



# EVOLUTION OF CSR IN INDIA



# ESSENTIALS OF CORPORATE SOCIAL RESPONSIBILITY

Modern CSR - A shift from profit maximization to Profit optimization and Shareholders to Stakeholders

4

What is CSR?

4

Perspectives

5

Importance

5

History and Evolution of Indian CSR

6

National Voluntary Guidelines (NVG)

8

Specific features

10

Key Concerns

11

Critiques

11

Spending

12

Mistakes

13

Conclusion

14

# MODERN CSR

A shift from 'profit maximisation' to 'profit optimisation' and from 'shareholders' to 'stakeholders'

*"We believe that the leading global companies of 2020 will be those that provide goods and services and reach new customers in ways that address the world's major challenges - including poverty, climate change, resource depletion, globalization, and demographic shifts."*

- Niall Fitzgerald, former CEO & Chairman Unilever



CSR is the process by which an organisation 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.**

Profit maximisation is the primary aim of a capitalist economy. The mantra of hardcore capitalism is profit, more profit and only profit, but recently a new concept has emerged called co-operational capitalism or co-op capitalism.<sup>1</sup> This "new" capitalism, though focused on the profit motive, also incorporates the essence of cooperation, accountability, and values in the social context. Such an idea of modern capitalism is reflected in corporates, too. For the new generation of corporate leaders, profit optimisation is more important than only profit maximisation. Hence there is a shift in accountability from shareholders to stakeholders (including employees, consumers and affected communities), and a growing realisation that long-term business success can be achieved only by companies that recognise that the economy is an "open subsystem of the earth's ecosystem which is finite, non-growing and materially closed."<sup>2</sup>

## WHAT IS CSR?

The concept of CSR is not simple to define; various concepts and themes overlap this term. The concepts of corporate citizenship, sustainable business, environmental responsibility, the triple bottom line,<sup>3</sup> social and environmental accountability, business ethics and corporate accountability are all very much linked with CSR.

The term CSR itself came into common use in the early 1970s.<sup>4</sup> The last decade of the twentieth century witnessed a shift in focus from charity and traditional philanthropy towards a more direct engagement of business in mainstream development, and concern for disadvantaged groups in society. In India, there is a growing realisation that business cannot succeed in isolation and social progress is necessary for sustainable growth. An ideal CSR practice has both ethical and philosophical dimensions, particularly in India where there is a wide gap between sections of people in terms of income and standards as well as socio-economic status (Bajpai, 2001).

# PERSPECTIVES

## BUSINESS PERSPECTIVE

Focuses on the importance of 'reputation capital' for capturing and sustaining markets. CSR is nothing but a new business strategy to reduce investment risk and maximise profits by taking all the stakeholders into confidence.

## ECO - SOCIAL PERSPECTIVE

Recognises the fact that social and environmental stability and sustainability are two major prerequisites for sustainability of the market in the long run. CSR is both a value and a strategy for ensuring sustainability of a business.

## RIGHT - BASED PERSPECTIVE

Focuses on the fact that consumers, employees, stakeholders and affected communities have a right to know about corporations and their businesses. It stresses accountability, transparency, and social and environmental investment as major aspects of CSR.<sup>5</sup>

# IMPORTANCE

## CSR HAS BECOME AN IMPORTANT ISSUE BECAUSE OF THE FOLLOWING FACTORS:<sup>7</sup>

- CSR helps in strengthening the relationship between companies and stakeholders.
- It enables continuous improvement and encourages innovations.
- Attracts the best industry talent as a socially responsible company.
- Provides additional motivation to employees.
- Mitigates risk as a result of its effective corporate governance framework.
- Enhances ability to manage stakeholder expectations.

# HISTORY AND EVOLUTION OF INDIAN CSR



**KAUTILYA ON CSR:** Kautilya emphasized ethical practices and principles while conducting business.

**CSR & HINDUISM:** Merchants belonging to the Hindu religion gave alms, got temples and night shelters made for poor. Hindus followed Dharmada where the manufacturer or seller charged a specific amount from the purchaser which was used for charity.

**CSR & ISLAM:** Islam had a law called Zakaat which ruled that a portion of one's earning must be shared with the poor in the form of donation.

