their members have no individual power. ………. Members may disagree, they can (and should) debate and argue about issues, but if they are going to decide and act, they must do so together."

Relationship between corporate governance and corporate social responsibility can be viewed as follows.

i) Corporate social responsibility is gradually getting fused into corporate governance practices of companies.
ii) Both corporate governance and corporate social responsibility focus on the ethical practices in the business and the responsiveness of an organization to its stakeholders and the environment in which it operates.
iii) Corporate governance and corporate social responsibility results into better image of an organization and directly affects the performance of an organization.
iv) Corporate social responsibility is based on the concept of self-governance which is related to external legal and regulatory mechanism, whereas corporate governance is a widest control mechanism within which a company takes it management decisions.

IV. Best Practices of Corporate Social Responsibility

At global level, GRI (Global Reporting Initiative) is an independent organization that has pioneered on sustainability reporting of businesses and corporate houses since

1997 (GRI 2011). While designing Sustainability Reporting Guidelines, GRI has developed following categories of standard disclosures and these disclosures focus on corporate social responsibility.

i) Strategy and Profile of Organization Disclosures

ii) Economic Disclosures

iii) Environmental Disclosures

iv) Social Disclosures (Labour Practice and Decent Work, Human Rights, Society Product Responsibility)

There are some rating agencies which analyse best practices of corporate social responsibility of companies and provide ranking to the companies for their performance. These agencies do so keeping in view the GRI sustainability reporting into consideration as well as other evidence based documents of the companies. In a research paper, Prathima (2015) highlights the top 10 companies for corporate social responsibility in India and at global level. These companies have their own projects of corporate social responsibility which are best practices and highly impact making on society.

Top 10 Companies for Corporate Social Responsibility in India and at Global Level

Ranking	*Indian Company*	*Best Practice*	*Global Company*	*Best Practice*
1	Tata Steel	Rural Development	Microsoft	Youth Spark
2	Tata Chemicals	Conservation of Whale Shark	Google	End of Modern-Day Slavery
3	Mahindra Group	Girl Education	Disney	Environmental Education
4	Maruti Suzuki	Community Development and Road Safety	BMW	Warm-Heart Fund
5	Tata Motors	Green Projects	Apple	Environmental Projects
6	Siemens	Health Education	Daimler	Climate Change Resilience
7	Larsen & Toubro	HIV-AIDS Awareness	Volkswagen	Vocational Training
8	Coca-Cola India	Clean Drinking Water	Sony	Sports
9	Steel Authority of India Ltd.	Multiple Activities	Colgate Palmolive	Health Improvement
10	Infosys	IT Education	Lego Group	Support for World Wildlife Fund

V. Companies Act 2013 and Its Implications for Corporate Social Responsibility in India

On 01st April 2014, Companies Act 2013 came into effect and it opened new horizons of corporate social responsibility. Section 135 of the Companies Act 2013 states that every company having net worth (investment in plant and machinery) of Rs. 5000 million or more, or turnover of Rs. 10000 million or more or net profit of Rs. 50 million or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board and the Committee would comprise of three or more Directors, out of which at least one Director shall be an Independent Director. Under this Act, Company shall ensure spending in every financial year, at least 2% of the average net profit on the activities of corporate social responsibility. Average net profit shall be calculated in accordance with the provisions of Section 198 of the Act which is average net profits of the company made during the three immediately preceding financial years. Each company must produce an Annual CSR Report which must include the brief outline of CSR Policy and links to policy and programmers, composition of CSR Committee, average net profit and how much spent and where it was spent, total amount spent, total amount not spent (company must explain reason of it and will be responsible for spending more in the following year) and a responsibility statement saying that they are in compliance with the Government mandate. ***(See Web Link 1 for detail).***

Furthermore, on 27th February 2014, Ministry of Corporate Affairs, Government of India published a Notification and made modifications in the VII Schedule of Companies Act 2013 and incorporated total 10 items for CSR spending. These 10 items are as follows. ***(See Web Link 2 for detail).***

i) Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water.

ii) Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly, and the differently abled and livelihood enhancement projects.

iii) 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.

iv) Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro-forestry, conservation of natural resources and maintaining quality of soil, air and water.

v) Protection of national heritage, alt and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional and handicrafts.

vi) Measures for the benefit of armed forces veterans, war widows and their dependents.

vii) Training to promote rural sports, nationally recognized sports, Paralympics sports and Olympic sports.

viii) 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, the Scheduled Tribes, other backward classes, minorities and women.

ix) Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government.

x) Rural development projects.

