

**A Study on the Evolution of the Concept of Corporate Social Responsibility in India-
From Charity to Legal Compliance**

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Abstract

The Concept of Corporate Social Responsibility all over the world has transformed from Philanthropy to stakeholder benefit approach. The evolution is a long journey and India is no exception. In recent years, in India, the concept of Corporate Social Responsibility started gaining momentum due to the strict implementation of legal rules by Government of India. Hence, in the present scenario Corporate Social Responsibility became more of a legal compliance. Globally the momentum started in 50s and great thinkers like Carroll (1999), Fredrick (1960), Friedman (1960), Bagchi (1985), and many others contributed for the evolution of the concept of CSR. In India it was started as a charity and Philanthropy in 1800 and currently viewed from multi-stakeholders' benefit. Recently, the Provisions of Companies Act 2013 and CSR policy of 2014 have imposed strict guidelines for the effective implementation of CSR. Owing to threats like Global Warming, environmental pollution, the efforts of the Corporate are shifted from Community Development to Sustainable Development..An attempt has been made in this paper to discuss about the Paradigm Shift in understanding the Concept of CSR by both Corporate and SMEs in India.

Key words: **Corporate Social Responsibility, Charity and Philanthropic approach, legal compliance, multi-stakeholder benefit, Section 135 of Companies Act 2013 etc.**

Introduction:

In the last twenty years, there has been a sea change in the nature of the triangular relationship between companies, the state and the society. No longer can firms continue to act as independent entities regardless of the interest of the general public. The evolution of the relationship between companies and society has been one of slow transformation from a philanthropic coexistence to one where the mutual interest of all the stakeholders is gaining paramount importance.

Companies are beginning to realize the fact that in order to gain strategic initiative and to ensure continued existence, business practices may have to be moulded from the normal practice of solely focusing on profits to factor in public goodwill and responsible business etiquettes. After the amendment of Companies Act in 2013, fulfilling Corporate Social Responsibility became a legal obligation. All companies come under the purview of the Act have to spend money towards Corporate Social Responsibility as prescribed. Added to this money spent on employee welfare is now not considered as fulfilling Corporate Social Responsibility. From among the stakeholder the employees have been taken out from the purview of CSR spending.

All of the PSEs and considerable number of MNCs and private companies have started taking CSR as a serious affair. Environmental pollution, depletion of Ozone Layer, Global warming made Indian Exchequer to be strict with the implementation of CSR activities. Companies are now looking at Sustainable development in the place of Community Development. Sustainability has become the buzz word. 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.

Objectives of the study

1. To bring out the different stages of evolution of the concept of CSR
2. To understand paradigm shifts in implementation of CSR

Research Methodology:

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports. Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type. Keeping in view of the set objectives, this research design was adopted to have greater accuracy and in depth analysis of the research study. Available secondary data was extensively used for the study. The investigator procures the required data through secondary survey method. Different news articles, Books and Web were used which were enumerated and recorded.

Evolution of the Concept of Corporate Social Responsibility:

In the following sections an attempt has been made to describe the evolution process of Concept of Corporate Social Responsibility.

In early 1950's the literature was not heavily represented in CSR discourse. However, this decade 'marked a significant growth in attempts to formalize, or to pronounce more accurately. According to Carroll "CSR encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organizations at a given point in time."

Some of the most prominent writers during that time were Keith Davis, Joseph W McGuire, William C Frederick and Clarence C Walton. Frederick wrote that 'Social responsibility in the final analysis implies a public posture toward society's economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed Interests of private persons and firms'(Carroll 1999) Howard Bowen (1953) argued that since social institutions shaped economic outcomes it was to be expected that business firms as an economic outcome of societal interests should consider the social impact of business activity. CSR implies some sort of commitment, through corporate policies and action. This operational view of CSR is reflected in a firm's social performance, which can be assessed by how a firm manages its societal relationships, its social impact and the outcomes of its CSR policies and actions (Wood, 1991). Social reporting and social audits are examples of how firms can assess their social performance.

In 1960's Keith Davis argued that CSR refers to 'the firm's consideration of, and response to, issues beyond the narrow economic, technical and legal requirements of the firm' (Davies, 1973). Frederick (1960) stated 'Social responsibility means that businessmen should oversee the operation of an economic system that fulfils the expectations of the people. And this means in turn that the economy's means of production should be employed in such a way that production and distribution should enhance total socio-economic welfare' (Fredrick, 1960). Thus, the definitions of CSR in 1960's were an attempt to link society and businesses, defining society in broadest terms.

