

# **CHAPTER I**

## **INTRODUCTION**

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*This chapter includes overview of CSR environment in India. Need of public and private sector to address development issues through CSR.*

### **SOCIAL WORK PROFESSION.**

The social work profession promotes social change, problem solving in human relationships and the empowerment and liberation of people to enhance well-being. Utilising theories of human behaviour and social systems, social work intervenes at the points where people interact with their environments. Principles of human rights and social justice are fundamental to social work.

*(International Association of Schools of Social Work (2001)).*

Ethics is the foundation of any business. In Emerging country like India, we find tremendous disparity of income. There are very rich people on one hand and abject poverty on the other. While the growing number of millionaires as also the growth in the size of the middle class was a matter of satisfaction, we need to urgently address the problems of poverty, the low levels of literacy, sanitation, health, and regional and sectoral imbalances. Despite nearly 60 years of planned economic development in India, various groups of people constituting a great majority of the country's population, different sectors of the economy and some regions of the country are left out or excluded from development. One has to be sensitive to the fact that this gap cannot continue to widen while there is a large discontented number of people who are looking at the inequities of the environment as they see it.

**1.1 Ethics of Responsibility: According to the concept of Ethics of Responsibility,** the decision one corporate as a public persona takes has the potential to affect many, at any given point of time. Ethics of Responsibility are those ethical principles which again will serve as general guidelines and help people discharge their responsibility in an effective and ethical manner. These moral principles pertain to the functioning of people who

occupy responsible positions where they have the authority to take decisions and power to bring about positive changes in the public domain. Ethics of responsibility is concerned with the moral principles in the exercise of such power in the public domain.

## **1.2 SOCIAL WORK IN CONTEXT OF CORPORATE SOCIAL RESPONSIBILITY (INDUSTRIAL SOCIAL WORK) IN INDIA<sup>18</sup>**

The journey of Social Work profession in India began with the first school of social work namely the Sir Dorabji Tata Graduate School of Social Work (now known as the Tata Institute of Social Sciences) established in Mumbai in 1936. Since then there has been many shifts in its practice and approaches in consonance with the changing realities.

Professional social workers in India are engaged in development and welfare activities, from micro to macro levels, by governmental, voluntary, corporate and international organisations, and through people-oriented community-based social movements and action groups. Social work profession works towards empowerment of marginalised and vulnerable groups, actualising their rights by democratisation of social systems. The profession is guided by secular professional values of human dignity, human rights and social justice that promote self-worth, people's participation and self-determination, democratic pluralism, local self-governance, and peaceful collaborative social relationships. In the current times there have been lots of debates and deliberation on the approach of professional social work.

As Bodhi (2011) observed that, efforts to insert liberatory and emancipatory elements into Indian Social Work education, are now visible and are being articulated in the public domain. Most of these efforts are emanating from critical social workers who have become wary of the perils and hypocrisy of traditional social work and its role in fuelling and maintaining the status quo. The lack of insight into the oppressive nature of its practice and the present operational perspectives, the lackadaisical attitude adopted towards introspection into existing lacunae and the reluctance exhibited towards truthful 'soul-searching' for seeking alternative is very disturbing.

The triangular relationships between the state, companies and society have undergone a vast change in the last twenty years. The firms cannot exist if they do not take into consideration the interest of the general public. If we look at the growth and development of the relationship between corporates and community, a slow and steady transformation is noticed from a charity based philanthropic coexistence to something where the mutual interest of all the stakeholders is given considerable importance. The corporates have started to feel that if they want to stay in the competition and ensure that they have perpetual existence, they have to mould their practices considering the needs of the community and society as a whole. Only focussing on profits will hamper goodwill and stakeholders perception of the company. If the company wishes to be known as a responsible business then the needs of the community cannot be compromised. An examination of some of the factors which have led to the development of the concept of corporate social responsibility (CSR) would be ideal starting ground for the conceptual development of suitable corporate business practices for emerging markets.<sup>19</sup>

The underlying assumption that Corporate Social Responsibility (CSR) is one way through which companies can demonstrate their commitments towards being socially responsible. In fact, CSR as an integral aspect of corporate has double edge effect in terms of creating goodwill to the company and acting as a social and economic intervention to bring about large scale change in the life of people from different walks.

Partnerships between social work services and other public, private and voluntary agencies need to change: Social work services alone cannot solve society's problems. We as a country need to harness all our resources and expertise to design services around the needs of people, delivering the right outcomes for the people who use them. That means finding new ways of working that position social work services alongside the work of their partners in the public, voluntary and private sectors. The balance needs to be shifted towards a much greater focus on preventing problems and intervening early to resolve them.

### **1.3 SERVICE TO BUSINESS AND INDUSTRY.**

In the elongated history of social work, the professional had expanded its focus to include a variety of new and exciting areas of practice. One such addition that has received attention as an important part of social work practice is service to business and industry. Similarly, the business community, in its efforts to improve the overall functioning of personnel, is increasingly examining and using some of the services that the field of social work has to offer (Skidmore, 1975: 135-136). Corporate Social Responsibility (CSR) is an emerging area of social work as social work always espoused the cause of the under privilege, worked for social justice and sustainable and equitable development. Working with the community, organizing it, balancing the needs and resources of the community had always been main focus areas of social work. CSR will be a sort of convergence of the goals of both. With business coming into direct contact with the community, social work will act as a channel and a bridge between the business and the community because of its proximity and rich experience of working with the community.

Corporate sector involvement in social development is rapidly increasing especially in post economy privatisation, liberalization and globalization period. Realignment of relationship among various stakeholders of socio-economic developments is taking place, as equations among them are no longer stable and often less predictable. Corporates are enhancing their sphere of influence by registering their presence in different fields. The changing role of corporate can be seen from traditional indifference or lack of response to social sector needs to increasing contribution and involvement in social sector.

In the discussion of Corporate social responsibility, the stakeholders both external and internal i.e (customers, employees, local authorities, suppliers, the environment, governments and others) which includes shareholders and other investors constitutes prime significance. The organisations cannot operate in isolation rather they are linked inextricably to the community therefore responsible to the stakeholders in varying degrees. In the present corporate scenario, this is very well evident that social responsibility is on the agenda of all the corporate houses and society.

Whether in the Harvard Business Review at Davos, or at the state of the world Forum, world leaders are concerned about these issues and are convinced that corporations and their leaders have the capacity and resources to contribute importantly to a more just, a more civilized society and to a cleaner and safer planet. The corporate organisations have begun their operations to reach out to specialized agencies which will take care of their needs of becoming a socially responsible business. Some of these agencies include various Non Governmental organisations (NGOs), local panchayats, government entities, and consultancies, foundations, which will take care of the interest of the stakeholders and ultimately the society and community as a whole.

#### **1.4 UNDERSTANDING CORPORATE SOCIAL RESPONSIBILITY:**

Meaning: The term “corporate social responsibility, or CSR” is being debated worldwide over the years. Despite being defined differently by various authors, there is no consensus over the terminology “Corporate Social responsibility”. Every author has their own precise definition of CSR. A common characteristic of most of the definitions is the formulation of business practices so as to serve and respond to the needs of the stakeholders and society as a whole. Most of the corporations now adhere and comply to the legislation passed for serving the society.

Definitions of CSR range from basic to most demanding, from specific reference to a number of necessary activities to demonstrate responsibility, to a general call for a comprehensive, integrated and committed pursuit of social and environmental sustainability (Aras & Crowther 2009).

CSR is a process of managing the cost and benefits of business activity to both internal (workers, shareholders, investors) and external (institutions of public governance, community members, civil society groups, other enterprises) stakeholders (World Bank 2002). According to Carroll (1994), a conscientious business should embrace economic, legal, ethical and philanthropic responsibilities. Garriga and Melé (2004) consider CSR as an obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large, and improving welfare of society independently of the direct gains of the company.

Garriga and Mele (2004) consider CSR as an obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large, and improving welfare of society independently of the direct gains of the company. Relying on Parson's framework they have also mapped the territory in which most relevant CSR theories<sup>20</sup> and related approaches are situated. They have thus classified the existing theories in four groups.

**In the first group** come theories which believe that corporation is an instrument for wealth creation and that this is its sole social responsibility. This group of theories, they call instrumental theories.

**The second set of theories** are called political theories as they emphasize on the social aspect of the organisation particularly in its relationship with society and its responsibility in the political arena associated with this power. This leads the corporations to accept social duties and rights or participate in certain social cooperation.