However, on 18th June 2014, Ministry of Corporate Affairs, Government of India issued a General Circular further clarifying the activities for CSR spending. Activities mentioned below are not covered under CSR spending. ***(See Web Link 3 for detail).***

i) One-off events such as marathons / awards/ charitable contribution / advertisement / sponsorships of TV programmes etc. would not be qualified as part of CSR expenditure.

ii) Expenses incurred by companies for the fulfilment of any Act / Statute of regulations (such as Labour Laws, Land Acquisition Act etc.) would not count as CSR expenditure under the Companies Act.

iii) Salaries paid by the companies to regular CSR staff as well as to volunteers of the companies (in proportion to company's time / hours spent specifically on CSR) can be factored into CSR project cost as part of the CSR expenditure.

iv) Expenditure incurred by Foreign Holding Company for CSR activities in India will qualify as CSR spend of the Indian subsidiary if, the CSR expenditures are routed through Indian subsidiaries and if the Indian subsidiary is required to do so as per section 135 of the Act.

On 12th January 216, Ministry of Corporate Affairs, Government of India further enlisted frequently asked questions for CSR spending. ***(See Web Link 4 for detail).***

VI. Findings

Based on the discussion in above sections of the paper, following are the findings of this research paper.

i) In modern time, corporate social responsibility is an integral part of businesses and corporate houses at global level as well as in India.

ii) In Indian culture, corporate social responsibility is induced in businesses from very ancient time having the features of philanthropy, charity and donations.

iii) Based on the criteria of net worth, turn over and net profit, Companies Act 2013 made it mandatory for companies to spend 2% of their average net profit on the activities, interventions and projects of corporate social responsibility.

iv) In the Companies Act 2013, total 10 items have been listed on which 2% of average net profit on the activities, interventions and projects of corporate social responsibility can be spent. Moreover, the Companies Act 2013 interprets these items in a liberal manner as the list of activities given in the Annexure of Companies Act 2013.

v) However, the Companies Act 2013 also lists some activities which cannot be considered under the spending of corporate social responsibility.

vi) The Companies Act 2013 has made very high positive impact on the spending of corporate social responsibility by companies. The Report of NGOBOX titled

'A Snapshot of CSR Spending in FY 2015-16: 250 Big Companies in India (India CSR Outlook Report 2016)' proves this fact. ***(See Web Link 5 for detail).*** Following are the major interpretations of this Report.

a) There is substantial improvement in the actual CSR spend to prescribed CSR in FY 2015-16. While it was 79% in FY 2014-15, it has increased to 92% in last financial year i.e. +13% increase.

b) While in 2014-15, there were 3 companies who had not spent any single penny from the prescribed CSR budget; in 2015-16 all companies have spent certain amount from the CSR budget. This indicates that companies have become serious about the CSR and they are endeavouring to match the prescribed CSR requirements with the actual CSR spend. The fact that 58% of the companies spent exactly as prescribed or more than the prescribed, shows a lot of improvement in the CSR compliance level.

c) Education (including skill training) and Healthcare (including water, sanitation and hygiene - WASH) themes have been favourites of companies for implementing CSR projects. Rural sports promotion is the new area which is gradually becoming popular in CSR projects.

d) Many companies have developed models of social entrepreneurship in their activities, interventions and projects through CSR spending so that services of these activities, interventions and projects should continue in the longer time.

VII. Conclusion

Corporate social responsibility plays important role for the growth of businesses and companies as well as implementing welfare measures for the society and other stakeholders. It is a common fact for all the countries and the companies which are making provision of spending under corporate social responsibility. The Companies Act 2013 has made very high positive impact on the spending of corporate social responsibility by companies. However, the limit of 2% of spending seems to be very low keeping in view the extent of poverty and lower level of other development indicators in India. The spending of corporate social responsibility by companies should have been at least 5% of average net profit. However, it is good beginning. Another important feature of the Companies Act 2013 is that it lists the activities for spending of corporate social responsibility in synergy and accordance with eight Millennium Development Goals introduced by United Nations which are mentioned below. (***See Web Link 6 for detail).***

i) Eradicating extreme poverty and hunger

ii) Achieve universal primary education

iii) Promote gender equality and empower women

iv) Reduce child mortality

v) Improve maternal health

vi) Combat HIV / AIDS, Malaria and other fatal diseases

vii) Ensure environmental sustainability

viii) Develop a global partnership

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