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A STUDY OF CORPORATE SOCIAL RESPONSIBILITY - PRACTICES IN INDIA

Mr. Ashish Kumar Sarkar
Research Scholar Bundelkhand University
Supervisor Name- Dr. Mullikottuveetil Mukundan

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ABSTRACT

In the recent times the term Corporate Social Responsibility is became as a buzzword in the academic and corporate arena. Corporate organizations are the part and parcel of the society, and are responsible to contribute something for the well-being of the society. In recent years Corporations around the world are struggling with a new role of discharging its responsibility towards society, environment, market place and workplace. Corporate Social Responsibility refers to the set of policies, practices and programs integrated into business operations, supply chains and decision-making processes throughout the organizations business. CSR is a set of programs initiated by the corporations that fairly balances the claims of all key stakeholders by complying with the legal, ethical, commercial and other expectations of the society from a business endeavor. Organizations are being called upon to take responsibility for the ways their operations impact societies and the natural environment. The present paper provides a brief account of corporate social responsibility (CSR) evolution, National voluntary guidelines, Companies Act 2013 and the practice and programs initiated by the Infosys Company in the present day globalized industrial environment.

KEYWORDS: *Corporate Social Responsibility, Companies Act 2013, CSR Committee, CSR Reporting, firm incentives, social welfare, efficiency, regulation, enforcement.*

INTRODUCTION

The concept of Corporate Social Responsibility (CSR) has been part of the academic and business vocabulary for decades. According to Meehan et al. (2006), CSR together with the concepts of Corporate Social Performance and Corporate Citizen are three perspectives under the main headline Corporate Responsibility (CR). Briefly, CSR may be interpreted as voluntary and philanthropic acts by business firms designed to alleviate social problems or benefit a disadvantaged group chosen by the firms' managers. Corporate Social Performance is about the configuration of the firm's principles for social responsibility, processes of social reaction and policies, programs and observable results related to the firm's social relations. Corporate Citizen can be perceived as a process that focuses on protecting individuals economically and social and political rights in an era when globalization is eroding national guidance of these rights. In line with these developments, the concept of code of conduct has also emerged that is a set of rules to guide behavior and decisions of companies, suppliers and other business partners. In this paper, the focus is on the concept of CSR. The 21st century is

characterized by unprecedented challenges and opportunities, arising from globalization, the desire for inclusive development and the imperatives of climate change. Indian business, which is today viewed globally as a responsible component of the ascendancy of India, is poised now to take on a leadership role in the challenges of our times. It is recognized the world over that integrating social, environmental and ethical responsibilities into the governance of businesses ensures their long term success, competitiveness and sustainability. This approach also reaffirms the view that businesses are an integral part of society, and have a critical and active role to play in the sustenance and improvement of healthy ecosystems, in fostering social inclusiveness and equity, and in upholding the essentials of ethical practices and good governance. This also makes business sense as companies with effective CSR, have image of socially responsible companies, achieve sustainable growth in their operations in the long run and their products and services are preferred by the customers. CSR is concerned with, treating the stakeholders of the firm ethically or in a responsible manner. „Ethically or responsibly“ means treating the stakeholders in a manner deemed to acceptable in a civilized society.

Stakeholders exist both within a firm and outside. The natural environment is a stakeholder. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation.

The PwC 2013 survey on CSR reveals that, 76% of companies believe that CSR will become very important in five years" time. Over half of the respondents attach importance to environmental and social issues. In particular, companies illustrate concern over water and energy consumption, health and safety, pollution and waste management. 84% of companies feel strongly about their responsibility, towards their people, to create an ethical and safe working environment. This goes beyond ensuring compliance with occupational health and safety standards and deals with ethical behaviour in their HR practices and service delivery.