**The third group** includes theories which consider that the business ought to integrate social demands. These theories usually argue that business depends on society for its continuity and growth and even for the existence of business itself. These they term as group integrative theories. The fourth group of theories contends that the relationship between business and society is cemented with ethical values. This leads to a vision of CSR from an ethical perspective i.e. as an ethical obligation. These are termed as group ethical theories.<sup>1</sup>

As per an article in *The Indiana journal of global studies*, it has been said that, A properly executed policy of implementation and a well formulated CSR policy is essential for sustainable development. CSR is so comprehensive which keeps in account all the concerns i.e environmental, social and economical simultaneously protecting the interest of the stakeholder group. The fact which cannot be ignored is that the policymakers who are responsible for framing policies of CSR must not ignore and should take into consideration the needs of the society. This is because the decisions taken by these organisations have a larger impact on the community either positively or negatively.

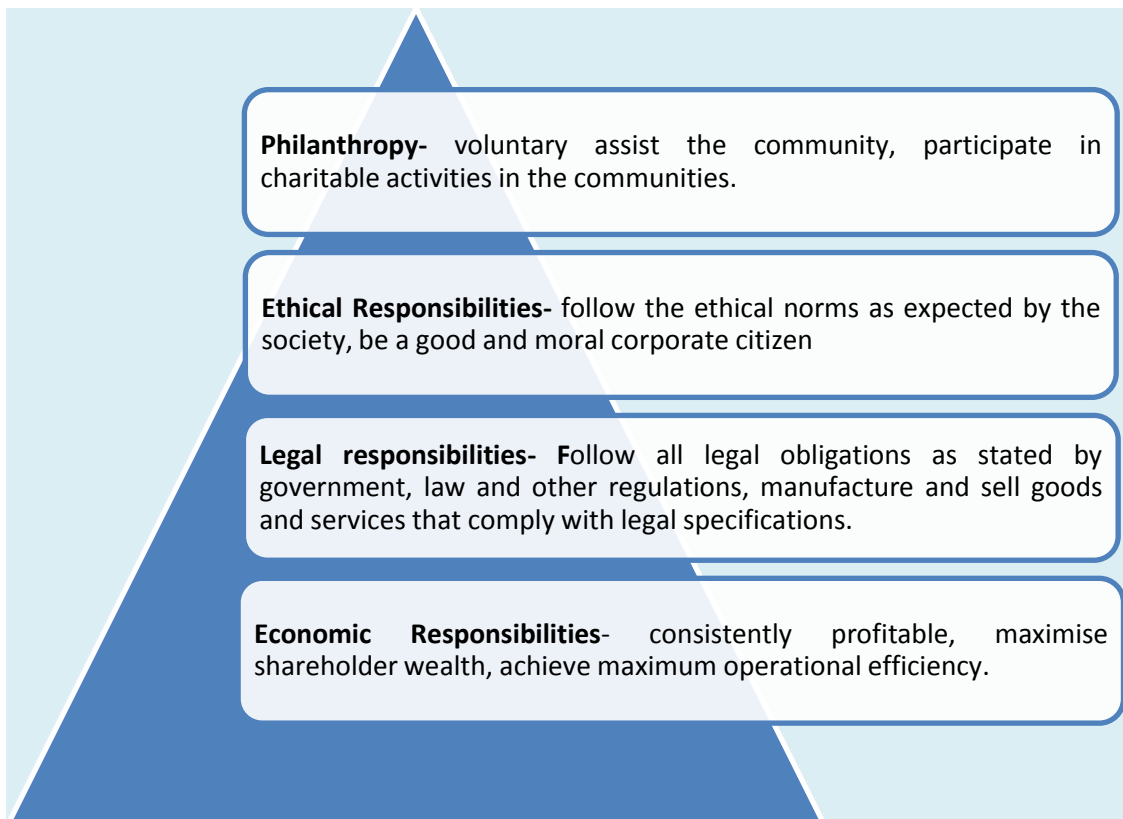
Herrmann Kristina (2004) in a case study of European Union initiative mentioned about the stakeholder categories. According to her Stakeholders may also include civil society organizations and other non-governmental organizations (NGOs). This stakeholder view of a corporation's social responsibility requires a constant dialogue between corporate decision-makers and the company's various stakeholders. In the end, a well implemented and well-enforced CSR strategy that utilizes a constant dialogue with stakeholders should result in:

- (i) Respect and care for the community of life,
- (ii) Improvement in the quality of human life,
- (iii) Change in personal attitudes and practices,
- (iv) Empowerment of communities to care for their own environments,
- (v) Provision of a [global] framework for integrating development and conservation, and
- (vi) Creation of a global alliance.

The world business council for Sustainable Development<sup>3</sup> (2007) described 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”.

Carroll<sup>4</sup> (1991) explored the nature of CSR and identified its four components-economic responsibilities, legal responsibilities, ethical responsibilities, and philanthropy. (Figure 2).





**Fig.2: Carroll's Pyramid of CSR**

According to Carroll (1983), “corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm’s ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent”. Carroll explained that the four classes “are simply to remind us that motives or actions can be categorised as primarily one or another of these four kinds”. In 1991, Carroll (1991) first presented his CSR model as a pyramid, as shown in the above Figure. He once again uses his original historical explanation for the relative weighting, saying: “To be sure, all these kinds of responsibilities have always existed to some extent, but it has only been in recent years that ethical and philanthropic functions have taken a significant place”

In this Pyramid a corporation has four types of responsibilities. In Corporate giving pyramid, the first and most obvious is the economic responsibility to be profitable. The second is the legal responsibility to obey the laws set forth by society. The third, which is closely linked to the second, is the ethical responsibility. That is to do what is right even when business is not compelled to do so by law. The fourth is the philanthropic responsibility. Also called the discretionary responsibility, it is best described by the resources contributed by corporations toward social, educational, recreational and/or cultural purposes.

Nearly 20 years later the Pyramid remains highly relevant. It is regularly cited, debated, modified and criticized by academia, corporate leaders, politicians and social commentators. But to understand the Pyramid's true relevance one must look beyond the debate and focus more on its practical application. The Pyramid's importance persists given its simplistic yet fundamental framework by which any company can not only comprehend the necessary principles of social responsibility, but ultimately set forth the practices to achieve each step of the pyramid with the ultimate goal of reaching the top.

According to the UNIDO<sup>5</sup>, "Corporatesocial responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generallyunderstood as being the way through which a company achieves a balance of economic, environmental and social imperatives (Triple-Bottom-Line Approach), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy. Even though the latter can also make a valuable contribution to poverty reduction, will directly enhance the reputation of a company and strengthen its brand, the concept of CSR clearly goes beyond that."

The EC<sup>6</sup> defines CSR as “the responsibility of enterprises for their impacts on society”. To completely meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders”

CSR is also known as corporate conscience, corporate citizenship, social performance, or sustainable responsible business/ Responsible Business etc. As it is discussed above, Corporate Social Responsibility (CSR) differs from place to place, from industry to industry and over time. It is increasingly accepted that in order to define precisely what social responsibility means to a company it needs to engage with its stakeholders and take into account their needs and aspirations while designing CSR strategies and programmes. It is difficult to define CSR precisely because it will always have a location- specific context.