In 1970's there was one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engage in open and free competition, without deception or fraud.

The idea and inclusion of stakeholder began to appearsome of the thinkers, . Stated .that socially responsible firm is one whose managerial staff balances a multiplicity of interests instead of striving only for larger profits for its stockholders. A responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation. According to Carrol, the social responsibility of business encompasses the economic, legal, ethical, and discretionary (or philanthropic) expectations that society has of organizations at a given point in time (Turner, 2006). European Commission described CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis". World Business Council for Sustainable Development defined 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."

In 80s & 90s there were fewer definitions but more efforts were made to measure and conduct research for the purpose of operationalizing CSR. New concepts which were closely related to CSR like, stakeholder theory, business ethics, corporate governance, responsiveness, corporate social performance, and corporate citizenship were introduced. . These concepts are closely related but not identical. According to some authors CSR refers to a company's commitment to operate in an economically and environmentally sustainable manner, while acknowledging the interests of a variety of stakeholders and maximizing economic, social and environmental value. It is holistic concept that can mean different things to different groups and stakeholders. Gray, Owen, & Maunders (1987) defined 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".

A term 'corporate social innovation' was first introduced by Rosabeth Moss Canter in 2009. She argues that firms should use social issues as a learning laboratory for identifying unmet needs and for developing solutions that create new markets. Large corporations began to go public about corporate social responsibilities and publish some of their efforts, but they also made public that 'any approach to corporate responsibility must begin with the practical recognition that the corporation must be profitable enough to provide shareholders a return that will encourage continuation of investment' (Wilson, 2000). Another trend appearing in literature is the increasing dialogue between stakeholders. Companies are augmenting their discussions with labour unions, environmental groups and other relevant stakeholders and the implementation of certification solutions by corporations, which is the establishment of codes of conduct (Kapstein, 2001), monitoring and reporting. Kingston and Wagner (2004) suggest that leadership on sustainability and CSR are important to set priorities to ensure that commitments area achieved. Babington et al. (2008) use the term CSR reporting, which highlights the link between the reporting function and the organizational functions and operations that are concerned with, and impacted by, activities associated with CSR. 'CSR' and 'CSR (or sustainability) reporting' are inextricably intertwined across an organization, and at various levels, impact on strategic planning, governance, stakeholder engagement, risk management, decision making, data collection and management systems, performance measurement, public relations and communications. The CSR movement was an early response to an article published in 1970 by Friedman stating that 'social responsibility of business is to increase its profits'.

CSR has emerged as the business issue of the 21st century and has been studied for over 50 years. To this day academics do not have a consensus on its definition (Wood, 1991; Carroll, 1991). Bowen's definition of social responsibility of businessmen referred to the obligations of businessmen to pursue those policies to make those decisions or to follow those lines of relations which are desirable in terms of the objectives and values of our society (Carroll, 1999)". Due to Bowen's concern with social responsibility and his leadership role in the topic, **Bowen should be seen as father of CSR.** The main challenges for CSR, today, have been the shrinking role of government, demands for greater disclosure, increased customer interest, growing investor pressure, competitive labour markets, and supplier relations. By practicing good CSR, the companies enjoy several benefits like improved financial performance, lower operating costs, enhanced brand image and reputation, increased sales and customer loyalty, product safety, material recyclability, and greater use of renewable resources etc. (Bowen).

Emergence of CSR in India:

India, being a land of philanthropy and having strong religious base, believed in Business Social Responsibility from ancient times. It was seen as ethical to share some wealth of business with society, as the source of wealth is derived from society. Great thinkers like Mahatma Gandhi strongly advocated '**Trusteeship approach**' for Business

Social Responsibility. He believed that all great successful businessmen are only trustees of the wealth they possess, because it is created by them by using natural resources which belong to the society.

Right from the beginning the business is seen as source of wealth generation which will have some impact on social and environmental issues. Hence, it is nurtured among the Indian Business people to care for Corporate Philanthropy, and Industrial Welfare. The ideas became very strong by late 1800s. All religions in India strongly advocated 'Dana' (Donating part of the wealth), be it Hinduism, Islam or Christianity. In 20th Century, business social responsible practices took the shapes of philanthropic donations to charity, service to the community, enhancing employee welfare and promoting religious conduct. The ideology of CSR in the 1950s was primarily based on an assumption of the obligation of business to society (Rajeev Prabhakar and Sonam Mishra 2013).

