Corporate Social Responsibility: A Step towards Good Governance

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Abstract – In this 21st century of dynamism, corporate social responsibility is a developing field of interest which is gaining popularity worldwide and India is not an exception to it. However, It is not a new concept In India but has evolved with time and is now being streamlined with passing of Companies Act 2013 so that maximum benefit can be achieved by the society as a whole.

With the liberalisation of Indian economy in 1990 a major leap has been taken by the corporate regime where it has integrated corporate social responsibility as a sustainable business strategy It is deemed to be a way out to lessen the socio- economic problems prevalent or fanned by industrialisation and other environmental challenges, for a small share of profits is utilised for various welfare activities be it shareholders and other stakeholders.

With the mushrooming of companies, it is important to keep a check over its activities, make them responsible enough and to have a sturdy corporate governing regime. A corporate governance focuses on major issues like accountability, transparency and conduct in conformity with the laws however a good corporate governance policy must empower the company to comprehend its corporate objectives, protect not only shareholder rights but multi-stakeholders rights, meet all legal requirements and create transparency for all stakeholders.

This paper discusses the concept of corporate social responsibility in Indian context along with highlighting the crossroads between corporate governance and corporate social responsibility. This article further stresses the importance of CSR activities in achieving good governance goals hence making a long term sustainable Indian economy.

Keywords: Corporate Social Responsibility, Corporate Governance, Indian Economy, Sustainable Business Strategy

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INTRODUCTION

Though the concept of corporate social responsibility is not new to India, but lately, CSR, as a concept, has got more attention in business relations and academics. The concept highlights the role and contribution of entrepreneurship in social development. With the advent of this concept various overlapping concepts of business ethics, corporate citizenship and stakeholder management have thrived. European Union (EU) describes CSR as “the concept that an enterprise is accountable for its impact on all relevant stakeholders and it is the continuing commitment by business to behave fairly and responsibly, and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large.”[1]

This implies that it is basically a strategy to ensure that the successful business is carried out while considering the environment and communities benefit as a whole. It also includes the satisfaction of shareholders’ and customers’ demands while regulating the expectation of other stakeholders which includes employees, every kind of suppliers and community at large.[2] Putting it precisely, it means to contribute positively to the society at large and handling the establishment’s environmental impact. The business community has now realised with time that it is really important to be socially responsible and include environmental friendly or eco-friendly measures while doing business in order to achieve a good image among employers, consumers, stakeholders and achieve overall sustainability. All in all it can be said that CSR supports sustainable development as it balances the economic, environmental and social objectives while carrying out its business,

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increasing shareholders value and addressing stakeholder expectations.[3]

CSR POLICY INITIATIVES ACROSS THE GLOBE:

The OECD's Guidelines, initially promulgated in 1976 and most recently amended in 2011, encourage companies to promote sustainable development, and include standards based on ILO and U.N. treaty obligations, including standards of transparency, labor protection, international human rights protection, responsible supply chain management, environmental protection, antibribery standards and fair tax contributions (added in 2011 and unique among international corporate responsibility standards).[4] The Organization for Economic Co-operation and Development (OECD) framed guidelines for multinational companies which did primary groundwork for the concept of CSR.[5] The objective of these guidelines was to make improvements in the investment principles and encourage the constructive contribution by multinational enterprises for economic and social progress.[6] Since then various multinational companies and business tycoons have accepted the CSR policy as an important professional strategy and governments have also made numerous efforts for encouraging voluntary CSR reporting. In 2007, the Malaysian government approved a parameter to order all publicly listed companies to issue and circulate their CSR initiatives in their yearly reports on a "comply or explain" basis and consequently, all public listed companies (PLCs) in Malaysia have to either print CSR statistics or they must enlighten why they should be exempted.[7] In another example, in 2009 Denmark instructed CSR reporting, enquiring all state-owned companies and companies with entire assets of more than €19 million, revenues greater than €38 million and more than 250 employees, to issue their yearly financial reports.[8]