## **1.5 CSR AS A WHOLE: DEVELOPMENT OF CSR IN INDIA AND INTERNATIONALLY**

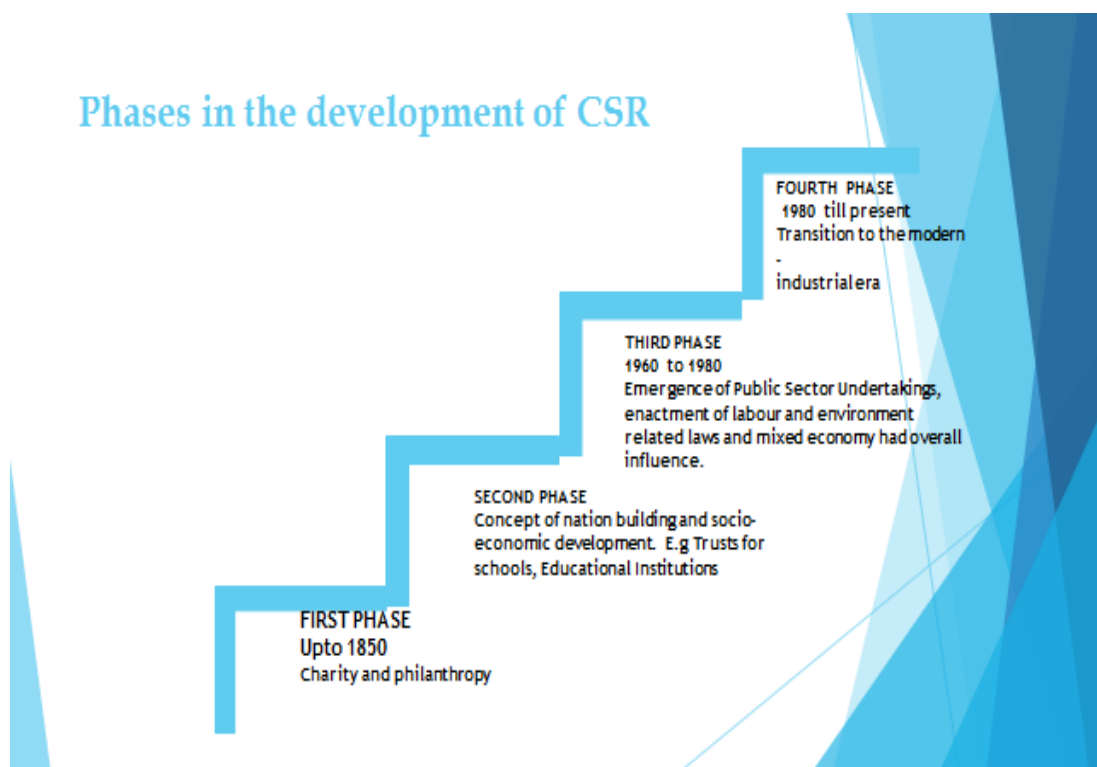
### **i. Evolution of CSR in India\*\*cited in references**

The concept of CSR in India is not new, the term may be. The process though acclaimed recently, has been followed since ancient times albeit informally. Looking back into the history, philosophers like Kautilya from India preached and promoted ethical principles while doing business. The concept of helping the poor and disadvantaged was cited in much of the ancient literature. The idea was also supported by several religions where it has been intertwined with religious laws. “Zakaat”, followed by Muslims, is donation from one’s earnings which is specifically given to the poor and disadvantaged. Similarly Hindus follow the principle of “Dharmada” and Sikhs the “Daashaant”. This signified that India as a country has one of the richest tradition of CSR. The corporate scenario back then depicts that even before the term CSR was coined, the companies in India have been involved in philanthropic and charitable activities. After the Liberalisation in

the 1990's the companies both public and private have started to realize that long term success of a business depends on the satisfaction of their stakeholders whether internal or external.

The pre and post-Independence status of corporate social responsibility will give a precise idea as how the terminology has undergone a metamorphosis. Each and every phase in the development of CSR has its own significance. This is illustrated in Fig. 1.

Mrs Sundar is the Executive Director of the Delhi-based Sampradaan Indian Centre for Philanthropy (SICP). “It aims to promote and strengthen Indian philanthropy by motivating all sections of society to go beyond giving of alms in charity to the giving of money, time, talent, skills, and other resources for bringing about social change and progress; and by assisting donors to make informed choices so as to ensure that charitable funds have a maximum impact.”



**Fig. 2 Phases in the development of CSR: Pre and post-Independence status.**

## **The four phases of CSR development in India**

According to Sundar (2000), the following four phases of CSR development can be identified.<sup>5</sup> These phases parallel India's historical development and resulted in different CSR practices. The division into four phases must be regarded as an analytical tool. However, it is not static, and features of one phase can also be observed in the others, as is particularly evident from the last phase.

### **First phase: CSR motivated by charity and philanthropy**

The first phase of CSR is predominantly determined by culture, religion, family tradition, and industrialization. Business operations and CSR engagement were based mainly on corporate self-regulation. Being the oldest form of CSR, charity and philanthropy still influence CSR practices today, especially in community development. So we can say that charity and philanthropy were the main drivers of CSR.

### **Second phase: CSR for India's social development**

The second phase of Indian CSR (1914-1960) was dominated by the country's struggle for independence and influenced fundamentally by Gandhi's theory of trusteeship, the aim of which was to consolidate and amplify social development during the independence movement, there was increased stress on Indian Industrialists to demonstrate their dedication towards the progress of the society. This was when Mahatma Gandhi introduced the notion of "trusteeship", according to which the industry leaders had to manage their wealth so as to benefit the common man. *"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."* This was Gandhi's words which highlights his argument towards his concept of "trusteeship".

### **Third phase: CSR under the paradigm of the “mixed economy”**

The paradigm of the “mixed economy,” with the emergence of PSUs and ample legislation on labour and environmental standards, affected the third phase of Indian CSR (1960-1980). 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. In this scenario, the public sector was seen as the prime mover of development. The 1960s have been described as an “era of command and control”, because strict legal regulations determined the activities of the private sector (Arora 2004, 8). The introduction of a regime of high taxes and a quota and licence system imposed tight restrictions on the private sector and indirectly triggered corporate malpractices.

### **The fourth phase: CSR at the interface between philanthropic and business approaches**

In the fourth phase (1980 until the present) 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 by tackling the shortcomings of the “mixed economy” and tried to integrate India into the global market

So, the history of CSR in India has its four phases which run parallel to India's historical development and has resulted in different approaches towards CSR. However as discussed above, the phases are not static and the features of each phase may overlap other phases.

## **1.5 CSR in Gujarat:<sup>11</sup>**

Gujarat is the western-most state of India and one of the most industrialized. With about 5 percent of the Indian population and about 6 percent of geographical area, it contributes upto 16 percent of the country's investment, 10 percent of expenditure, 16 percent of the exports and 30 percent of stock market capitalization. The average GDP growth per annum from 1993-94 to 2002-03 was 12.17 % (BIG 2020, 2003). Currently, the Gross State Domestic Product (GSDP) stands at USD 138.4 Billion. The average GSDP growth rate (2002-07) was 10.2% while the growth target (2007-12) is 11.2% (GIDB, 2009)

At the national level it is a leader in the Chemicals and Petrochemicals industry, in Drugs and Pharmaceuticals, Dairy, Cement and Ceramics, Textiles, Engineering and Gems and Jewellery industries (BIG 2020, 2003) The industrial growth for the period from 2002 to 2007 was 12.5% (Govt. of Gujarat, 2009b) which is an indicator of the rapid industrialization of the state.

The BIG 2020 Report also lays down the vision for the state in the year 2020. Here inclusive growth has also been envisioned. This basically means that along with the target GDP 5.5times the then GDP for 2020, the state would like this wealth and prosperity to benefit all its citizens, community and society as a whole. It maintains that "ensuring that growth is equitable guards against growth being the exclusive domain of a privileged few. Gujarat shall ensure this by paying adequate attention to various spheres of social upliftment."

As part of its overall strategy for economic growth coupled with social upliftment the Government of Gujarat in September 2008 came up with two initiatives.

1. The Public Sector Undertakings (government owned companies) of Gujarat State should contribute 30% of Profit Before Tax (PBT) to the Gujarat Socio-Economic Development Society (GSEDS) which will then support the poorer sections of the society (Rajkumar, 2008)

2. Draft Industrial Policy according to which CSR activities was to be made mandatory in private sector companies. The work was to be designated by the government and activities were to be carried out in collaboration with the governmental authorities at local and state levels. (Pathan, 2008).

### **1.5.3 CURRENT SITUATION OF CSR IN GUJARAT:**

Gujarat CSR Authority (GCSRA) is an initiative by Government of Gujarat. The Mission being Tocatalyze sustainable growth by creating an enabling environment for the corporate sector to work in partnership with the Government, Non-Government, and Civil Society Organizations, as well as Community Organizations in the field of Corporate Social Responsibility”

### **1.5.4 ESTABLISHMENT OF GUJARAT CSR AUTHORITY<sup>14</sup>**

CSR has assumed a significant importance in the state of Gujarat after the passing of the act mandating 2% of the net profit/net worth/value of the organizations. So a need has been felt for the proper utilization of CSR fund through facilitating both private and public sector industries in relation to their CSR spending. The establishment is with reference to With the inception of the New Companies Act, 2013, the various welfare activities / projects under the Corporate Social Responsibility (CSR) by various Companies established under the Companies Act in the State of Gujarat, has assumed a significant importance. As Govt. Attaches due importance to the welfare activities in the Social Sectors covered under HDI, for the well-being of people of the State, a need has been felt for optimal utilization of the CSR Fund, through facilitating both the Public and Private Sector Companies in relation to their CSR spending. For effective coordination, monitoring, and implementation of various projects under CSR, matching with the sectoral activity of Govt for betterment of people this authority has been established. In view of this, the matter related to establishment of the Gujarat CSR Authority under the administrative control of IMD, was under active consideration of the State Government

Establishment of Gujarat CSR advisory board: The circular dated 19-12-2014 by industry and mines department, Govt of Gujarat the establishment of CSR Advisory board has been done to provide guidance and necessary advice to Gujarat CSR Authority.