**CSR & SIKHISM:** Similar to Islam's zakat, Sikhs followed what they called daashaant.

India has the world's richest tradition of corporate social responsibility. Though the term CSR is comparatively new, the concept itself dates back to over a hundred years. CSR in India has evolved through different phases, like community engagement, socially responsible production and socially responsible employee relations. Its history and evolution can be divided into four major phases.<sup>6</sup>

## PHASE 1 (1850 TO 1914)

The first phase of CSR is known for its charity and philanthropic nature. CSR was influenced by family values, traditions, culture and religion, as also industrialisation. The wealth of businessmen was spent on the welfare of society, by setting up temples and religious institutions. In times of drought and famine these businessmen opened up their granaries for the poor and hungry. With the start of the colonial era, this approach to CSR underwent a significant change. In pre-Independence times, the pioneers of industrialisation, names like Tata, Birla, Godrej, Bajaj, promoted the concept of CSR by setting up charitable foundations, educational and healthcare institutions, and trusts for community development. During this period social benefits were driven by political motives.

## PHASE 2 (1910 TO 1960)

The second phase was during the Independence movement. Mahatma Gandhi urged rich industrialists to share their wealth and benefit the poor and marginalised in society. His concept of trusteeship helped socio-economic growth. According to Gandhi, companies and industries were the 'temples of modern India'. 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 and empowerment of women.

## PHASE 3 (1950 TO 1990)

This phase was characterised by the emergence of PSUs (Public Sector Undertakings) to ensure better distribution of wealth in society. The policy on industrial licensing and taxes, and restrictions on the private sector resulted in corporate

malpractices which finally triggered suitable legislation on corporate governance, labour and environmental issues. Since the success rate of PSUs was not significant there was a natural shift in expectations from public to private sector, with the latter getting actively involved in socio-economic development. In 1965, academicians, politicians and businessmen conducted a nationwide workshop on CSR where major emphasis was given to social accountability and transparency.

#### **PHASE 4 (1980 ONWARDS)**

In this last phase CSR became characterised as a sustainable business strategy. The wave of liberalisation, privatisation and globalisation (LPG), together with a comparatively relaxed licensing system, led to a boom in the country's economic growth. This further led to an increased momentum in industrial growth, making it possible for companies to contribute more towards social responsibility. What started as charity is now understood and accepted as responsibility.

#### ***Phases of Evolution***

Phase 1 (1850 - 1914)	Phase 2 (1910 - 1960)	Phase 3 (1950 - 1990)	Phase 4 (1980 onwards)
Purely philanthropy and charity during industrialisation; corporation is only responsible to owners and managers.	CSR as social development during the Independence struggle; corporation is responsible to owners, managers and employees.	CSR under the "mixed economy paradigm"; corporation is responsible to owners, managers and other target environments.	CSR in a globalised world is in a confused state; corporation is responsible to owners, managers, other target environments and the public at large.

# NATIONAL VOLUNTARY GUIDELINES (NVG)

National voluntary guidelines<sup>8</sup> are applicable to all businesses irrespective of size, sector or location. These guidelines were designed with the aim of assisting enterprises to become responsible entities much before the CSR Act (Companies Act -2013) came into force. In fact various propositions from NVG have been taken into consideration for structuring the Companies Act. The principles behind the guidelines are as follows:

## **PRINCIPLE 1**

Businesses should conduct and govern themselves with ethics, transparency and accountability

## **PRINCIPLE 2**

Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.

## **PRINCIPLE 3**

Businesses should promote the well-being of all employees

## **PRINCIPLE 4**

Businesses should respect the interests of, and be responsive to, all stakeholders, especially those who are disadvantaged, vulnerable and marginalised.

## **PRINCIPLE 5**

Businesses should respect and promote human rights.

## **PRINCIPLE 6**

Businesses should respect, protect, and make efforts to restore the environment.

## **PRINCIPLE 7**

Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner.

