Corporate Social Responsibility- Past Indian Scenario in the Year 2012

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***Abstract*—CSR is the buzz word these days. Several Countries are making it a mandatory exercise to be done by the companies so as to determine the Social Presence of the business houses. Internationally numerous reporting frameworks are underway. The major international initiatives include the United Nations Environment Program Finance Initiative (UNEP FI), Global Reporting Initiative (GRI), Equator Principles, Collavecchio Declaration on Financial Institutions, London Principles, etc.**

Vying international best reporting practices it becomes imperative for India to have a policy on CSR. Till date various guiding principles have been formulated by different authorities' viz. Reserve Bank of India, Ministry of Heavy Industries & Public Enterprises (Department of Public Enterprises) and the Ministry of Corporate Affairs.

The objective of this paper is to give an understanding of the term Corporate Social Responsibility with a synopsis of the various guidelines and also to give a critical analysis of CSR implementation in India.

***Index Terms*—United Nations Environment Program Finance Initiative (UNEP FI); Global Reporting Initiative (GRI); CFR (i.e. Corporate Financial Responsibility); CSR (i.e. Corporate Social Responsibility).**

INTRODUCTION

The various groups of the society play their role for establishment, existence and development of the business. Each and every person of the society is directly or indirectly related with the company and as a result they also expect that their interest must be maintained by the company.

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The company that cannot perform its social responsibilities properly cannot stand in the society for a long time. The work is very difficult for the executives because the expectations of different groups of society are also different. The customers want good quality products at reasonable rate while the shareholders expect maximum dividend and value appreciation. The employees desire good salaries and facilities while on the other hand the human society expects for social safety and welfare schemes. Above all the government's policies should also be adhered. In this way, the interests of different parties are different, and the executive's objective should not only be restricted to maximization of gains but they should try to perform their social responsibilities very carefully by strategic management and should also report their performances which can be assessed by the various stakeholders.

To put it briefly the executives should diverge from the restricted approach of CFR (i.e. Corporate Financial Responsibility) to the more enhanced approach CSR (i.e. Corporate Social Responsibility) and give more importance to the societal standards along with their core objective of profit earning.

WHAT IS CSR

While there is no universal definition of corporate social responsibility, it generally refers to transparent business practices that are based on ethical values, compliance with legal requirements, and respect for people, communities, and the environment.

"CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis."

There has been a general perception that Economic growth is possible only through the consumption of inputs available in the environment and society. The harnessing of natural resources has a direct impact on the economy, the environment and society at large. CSR is a concept whereby organizations serve the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

CSR is a Company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders. This commitment is beyond statutory requirements. CSR is, therefore, closely linked with the practice of Sustainable Development. CSR extends beyond philanthropic activities and reaches out to the integration of social and business goals. These activities need to be seen as those which would, in the long term, help secure a sustainable competitive advantage.

Carroll's Four Part Definition is more expounding.

- "CSR encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organizations at a given point in time".

CSR is also termed as corporate conscience, corporate citizenship, social performance or sustainable responsible business. It is an effort to cause the executives to think beyond the profits and shift their mind set to social and environmental impacts also. In the 21st century the corporate Performances are measured in terms of "triple bottom line" a term coined by John Elkington used to describe social, environmental, and economic impacts.Understanding the Four Components (Table I):

TABLE I

Responsibility	Societal Expectation	Examples
Economic	Required	Be profitable. Maximize sales, minimize costs, etc.
Legal	Required	Obey laws and regulations.
Ethical	Expected	Do what is right, fair and just.
Discretionary (Philanthropic)	Desired/ Expected	Be a good corporate citizen.

DISTINCTION BETWEEN SUSTAINABILITY AND CSR

While very often these terms are used interchangeably, what normally goes in the name of CSR are few acts of philanthropy like donation, setting up educational facilities, health services, etc. and a part of the profit is used for that. But charity is not CSR; charity is not sustainability. Sustainability means business has to be undertaken in a sustainable and profitable manner, and not create undue pressure.

CSR GLOBAL PRESENCE

In US, CSR is seen as a strategic tool which helps the organizations to have a legitimate existence in the society.