**The Objectives of the authority are described as under:<sup>14</sup>**

- To provide a neutral and credible platform to all stakeholders engaged in CSR best practices for capturing relevant issues to foster sustainable growth.
- To provide research, training, practice, capacity building, standard setting, advocacy, rating, monitoring, recognition and related support in the field of CSR.
- To facilitate exchange of experiences and ideas between various stakeholders for developing a framework for strengthening of CSR indicatives.
- To facilitate any other assistance directly or indirectly for activities which seek to promote CSR practices.
- To establish and deepen links with the organisations in various parts of the world which promote CSR practices for exchange of ideas and for collaborative actions and programmes.
- To collaborate and to support, directly or indirectly, the initiative of any individual, group, organisation or institution in promoting good practices in CSR.
- To establish a database of credible implementing outfits with whom the corporate entities as well as the donor organisations can collaborate and work.
- To create CSR fund with contribution of Government PSUs and private sector companies and channelize the CSR fund for optimum utilisation through a sustainable mechanism.
- To implement various CSR projects of state importance through credible implementing agencies in that area.
- To conduct activities relating to
- Public health in general but preventive health care and sanitation in particular
- Promotion of employment enhancing vocation skills especially among youth

- Promotion of an ecosystem for enhancement of cognitive growth of Pre-Anganwadi children
- Contributions of funds to the technology incubators located within Gujarat
- Such other activities relating to CSR as may be prescribed in the Companies Act 2013 or Companies (Corporate Social Responsibility Policy) Rules, 2014 or any other rules which Central Government may make from time to time.
- To do all such other things as may be deemed incidental or conducive to the attainment of the above objects.

#### **Functions of GCSRA<sup>14</sup>**

- To formulate schemes for carrying out any of the objects of this Society.
- To render technical assistance, information, instructions, inspection, supervision and other facilities to any company / Institution / Body / Society etc.
- To collaborate with any corporate, associate, co-operative organization, advisory societies and other suitable bodies as it may deem necessary in order to carry out the objectives effectively.
- To invest the Fund of the Society in such manner as may be required from time to time. To deposit for safe custody any document of title or any other papers or documents or certificates held by them relating to the society under these presents with any Bank or Bankers and to pay any sum or charges payable in respect of such deposits.
- To draw, make, accept, endorse, discount, execute and issue bills of exchange, promissory notes, bills of lading, warrants, debentures and other negotiable or transferable instruments or securities.
- To purchase, take on lease, hire or otherwise acquire or hold any moveable and immovable assets, rights or privileges to give effect to the objective of the Society.

- To sell, lease, transfer, dispose off, hire or given on rent all or any assets of the Society. To engage or employ, manager, officers, supervisors, clerks and all other types of employees and to fix their terms of employment in general or in particular of any individual and to pay their salaries or wages as may be fixed from time to time.
- To do all other acts and things as may be conducive with the objects of the Society.

### **Monitoring and Evaluation Framework by GCSRA<sup>14</sup>**

For effective implementation of major projects, a monitoring framework is necessary which will provide predictability and improve quality of project interventions. Broad features of this framework are as follows

- Baseline parameters should be developed while a new project is being finalized and baseline and end line surveys should be carried out as integral part of every project. This exercise may also include photo/ video documentation of the conditions of the target group before and after the project;
- Clear and simple input and output formats and computerized project monitoring system should be developed for every beneficiary oriented project. This exercise should be part of the inception report for commencing the project. The system should be built on query based platform and linked with existing BPL data base in order to avoid duplication and repetition with other similar programmes;
- Periodic concurrent monitoring and evaluation exercises will be carried out by implementing agency by engaging external organization in order to assess the quality of interventions and possible pitfalls in the future and taking immediate remedial measures. Expenses on this account should be part of the project and handled directly by implementing agency;
- Mounting annual supervision missions for major projects by engaging external experts who can also guide on course corrections; and
- Publishing the reports on the websites of implementing agency.

## **1.6 SECTORAL PERCEPTION OF CORPORATE SOCIAL RESPONSIBILITY.**

Public sector: Introduction and Corporate social responsibility

### **1.6.1 EVOLUTION AND GROWTH OF PUBLIC SECTOR ENTERPRISES IN INDIA**

Public Enterprises are inseparable part of the process and dynamics of economic development in India. They were set up to cater to the needs of unemployed, alleviate poverty, regulate economy and contribute to the Exchequer. In ancient India, the Public enterprises were both owned and managed by the state. During this period, the social role of public enterprises assumed primacy over the economic role. One may wonder that for a culture like this why does the concept of CSR may even arise? So at first sight, one would not necessarily expect CSR to be an issue for Public Enterprises. As discussed, public organisations by definition have social aims; this establishes the social dimension of their responsibility at the core of their operations. Consequently there are claims laid upon the corporations to conduct their operations in a socially responsible fashion and are increasingly laid upon Public Sector Enterprises as well. In some ways, these demands for CSR in the Public Sector could even be considered as more pronounced (Seitanidi, 2004). Furthermore given the size of many public bodies and agencies, as well as their quasi-monopolistic position in many areas of services, they are likely to have an impact on society which is often far beyond the impact of a single corporation.

The claim for responsible behaviour and the demand for greater accountability to society have grown on the part of public bodies. For instance: Publicly funded UK media organisation, the BBC, now publishes an annual CSR report. Apart from incorporating CSR into their own operations, many government organisations also take an active role in promoting CSR within their sphere of influence. Often governments are also part of multipartite initiatives to further CSR, such as the UN Global Compact, which is a set of principles issued by UN for voluntary adoption by corporations globally.

During Pre-Independence Era, the Public sector entities in India had started CSR activities in the form of charity and philanthropy. Charity and philanthropy can be a part of CSR but CSR is neither charity alone nor philanthropy alone, it is much broader rather different than the above two concepts.

Liberalization and Globalisation have indeed ushered a new era of economic development in India. Liberalization has several dimensions, it has also meant that the government has pulled out of the social sector, shirked its responsibility towards ensuring basic needs of people like health, sanitation, clean drinking water, housing and education. This has left an institutional void that can effectively discharge these functions and social obligations.

However rightly did Justice A.M Ahmadi remark at the 31<sup>st</sup> Annual Convocation of the Indian Institution of Management (Ahmedabad 1998):

*“Economic development without human development leaves development incomplete and may, therefore, truncate the growth of the human being. Development divorced from human cultural aspects has been described as growth without soul.*

*For development to be complete it should comprise both economic and human development, It should not be just confined to increased production of goods and services, but should embrace human values.”*

### **1.6.2 CSR OF PUBLIC SECTOR ENTITIES IN A GLOBAL ARENA: AN OVERVIEW**

There is a question, as to how do the public sector carries out CSR globally. The different countries in the world today can be arranged on the ascending order with respect to the shares of Public Sector. While USA at one end of the spectrum with lowest share of Public Sector Enterprises (in its GDP), Economies like India and China lie at the other end of the spectrum with highest share of Public Sector Enterprises.

UK government, since the 1980's has made considerable efforts to encourage CSR in British Companies through a number of initiatives (Moon, 2004b) including Ethical trade initiative (promoting fair trade practices). A similarly pronounced role in promoting CSR has been adopted by the European Union. In a part of world where CSR is still largely considered to be a novel idea, the European commission has invested considerable effort in defining and promoting CSR in Europe, convening a multi stakeholder dialogue which resulted in a widely discussed paper in 2002 (Commission of the European Communities, 2002).