REVIEW OF LITERATURE:CSR is known from ancient time as social duty or charity, which through different ages is changing its nature in broader aspect, now generally known as CSR. From the origin of business, which leads towards excess wealth, social and environmental issues have

deep roots in the history of business. India had a long tradition of corporate philanthropy and industrial welfare has been put to practice since late 1800s. Historically, the philanthropy of business people in India has resembled western philanthropy in being rooted in religious belief. Business practices in the 1900s that could be termed socially responsible took different forms: philanthropic donations to charity, service to the community, enhancing employee welfare and promoting religious conduct. Corporations may give funds to charitable or educational institutions and may argue for them as great humanitarian deeds, when in fact they are simply trying to buy community good will. The ideology of CSR in the 1950s was primarily based on an assumption of the obligation of business to society. In initial years there was little documentation of social responsibility initiatives in India. Since then there is a growing realization towards contribution to social activities globally with a desire to improve the immediate environment. It has also been found that to a growing degree of companies that pay genuine attention to the principles of socially responsible behavior are also favored by the public and preferred for their goods and services. This has given rise to the concept of CSR. After

Independence, JRD Tata who always laid a great deal of emphasis to go beyond conducting themselves as honest citizens pointed out that there were many ways in which industrial and business enterprises can contribute to public welfare beyond the scope of their normal activities. He advised that apart from the obvious one of donating funds to good causes which has been their normal practice for years; they could have used their own financial, managerial and human resources to provide task forces for undertaking direct relief and reconstruction measures of the society. Slowly, it began to be accepted, at least in theory that business had to share a part of the social overhead costs. Traditionally, it has discharged its responsibility to society through benefactions for education, medical facilities, and scientific research among other objects. The important change at that time was that industry accepted social responsibility as a part of the management of the enterprise itself. The community development and social welfare program of the premier Tata Company, Tata Iron and Steel Company was started the concepts of "Social Responsibility."

Evolution of CSR in India:As some observers have pointed out, the practice of

CSR in India still remains within the philanthropic space, but has moved from institutional building (educational, research and cultural) to community development through various projects. Also, with global influences and with communities becoming more active and demanding, there appears to be a discernible trend, that while CSR remains largely restricted to community development, it is getting more strategic in nature (that is, getting linked with business) than philanthropic, and a large number of companies are reporting the activities they are undertaking in this space in their official websites, annual reports, sustainability reports and even publishing CSR reports. The last decade of the twentieth century witnessed a swing away from charity and traditional philanthropy towards more direct engagement of business in mainstream development and concern for disadvantaged groups in the society. This has been driven both internally by corporate will and externally by increased governmental and public expectations. This was evident from a sample survey conducted in 1984 reporting that of the amount of companies spent on social development, the largest sum 47 percent was spent through company programs, 39 percent was given to outside organizations as aid and 14 percent

was spent through company trusts. In India as in the rest of the world there is a growing realization that business cannot succeed in a society, which fails to contribute for the wellbeing of the society. An ideal CSR has both ethical and philosophical dimensions, particularly in India where there exists a wide gap between sections of people in terms of income and standards as well as socioeconomic status.

Current Scenario in CSR: In the year 2003, Corporate Responsibility for Environmental Protection (CREP) was introduced by the Indian government as a guideline for 17 polluting industrial sectors. There was however no real pressure for implementation or internalization. Besides individual efforts by all the countries, internationally also some CSR standards and guidelines have been defined. These international CSR standards and guidelines include the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, OECD Guidelines for Multinational Enterprises, UN Global Compact and The Universal Declaration of Human Rights. In India, the Companies Act 1956 does not contain any provision regarding corporate social responsibility. The scene of CSR in India

changed with the introduction of Companies Act 2013. The industrial lobbies are abuzz with the CSR clause introduced by the Companies Act 2013. According to the Indian Institute of Corporate Affairs, of the 1.3 million companies in India, about 6,000-7,000 companies are covered under the new CSR rule. Scholars, industry insiders, politicians and the civil society are debating the earmarking of 2% of the net profits of a qualifying company for CSR initiatives and earmarking the avenues for CSR.

Activities Qualifying as CSR Initiatives:

The Draft Rules for CSR list the following areas towards which a company can direct its CSR funds:

- 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 the 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,

x. Such other matters as may be prescribed.

Also, CSR initiatives shall exclude the projects or programmes undertaken in pursuance of normal course of business. Apart from this CSR funds shall not be used for the benefit of the employees or the family members of the employees.

CSR Committees: As per the rule of companies" act 2013 the companies shall constitute CSR Committee. An unlisted public company or a private company covered under sub-section (I) of section 135 which is not required to appoint an independent director pursuant to sub-section (4) of section 149 of the Act, shall have its CSR Committee without such director: a private company having only two directors on its Board shall constitute itsCSR

Committee with two such directors: with respect to a foreign company covered under these rules, the CSR Committee shall comprise of at least two persons of which one person shall be as specified under clause (d) of sub-section (1) of section 380 of the Act and another person shall be nominated by the foreign company. The CSR Committee shall institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.