Denmark has a law on CSR. On 16 December 2008, the Danish parliament adopted a bill making it mandatory for the 1100 largest Danish companies, investors and state-owned companies to include information on CSR in their annual financial reports. The reporting requirements became effective on 1 January 2009. The required information includes:

- Information on the companies' policies for CSR or socially responsible investments (SRI)
- Information on how such policies are implemented in practice, and
- Information on what results have been obtained so far and management's expectations for the future with regard to CSR/SRI.

However CSR/SRI is still voluntary in Denmark, but if a company has no policy on this it must state it's positioning on CSR in their annual financial report.

France is the only country to enact specific legislation requiring publicly listed companies to produce non-financial reports covering economic, social as well as environmental dimensions.

INTERNATIONAL INITIATIVE

Several initiatives are on the move internationally to standardize the CSR reporting framework, the major among them are as follows:

1. United nations environment program finance initiative (UNEP FI)
2. Global reporting initiative (GRI)
3. International finance corporation (IFC)
4. The "equator principles"
5. Collevecchio declaration on financial institutions

A common theme running through all these initiatives is the articulation of civil society's expectations of the financial sectors role and responsibilities with respect to sustainability.

Recently in November 2010 the International Standard Organization (ISO) published a new standard ISO 26000, providing guidance on the underlying principles of social responsibility, the core subjects and issues pertaining to social responsibility and on ways to integrate socially responsible behavior into existing organizational strategies, systems, practices and procedures.

CSR INDIAN PERSPECTIVE

Globally CSR is used as a framework for measuring an organization's performance against economic, social and environmental parameters. The Indian context is distinct.

On the one hand, here are long-standing traditions of respect for family and social networks, and high value placed on relationships, social stability and education. Diverse religions and cultures also bring distinct attitudes towards community social behavior and engagement as well as support and philanthropic contributions. Our Government also plays distinct roles – often stronger in terms of influence on economic and social priorities, yet not as advanced in terms of social safety nets. This has resulted in the drivers for corporate citizenship being very different from those in other parts of the globe.

In India CSR is still in a nascent stage. Various guidelines have been issued to incorporate CSR in businesses. Following is a gist of guidelines and circulars:

- Reserve Bank of India Circular on CSR, Sustainable Development and Non-Financial Reporting – Role of Banks: In order to be able to make an impact, banks need to integrate the concepts of CSR and Sustainability with their business strategy. RBI in its Circular dated 20th December, 2007 stated that this can be done if banks embrace following five principles:

1. Commitment to Sustainability:

Banks must expand their missions from ones that prioritize profit maximization to a vision of social and environmental sustainability.

It would require Banks to fully integrate the consideration of ecological limits, social equity and economic justice into corporate strategies and core business areas (including credit, investing, underwriting, and advising), to put sustainability objectives on an equal footing to shareholder maximization and client satisfaction, and to actively strive to finance transactions that promote sustainability.

2. Commitment to 'Do No Harm':

Banks should commit to ‘do no harm’ by preventing and minimizing the environmentally and/or socially detrimental impacts of their portfolios and their operations.

Banks should create policies, procedures and standards based on the Precautionary Principle to minimize environmental and social harm, improve social and environmental conditions where they and their clients operate, and avoid involvement in transactions that undermine sustainability.

3. Commitment to Responsibility:

Banks should bear full responsibility for the environmental and social impacts of their transactions.

Banks must also pay their full and fair share of the risks they accept and create. This includes financial risks, as well as social and environmental costs that are borne by communities.

4. Commitment to Accountability:

Banks must be accountable to their stakeholders, particularly those that are affected by the activities and side effects of companies they finance.

Accountability means that stakeholders must have an influential voice in financial decisions that affect the quality of their environments and their lives -- both through ensuring that stakeholder’s rights are protected by law, and through practices and procedures voluntarily adopted by the Banks.

5. Commitment to Transparency:

Banks must be transparent to stakeholders, not only through robust, regular and standardized disclosure, but also through being responsive to stakeholder needs for specialized information on banks' policies, procedures and transactions.