It has been observed that to a growing degree, companies that pay genuine attention to the principles of socially responsible behaviour are also favoured by the public and preferred for their goods and services. This has given rise to the concept of CSR.

JRD Tata always strongly advocated the business, to go beyond conducting themselves as responsible citizens. He felt that there were many ways in which industrial and business enterprises can contribute to public welfare. He advised that apart from donating funds to good causes, the business may use its own financial, managerial and human resources to provide task forces for undertaking direct relief and reconstruction measures. Slowly, it began to be accepted, at least in theory that business had to share a part of the social overhead costs of. Earlier, the business used to discharge its social responsibility through providing assistance for education, health, scientific research and others. The significant change at that time was that industry accepted social responsibility as a part of its management practices. The community development occupied that top position in the agenda of discharging social responsibility by industry. The TATAs are considered as pioneering business house in propagating and discharging social responsibility in an effective way.

By 1975 Sethi brought out a new concept in Corporate Social Responsibility known as "Corporate Social Performance". Later by 1979 Carrol and by 1985 Warick and Cochran expanded the concept. According to Sethi there are three levels to understand the Social Performance of Corporate. The first one is **'Social Obligation (a response to legal and market constraints); second is Social responsibility (Congruent with societal norms); and finally the third level is Social Responsiveness (adaptive, anticipatory and preventive) (Cochran 2007).**

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 (Mohan, 2001). This was evident from a sample survey conducted in 1984 reporting that of the amount 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 (Working Document of EU India CSR, 2001). In India as in the rest of the world there is a growing realization that business cannot succeed in a society where Corporate do not take care of social needs of the surrounding communities... 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 socio-economic status (Bajpai, 2001).

From voluntarism to legal compliance:

The 2013 witnessed a great historical development in the concept of Corporate Social Responsibility. The historical amendment to Companies Act 1956 made discharging of Social Responsibility by Corporate mandatory. The applicability of the provisions, the meaning and spirit of Corporate Social Responsibility, the procedure for implementation and others have been elaborately discussed in the amendment. By 2014 the policy guidelines for the implementation of Corporate Social Responsibility have come into force.

This made discharging of CSR by Corporate mandatory. New practices like CSR audit, constitution of CSR committee, formal framing of CSR policy of the company etc. have been introduced in the guidelines.

Section 135 of Companies Act 2013 applies the rules of Corporate Social Responsibility to 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 continuously for three years have to spend 2% from the profits towards social activities. For spending money for corporate social responsibility activities the listed companies have to constitute a corporate social responsibility committee of three or more directors out of which one director shall be an independent director. In case of private companies two directors may form the committee. The Corporate Social Responsibility committee shall formulate policy of social activities to be undertaken by the company and recommend it to directors as specified in Schedule VII of Companies Act, 2013. The companies need to spend money on women empowerment, eradication of extreme hunger and poverty reducing child mortality and improving maternal health, combating HIV, AIDS, Malaria and other diseases, Environmental sustainability, social business projects, contributing funds for disaster management and employment enhancing vocational skills. As Per the Companies (Corporate Social Responsibility Policy) Rules, 2014 a company can implement its CSR activities through the following methods

1. -Directly on its own –
2. through its own non-profit foundation set- up so as to facilitate this initiative –
3. Through independently registered non-profit organizations that have a record of at least three years in similar such related activities –
4. Collaborating or pooling their resources with other companies Only CSR activities undertaken in India will be taken into consideration
5. Activities meant exclusively for employees and their families will not be considered as CSR activities.

Paradigm Shift of CSR- an Indian Example:

The companies while formulating the policy for CSR activities have to align the approaches like philanthropy, improving operational effectiveness and transforming the business model. The activities will be implemented by managers. Ambuja cements an Indian subsidiary of Holcim has built a coherent port-folio that coordinates activities in alignment of the above approaches.