The company appointed a committee with 3 independent directors and one executive director as per the rule of companies Act 2013. The purpose of is to formulate and monitor the CSR policy of the company. The CSR committee has adopted a policy that intended to strive for economic development that positively impacts the society at large with a minimal resources footprint and be responsible for the corporation's actions and encourage a positive impact through its activities on the environment, communities and stakeholders. The committee will be overseeing the activities/ functions of Infosys Foundation in identifying the area of CSR activities, Programs and execution of initiatives as per predefined guidelines. The committee also

helps in reporting the activities which are initiated on a period.

Governance: The Company through a registered trust or a registered society can undertake CSR activities as per the provisions of the Companies Act, 2013. Accordingly, Infosys Foundation or such other entity will work closely with and support the Board and the CSR Committee in implementing CSR activities of the Company. Infosys Foundation or such other entity will assist the CSR Committee in identifying the areas of CSR activities, programs and execution of initiatives as per defined guidelines. Infosys Foundation or such other entity will also assist the Board and the CSR Committee in reporting the progress of deployed initiatives and in making appropriate disclosures (internal/external) on a periodic basis.

Corporate Social Responsibility in Infosys Limited Infosys Limited: was started in 1981 by seven people with US\$ 250. Today, the company is a global leader in consulting, technology and outsourcing with revenues of US\$ 7.231 billion (LTM Q3 FY13). Many of the world's most successful organizations rely on Infosys to deliver measurable business value. Infosys provides business consulting, technology, engineering

and outsourcing services to help clients in over 30 countries build tomorrow's enterprise. The company award-winning Infosys Labs and its breakthrough intellectual property can be leveraged as a co-creation engine to accelerate innovation across the enterprise. Infosys pioneered the Global Delivery Model (GDM), based on the principle of taking work to the location where the best talent is available, where it makes the best economic sense, with the least amount of acceptable risk. Continued leadership around GDM enables Infosys to drive extraordinary efficiencies and free up clients' resources for strategic transformation or innovation initiatives. Infosys has a global footprint with 67 offices and 69 development centers in US, India, China, Australia, Japan, Middle East, UK, Germany, France, Switzerland, Netherlands, Poland, Canada and many other countries. Infosys and its subsidiaries have 155,629 employees as by Dec 31, 2012. Infosys takes pride in building strategic long-term client relationships. 97.5% of its revenues come from existing customers (Q3 FY 13). Infosys gives back to the community through the Infosys Foundation that funds learning and education.

Disclosure of CSR Activities Made Compulsory: Prior to 2012-13, many firms were voluntarily making donations and spending on community development and mitigation of environmental pollution. It is only since 2012-13 that firms have started allocating funds for CSR activities specifically. This was in response to the Securities and Exchange Board of India (SEBI) circular dated August 2012, which mandated all top 100 listed companies to include business responsibility report as a part of their annual report. Therefore the year 2012-13 marks a turning point, where

we can see a marked difference in the CSR initiatives adopted by the firms. We have compared the donations made and CSR expenditure incurred by firms in the last three years, using firm level data from Prowess (Centre for Monitoring Indian Economy). Even though it was not mandatory to spend on CSR initiatives in 2012-13, there was a marked increase in the average CSR expenditure by the firms in 2012-13 in response to the passage of the Act in August 2013, as compared to the previous year.