Commercial confidentiality should not be used as an excuse to deny stakeholders information.

- Ministry Of Corporate Affairs developed Voluntary Guidelines on CSR for Companies: CSR is not philanthropy and CSR activities are purely voluntary – what companies will like to do beyond any statutory requirement or obligation. To provide businesses with guidance in dealing with the expectations, while working closely within the framework of national aspirations and policies ‘CSR Voluntary Guidelines 2009’ have been developed by the MCA and unveiled during the India Corporate Week December 14 – 21, 2009. An analysis of the same is done in following Paragraphs.

Fundamental Principle: Each business entity should formulate a CSR policy to guide its strategic planning and provide a roadmap for its CSR initiatives, which should be an integral part of overall business policy and aligned with its business goals. The policy should be framed with the participation of various level executives and should be approved by the Board.

Core Elements:

Six core elements have been identified by the MCA, below is the explanation:

1.Care for all Stakeholders:

The companies should respect the interests of, and be responsive towards all stakeholders, including shareholders, employees, customers, suppliers, project affected people, society at large etc. and create value for all of them. They should develop mechanism to actively engage with all stakeholders, inform them of inherent risks and mitigate them where they occur.

Key external stakeholders include customers, consumers, investors (particularly institutional investors), and communities in the areas where the corporation operates its facilities, regulators, academics, and the media.

Companies are motivated to become more socially responsible because, their most important stakeholders expect them to understand and address the social and community issues that are relevant to them. Understanding what causes are important to employees is usually the first priority because of the many interrelated business benefits that can be derived from increased employee engagement (i.e. more loyalty, improved recruitment, increased retention, higher productivity, and so on).

2. Ethical functioning:

Their governance systems should be underpinned by Ethics, Transparency and Accountability. They should not engage in business practices that are abusive, unfair, corrupt or anti-competitive.

"Those are good rulers who observe ethics, commits no crime and walk the path of honor and courage…" – P. Chidambaram

The companies should have a policy of ethics training inside the company to help the employees in making ethical decisions when the answers are unclear.

3. Respect for Workers' Rights and Welfare:

Companies should provide a workplace environment that is safe, hygienic and humane and which upholds the dignity of employees. They should provide all employees with access to training and development on an equal and non-discriminatory basis. They should uphold the freedom of association, have an effective grievance redress system, should not employ child or forced labor and provide and maintain equality of opportunities without any discrimination on any grounds in recruitment and during employment

Worker safety and labor health have been documented. Although legal measures exist on maintaining standards for ensuring worker safety and providing health benefits, recent trends have made it imperative for companies to adopt a proactive approach to this issue.

4. Respect for Human Rights:

Companies should respect human rights for all and avoid complicity with human rights abuses by them or by third party.

According to Robbins (2000), "Companies operating in countries where human rights are regularly violated may experience a climate of civil instability and corruption that makes for uneasy relations with government officials, employees, local communities and shareholders."

The company needs to make sure that people are not forcibly removed from their homes and their livelihoods are not endangered. Also, companies can take steps to ensure forced labor is not used in their own,

5. Respect for Environment:

Companies should take measures to check and prevent pollution, recycle, manage and reduce waste, should manage natural resources in a sustainable manner and ensure optimal use of resources like land and water, should proactively respond to the challenges of climate change by adopting cleaner production methods, promoting efficient use of energy and environment friendly technologies.

Optimization of resource utilization and reducing environmentally damaging effluents can reduce the environmental impact. This will also enable the firms to affect significant cost savings in energy bills and pollution costs.

6. Activities for Social and Inclusive Development:

Depending upon their core competency and business interest, companies should undertake activities for economic and social development of communities and geographical areas, particularly in the vicinity of their operations. These could include: education, skill building for livelihood of people, health, cultural and social welfare etc., particularly targeting at disadvantaged sections of society.

