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CORPORATE SOCIAL RESPONSIBILITY (CSR) - POSITIVE EFFECTS ON A BUSINESS ENTERPRISE

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ABSTRACT:

The crucial role of commerce in the society is an ancient concern[3]. However, until recently this concern has not been conclusively determined; business communities and international civil societies have not yet been able to reach to an overall agreement[4] when defining the liabilities of companies to society. Indeed, defining CSR is aconglomerate and unanticipated on situational factors. Moreover, there are numerous varied definitions for CSR. One of the reasons behind the inconclusiveness of the definitions of CSR is rooted in its interchangeable and overlapping characteristics with other nomenclature[5]. One of the significant reason may also lie in the fact that thesynchronous CSR agenda essentially involves the concept of stakeholders and development as an integral issue of business operations. The other reason is related to the ever-changing and flexible character of CSR and its expansion of practices aligned with the increased demands from society and from development issues. Despite the ambiguous definitions, different approaches and many magnitudes of CSR, the principal notions of this criterion are almost established. Although these notions are not conclusive, they are consistent and have merged on common characteristics and similar elements. These are related to the economic, social and environmental impacts of business operations and their responses to customers' expectations, employees, shareholders and stakeholders in the

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[3] Richard C Warren, 'The Evolution of Business Legitimacy' (2003) 15(3) European Business Review 153, 154; Rob Gray, Dave Owen and Adams Carol, Accounting and Accountability: Changes and Challenges in Corporate Social and Environmental Reporting (1996) 1–2.

[4] 5 Michael Hopkins 'Corporate Social Responsibility: An Issue Paper' (Working Paper No. 27, Policy Integration Department, World Commission on Social Dimension of Globalisation, 2004). http://www.ilo.org/integration/resources/papers/lang–en/docName–WCMS_079130/index.htm at 23 July 2010 For details, see M Van Marrewijk, 'Concept and Definitions of CSR and Corporate Sustainability: Between Agency and Communion' (2003) 44(2–3) Journal of Business Ethics 95,105

[5] Parliamentary Joint Committee on Corporations and Financial Services, Corporate Responsibility: Managing Risk and Creating Value (2006) 4; for details, see MichaleBlowfield and Jerdej George Frynas, 'Setting New Agendas: Critical Perspectives on Corporate Social Responsibility in the Developing World' (2005) 81(3) International Affairs 499, 501; Dirk Matten and Jeremy Moon, '"Implicit" and "Explicit" CSR: A Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility' (2008) 33(2) Academy of Management Review 404, 505

context of these impacts. CSR is no longer restricted to corporate philanthropy; rather, it has been proved that accepting social responsibilities and duties has a positive effect on abusiness enterprise's financial performances. Thus, CSR has established the core principles for furthering appropriate strategies for incorporating its different notions into business practice. This paper tries to analyze the varied situations involved in assessing CSR of a business enterprise and discusses the patterns of strategizing such social policies that can enable the company toacquire goodwill in the society.

KEY WORDS: Philanthropy, Companies Act, 2013, Social Policies, CSR Agenda

INTRODUCTION:

Although the concept has been evolving since the early 1970s, there isn't any unique, commonly accepted definition of "Corporate Social Responsibility" (CSR). There are different notions of the concept among the governments, private sector and civil society institutions. Depending on the perspective, CSR may cover:

1. A company running its business responsibly in relation to internal stakeholders (shareholders, employees, customers and suppliers);
2. The role of business in relationship to the state, at local and national level, as well as to inter-state institutions or standards; and
3. Business performance as a responsible member of the society in which it operates and for the welfare of the global community.

The first perspective includes ensuring good corporate governance, workersrights, product responsibility, employment conditions, education and training. The second includes corporate compliance with relevant legislation, and the company's responsibility as a taxpayer, ensuring smooth functioning of the state. The third perspective is multi-layered and may involve the company's relationship with the people and environment in the communities in which it operates, and those to which it exports. Too often, attaining CSR is understood from the perspective of business generosity to community projects and charitable donations, but this fails to capture the most valuable contributions that a company has to make. (Reyes 2002).

