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CSR IN INDIA: PHILANTHROPIC TO MANDATING

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ABSTRACT

Corporate Social Responsibility (CSR) is a concept that has been in existence in India since long. It earlier applied as corporate philanthropy and has been in practice since ages. The concept though existed in an unorganized format during pre-independence era but the Indian companies were aware of their responsibilities towards social development. History provides that the Indian companies used to contribute towards providing education, health and other kinds of social services. However, philanthropy in globalised and modern India does not solve the purpose in quantity and quality. Now, India became the first country in the world to write CSR into legislation in April 2014, forcing companies to invest in sustainability programs. The new Companies Act mandates CSR for all profit-making companies in India. Accordingly all profit making companies in India should mandatorily spend 2 percent of their average net profits over the previous three years essentially for CSR activities. This paper aims to the historical aspects of the business and society interface in India from the middle of the nineteenth century up to the present.

KEYWORDS: *Corporate social responsibility, CSR, Company Act, Philanthropy.*

INTRODUCTION

The concept of Corporate Social Responsibility (CSR) has been used to describe the voluntary activities undertaken by firms that are expected to contribute to social and environmental welfare beyond the sole focus on economic welfare [1]. Depending on the context, such practices can include (but are not limited to) a focus on long term economic responsibilities, social responsibilities, philanthropic activities and community and employee programmes focusing on diversity policies, work–family balance and safety issues. CSR earlier applied as corporate philanthropy has been important in India since the middle of the nineteenth century, largely due to a strong heritage of community influence and paternalism among traders-turned-entrepreneurs. At the same time, the larger economic governance framework that was put in place by the state also influenced corporate practices toward labour and society from time to time. CSR is not a new concept in India. Ever since their inception, corporate like the Tata Group, the Aditya Birla Group and Indian Oil Corporation, to name a few, have been involved in serving the community through donations and charity events. The basic objective of CSR in these days is to maximize the company's overall impact on the society and stakeholders. However, philanthropy in globalised and modern India does not solve the purpose in quantity and quality. Now with the introduction of new Company act 2013 India became the first country in the world to have legislation for compulsory CSR spending. Clause 135 of Company Act 2013 created huge hue and cry among the business community in India. As per clause 135 of the Companies Act, 2013, Every company with an annual turnover of 1,000 crore and more, or a net worth of 500 crore INR and more, or a net profit as low as five crore INR and more have to spend at least 2% of their average net profit over the previous three years on CSR activities. The present paper aims the development of CSR in India from philanthropic view to mandating.

DEVELOPMENT OF CSR

Sundar [2] identified four phases of business philanthropy in India and now the fifth phase is added that is mandating CSR through Company Act 2013.

First Phase: (1850-1914)

During the early years of industrialization (1850-1914), CSR in India was predominantly related to business philanthropy, as rich business families set up trusts and institutions such as schools, colleges, and hospitals. In pre-industrial India, the merchant played an important role in laying the cornerstones of philanthropy in the society through building and maintaining educational and religious establishments, social infrastructures, and donated from their repositories at times of hardship [2]. The term 'corporate social responsibility' did not exist at that time, being coined only in the twentieth century. A company's engagement in social aspects was rather seen as philanthropy, especially in times of crisis, such as during famine or epidemics, throwing open godowns of food and treasure chests [3]. The pioneers of industrialization in the nineteenth century in India were a few families such as Tata, Birla, Bajaj, Lalbhai, Sarabhai, Godrej, Shriram, Singhania, Modi, Naidu, Mahindra and Annamali, who were strongly devoted to philanthropically motivated CSR [4].