- Ministry of Heavy Industries & Public Enterprises (Department of Public Enterprises) Guidelines for Central Public Sector Enterprises in India: The guidelines on CSR for Central Public Sector Enterprises (CPSEs) issued by the Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises on 09th April 2010. These guidelines lay stress on the link of CSR with sustainable development. The guidelines define CSR as a philosophy wherein organizations serve the interest of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations.

Under these guidelines –

1. The long-term CSR Plan is to match with the long-term Business Plan of the Organization.
2. The activities under CSR are to be selected in such a manner that the benefit reaches the smallest unit i.e., village, panchayat, block or district depending upon the operations and resource capability of the company.
3. The CSR budget has to be fixed for each financial year and the funds would be non – lapsable.
4. Special stress has been laid on the proper monitoring of the CSR projects undertaken.
5. The Boards of the CPSEs would be responsible for the implementation of the CSR activity which would then be a part of the annual

Memorandum of Understanding (MoU) signed between the CPSEs and the Government.

6.CPSEs will have to create mandatorily through a Board Resolution, a CSR budget as a specified percentage of net profit of the previous year in the following manner (Table II):

TABLE II

MANDATORY VERSUS VOLUNTARY

In most parts of the world, CSR remains a voluntary practice. So far, France is the only country to enact specific legislation requiring publicly listed companies to produce non-financial reports covering economic, social as well as environmental dimensions. Various other countries mandate detailed reporting for specific industry sectors. Additionally, some stock exchanges like the South African Stock Exchange now make NFR (i.e. Non Financial Reporting) a requirement for listed companies. A number of stakeholders have called for sustainability reporting to be a mandatory requirement aimed at increasing corporate accountability, the argument being that most companies will generally not report of their own accord or, when they do, such reporting will be incomplete and rarely material to stakeholder interests.

CRITICISM AND CONCERN

Critics of CSR as well as proponents debate a number of concerns related to it. Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

1. **<u>Argument for CSR</u>**: Proponents have following contentions to supplement the CSR philosophy:
   - Addresses social issues that businesses caused and allows businesses to be part of the solution.
   - Protects businesses self-interest.
   - Limits future government intervention.
   - Addresses issues by using business resources and expertise.
   - Addresses issues by being proactive.

2. **<u>Argument Against CSR</u>**: Critics have the following arguments to dampen the CSR philosophy:
   - Restricts the free market goal of profit maximization.
   - Business is not equipped to handle social activities.
   - Increase business power due to less intervention of government.
   - Dilutes the primary aim of business.
   - Limits the ability to compete in a global marketplace.

CONCLUSION

Type of CPSE's Net Profit Previous Year	Expenditure Range For CSR in a Financial Year (% of Profit)
i) Less Than 100 Crore	3% – 5 %
ii) 100 Crore to 500 Crore	2% –3 % (subject to a minimum of 3 Crores)
iii) 500 Crore and above	0.5% – 2 %

The three keys to an effective CSR policy are commitment, clarity and congruence with corporate values. Clarity is all-important because social responsibility is a broad term, and it needs to be debated and hammered out to meet each company's circumstances. Congruence is about ensuring that the company's attitude to its responsibilities towards society is consistent with the way in which it runs the whole business, i.e. its values and culture.

The Progress of CSR in India is very slow, but a significant and sound pick – up has been made. The Institute of Chartered Accountants of India — Accounting Research Foundation (ICAI – ARF) Committee is working on a new set of rules on CSR and CII is also developing a green rating system for Indian companies. The pressure to adopt sustainability has further intensified with the launch of Sustainable Development Funds and Indices in India such as CRISIL, S&P ESG Index.

It is a concept whose time has come but it has to transform into a movement. RBI has been encouraging banks to adopt greater environmental and social disclosures apart from financial. Government is also providing assistance to corporate and PSUs by proving guidelines on CSR reporting. But not much has happened on this front, although, on the inclusive agenda front, there has been progress but it has not yet formed part of non-financial disclosures. In order to make an impact, India needs to integrate the concepts CSR with CFR. As society starts rewarding and judging performance of businesses by their social, environmental performance and inclusive growth agenda, apart from economic agenda, businesses would be more motivated to voluntarily adopt CSR.

Author wishes the deliberations all the success.

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