The concept of CSR can be defined in numerous ways and may have divergent meanings. Archie B Carroll gave a brief account of the evolution of the definition of CSR beginning from the 1950s and continuing through out the 1990s with the precise elements of each decade in terms of its development and growth[6]. In the 1980s, as he mentioned, some alternative theoretical issues were added to the concept itself, including corporate social performance, stakeholder theory, and business ethics theory[7]. In the definitional progress that occurred in the 1990s, these alternative themes were highlighted in the manifestation of CSR[8] and all subsequent definitions were dominated by the stakeholder and societal approach, with the recognition of social, economic, and environmental issues as the basic components of responsibility. The most convincing example of this is available in the definitions and views developed in the late 1990s and subsequently by different intergovernmental, government and development avenues and some postmodern academics[9].*The World Business Council for Sustainable Development* defines CSR as '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.'[10]

The *European Union* defines CSR as "… the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large…"[11].

Such definitions would be subjected to varied number of interpretations, depending on the culture in which its application is concerned. In order to meet the expectations concerning the definitions, most governments incorporate minimum standards into their legal codes. The private sector generally prefers the flexibility of self-designed voluntary standards. (UNCTAD 1999). However Porter (Porter 2000) observed that in many instances properly designed legal environmental standards could still anticipate innovations that lower the total cost of a product or enhance its value. Such innovations allow companies to use a range of inputs more productively, from raw materials to energy to labour, thus offsetting the cost of diminishing environmental impact and ending the stalemate. Therefore, in order to create

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[6] Archie Carroll, 'Corporate Social Responsibility: Evolution of a Definitional Construct' (1999) 38(3) Business and Society 268, 269.
[7] Edward R Freeman and John McVea, 'A Stakeholder Approach to Strategic Management' (2001) Blackwell Handbook of Strategic Management 189
[8] Archie Carroll, above n 15, 288; Rob Gray, Dave Owen and Adams Carol, Accounting and Accountability: Changes and Challenges in Corporate Social and Environmental Reporting (1996)
[9] Alexander Dahlsrud, 'How Corporate Social Responsibility Is Defined: An Analysis of 37 Definitions' (2008) 15(1) Corporate Social Responsibility and Environmental Management 1.
[10] Phil Watts and Lord Holme, Corporate Social Responsibility: Meeting Changing Expectations (1999) 3.
[11] EU Green Paper: Promoting a European Framework for Corporate Social Responsibility (18/07/2001) http://europa.eu.int/comm/employment_social/soc-dial/csr/greenpaper_en.pdf

regulations that will satisfy all stakeholders requires effective interactive communications and consultations among themselves. This "richness" of approaches creates confusions, among businesses, governments or consumers. However, a closer collaboration of initiatives, addressing specific aspects of the implementation of the CSR agenda:

1. What has to be done (codes, standards, governance principles),
2. How to be done (management and assurance standards), and
3. How to measure progress (reporting) on a global scale could lead to emergence of the global commonly accepted CSR framework[12]. This seems to be inevitable if the CSR agenda is going to succeed.

<u>THE INTEGRAL PRINCIPLES OF CSR</u>

The '*triple bottom line* 'brought about by Elkington is one of the well-known models to discuss the core of CSR[13]. In this model, the concept of CSR highlights three responsibilities of a company: social, economic and environmental. These responsibilities are necessary to ensure economic prosperity, environmental quality and social justice[14]. Carroll has identified four responsibilities which a company must identify to become socially responsible in a balanced manner. According to him, a socially responsible company 'encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time.'[15] Another robust argument in the recent CSR practice literature relates to stakeholder engagement in CSR performance. Freeman argues that companies have a responsibility to add their stakeholders to corporate activities. To him, stakeholder engagement is an integral way for companies to deal with their external environment effectively[16]. Considering these major sources of CSR practices, they may be grouped into four major categories: the societal, environmental, and economic and stakeholder approaches.

Each of these approaches has different notions in terms of definitions and boundaries of responsibilities[17]. However, each of these different approaches has its own individual

[12] Based on Global Reporting Initiative's (GRI) development update presented to the World Bank Environmental Board on January 15, 2004

[13] John Elkington, 'Partnerships from Cannibals with Forks: The Triple Bottom Line of 21st Century Business' (1998) 8(1) Environmental Quality Management 37

[14] Grahame Thompson, 'Global Corporate Citizenship: What Does it Mean?' (2005) 9(2) Competition and Change 131, 133

[15] Archie Carroll, 'A Three-Dimensional Conceptual Model of Corporate Performance' (1979) Academy of Management Review 497, 499–500.