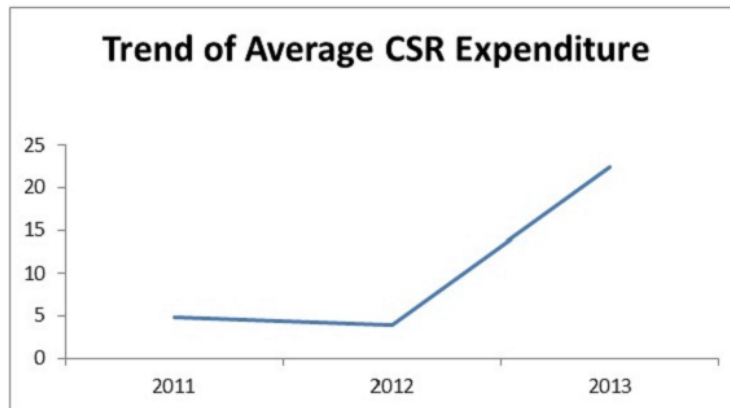


Figure 1: Average CSR Expenditure

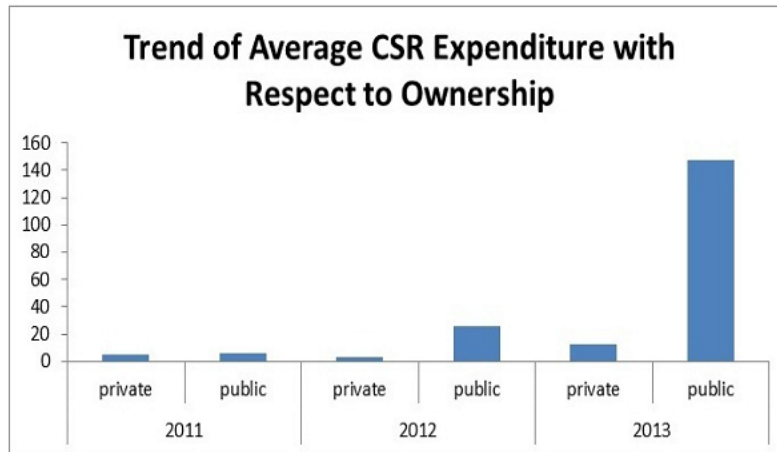


Figure 2: Trend of Average CSR Expenditure with Respect to Ownership

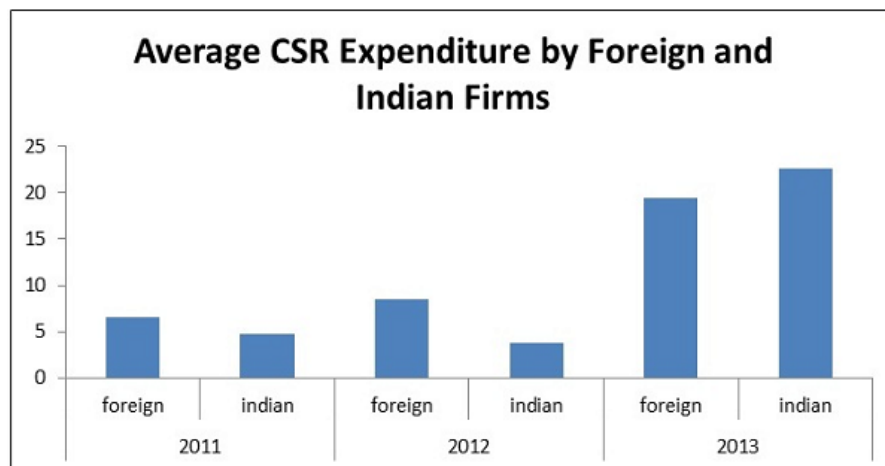


Figure 3: Trend of Average CSR Expenditure with Respect to Foreign and Domestic Ownership

There has also been a significant increase in the average CSR expenditure by domestic firms as compared to foreign firms. Average CSR expenditure by domestic and foreign firms was Rs 3.79 and 8.5 million respectively in 2011-12, but this increased to Rs 22.6 million and 19.5 million respectively in 2012-13. Foreign firms increased their expenditure, because they

might have been driven by the need to protect their brand name. Anticipated future pressure from consumers, investors and NGOs may also have been the driving force for foreign firms to invest in socially responsible activities. The passing of the Act also led to a steep rise in the number of firms disclosing their CSR expenditure. In 2010-11, 336 firms had disclosed their

donations and expenditure on community and environment related activities. This number rose to 504 in 2011-12, and to 1,470 in 2012-13. There was an increase in environmental reporting by firms as well. In 2010-11, only 35 firms had complied with environmental reporting, while 52 had filed reports in 2011-12. But in 2012-13, there was an increase of 211.5%, with 162 firms disclosing their environmental performance information.

a lot of debate about the unnecessary burden on the corporate sector due to the CSR expenditure specified in the Companies Act, 2013. Corporate groups have criticized the mandatory clause in the Act, as it will decrease the profitability of firms. We have analyzed the relationship between profit after tax and donation and community development expenditure undertaken by the firms over the last three years and find it to be positive and increasing.