Second Phase: (1914–1960)

During the years of the Indian freedom struggle and independence (1914-1960), business philanthropy was characterized by a sense of enlightened self-interest when Indian businesses supported the freedom movement and various social and cultural causes associated with the nationalist movement, driven by the hostility with which the British regarded them. During the struggle for independence, Indian businesses actively engaged in the reform process. Not only did companies see the country's economic development as a protest against colonial rule, they also participated in its institutional and social. Gandhi introduced the notion of trusteeship in order to make companies the 'temples of modern India. The heads of the companies largely aligned the activities of their trusts with Gandhi's reform programmes which included activities that sought, in particular, the abolition of untouchability, women's empowerment and rural development [3].

A strong, nationalistic element was visible among the philanthropic practices, and many of the upcoming and prominent business leaders contributed to the causes of social reforms, poverty alleviation, women empowerment, caste systems, etc. [2]. After independence in 1947, the overall sociopolitical goal focused on building a solid industrial base while nurturing the Indian cultural traditions. Consequently, by the 1960s, the Indian economy had entered an era of focused growth and protectionism for the domestic industries [5], and the government took on many social obligations. Kumar et al. [6] call this 'Nehruvian Statism', after India's first premier Jawaharlal Nehru, who introduced this practice.

Third Phase: (1960–1980)

During the next phase (1960- 1980), the general climate of mistrust toward corporations in socialist India corresponded with a decline in business philanthropy and an increase in state-led development. This phase is also characterized by a shift from corporate self-regulation to strict legal and public regulation of business activities. Under the paradigm of the 'mixed economy', the role of the private sector in advancing India receded. The 1960s have been described as an 'era of command and control', because strict legal regulations determined the activities of the private sector [3]. As a result, corporate governance, labour and environmental issues rose on the political agenda and quickly became the subject of legislation. In the 1970s, India began to adopt industrial pollution control measures, and the first set of environmental regulations began to emerge [7]. However, the assumption and anticipation that the public sector could tackle developmental challenges effectively materialized only to a limited extent. Consequently, what was expected of the private sector grew, and the need for its involvement in socio-economic development became indispensable.

Fourth Phase: (1980-2009)

This phase was "characterized by a dynamic corporate sector on the one hand and a variety of approaches to social development on the other" [2].

The gradual changes in the economic paradigm from the 1980s onward saw a large increase in corporate activity that also led Indian businesses to be more exposed to both domestic and foreign competition. The growing profitability of many corporations increased their willingness and ability to give; this coincided with a surge in the public's and government's expectations of business. This phase also characterizes as corporate citizenship and it moved "away from charity and traditional philanthropy towards more direct engagement in mainstream development concerns and in helping disadvantaged groups in society". This proactive engagement also means a clearer articulation of the corporate perspective on development and a defining of the terms of engagement for itself. The government also began to see NGOs as implementers or service providers and supported them through grants, as long as the NGOs in question were not too radical [8].

Indian companies and stakeholders began abandoning traditional philanthropic engagement and, to some extent, integrated CSR into a coherent and sustainable business strategy, partly adopting the multi-stakeholder approach. In the 1990s, the Indian government initiated reforms to liberalize and deregulate the Indian economy and tried to integrate India into the global market. Also, Indian companies realized that if they had to compete with the Western market, they need to comply with international standards. So, from the 1990s onwards, the companies started adopting the modern approach. This was regarded as a win-win situation for all because when a particular company does well to the society genuinely and for a cause, it has to be good, and along with this process, it succeeds in building a name for itself. CSR, therefore, has been steadily gaining exposure in India in the recent past. Several studies found CSR policies to be positioned far from the core corporate activities and regarded as philanthropy, with companies not expecting much in return for their CSR efforts. In the most recent study conducted by Raman [9], the annual reports of the top 50 companies in India were examined to understand how the top management perceived CSR and reported on it. This study found that the nature and extent of such disclosures is varied, with a large emphasis placed on products and services and the development of human resources. Community involvement is highlighted by less than 50 per cent of the sample organizations. If we assume that 'CSR in India has moved beyond corporate philanthropy, and has become more methodical in its approach' then the 2009 report from Karmayog [10], a Mumbai-based online organization would be an eye opener. It had found that while 51 percent of Indian companies practice CSR in some form, only 2 percent publishes a separate sustainability report.