[16] Freeman and John McVea, above n 16 189, 24

[17] Van Marrewijk, above n 5, 95

underlying principles. Briefly, the principle of the societal approach to CSR is that companies should efficiently contribute to building a better society and therefore they should incorporate social concerns into their core strategies as well as consider the full scope of their impact on societies. More particularly, this principle requires companies to implement fair wage policies, uphold human rights, fair trade and ethical issues, produce safe products and cooperate in the network of companies and communities[18]. The economic principle encompasses company efficiency in producing goods without compromising social and environmental factors[19]. This principle establishes that along with their responses to the financial expectations of their shareholders, companies should concentrate on the economic wellbeing of society as a whole[20]. The environmental principle, in brief, states that the companies should not harm the environment in order to maximize their profits, and that companies should have a strong foothold in repairing environmental damage caused by their irresponsible use of natural resources[21]. Finally, the principle of the stakeholder approach to CSR practice holds companies responsible for considering the legitimate interest of their stakeholders[22].These principles are the driving forces of the sources of different CSR practices and hence important factors for initiating any strategies for developing CSR practices[23].

EVOLUTION OF LEGAL FRAMEWORK:

2009: CORPORATE SOCIAL RESPONSIBILITY VOLUNTARY GUIDELINES, 2009

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[18] Astrid Konrad et al., 'Empirical Findings on Business–Society Relations in Europe' (2006) 63 (1) Journal of Business Ethics 89, 91; Archie Carroll, 'Corporate Social Responsibility' (1999) 38 (3) Business & Society 268; E Garriga and D Mele, 'Corporate Social Responsibility Theories: Mapping the Territory' (2004) 53(1) Journal of Business Ethics 51; Carmen Valor, 'Corporate Social Responsibility and Corporate Citizenship: towards Corporate Accountability' (2005) 110 (2) Business and Society Review 191; Van Marrewijk, above n 5, 95; MarjoSiltaoja, 'The Relationship Between Corporate Social Responsibility and Corporate Reputation from a ValueLaden Viewpoint: An Empirical Study in a Finnish Newspaper Context' (University of Jyvaskyla, 2006) 299.

[19]Elkington, above n 32; Maureen Rogers and Roberta Ryan, 'The Triple Bottom Line for Sustainable Community Development' (2001) 6(3) Local Environment 279; Elisa Juholin, 'For Business or the Good of All-A Finnish Approach to Corporate Social Responsibility' (2004) 4 (3) Corporate Governance 20

[20] A Konrad et al., above n 37, 89, 93

[21] Rodney McAdam and Denis Leonard, 'Corporate Social Responsibility in a Total Quality Management Context: Opportunities for Sustainable Growth' (2003) 3(4) Corporate Governance 36; Drek Matten and Jeremy Moon, 'Pan-European Approach. A Conceptual Framework for Understanding CSR' (2007) Corporate Ethics and Corporate Governance 179

[22] Edward Freeman and RamakrisnaVelamuri, 'A New Approach to CSR: Company Stakeholder Responsibility' Institute for Corporate Ethics Bridging Paper http://www.corporate-ethics.org/pdf/ csr.pdf at 12 December 2011; Dima Jamali, 'A Stakeholder Approach to Corporate Social Responsibility: A Fresh Perspective into Theory and Practice' (2008) 82(1) Journal of Business Ethics 213.

[23] Duane Windsor, 'The Future of Corporate Social Responsibility' (2001) 9(3) International Journal of Organizational Analysis 225; Jamali, above 215

It mandates that each business entity should formulate a CSR policy to guide its strategic planning and provide a road-map for its CSR initiatives, which should be an inevitable part of overall business policy and aligned with its business goals. The policy should be framed with the participation of various level executives and approved by the Board is mandatory. The CSR Policy should normally cover following integral elements:

- Concern for all stakeholders
- Care and respect for environment

Ministerial recommendatory initiative Corporate Social Responsibility Voluntary Guidelines, 2009 recognized that CSR is indeed not philanthropy and CSR activities are purely voluntary.