In other parts of the world notably in Europe, the Far East and Australasia, however, there has always been a stronger tendency to address social issues through governmental policies and collective action. In Europe these issues have traditionally been considered a task for governments or in other words, the corporate responsibility for social issues has been the subject for codified and mandatory regulation. Countries such as Japan and to a lesser degree South Korea and Taiwan are considered fairly similar to continental Europe in terms of the institutional context for CSR. They are characterized by high bank and public ownership.

The Japanese “Keiretsu”, and Korean “chaebol” of the (mostly state owned) Taiwanese conglomerates have a legacy of CSR similar to those European companies-including lifelong employment, benefits, social services and health care-not so much as a voluntary corporate policies, but more as a response to the regulatory and institutional environment of business.

**The issue of CSR is a very** dominant theme in thenational as well as global corporate practices.

(Global CSR) in many ways may be seen as an attempt to replace absent or failing governmental action, even if it is simply because the stakeholders pressure the company into acting responsibility (Matten and Crane 2006). In India the Department of Public Enterprises has issued guidelines on CSR for the Central Public Sector Undertakings and that they should shoulder the responsibility for restoring for any kind of ecological damage taking place as a result of their operations. (Clause 3.1, ix, pg.9).

Let’s have a look at the amount of investment in PSEs.

### **1.6.3 INVESTMENT IN PUBLIC SECTOR ENTERPRISES.**

The investment\* in public sector enterprises has grown from Rs.29 crores as on 1.4.1951 to Rs.2,52,554 crores as on 31.3.2000. The growth of investment in the central public

sector enterprises, including those enterprises, which are under construction, over the years, is given below:

**Table - 3**  
**Investment in Public Sector Enterprises**

<b>Particulars</b>	<b>Total Investment (Crore)</b>	<b>Enterprises (Numbers)</b>
At the commencement of the 1st 5-Year Plan (1.4.1951)	29	5
At the commencement of the 2nd 5-Year Plan (1.4.1956)	81	21
At the commencement of the 3rd 5-Year Plan (1.4.1961)	948	47
At the end of the 3rd 5-Year Plan (31.3.1966)	2,410	73
At the commencement of the 4th 5-Year Plan (1.4.1969)	3,897	84
At the commencement of the 5th 5-Year Plan (1.4.1974)	6,237	122
At the end of 5th 5-Year Plan (31.3.1979)	15,534	169
At the commencement of the 6th 5-Year Plan (1.4.1980)	18,150	179
At the commencement of the 7th 5-Year Plan (1.4.1985)	42,673	215
At the end of 7th 5-Year Plan (31.3.1990)	99,329	244
At the commencement of the 8th 5-Year Plan (1.4.1992)	1,35,445	246
At the end of 8th 5-Year Plan (31.3.1997)	2,13,610	242
As on 31.3.1998	2,31,024	240
As on 31.3.1999	2,39,167	240
As on 31.3.2000	2,52,554	240

Source: Government of India, Department of Disinvestment, Ministry of Finance.

The draft of Second Five Year Plan stated, "the adoption of the socialist pattern of the society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in nature of public utility services, should be in public sector. The state has therefore, to assume direct responsibility for the future development of industries over a wider area."<sup>2</sup>

Although this Nehru Model of development supported a bigger role for public sector, yet, it left some scope for private sector also in smaller areas of activity and in areas of non-strategic nature. Since the adoption of first Industrial Policy Resolution in 1948, the public sector, therefore, has played a very strategic and dominant role in the development of India and the number of public sector undertakings kept on growing with more and more investment in them by the government.

#### **1.6.4 ALIGNMENT BETWEEN PUBLIC SECTOR PRIORITIES AND CSR ACTIVITIES**

Interest is growing in the potential coincidence of public sector priorities and the CSR activities of business, not least with regard to the social and environmental management practices of upstream extractive industries. This begs the question: how can public policy be formulated to strengthen this alignment, whilst ensuring that the resulting interventions are both ‘optimal’—good for both business and development—and ‘feasible’—in relation to the institutional constraints of public sector agencies and the value drives of business.

What have been the PSUs responses? Which PSUs are more responsive? How do they link it with their main objectives? Some of the company cases will explore the responses and the divergent socially responsible practices in the PSE’s of India. It also assesses the PSE’s approach to CSR initiatives and whether they link it with their main objectives. Is the occasional charity or philanthropy or undertaking community development a part of the corporate strategy of these companies? If it is so how do they link it with their main objectives? CSR is an embedded part of the business model. The main objective of any company is to earn profit or production or profit maximization. The organisation might



work at any corner of the world, but unless people or society accepts them it cannot survive. So engaging with CSR will take them a long way to achieve the profit as well as their main or primary objective. So CSR is always linked to the achievement of the main objective of the company.

#### **1.6.5 CSR IN RELATION TO INDIAN PUBLIC SECTOR ENTERPRISES: FEW CASE ILLUSTRATIONS.**

A number of Public Sector companies are involved in CSR activities and have done their bit in the field of community developments and related fields. Notably enterprises such as NTPC, GAIL, ONGC, SAIL, NHPC, BHEL, BEL, GSFC, Gas Authority Of India Ltd (GAIL), GIPCL, Gujarat Alkalies and chemicals Ltd. (GACL), GNFC and many more have shown leadership in reorganizing their CSR activities and introduced specific changes in monitoring and evaluation practices. Since 2000, many other central enterprises have started these initiatives. However, of a total of 261 central enterprises, only 160 are profit making; so whatever CSR activities were undertaken were done by these enterprises.

The CSR practices of the public sector enterprises have been presented in a specific manner as per the study taken on “A study of CSR practices in Indian Industry”. According to the book, a number of public sector enterprises are Indian Oil Corporation (IOCL) is a public-sector petroleum company. At IOCL, CSR has been the cornerstone of success right from inception in the year 1964. The Corporation’s objectives in this key performance area are enshrined in its mission statement: “to help enrich the quality of life of the community and preserve ecological balance and heritage through a strong environment conscience “. Besides focusing primarily on the welfare of economically and socially deprived sections of society, the IOCL also aims at developing technoeconomically viable environment-friendly products and services for the benefit of millions of its consumers, while at the same time ensuring the highest standards of safety and environment protection in its operations.

Gas Authority of India Ltd (GAIL) believes that corporate responsibility goes beyond the financial to non-financial areas such as community development and nation building. Conducting business responsibly is central to GAIL's philosophy, where CSR is defined as 'Continuing commitment for operating our core businesses in a socially responsible way, complemented by investment in communities, so as to produce an overall positive impact on society'. As a national company, GAIL has given CSR due importance with the creation of a portfolio dedicated to funding and helping various social causes and working towards strengthening the relationship between the government and the citizens. GAIL has committed

1% of the company's net profit after tax (PAT) of the previous financial year to CSR programmes which are spread across three levels-national, zonal and work centres.

Bharat Petroleum Corporation Ltd (BPCL) is one of the largest public sector oil marketing companies in India. In CSR, the company's focus is on sustainability. Steel Authority Of India Ltd (SAIL) is the largest integrated iron and steel producer in India. It has a long history of corporate philanthropy and CSR at various locations and has won many awards. The National Hydroelectric Power Corporation (NHPC) Ltd is a Govt of India enterprise. The CSR-cum-community development (CSR-CD) is carried out under the domain of the corporate HR-Industrial Engineering Group. In India these Public Sector Enterprises have been involved in philanthropic activities but streamlining these activities will go a long way for social development.

The fact is that a company's social involvement can never add to corporate costs unless corporate benefit is also involved. The involvement of the Public Sector Entities in Socially responsible activities cannot be peripheral to the main interests of the company. It has to be an integral part of its strategy. A powerful and sustainable community development programme is always significant for the success of an enterprise. It gives the community a perspective and an opportunity to observe the organisation in a broader and much wider perspective. Multiple stakeholders would also see company more than a just an employer and a sense of belongingness can be developed which ultimately will bring accolades to the company itself. Therefore a company should involve itself in those areas where there is a major societal concern.

But CSR initiatives shall become meaningful only if all the Enterprises engage themselves in gainful CSR initiatives. India falling behind in terms of various human development indicators is well known and thus requires not much reiteration here. What Public Enterprises should, therefore focus on how to extricate themselves from this deep quagmire. The companies should understand that mere chequebook philanthropy does not end their responsibility; rather it should be a simultaneous and continuous process. Implementation is the key to any programme; hence while designing CSR policies within an organisation, they should be properly planned and implemented to guarantee benefit sharing to all the concerned or targeted stakeholders. It is pathetic that many primary needs of the community as a stakeholder are not being met. The enterprises should understand that development should never aim at excluding many from the growth process but it should encompass all stakeholders.