The Fifth Phase: (2009 –till date)

March 2010 was held as a landmark in the Indian CSR arena, a ruling by Department of Public Enterprise (DPE), made all Central Public Sector Enterprises (CPSEs) to undertake 'compulsory' CSR activities in varying proportion to their net profits. Given the size and differing scope of business exercises of CPSEs, 0.5 per cent to 5 per cent of the portion of net profits from preceding year should be allocated under the CSR budget. The exception was given for loss-making CPSEs on the foundation that such CPSEs would endeavour to integrate social and business issues thereby serving the society. Being a non-profit activity, very few CPSEs had proper vision and recourse to plan and implement these CSR programs.

Now, India became the first country in the world to write CSR into legislation in April 2014, forcing companies to invest in sustainability programs. The new Companies Act, 2013, has made it mandatory for companies to be socially responsible by introducing the CSR regime. Section 135 of the new Companies Act, read with the CSR Rules, mandates companies meeting certain criteria to set aside two per cent of their net profits for undertaking and promoting socially beneficial activities and projects in India [11-12]. The Ministry of Corporate Affairs (MCA) recently issued the CSR Rules, 2014, to implement this legislative mandate, which comes into effect on April 1, 2014. The CSR provision will be applicable only to companies that have a minimum net worth of Rs. 500 crore, turnover of Rs. 1,000 crore or net profit of Rs. 5 crore or more during any financial year. Companies that trigger any of the aforesaid conditions must spend at least 2% of their average net profits made during the three immediately preceding financial years on CSR activities. In case these entities are unable to spend the required amount, reasons for the same have to be given to the ministry. Providing more clarity on social welfare spending norms for corporate, the Corporate Affairs Ministry has issued a seven-page circular containing clarifications on which all activities are permitted or not permitted for the new norms. The new Companies Act 2013, which lays down that 2% of profits earned by a certain class of companies must be spent on CSR activities, would mean an estimated Rs. 27,000 crore will flow into grassroots development and social enterprise sectors every year, says a think-tank [13]. According to the Indian Institute of Corporate Affairs, of the 1.3 million companies in India, about 6,000-7,000 companies are covered under the new CSR rule. "Mandatory CSR is a welcome step towards contributing to society and helping a company achieve a balance of economic, environmental and social imperatives while addressing the expectations of shareholders and stakeholders," Sonica Malhotra, director at MBD Group, a premium Indian hospitality and publishing chain, told Eco-Business.

A section of corporate India has lobbied hard against the directive, arguing that it will further inconvenience foreign companies already navigating a plethora of complex regulations while operating in India. India ranks an abysmal 140 out of 189 nations in a survey by the World Bank in its annual Ease of Doing Business Report in 2014. Nevertheless, some industry leaders note that in a country like India, where one-third of the population is illiterate and two-third lacks access to proper sanitation, CSR initiatives ensure that businesses contribute to equitable and sustainable economic development.

CONCLUSION

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. Partnerships between companies, NGOs and the government should be facilitated so that a combination of their skills such as expertise, strategic thinking, manpower and money to initiate extensive social change will put the socio-economic development of India on a fast track. The government perspective on CSR has been that though India's business sector has generated wealth for shareholders for decades, the country continues to grapple with problems of poverty, unemployment, illiteracy and malnutrition. India is such huge country having 1.21 billion populations and perceived as country of poor people despite of having maximum millionaires & billionaires. Hence, we need to fill the gap between poor and rich in our country. This cannot be solved by government alone. The release of the Companies Rules, 2014, is a welcome development which aims to mandatory the CSR practices that helps to fill the gap between poor and rich in our country. More and more companies in India are beginning their journey in CSR, or are starting to think about pulling together what they're already doing and taking it to the next level. "Results should be visible by 2016 as the legislation has been in place from April 2014.

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