2010: GUIDELINES ON CORPORATE SOCIAL RESPONSIBILITY FOR CENTRAL PUBLIC SECTOR ENTERPRISES:

Issued in March, 2010 have also made CSR allocation of funds mandatory for Public Sector Undertaking's. A Public Sector Undertaking with a net profit of less than Rupees 100 crore will have to allocate 3 -5% of its earnings on CSR. Those earning net profits ofRupees100-500 crore a year should earmark 2 -3% on CSR (subject to minimum of Rupees 3 crores). A company having a bottom line of Rupees 500 crore and above will have to set aside 0.5 -2% on CSR[24].

2011: NATIONAL VOLUNTARY GUIDELINES ON SOCIAL, ENVIRONMENTAL AND ECONOMIC RESPONSIBILITIES OF BUSINESS:

Taking into account the feedback from stakeholders, review of 2009 Guidelines was undertaken by the Guidelines Drafting Committee (GDC) constituted by the Indian Institute of Corporate Affairs, which resulted in the formulation of 2011 Guidelines entitled **National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business** which will mainstream the subject of business responsibilities. The guidelines were released by MCA on July 8, 2011. The principles and the core elements of each of the principles as recommended by the National

[24]Office Memorandum F. No. 15(13)/ 2013 - DPE (GM) by Department of Public Enterprises (Ministry of Heavy Industries and Public Enterprises), Government of India

Voluntary Guidelines have been summarized below:

- Ethics ,accountability and transparency
- Goods and services that are considered safe and which contribute to sustainability
- The employees well-being
- Responsive towards stakeholders
- Recognize, respect and promote human rights
- Environment
- Influence the public and regulatory policy in a responsible manner
- Equitable development and inclusive growth
- Provide value to customers and consumers

2012 -13: The concept of CSR in India is governed and regulated by **Section 135**of the **Companies Act, 2013**, which was passed by both Houses of the parliament, and had thereby received the assent of the President of India on 29 August2013.

FACTORS COVERED BY CSR OBLIGATIONS:

The threshold coverage levels for CSR are considerably low. Companies are exposed to the CSR requirements if they have, for any financial year:

- A net worth of at least Rs. 5 billion (approximately U.S.$80 million);
- A turnover of at least Rs. 10 billion(approximately U.S.$160 million);or
- Net profits of at least Rs. 50 million (approximately U.S. [$800,000).

Companies meeting these thresholds are therefore required to develop a CSR policy, spend a minimum amount on CSR activities and submit report on these activities, or prepare to explain why they didn't.

INTENDED AMOUNT OF CSR FUNDING:

An entity or business that meets and confirms to these specified thresholds must spend on CS R activities no less than two percent of its average 'net profit' for its preceding three financial years. The term 'Net profit 'refers to a company's profits as per its profit and loss account which is prepared in accordance with the New Act, but excludes profits from a company's operations outside India or dividends received from an Indian company that has itself met its CSR requirements.

PERMITTED CSR ACTIVITIES:

There is a considerable long list of permissible funding areas. They include such purposes as ending hunger and poverty; supporting education; addressing gender inequality; promoting public health; protecting the environment; and funding cultural initiatives and the arts. All CSR funds have to be spent in India. The New Act inspires companies to spend their CSR funds in the areas where they operate, but money cannot be spent on activities undertaken that are part of the normal course of the company's business or on projects for the sole benefit of employees or their family members.

CSR POLICY AND CSR COMMITTEE:

The New Act also requires companies to appoint a Corporate Social Responsibility Committee consisting of at least three directors. If a company is one that is required as per the New Act to appoint independent directors to its board, then the CSR committee must compulsorily include at least one independent director. The CSR committee is required to suggest a formal CSR Policy. This document, which must be submitted to the company's board, would suggest particular CSR activities, set forth a budget, depict how the company will implement the project, and establish a transparent and reasonable means to monitor progress.

ENFORCEMENT OF CSR PROJECTS :

A company can fulfill its CSR obligations by undertaking its activities through a third party, such as a society, trust, foundation or Section 8 company (i.e., a company with charitable purposes) that has an already established record of at least three years in CSR-like activities. Companies can collaborate and pool their resources, which could be especially useful for small and medium –sized enterprises.