## **1.7 CSR PRIVATE SECTOR ENTITIES**

### **PRIVATE SECTOR: Meaning**

Private enterprise (foreign and domestic) is seen as the most important single developmental factor; if left to itself, private enterprise would bring rapid economic development, would increase social welfare, and would lay the groundwork for a sound and stable political democracy.

*Raymond Vernon, Professor, Harvard Business School.*

Privates sector includes various types of enterprises whether individual or corporate, both domestic and foreign engaged in different fields of productive activity. Private sector enterprises are owned and managed by private sector. The private sectorentities are majorly identified according to similar features such asthe type of ownership and management models, motive of profit etc. Various countries in the world chosethe laissez faire policy in 18<sup>th</sup> and 19<sup>th</sup> century characterized by non-interference of government in the economic activity of the state.<sup>3</sup>These enterprises not only by profit motive driven but also by expansion, integration aspect of social responsibilities and which awakens social consciousness. In a country like ours which is still developing, post liberalisation during

1991 period, if we have a look at the activities taken up by the industries it has certainly received impetus largely by participation of various private companies (foreign and domestic). More and more areas are now being made open for the participation of private sector enterprises with the growing economic liberalisation of the Indian economy.

Looking to the growth of private sector at the dawn of independence, it can be said that the entire productive activities and trade were owned and managed by private sector. Later on inspite of enormous diversification of public sector, we notice that the private sector has persisted in playing a dominant role in various spheres also contributing to nearly 80% of the GDP and about 90% of the total employment. Looking to the above information it can be said that the private sector itself provides a data on private sector. Thus, it is quite important to study the growth of private corporate sector and their contribution to social development through corporate social responsibility in comparison to that of public sector.

Looking into the data of the growth of both the public and private sector entities in India, the statistics reveal that the rate of growth of public sector companies was much speedier as compared to that of private sector companies.

The data mentioned in an article by Sethy V. in her article on private sector provides extensive data. i.e During the span from 1957 to 2000, total number of government owned companies had mushroomed from 74 to 1,279, approximately 16.9 times. The number of companies which are not owned by government have increased from 29,283 to 5,41,051 during the same period and so it has increased by only 7.5 times. Looking into the datas of the paid up capital of government companies jumped up from only Rs. 73 crore in 1957 to Rs. 95,842 crore in 2000. Once again paid-up capital of the private sector companies increased from Rs. 1,005 crore in 1957 to Rs. 1,72,056 crore in 2000. The share of Government companies in total paid-up capital of all the companies have risen considerably from 6.8 per cent in 1957 to 72.6 per cent in 2000. while the share of non-government companies in total paid up capital of all companies declined from 93.2 per cent in 1957 to 64.2 per cent in 2000.

In the post-1991 period, the investment scenario mostly in the private sector has been buoyant and upward moving since the introduction of economic reforms. The number of Industrial Entrepreneurs Memorandum (IEMs) and Letters of Intent (LOIs) filed from 1991 to October 2000 totaled 44,446 with overall investment intention of Rs. 9,57,824 crore and estimated employment potential of 7.73 million.

Again, the state-wise distribution of private sector companies shows that as on 31st March, 1986, Maharashtra recorded the largest concentration of private sector companies, i.e., 29,633 companies with a paid up capital of Rs. 1,515 crore, followed by West Bengal (20,397 companies with paid up capital of Rs. 1,170 crore), Delhi, Tamil Nadu, Gujarat, Karnataka and Andhra Pradesh.

The Reserve Bank of India Bulletin, January-February 1995-96 reveals that there has been marked improvement in the financial performance of the private corporate sector during the first half of 1995-96 registering a 30.3 per cent growth over the corresponding period of the previous year. Sales of 1,350 companies in the first half of 1995-96 amounted to Rs. 1,02,510 crore compared to Rs. 78,678 crore in the corresponding period of the previous year.

The other income of the private corporate sector went up by 15.6 per cent during this period. Total expenditure also increased at a slightly lower rate of 28.8 per cent than total income (29.9 per cent) amounting to Rs. 84,380 crore in the first Six months of 1995-96 compared to Rs. 65,507 crore in the corresponding period.

The higher growth rate in income than that of expenditure resulted in a high level of gross profits of Rs. 17,470 crore showing a rise of 34.8 per cent as compared to that of Rs. 12,957 crore in the corresponding period of the preceding year. The pre-tax profits of this private corporate sector have recorded a growth of 39.6 per cent but the post-tax profits recorded a growth of 39.7 per cent during the same period.

### ***Private Sector Industries in India: Overview of the Data***

In India, there are a good number of large scale private sector enterprises, investing a huge amount of capital in different productive areas. Total capital employed in 150 top private sector large scale companies was aggregated to Rs. 73,799 crore in 1991-92 as compared to that of Rs. 57,825 crore in 1990-91 showing an increase of 27.6 per cent in investment in a single year.

Again, the gross sales of this companies was amounted to Rs. 76,188 crore in 1991-92 as compared to that of Rs. 63,279 crore in 1990-91, showing an increase of 20.4 per cent. This shows a huge growth of private sector large scale enterprises in India and a massive concentration of assets and economic power in the hands of giant private sector companies of the country.

In 1991-92, the biggest company in the private sector was Reliance Industries with its assets of Rs. 4,880 crore. Tata Iron and Steel was the second biggest company with its assets of Rs. 4,776 crore and it is followed by Tata Engineering, Larsen Toubro, Grasim Industries and GSFC.

The massive expansion of private sector giant companies in recent years would be quite clear from the fact that the total assets position of top five private sector companies in 1981-82 (Tata Iron and Steel, Tata Engineering, Calcutta Electric Supply; Reliance Textiles and Associated Cements) was only Rs. 2,032 crore. But in 1991-92, the total assets of top five companies (Reliance Industries, Tata Iron and Steel, Tata Engineering, Larsen and Toubro and Grasim Industries) had increased significantly to Rs. 16,134 crore showing a growth rate of 694 per cent.

Survey on huge concentration of assets in the hands of few companies was again made by the Centre for Monitoring Indian Economy (CMIE). As per this study, out of the total 1,664 large private companies analysed (as of 1989), only 184 such companies i.e., about 11 per cent of such companies had net assets worth Rs. 52,011 crore out of the total assets worth Rs. 85,320 crore held by 1,664 companies, which accounted nearly 61 per cent of the total assets of all the 1,664 companies.

In spite of providing necessary support structure to the private sector, the regulatory and control structure of the government has maligned its purpose. Too much control and restrictions imposed on the private sector have restricted its operations and even its expansion activities.

Even the Industries (Development and Regulation) Act, 1951 and the Industrial Licensing Policy, 1970 etc. became a restrictive instrument. Besides legislative measures, some other restrictions like price controls, monetary and fiscal controls were appended with the control mechanism to control the private sector. All these have frustrated the industrial incentives leading to a slower growth of the industrial sector.

### **1.8 LEGAL FRAMEWORK OF CSR IN INDIA<sup>16</sup>**

India is the only country in the world that seeks to make sure companies do good things, by mandating that 2% of their profit be spent on corporate social responsibility or CSR.

The Companies Act, 2013, enacted on 29 August 2013 on accord of Hon'ble President's assent, has the potential to be a historic milestone, as it aims to improve corporate governance, simplify regulations, enhance the interests of minority investors and for the first time legislates the role of whistle-blowers. The new law has replaced the nearly 60-year-old Companies Act, 1956 ('1956 Act').

The Ministry of Corporate Affairs (MCA), Government of India specifies the following act as under:

- (1) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.
- (2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.

(3) The Corporate Social Responsibility Committee shall,—

(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;

(b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and

(c) monitor the Corporate Social Responsibility Policy of the company from time to time.

(4) The Board of every company referred to in sub-section (1) shall,—

(a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

(b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

(5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:

Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities:

Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

Explanation.— For the purposes of this section “average net profit” shall be calculated in accordance with the provisions of section 198.