Relationship between CSR Expenditure and Profitability of Firms: There has been

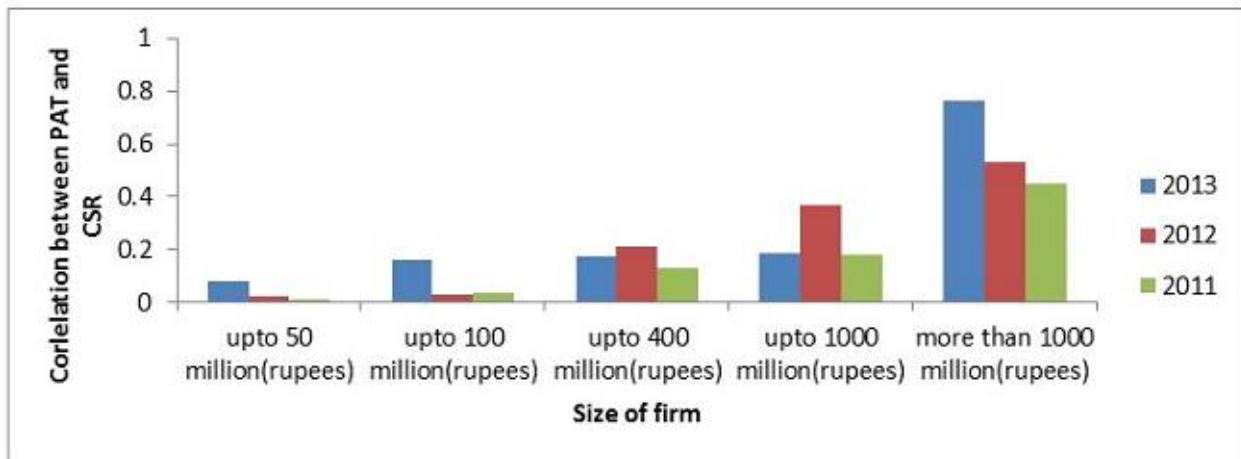


Figure 4: Correlation between Profit after Tax and Socially Responsible Expenditure by Firms

Expenditure on CSR increases firms' profitability by building their image in the eyes of consumers, suppliers and the government. Firms also strategically differentiate their products from rivals' products in the market on the basis of CSR.

CSR initiatives in local communities by environmentally polluting companies also help in avoiding protest movements and future governmental regulations. This reduces risks and uncertainties and increases the stability and returns of the firms.

Therefore, CSR expenditure leads to higher profitability for all firm sizes as illustrated in Figure 4.

CSR as we know has evolved from philanthropy to community development to strategic CSR. Smaller firms with lesser resources at their disposal are less likely to adopt strategic CSR. They usually adopt philanthropy and community development activities such as schools for kids of employees, donations to religious organizations etc. However, CSR activities closely linked to the company's business goals and falling in the purview of strategic CSR (for example—women hygiene classes by fast moving consumer goods majors) have higher payoffs and are mostly done by larger companies. Hence, positive correlation between profit and CSR expenditure is enhanced as the size of the firm increases. It is advantageous for a large company to spend on CSR, as it strategically differentiates its product, which ultimately pays off in the long run. Strategic differentiation may also spur innovation, which might improve delivery of services.

CONCLUSION:Currently, the stance of CSR in India is headed in a positive direction as there already exist a multitude of enabling organizations and regulatory

bodies such as the DPE, MCA, and IICA that have already set the wheels in motion and are playing an important role in making CSR a widespread practice and ensuring success in reducing inequalities without risking business growth. The CSR agenda in India is changing and beginning to follow global CSR trends: it is, for example, integrating CSR into core business processes, ensuring that CSR takes root in top management and assigning CSR responsibilities to corporate departments. Indian CSR is not well balanced between internal and external stakeholders. Indian companies tend to aim their CSR engagement at external stakeholders especially communities rather than internal stakeholders. However, the long tradition of CSR in India indicates and the recent changes in the Indian CSR agenda further underline that CSR in India has considerable potential for improving corporate environmental and social conduct.

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