REPORTING REQUIREMENTS:

Unfortunately, the New Act imposes notable bureaucratic requirements. It requires companies to prepare and furnish a detailed report, in a specified format, about the company's CSR policy, the composition of the CSR committee, the amount CSR expenditures, and the specifics of individual CSR projects[25]. A company's board must include this report in its annual report to shareholders and ensure its publication on the company's website[26].The report must also include a statement from the CSR committee that the enforcement and monitoring of the board's CSR activities is, in letter and spirit, in due compliance with its CSR objectives and CSR Policy of the company.

OUTCOME OF NON- COMPLIANCE:

If the minimum CSR amount is not spent, the board is required to disclose this fact, with just and valid reasons therefore, in its annual Director's Report to the shareholders. It is still not ascertained as to whether failure to comply is a legal offense of any sort. The failure to explain non -compliance is a punishable offence under the New Act. It is thus mentioned that if any company fails to comply with its CSR obligations it will be subject to critical investigation by the Indian authorities.

‘Schedule VII’ of the Companies Act, 2013, which puts forth the CSR activities, suggests a community to be at the focal point. On the contrary, by detailing about a company’s relationship to its stakeholders and combining CSR into its core operations, the draft rules mandate that CSR needs to go beyond communities and even beyond the concept of philanthropy.

Thus Companies Act, 2013 Act has introduced several provisions which would drastically change the way Indian corporate carry on business and one such provision is spending on CSR activities. CSR, which has largely been voluntary contribution, by corporate is now incorporated in law. The Act is a proactive endeavor by the Indian government so as to provide a more formalized and structured manner of CSR spending in India. Section 135 of the Companies Act, 2013 contains provisions solely dealing with CSR.

[25]Rule 8 of Companies (Corporate Social Responsibility)Rules,2014
[26]Rule 9 of Companies (Corporate Social Responsibility) Rules, 2014

The purpose of inclusion of CSR provisions in the Companies Act, 2013 is basically to enhance deeper thought and long term strategies for addressing some of the most persistent and recurring social, economic and environmental problems. The intention is that the companies must come forward to contribute towards nation-building and development. It is not about the quantum of money, it is all about being part of the social, economic development and progress of the country[27].It shall facilitate a corporate to harness and channelize their core competencies as well as develop effective business models[28].

2014: COMPANIES (CORPORATE SOCIAL RESPONSIBILITY POLICY) RULES, 2014

It signifies the foundation of legal framework in field of CSR in 2014. With effect from April 1, 2014,themuch-awaited rules for the new 'corporate social responsibility' (CSR) regime were notified, under which companies with sizable businesses are required to spend a minimum 2 per cent of net profit for the benefit of the society. The CSR activities should be carried within India, and the new rules will also apply to foreign companies registered in India. Apparently the funds given to political parties[29]and the money which is spent for the benefit of the company's own employees (and their families)[30]will not be counted as CSR. Highlighting the allowed CSR activities, the government declared that they need to be undertaken as per approval of the company's board in accordance with its CSR Policy and the decision of its CSR Committee. It applies to the companies with at least Rs .5 crore net profits, or Rs.1,000 crore turnovers or Rs. 500 crore net worth. Such companies will be made to spend 2 per cent of their three -year average annual net profit on CSR activities in each financial year. For the purpose of deciding the CSR spending eligibility of a company, profit from overseas branches and dividend received from other companies

[27]Commented by Sachin Pilot, Union Corporate Affairs Minister, India (Oct. 4, 2013), available athttp://www.dnaindia.com/money/report-religious-contributions-by-corporates-not-csr-activity-sachin-pilot-1898387

[28]Commented by Bhaskar Chatterjee, Director General & CEO of the Indian Institute of Corporate Affairs

[29]Rule 4(7) of Companies (Corporate Social Responsibility)Rules,2014

[30]Rule 4(5) of Companies (Corporate Social Responsibility)Rules,2014

in India will be completely excluded from the net profit criteria[31].