Sustainable development:

It is important for CSR strategies to become central to business strategy and part of the long-term planning process. Stakeholders are questioning more on CSR initiatives of the companies today. They are challenging the companies' decisions-making in this direction. It has become imperative to incorporate stakeholders' views. In India the CSR managers face number of challenges in managing CSR activities. The biggest problem is of lack of budget allocations followed by lack of support from employees and lack of knowledge as well. Lack of professionalism is another problem faced by this sector. Small companies do not take adequate interest in CSR activities and those which undertake them fail to disclose it to the society. In the process they lose out on people and their trust in them. Media can come up with strong support for informing the people at large about the CSR initiatives taken up by the companies. It can sensitize population and also make them aware of the benefits of CSR to them. However, media is not doing enough in this regard. The situations in the present scenario demand the change of the CSR activities of the companies and have focus on improved economic, environmental and social performance. There is a need to take up sustainability initiatives like waste management systems, effective resolution of climate change risks, low carbon initiatives, ethical work practices, and CSR initiatives aimed at benefiting local communities. The companies have to align CSR strategy with their business strategy which helps them to leverage their CSR expenditure.

TEN Stages of Transformation of CSR concept in India:

The stages of transformation of CSR are

1. Philanthropic approach (Karma theory)
2. Trust and Most respected companies
3. CSR as Legal compliance
4. CSR as voluntary measure
5. CSR means giving donations to poor
6. CSR as a mechanism to satisfy the interests of all stakeholders.
7. CSR as a measure to ensure inclusive growth
8. CSR as a way of managing business.
9. Innovative CSR practices
10. CSR as a legal compliance (after 2013)

Conclusion:

Corporate Social responsibility in India was started as a charity and Philanthropy but later on grown to the level of multi-stakeholder benefit. The interference by Government helped CSR to acquire prominence in the Corporate Business Practices. The PSEs have been paying lot of attention for their CSR initiatives by default right from 50s. The private companies immediately after liberalization made a big hue and cry for spending money on the CSR activities because of the intense competition from MNCs, which used to reflect in low margins and lack of level playing field. But after sometime they also realized the importance of CSR for their own survival and started planning and implementing effective CSR practices. The MNCs right from the beginning realised the possible negative consequences if they neglect CSR and laid enough thrust on it. ITC's Waste Management, Lever's initiative to create and promote awareness levels among the public regarding the importance of Hand washing, Pepsi's slogan "We give more water than we consume" on their Aquafina mineral water bottles, C& Ps express train to interior tribal areas to promote brushing teeth with tooth paste, and others are some of the examples for the CSR initiatives (?) of the MNCs.

There is a long journey still left for India to ensure implementation of CSR activities by a large number of private companies. This is more so in the case of SMEs. There is a general feeling among the owner managers of SMEs that CSR is a burden than boon. These SMEs are more concerned about their profits and for them CSR means ENVIRONMENTAL PROTECTION OR DONATING MONEY TO NGOs. They also feel that there are not enough human and financial resources to take it on a big way. These days to overcome this limitation they are forming in to clusters, pooling their resources and trying to discharge their CSR obligations. It is hoped that the present Government, politicians, bureaucrats, and mainly businessmen take the true spirit of Law of CSR and exert their maximum effort to spread CSR among all the business people so that there can be balanced development in terms of Class.

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ANNEXURES

TABLE -1

The emergence of CSR in India

Phases	Period	Year	Nature of Corporate Social Responsibility
First	Pre- industrialization	1800	CSR activities were undertaken in the form of Philanthropy with religious belief
Second	Pre-Industrialization	1801-1914	CSR activities were undertaken in the form of donations with social welfare objectives
Third	Industrialization	1950- 1980	CSR activities were undertaken in the form of responsible behavior with progressive approach
Fourth	Post-Industrialization	1980-2013	CSR activities are being performed in various forms by keeping in view multi-stakeholders benefit.
Fifth	Post- Amendment to Companies Act	2013- Present	CSR activities are being performed as per the guidelines of the Act and is seen as a Legal Obligation

Source: IJBMR

TABLE 2

PARADIGM SHIFT IN CSR

Serial No	Operational Improvements	Philanthropy	Business Model
Fuel	An alternative fuels program was launched to increase the use of biofuels in the plant	A Farmer education program was expanded to include instruction on recovering farm waste for use as bio fuel	
Logistics	A trucking safety program was initiated to reduce accidents	The program was expanded to include education on alcohol Tobacco and HIV/AIDS	
Water	Initiatives were launched to reduce the firm's water use and treat its waste water	A 'water recharge' program replenishes ground water system making formerly mined land arable again	Reclaimed farmland with good water supplies is offered to land owners in exchange for new land for mining

Source: **"The truth about CSR"** article published in HBR. Jan –Feb 2015 issue