



## Various phases of corporate social responsibility in India

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### Abstract

In today's time corporations are seen as critical components of the social system. They are accountable to their shareholders for revenue and profit and stakeholders for environmental and social causes. Corporate social responsibility (CSR) and sustainable development is being adopted by organizations worldwide as customers, employees, and public stakeholders are having increasing expectations for organizations to act in sustainable and responsible. Media especially internet is paying great deal of attention to such activities and public scrutiny of these activities is rising. Moreover, all over the world environmental regulations are increasing. Hence, companies are forced to have performance targets, measurement systems, and reporting systems for CSR and sustainable development. CSR is a centuries old tradition in India as wealthy landlords have been using it as donation to temples, food to poor during crisis and other ways since very long time. Presently, scenario has changed and wealthy organisations have to invest a certain amount in CSR according to Companies Act, 2013.

**Keywords:** corporate social responsibility, CSR, sustainable environment

### Introduction

CSR is a topic of interest both academically and in business in today's world. Various organizations adopt different terminologies e.g., CSR, corporate citizenship, business ethics, stakeholder management and sustainable development, according to their way of charity and environment friendly technology. CSR can be easily and interchangeably used for social responsibility, sustainable development, and corporate citizenship followed by corporations.

If we try to look for an exact definition of CSR, none is available. Most simple way of understanding CSR is a balance of economic and social aspects by a corporation. However, most used and popular definition for CSR is "CSR 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." which is given by World Business Council for Sustainable Development [1].

Another popular definition was given by Government of Canada is "Generally, CSR is understood to be the way firms integrate social, environmental, and economic concerns into their values, culture, decision-making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth, and improve society" [2].

CSR presents significant risks and opportunities for various organizations. If we talk about risk, financial loss to the corporation for carrying out CSR which may lead to decrease in Net Profit for the organisation is most important. In spite of financial burden, firms carry out CSR as stakeholders expect boards and management to accept responsibility and implement strategies and controls to manage their impact on society and the environment. CSR is an important way to engage stakeholders in firm's endeavours, and to improve

branding or public image of the firm. Thus, CSR management a complex endeavour. Hence, it is important for internal auditors to understand the risks and benefits of CSR [3].

Another popular yet complicated explanation of CSR was given by Carroll, who defines it as a pyramid formed in four-parts which include economic responsibility, legal, ethical and discretionary responsibility philanthropy. But, this approach does not analyze the complicated relationship between corporations and society. The essential point of CSR is to incorporate social fairness, ethic, environmental and human rights in the management process to make clear their accountabilities to the stakeholders [4].

In recent approaches, CSR includes voluntarily integration of environmental and social concerns by companies into their business and into their interaction with their stakeholders. A socially responsible company means not only a company which is doing more than complying with the law, but also investing in human resources and the environment. The EU has a similar definition. It adds that "the experience with investment in environmentally responsible technologies and business practice suggests that going beyond legal compliance can contribute to a company's competitiveness. Going beyond basic legal obligations in the social area, for example, training, working conditions, management employee relations, can also have a direct impact on productivity. It opens a way of managing change and of reconciling social development with improved competitiveness. Corporate social responsibility should nevertheless not be seen as a substitute to regulation or legislation concerning social rights or environmental standards, including the development of new appropriate legislation [5]."

This concept has been present in India since long as Kautilya emphasized ethical practices and principles while conducting business. In Hinduism, Merchants gave alms, got temples and

night shelters made for poor and followed Dharmada where a specific amount is charged from the manufacturer or seller which was used for charity. Even, Islam had a law called Zakaat which ruled that a specific percentage of one's earning must be shared with the poor by donation. Sikhs followed CSR what they called daashaant.

Some old traditions of corporate responsibility, even dating back to the 18th century, are still valid today. From the 1850s onwards, when struggle for freedom in India was a germinating stage, companies were strongly committed to philanthropically motivated CSR and community development activities. After independence, India adopted its own concept of the "mixed economy" and applied unique approaches for CSR.

### **Various Phases of CSR development in India**

India has a long tradition of paternalistic philanthropy. Although, this process is acclaimed recently, it has been followed since ancient times albeit informally. The concept of helping the poor and disadvantaged was cited in almost all religions and their several ancient literatures. Before industrialization philanthropy, religion and charity were important drivers of CSR.

However, the term CSR itself came into common use in the early 1970s. In 1990s focus of CSR changed from charity and traditional philanthropy to direct engagement of business in mainstream development and for advantage for disadvantaged groups in the society. An ideal CSR practice includes both ethical and philosophical dimensions, especially in India where there exists a wide gap between sections of people rich and poor. In India, the evolution of CSR refers to changes over time in cultural norms of corporations' engagement and the way businesses managed to develop positive impacts on communities, cultures, societies, nation building, public health, education, livelihoods, water conservation, natural resource management and environment in which those corporations operated. CSR motives changed during the independence movement in India toward social reforms to encourage empowerment of women and rural development.

For setting an example for the private sector, guidelines for expenditure on CSR activities for Central Public Sector Enterprises were issued by Department of Public Enterprises. According to these "Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises" revised by the Department of Public Enterprises (DPE), Ministry of Heavy Industries and Public Enterprises every year, each CPSE shall with the approval of its Board of Directors make a budgetary allocation for CSR and Sustainability activities/projects for the year.