In addition to it, the contributions made 'directly or indirectly' to any political party have also been excluded from CSR ambit. The CSR policy of a company is also required to specify that "surplus arising out of the CSR projects or programmes or activities shall not form part of the business profit of a company.'' A company can also perform CSR works through a registered trust or society or a separate company. According to the rules, a company may also collaborate with other companies for CSR activities, provided they have to separately and individually report about spending on such projects programmes[32].

NOTABLE EXAMPLE OF CSR

Tata Steel is an appropriate example. The founder of Tata Steel, Jamsetji Nusserwanji Tata was a visionary in his own right. He defined business as: "in a free enterprise, the community is not just another stakeholder in business, but is, in fact the very purpose of our existence". From the above, it can be easily inferred that unless a corporate tries to improve the socio- economic status and conditions of the community in which it operates, the existence of that Corporate will be at stake. In fact, Tata Steel is the forerunner in providing CSR activity and has incorporated its CSR responsibility and mandate in this regard in its Articles of Association without fail. Tata Steel has taken a step in furtherance of its CSR activity and adopted Corporate Citizenship Index, Tata Business Excellence Model and Tata Index for Sustainable Development. It is estimated that Tata Steel under a broad spectrum, about 5 to 7% of its net profit is spent on CSR activities, with core areas specified as employee welfare, environment and community, nation welfare at large.

ORGANIZATIONAL CHALLENGES AND RESTRICTIONS

Companies face numerous challenges and limitations while implementing CSR. These usually relate either to political issues or to organizational-level concerns and are often embedded and inherent in culture. The complexity of operating in a global society has effected new demands on organizations and their leadership. As the roles and

[31]Rule 2(f) of Companies (Corporate Social Responsibility)Rules,2014
[32]Rule 4(3) of Companies (Corporate Social Responsibility) Rules, 2014

responsibilities of government are being redefined and reformed and the boundaries between business and government become less clear, the literature shows that business leaders are facing a daunting array of challenges. In the new age of CSR, the prime concern is that the needs of the stakeholders, consumers, employees, national as well as international regulators, watchdogs, NGOs, and activist groups have to be satisfied [33].Lewicka-Stralecka (2006) identifies and analyses the opportunities and limitations of CSR in the so-called countries of transformation, or Central and Eastern European countries:

- The image of business
- The legal framework
- The job-market arena
- The corruption and the connection of economic stagnation and social decline
- The socialist associations
- The CSR rhetoric—including the blurred boundaries of CSR, the ethical standards, the underdevelopment of the civic society, the economic reality, and the attempts at self-regulation of business.

The daunting challenge in the field of CSR implementation is the development of leaders for a sustainable global society, ascertaining as to what kind of leader is needed for building a sustainable global society and how best one can develop individuals with these leadership capabilities[34].

CONCLUSION

The Indian concept of CSR translates to philanthropic activities. It deals more about giving donations, and about uplifting the poor. CSR, however, has a larger manifesto and fold. It is more to do with shared value and about distribution of wealth. Companies currently may have a few programs and initiatives going here and there, what is essential is to create an integral CSR strategy. .By allowing only selected list of activities thereby restricting the scope ,within the Schedule in a sectional

[33]Hatcher, (2002)
[34]McGaw (2005)

manner may end up encouraging only a passive participation by corporate towards CSR activities. In order to enable corporate to participate fully in the philanthropy space, the participation must start with a more inclusive management of CSR policies where government and industry supplement and complement each other, which does not assume that (social) business and CSR are incompatible. Thus, the policymakers should frame rules for social business projects instead of eliminating it from the scheme of CSR regime altogether. By expanding the scope of CSR to include foreign companies, its impact on such companies may be manifold. In light of the ambiguity surrounding financial computation of foreign companies, it needs to be ascertained as to how practical it would be for branch or project offices to participate in CSR activities. So as to retain the merit of having a CSR provision in the Companies Act, MCA must also facilitate greater convergence with tax and foreign contribution laws in India.

Lord Sri Krishna says in *Bhagavad-Gita* (3-13) that: "All sorrows from the society would be removed if socially conscious members of a community feel satisfaction in enjoying the remnants of their work performed in *yagna*spirit (selfless welfare of others)". In short, the Indian philosophy of business management is to inculcate and promote corporate social responsibility.