### **1.8.1 INDIAN COMPANIES ACT, 2013, SCHEDULE VII (SEC 135)**

#### **Activities which may be included by companies in their Corporate Social Responsibility Policies.**

Activities relating to:-

- i. Eradicating extreme hunger and poverty;
- ii. Promotion of Education;
- iii. Promoting gender equality and empowering women;
- iv. Reducing child mortality and improving maternal health;
- v. Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases.
- vi. Ensuring environmental sustainability
- vii. Employment enhancing vocational skills;
- viii. Social business projects;
- ix. Contribution to Prime Minister's National Relief Fund or any other fund set up by the central government or the state governments for socio economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women and
- x. Such other matters as may be prescribed.
- xi. Clause (X) is giving wider scope for any activity that could be brought under CSR. So it makes easy for the companies to define any particular act as CSR.

Amended Act on Corporate Social Responsibility (2013) specifies that the company shall give utmost preference to the local area and Periphery where it operates

If the Company fails to spend such amount, the Board shall, in its report specify the reasons for not spending the amount “Average net profit” shall be calculated in accordance with the provisions of section 198 of the 2013 Act.

Here’s a closer look at some of the key developments that companies need to make note of.

### **Net Profits- As per Section 198**

The calculation of net profits that determine the amount to be spent by companies under the ambit is to be done as per the requirements of Section 198 of the Act, as opposed to the concept of Profit-Before-Tax that was brought about in the interim draft rules.

### **Build Capacity- Take no more than 5%**

The rules have created allowance for companies to make efforts to build capacities to handle CSR-related activities not only within their own organisations but also in their implementing agencies if desired. However, companies would need to ensure that the expenditure towards such activities does not exceed five percent of their total spend in that financial year.

### **Foreign Companies and Operations – How much to spend**

Clarity has been provided for Indian subsidiaries of foreign companies on the composition of the CSR Committee and calculation of their net profits. The rules also provide insights into the determination of net profits for Indian companies with foreign operations. However, further clarity for IT-BPM companies with export income is expected to emerge over the course of time.

### **Expansion of Schedule VII of Companies Act – Widening the scope of impact**

Schedule VII of the Companies Act enlists the key areas that the CSR interventions of companies need to align with. The final rules bring into its fold a plethora of new areas of intervention while also adding in a number of new and specific beneficiary groups. Prominent additions have been made in the areas of focus, echoing recommendations that arose in the active public commentary following the draft rules. Some of them include preventive health care, sanitation, making available safe drinking water, maintenance of ecological balance, maintaining quality of soil, animal welfare, air and water; protection of art, heritage and culture, conservation of natural resources, promotion of sports and provision of funds to technology incubators in academic institutions.

Some of the previously featured areas have been enhanced by addition of specific beneficiaries and activities. Livelihood enhancement and vocational skill-building projects for women, children, elderly and differently-abled have been added to the area of promotion of education; while setting up of old age homes, hostels, day care centers and such other facilities for women, orphans and senior citizens add to the efforts made towards gender equality and women empowerment. Notable omissions in the list include social business projects and the highly debated and open-ended aspect of “such other matters” that featured in the earlier drafts of Schedule VII.

Evidently, the Ministry has endeavored to give a clearer direction to companies on designing their CSR agenda. However, companies haven’t been prevented from opting for initiatives that may not be specifically mentioned in the list so long as the relation of their impact centers with that of the subjects in Schedule VII can be established. While such allowances and flexibilities in the legislation can usher a great deal of innovation, companies would also need to make sure that they establish the right ground rules and systems so that they are safely compliant. Indian Companies Act, 2013, SCHEDULE VII (Sec 135) Ministry of corporate affairs, government of India.

## **1.9 CORPORATE SOCIAL RESPONSIBILITY PRACTICES:**

*“The wealth gathered by Jamshetji Tata and his sons in half a century of industrial pioneering formed but a minute fraction of the amount by which they enriched the nation. The whole of that wealth is held in trust for the people and used exclusively for their benefit.*

*The cycle is thus complete; what came from the people has gone back to the people many times over.”*

-----J R.D Tata.

Little wonder the doyen of Indian Industry Late J.R.D Tata believed, “the most significant contribution industry can make is to identify itself with the life and problems of the community it lives in.

Organisations have allocated budget for CSR activities and for instance, consider the case of IOC which has a specific allocation of its CSR budget (table1) which is approximately to the tune of Rs. 10 crore. It is interesting to note that 30% budget is allocated to community development. The issues addressed in community development vary from location to location.

**Table 4: CSR Budget Allocation of Indian Oil Corporation (IOC)**

National Calamities	35%
Donations	5%
Community Development	30%
Indian Oil Scholarships	20%
Other Activities	10%

Source: [www.csrworld.net](http://www.csrworld.net)

Kotler and Lee<sup>11</sup> (2005) have summarised six different options of doing ‘good’ by businesses (Table). These reflect the overall CSR activities followed by companies globally. Community development can happen through cause promotions, corporate social marketing,

### **1.9.1 SOME EXISTING CSR PRACTICES ACROSS COUNTRIES**

In emerging economics, companies are expected to assist their local communities. Interest in CSR in countries such as India, Pakistan and China has dramatically risen over the past four years. In countries like Malaysia and India the social obligation of firms towards employees or wider society have long been recognised (Frynas, 2006).

**Table 5: Corporate Social Initiatives**

	<i>Cause Promotions</i>	<i>Cause-Related Marketing</i>	<i>Corporate Social Marketing</i>	<i>Corporate Philanthropy</i>	<i>Community Volunteering</i>	<i>Social Responsible Business Practices</i>
<i>Description</i>	Provide funds, other resources to support a social cause.	Commit to making a contribution or donating a percentage of revenue to a specific cause based on product sales.	Support the development or implementation of a behaviour change campaign intended to improve public health, safety, environment or community well-being.	Make direct contribution to a charity or cause in the form of cash grants, donations and/or in kind services.	Support and encourage employees, retail partners and/or franchise members to volunteer time to support local community, charities, cooperatives and causes.	Adopt and conduct discretionary business practices and investments that support social causes to improve community well-being and protect the environment.

**Source: kotler and Lee, 2005.**

## **1.10 CORPORATE SOCIAL DISCLOSURE PRACTICES (MEASURING AND REPORTING CORPORATE SOCIAL PERFORMANCE)**

This section will focus on corporate social disclosure practices. The way information conveyed to internal and external stakeholders.

The disclosing of various information related to the affairs of the business and performance to the external users is termed variously as ‘corporate reporting’, ‘corporate disclosures’, ‘public reporting’ or ‘external reporting’. The present scenario and ever growing number of industries has necessitated the process of disclosure of information social, economic and operational. There is a strong need for corporate social disclosure. The company must choose the best mechanism for communication its plans and activities highlighting successes, and gaining feedback for the future.

Corporate social disclosure practices is defined as “The Measurement and reporting, internal or external, of information concerning the impact of an activities of an organisation”.

### **SIGNIFICANCE OF CORPORATE SOCIAL DISCLOSURE:**

Business organisations disclose a wide variety of information which are mandatorily required as per legislations. However it is observed that most of the business organisations disclose information which is mandatory and not the information which is desired by the stakeholders. The information falls short of what is required by the internal and external stakeholders. Many a times the companies are hesitant in disclosing various information to the stakeholders.

The stakeholders need a fair amount of informations they have a stake in the company. Accounting aims to provide financial information about a business enterprise to various interested group for decision making. It is the process of identifying, measuring and communicating economic information to permit informed judgement and decisions by the users of information.<sup>12</sup>

It is a service activity and its function is to provide quantitative information primarily financial in nature, about economic entities, that is intended to be useful in making economic decisions.<sup>13</sup>

### **Social Accounting:**<sup>14</sup>

The business entities that were once looked upon as the exclusive concern of their owners, are coming to be viewed as an instrument of society. Managers are realising that maximization of return to stockholders is not enough or sufficient goal, society as a stakeholder is expecting more and making its demands stick through various legislations, litigations and public pressure.

Corporations are being told: “your job is to serve society through reliable and safe products of high quality. And we expect you to be a good citizen while you’re about it- no pollution, no discrimination, no hazardous working conditions. Furthermore, some of your vast economic power should be devoted to social programs. If you can make a good profit too, okay, but these demands come first.” The role of corporations in society is changing dramatically.