## **PRINCIPLE 8**

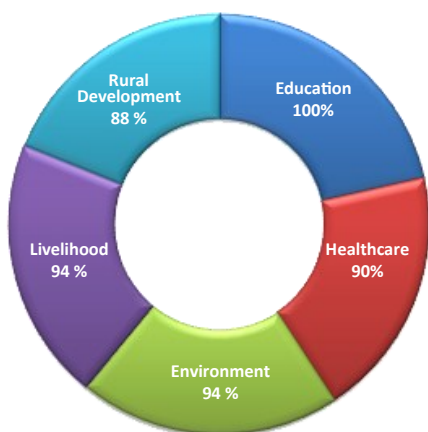
Businesses should support inclusive growth and equitable development.

## **PRINCIPLE 9**

Businesses should engage with and provide value to their customers and consumers in a responsible manner.



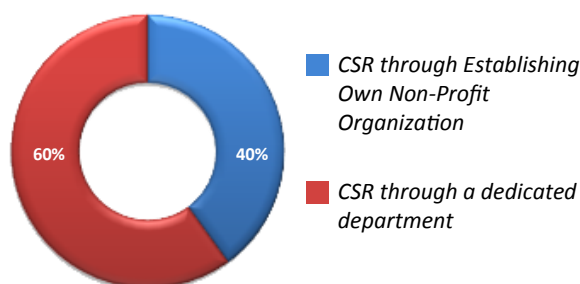
# CSR ACTIVITIES IN INDIA



As presented in the chart, the most common thematic areas covered by the companies include health, education, livelihood, environment and rural development. Of these, education is the most common and 100% of the companies included in the research were found to have undertaken some initiatives on education; this was followed by livelihood and environment, and then healthcare and rural development<sup>9</sup>

## EDUCATION

The study indicates that providing infrastructure support is the most common activity in the education domain, undertaken by approximately 88% or 44 out of a total of 50 companies focusing on education.



## HEALTHCARE

In the healthcare domain, organising health camps to offer curative services and raising awareness on health issues are the most common activities implemented by nearly 74% of the companies.

## ENVIRONMENT

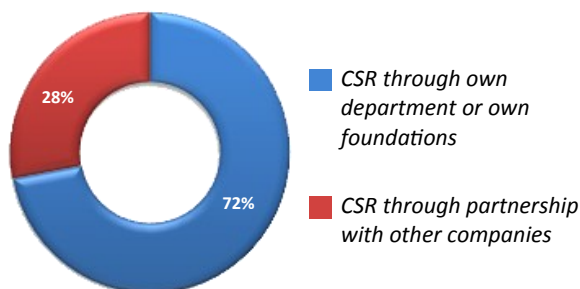
CSR initiatives aimed towards the betterment of the environment include green initiatives such as tree plantation drives to promote afforestation, as well as efforts to conserve water, and to manage and dispose of waste responsibly. Green initiatives garner the highest attention with 76% of all companies undertaking specific initiatives to improve the environment and approximately 64% taking measures to conserve water.

## LIVELIHOOD

Out of the 50 companies approximately 88% support skill development through vocational training, and 78% support income generation activities.

## RURAL DEVELOPMENT

In rural development, 68% of companies have been working towards betterment of rural areas by providing infrastructure support.



*(Source - Study conducted by Ernst & Young and PHD Chamber, published in Global CSR Summit - 2013)*



This part of the study is based on secondary data of BSE-enlisted 50 organisations, available in the public domain. The data was analysed in order to understand CSR trends and activities taken up by these organisations. The study was published in Global CSR Summit 2013 - an agenda for inclusive growth, and it was conducted by Ernst & Young and PHD Chamber

# SPECIFIC FEATURES COMPANIES ACT - 2013

- The provisions of the CSR Act apply to all companies that have any one of the following in any financial year
  - Net worth of INR 500 crores or more
  - Turnover of INR 1,000 crores or more
  - Net profit of INR 5 crores or more
  
- An average of the previous three financial years' PAT will be considered for calculating the 2% for CSR.
  
- CSR policy of a company should ensure that surplus arising out of a CSR activity will not become part of business profits.
  
- CSR policy should specify that the CSR corpus will include the following: a) 2% of average net profit; b) any income arising thereof; c) Surplus arising out of CSR activities.
  
- Companies may collaborate or pool resources with other companies to undertake CSR activities and any expenditure incurred on such collaborative efforts will qualify for computing CSR spending.
  