According to Sundar (2000), four phases of CSR development in India can be identified<sup>[6]</sup>. These phases run parallel to India's historical development and resulted in different CSR practices. Corporate Social and Environmental Responsibility in India into four phases can be regarded as an analytical tool. However, it is not static, and features of one phase can be observed in the others. To understand the current state of Indian CSR, India's long traditions must be taken into account. Its CSR approach is closely linked to its history both, political and economic

### **The First Phase CSR motivated by charity and Philanthropy (1850 to 1914)**

The term "corporate social responsibility" did not exist at that time, being coined only in the 20th century. The first phase of CSR in India is well known for its charity and philanthropic nature, as it was influenced by family values, traditions, culture, religion, as also industrialisation. Businessmen spent their wealth on the welfare of society, setting up temples, schools, higher education institutions, other infrastructure of public use and religious institutions. In times of drought, famine, natural calamities businessmen opened up their granaries for the poor and hungry. When colonial era started, approach to CSR underwent a significant change. However, the donations, either monetary or otherwise, were taken out of personal savings, which neither belonged to the shareholders nor it was an integral part of business<sup>[7]</sup>.

This phase was characterized by the inclination of industrial families of the 19th century such as Tata, Godrej, Modi, Birla, Lalbhai, Sarabhai, Shriram, Modi, Naidu, Mahindra, Bajaj, Singhanian, Annamali towards economic as well as social considerations. The Charity was not meant only for selfless or religious purposes, but was driven by caste groups and political objectives. Being the oldest form of CSR, charity and philanthropy still influence CSR practices today, especially in community development<sup>[8]</sup>.

### **The Second Phase CSR for India's social development (1910 to 1960)**

The second phase was during the Independence movement of India. Mahatma Gandhi urged rich businessmen and industrialists to donate their wealth and benefit the poor and marginalised in society which put pressure on them to act towards building the nation. Second phase was largely influenced by Gandhi's theory of trusteeship which helped socio-economic growth. Gandhi called companies and industries as 'temples of modern India'. According to Gandhi's theory of trusteeship "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." He influenced industrialists to set up trusts for colleges, and research and training institutions. These trusts were also involved in social reform, like rural development, education, abolishing untouchability and empowerment of women<sup>[9]</sup>. The heads of the companies largely aligned the activities of their trusts with Gandhi's reform programmes.

### **The Third Phase CSR under the paradigm of the "mixed economy" (1950 to 1990)**

The third phase was dominated by the paradigm of the "mixed economy" and was well characterised by the emergence of PSUs (Public Sector Undertakings) to ensure better distribution of wealth in society which lead to decrease in the role of the private sector in advancing India. Because of strict laws, this phase was described as an "era of command and control". CSR in this phase revolved around labor and environment laws being introduced in an independent India. This phase is also characterized by a shift from corporate self-

regulation to strict on industrial licensing and taxes, legal capital issues, loans, import, allocation of resources, prices, and concentration of economic power and growth monopolies and public regulation of business activities. Since the success rate of PSUs was limited, private sector grew and started getting actively involved in socio-economic development. In 1965, academicians, politicians and businessmen conducted a national workshop on CSR where major emphasis was given to stakeholder dialogues, social accountability and transparency<sup>[8]</sup>. CSR under the “mixed economy paradigm” corporation is responsible to owners, managers and other target environments. In this context, CSR largely took the form of the legal regulation of business activities and/or the promotion of public-sector undertakings (PSUs).

#### **The Fourth Phase CSR at the interface between philanthropic and business approaches (1980 onwards)**

Today’s world is a globalised world and CSR is in a confused state as corporations are responsible to owners, managers, other target environments and the public at large. The fourth phase is characterized partly by traditional, but mostly as sustainable business strategies new and unique ways for upliftment of poor and needy as well as a brand image for corporations. In this last phase CSR became characterised. Liberalisation, privatisation and globalisation (LPG) in India, along with a comparatively relaxed licensing system, led to an increased country’s economic growth which has persisted until today<sup>[10]</sup>. What started as charity in first phase is now understood as responsibility. This rapid growth led to “the increased profitability also increased business willingness as well as ability to give, along with a surge in public and government expectations of businesses”<sup>[7]</sup>. Against this background, India has become an important economic and political actor in globalization, which has positively affected the Indian CSR agenda. With more TNCs resorting to global sourcing, India has become an attractive and important production and manufacturing base for multinational corporations. As Western consumer markets are becoming more responsive to labour and environmental standards in developing countries, Indian companies which export and produce goods for the developed world need to comply with international standards.

#### **Current state of CSR in India**

India’s economic reforms and its rise to become an emerging market and global player has not resulted in a substantial change in its CSR approach. The Companies Act 1956 does not contain any provision regarding CSR. However, introduction of Companies Act 2013 has changed the scene of CSR in India.

#### **Conclusion**

The history of CSR in India has run parallel to the development of India. Specifically, the philanthropic approach is still widespread. CSR is moving from voluntary to mandatory, from traditional philanthropy to sustainable business concept in present times due to the Companies Act, 2013, Clause 135 of which would go a long way in strengthening the social initiatives taken by the corporations. It will boost transparency and accountability. CSR agenda

however, continues to be dominated by community development activities. CSR multi-stakeholder approach is still rather fragmented, and interaction between business and civil society organizations, especially trade unions, is still rare.

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