The entities are under utmost pressure now. They find it difficult and cumbersome to accept society’s growing demands. Nevertheless, they try to respond in a responsible way. And in doing so they do encounter various problems. An executive who is not involved in any social activities of his corporation needs a social disclosure report without which it is very difficult for him to ascertain what his company is doing in terms of social programmes and social responsibility. And so do society and other stakeholders wish to get hold of some report mentioning the social programmes of the company which would give them a fair idea about the corporate entity’s social status. The stakeholders have access to entity’s annual reports, press releases as well as personal observation and inquiry. But this isn’t sufficient. The annual reports especially those made at the end of the year for the public mostly include financial information with least regard to a company’s social information. Even if mentioned, these lack details. The impact of social programmes, the individual contribution to each and every activity carried out is missing from the consolidated reports presented to the stakeholders.



### **1.10.1 THE NEED FOR SOCIAL DISCLOSURE PRACTICES:**

The need and demand for corporate social disclosure practices has been growing. Various stakeholders i.e public, investors, customers, public bodies, government bodies, public interest groups, professional organisations are imposing standards on corporation and seeking information to judge the performance.

#### **SOCIAL REPORTING: (Ralph estes)**

The corporate world is responsible not only to their shareholders but also to their stakeholders who can affect and can get affected by the activities of the company. It is very well known that corporate entities have both social and economic impacts. Measurement and Reporting of social impacts of a business enterprise also known as social accounting, corporate social reporting or social responsibility accounting.

The concept of 'social reporting' has gained significance as a result of high level industrialization that has necessitated corporate sector to invest substantial amount in social activities with the sole aim of nullifying the adverse effects of industrialization. The National Association Accountants (NAA) committee defined social accounting as the identification, measurement, monitoring and reporting of social and economic effects of institution on society.<sup>14</sup>

### **1.10.2 CORPORATE SOCIAL DISCLOSURE PRACTICES AND REPORTING.**

As far as corporate social disclosure practices are concerned, communication of CSR has been labeled either as CSR communication or CSR reporting and has been identified as an integral part of the 'CSR life-cycle' which organizations adopt. Most firms implementing and accepting social responsibility ensure that once the processes and guidelines to plan and execute CSR activities are established the companies formalize the CSR communication process to be engaged in a communication cycle with a wide variety of stakeholders. In fact certain firms designate an employee with the primary responsibility of engaging a communication process with the stakeholders regarding non-financial issues of which CSR is primary.

Gray, Owen, & Maunders, (1987) define CSR as “the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large”. Similarly, Perks (1993) defined corporate social reporting as the disclosure of those costs and benefits that may or may not be quantifiable in money terms arising from economic activities and substantially borne by the community at large or other stakeholders. The US National Association of Accountants’ set up a committee on accounting for Corporate Social Performance in 1972, the Committee, which set an early foundation on CSR.

A comprehensive guidance for entities pertaining to corporate social responsibility is available in the form of various globally recognized guidelines, measurement tools, frameworks etc. some of them have been discussed below.

A set of standardized framework and structures are available for firms to convey CSR related information to their stakeholders in a transparent manner. The parameters of the frameworks ensure that CSR communication reflects the CSR performance in a manner that it can be measured as well as accounted and its impact of business and stakeholders brought out in a quantifiable manner. Some of the more commonly used frameworks available in the area of CSR reporting are as follows:

- **GRI (Global Reporting Initiative), with G3 being its latest guidelines (Annexure 1 – GRI and Reporting Framework)**

The GRI was formed by the United States-based non-profits “Coalition for Environmentally Responsible Economies” and Tellus Institute, with the support of the United Nations Environment Programme in 1997. Global Reporting Initiative happens to be a international standards organisation which helps in understanding and communicating the impacts on issues such as human rights, corruption and climate change. According to data sources in the the year 2015, as many as 7500 organisations used this guideline for their sustainability reports. These guidelines apply to Multinational organisations, small and medium enterprises, industry groups, NGOs and public agencies as well. GRI and UNGC have recently collaborated so as to enable

companies to synchronise reporting on G3 and UNGC principles in a single report. Both GRI and UNGC are seeing an increase in their membership numbers across countries.

Corporates around the world use GRI for disclosing their sustainability performance. GRI uses ESG metrics i.e. it aims to standardize and quantify the environmental, social and governance costs and benefits derived from the activities of the reporting companies accordingly.

- **UN Global Compact**

This is a initiative of United Nations to motivate businesses present worldwide to adopt socially responsive and sustainable policies and report on their implementation. With 13000 corporate participants and other stakeholders having their presence in 170 countries it is the world's largest corporate sustainability initiative. It works with a policy of encouraging corporates to mainstream 10 principles in their business activities and actuate actions which are in support of broader UN Goals such as MDGs and SDGs. The ten principles are spread over the broad categories such as Human Rights, Environment, Anticorruption and other labour standards. The UN Global Compact is not a regulatory instrument, but rather a forum for discussion and a network for communication including governments, companies and labour organisations, whose actions it seeks to influence, and civil society organizations, representing its stakeholders. Its goals are intentionally flexible and vague, but it differentiates the following channels through which it provides facilitation and encourages dialogue which include policy dialogues, learning, local networks and projects.

- **ISO 14000**

ISO 14000 is a Environmental Management system (EMS). It chalks out a effective framework which an organisation can take up to set up an effective Environmental management system. It can be used by any organization that wants to improve resource efficiency, reduce waste, and drive down costs. Using ISO 14001 can provide assurance to company management and employees as well as

external stakeholders that environmental impact is being measured and improved. The ISO 14000 family includes most notably the ISO 14001 standard, which represents the core set of standards used by organizations for designing and implementing an effective Environmental Management System (EMS). ISO 14000 is based on a voluntary approach to environmental regulation (Szymanski & Tiwari 2004). It helps companies in continually assessing their environmental performance. It gives assurance to the company and also to the stakeholders that a organisation is improving their environmental performance. The basic methodology of this standard is based upon Plan-Do-check-Act cycle. By “plan” it means establishing objectives and processes required. By “Do” it means implementing the process. By “Check” it means measure and monitor the processes and report the results. By “Act” it means take action to improve performance of EMS based results. This standard encourages a company to continually improve its environmental performance.

## **ISO 26000**

International Organization for Standardization launched ISO 26000 which provides guidelines on social sustainability. Its ultimate goal is to contribute to global sustainable development. It encourages corporates and other organisations to improve their impacts on their natural enviroments, communities and their workers. It is a voluntary guideline standard which can be used by all organisations and not specifically the businesses. The seven key principles embedded in ISO 26000 are Transparency, Ethical behaviour, accountability, considering interests of stakeholders, respect for human rights, complying the laws, and international norms of behaviour.

- **AA1000**

AA1000 are a set of principles based standards to assist organisation in becoming more accountable. They address issues affecting business models, governance and organisational strategy. Also provides guidance on stakeholder engagement and sustainability assurance.

- **SA8000**

SA8000 is a management systems standard, modeled on ISO standards. The management systems criteria require that facilities seeking to gain and maintain certification must go beyond simple compliance to the standard, but also integrate it into their management systems and practices and demonstrate ongoing conformance with the standard. SA8000 is based on the principles of international human rights norms as described in International Labour Organisation conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. **SA8000** is an auditable certification standard that encourages organizations to develop, maintain, and apply socially acceptable practices in the workplace. It was developed in 1997 by Social Accountability International, formerly the Council on Economic Priorities, by an advisory board consisting of trade unions, NGOs, civil society organizations and companies.

The basic logic in reinforcing communication of CSR is that it can build reputation about the organisation. An organisation is always expected to maintain transparency and disclosure pertinent information to its stakeholders which goes a long way in creating a supportive business friendly environment.

In a global world where corporates are focussing on brand strengths, CSR is a good business sense. The way corporate entities integrate CSR into everyday functioning defines the business marketplace in future. It will surely become a significant aspect which would create brand differentiation and will help in establishing social identity of an organisation.

### **1.11 CONCLUSION:**

The activities taken up as a part of CSR help companies succeed in a way that creates value to them and also contributes in building their brand image. The companies are contributing to the social activities but are expected to go beyond the compulsory spending and should aim at creating a sustainable society.

The reflection on the comparative view on CSR amongst public and private sector entities will initiate a discussion among the academics, researchers and public policy makers to think collectively on varied aspects of Corporate social responsibility. There are successful models of implementation by various companies which have created a sustainable impact at the community level while improving the lives of the grassroots. But it still needs to be practiced by other corporate entities more rigorously by replicating the successful models. The ultimate goal is to maximise the returns towards the community and thereby contribute towards sustainable development.

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