- All companies falling under the provision of Section 135 (1) of the Act should report, in the prescribed format, the details of their CSR initiatives in the director's report and on the company's website.
  
- In case a company has failed to spend 2% of the average net profit, the reason for doing so should be mentioned in the annual board report.

## KEY CONCERNS

- The Act does not prescribe any penal provision if a company fails to spend the stated amount on CSR activities. The Board will need to explain reasons for non-compliance in its report.
- The threshold limit of Rs.5 crores net profit for applicability of CSR requirements seems, in comparative terms, to be on the lower side vis-à-vis net worth and turnover thresholds of Rs.500 crores and Rs.1,000crores respectively. This may result in companies getting covered under CSR even when they do not meet net worth/turnover criteria.
- It is not absolutely clear whether a company will need to create a provision in its financial statements for the unspent amount if it fails to spend 2% on CSR activities in a particular year.
- After some initial confusion over the tax applicable, it is now clear that CSR expenditure will be taxable, although for a few activities tax exemption will be allowed from the financial year 2014-15. However, there is no clarity yet on these activities.

## CRITIQUES

- A disturbing aspect of Section 135 relates to the linking of a company's profit-making with the development of local areas.<sup>10</sup> Companies are required to spend 2% of their average net profits from the preceding three years and focus on local areas around which they operate. This is an absurd proposition as it will increase inter-state disparities in social indicators. For instance, states like Gujarat, Maharashtra and Andhra Pradesh (as also Odisha in 2013), with their large number of industrial units, are likely to see greater social development on account of higher CSR spend by the private sector.
- What happens to development projects when companies make losses? According to one estimate, of the 5,138 firms listed on the BSE, the total number of companies

qualifying under Section 135 has come down from 1,500 in FY 2010 to 1,372 in FY 2012. So has the number of total qualifying companies with profit after tax greater than zero: from 1,457 to 1,265.

- It is during recessionary times, when the need for CSR expenditure may be highest among vulnerable groups, that such spending may actually become unavailable.
- The rules in the Companies Act-2013 would make it difficult for companies to pursue strategic CSR - aligned to business strategy - since any expense that can be traced back to financial profits may have to be set aside from CSR, as indicated by the law.
- It is possible that companies would prefer to spend on activities specified in the Act, (such as protection of national art, heritage and culture, promotion of sports, contribution to the Prime Minister's National Relief Fund), which have a lower long-run social impact, ignoring real problems like inter-regional inequality or particular social stigmas.<sup>11</sup>

## SPENDING

- According to a report in NGOBOX,<sup>12</sup> the CSR spending of 19 Indian banks reveals that the sector is not yet prepared for spending 2% of net profit on CSR projects. The 19 banks analysed in this report have spent just 0.70% of their average net profit for FY 2011, 2012 and 2013. The situation is even worse with public sector banks. Out of the 19 banks, 12 are public sector banks and their CSR spending is just 0.43% of their average net profit for the three years mentioned. Private sector banks have spent 1.17% of their average net profit for the same period on CSR projects.
- Overall, these 19 banks have spent INR 535.85 crores on CSR activities in FY 2013-14. They will need to spend almost three times this amount (i.e., INR 1628.1 crores) in FY 2014-15 to comply with the mandatory CSR clause of the new Act.

- The report highlights that HUL has spent 2.0% of its average net profit from the three immediately preceding financial years in a single year (2013-14). This comes close to INR 90 crores.
- The report states that Asian Paints has spent INR 3.7 crores on its CSR projects in FY 2013-14. This amount is just 0.32% of the company's PAT of INR 1,169 crores in 2013-14, whereas. 2% of the average net profit for three years (FY 2012, 2013 and 2014) comes to INR 30.5 crores. This means that Asian Paints will, in 2014-15, have to spend eight times more than it did in 2013-14.
- ING Vysya has spent INR 2.05 crores on CSR activities in 2013-14. This amount is just 0.31% of its profit after tax for 2013-14.<sup>13</sup>

## MISTAKES

### LACK OF VISION

Instead of asking "Where are we now?" organisations should think about asking "Where do we want to be in 10 years?"

### SUB-STRATEGIC MANAGEMENT

CSR managed at a staff level may fail to address key issues such as new business opportunities and the structure of incentive systems.

### SELECTIVE HEARING

Most organisations do not like criticism and tend to listen to some stakeholders more than others. It is necessary to engage in what some academics have described as "deep listening".

### NON-PARTICIPATIVE MANAGEMENT

"Top-down" CSR processes do not harness the skills and potential of employees. Creation of networks of "change champions" may offer better engagement and results.

### FAILURE TO SEE CSR AS INNOVATION

Good CSR involves continuous innovation that links CSR to the firm's business model. It can use CSR to identify new technologies, markets and approaches.<sup>14</sup>

# CONCLUSION

CSR as a concept has been the focus of various deliberations and much research over the past few years; and has come to occupy an important place in the academic and business arena. Evolving all the time, it has morphed from a purely philanthropic to a systemic and, finally, strategic activity. India is the first country to have legislated CSR mandates. Others like Sweden, Norway, UK, South Africa, Ghana and Ivory Coast follow some specific codes for sustainable and socially accountable business practices, like Social Labour Plan (SLP) and Local Content Law (LCL). The US, though it has a rich presence of industrial firms and big corporates, has only some mandates for reviewing reports on corporate spending. There is no strong legislation, as in India, for CSR spending.

After the enactment of the Companies Act-2013, it is estimated that approximately 2,500 companies have come in the ambit of mandated CSR; the budget could touch approximately INR 15,000 crores.<sup>15</sup> It is very likely that the new legislation will be a game-changer, infusing new investments, strategic efforts and accountability in the way CSR is being conceived and managed in India. It has opened new opportunities for all stakeholders (including the corporate sector, government, not-for-profit organisations and the community at large) to devise innovative ways to contribute to equitable social and economic development. Currently, CSR in India is headed in a positive direction as there already exists a multitude of enabling organisations and regulatory bodies such as the Department of Public Enterprises (DPE), Ministry of Corporate Affairs (MCA), and Indian Institute of Corporate Affairs (IICA). These institutions have already set the wheels in motion and are playing an important role in making CSR a widespread practice and in ensuring success in reducing inequalities without risking business growth.

# REFERENCES / NOTES

- <sup>1</sup>Co-op Capitalism believes that public goods must be managed in ways to ensure fair access and use by all - Noreena Hertz.
- <sup>2</sup>(Herman 'E-Daily in Sustainable growth, *The case of Global Economy*'- 1996).
- <sup>3</sup>Triple Bottom Line concept was given by John Elkington; it talks about social, economic and environmental responsibilities of organisations.
- <sup>4</sup>From: Global CSR Summit-2013/a study by Ernst & Young and PHD Chamber.
- <sup>5</sup>Corporate Social Responsibility: Background and Perspective, John Samuel and Anil Saari.
- <sup>6</sup><http://www.soulace.htm> (accessed on 29.07.2014 at 2.46pm).
- <sup>7</sup>From a study conducted by Ernst & Young and PHD chamber, published in Global CSR Summit-2013.
- <sup>8</sup><http://www.mca.gov.in> (accessed on 29.07.2014 at 4.23pm).
- <sup>9</sup>From a study conducted by Ernst & Young and PHD chamber, published in Global CSR Summit-2013.
- <sup>10</sup><http://www.thehindubusinessline.com> (A flaw in the CSR Design, published on 18<sup>th</sup> June2014 by T.Jayakumar).
- <sup>11</sup><http://www.thehindubusinessline.com> (A flaw in the CSR Design, published on 18<sup>th</sup> June2014 by Tulsi Jayakumar).
- <sup>12</sup><http://www.ngobox.org/news-post/mandatory-csr-spending-requirement-big-100-companies-data-sheet/>
- <sup>13</sup><http://www.ngobox.org/news-post/mandatory-csr-spending-requirement-big-100-companies-data-sheet/>
- <sup>14</sup>Corporate social responsibilities: An implementation guide for business, Paul Hohnen. IISD.
- <sup>15</sup>From a study conducted by Ernst & Young and PHD chamber, published in Global CSR Summit - 2013.

## **Jana Urban Foundation**

No 34/1-1, Langford Road, Shanthi Nagar, Bangalore - 560 027

Email: [info@janafoundation.org](mailto:info@janafoundation.org)