In 2006 the British Companies Act instructed all companies registered in the UK to contain data about their CSR accomplishments in their yearly reports; however, a full length CSR recording was made voluntary.[9] A small number of global companies today miss the mark to highlight their social initiatives and performance on their websites, whereas over 90% of the World-wide 250 companies willingly disclose more environmental, social and governance (ESG) material than required by law.[10] Thus, over the period of time various such protocols have been established by states, public/private enterprises, industries and companies. All industries from apparel to chemicals, extractives such as natural oil, gas and earthy- minerals to conflict-free diamonds; sustainable fisheries and forestry; project finance and fair-trade things such as coffee, tea, cocoa and cotton, are few examples.[11] Among multilateral frameworks, the U.N.'s Guiding Principles on Business and Human Rights, adopted by the U.N. Human Rights Council in 2011, seems to have the greatest potential to develop into a baseline global legal framework for companies' social responsibilities (The OECD Principles only apply to companies in or from adhering countries).[12] The U.N. Guiding Principles set out the core spheres of obligation for states and companies with respect to human rights: states have the duty to protect their citizens from violations by third parties, including companies, by promulgating laws and regulations; companies have the responsibility to act with due diligence to respect citizens' human rights; and both have the duty to provide access to remedies for victims.[13] The international human rights obligations applicable to companies through the Guiding Principles include those in the Universal Declaration of Human Rights, the International Covenants on Civil and Political Rights and on Economic, Social and Cultural Rights, and the Core Conventions of the ILO.[14] The state duty to protect human rights is now being incorporated into many European and other countries by the establishment of National Action Plans to disseminate and implement the Guiding Principles.[15]

CSR ACTIVITIES IN INDIA:

In ancient India this concept was more of a charity and had a philanthropic character, mostly influenced by family values, culture and traditions. However with the industrialisation and with the bang of colonial era, the approach and strategy to welfare experienced a noteworthy transformation. Before India got freedom the forerunners of mechanisations and development, to name a few groups like Tata, Birla, Godrej, Bajaj, encouraged the benevolent notion of CSR. Various charitable foundations, educational and healthcare institutions, and trusts for community development were set up to speed up the development process. Then it was succeeded by the establishments of Public Sector Undertakings (PSUs) to guarantee better distribution of wealth leading to a prosperous society. The strategy on industrial licensing and taxes, and limitations on the private zone caused various corporate malpractices which finally prompted apposite legislation on corporate governance, industry and environmental issues. [16]

Just because the success level of PSUs was not praiseworthy there was a likely shift in expectations from public to private sector, with the latter getting dynamically involved in socio-economic development.[17] In 1965, academicians, political-representatives and businessmen steered a nationwide workshop on CSR where main emphasis was given to social accountability and much transparency.[18] After 1990s, with the advent of globalisation, privatisation and liberalisation in economy there was seen a major leap in Indian economy leading to cutting-edge industrial growth. With lots of development in the corporate sector, it became expedient for companies to give additional capital towards social responsibility.

CORPORATE GOVERNANCE IN INDIA:

After various corporate scandals, corporate governance has become fundamental to all the corporate bodies. It is now believed that implementation of rigorous corporate governance principles and investor's protection is the need of the hour. Corporate Governance is the acknowledgment by management of the inevitable rights of investors as the genuine owners of the partnership and of their particular part as trustees for the advantage of the investors.[19]

Corporate governance report is one of the principal indicator to measure risk. In practice, there are four principles of corporate governance which are; transparency, accountability, firmness, and responsibility.[20] Corporate governance is gradually considered to be connected to CSR and the concerns of two are merging.[21] Under the Companies Act, 2013, there lies a healthier Corporate Governance motivation. The Companies Act, 2013 focuses on prodigious corporate governance by intensifying the parts and duties of the Board, safeguarding investors' interest, attaining a disclosure based administration having an intrinsic character of prevention by virtue of self-direction. It has been witnessed that in the recent years, the companies in India have started concentrating on need-based initiatives associated with the nationwide primacies such as public health, quality-education, livelihoods, rain water harvesting, water conservation and natural resource management. Nation-wide deliberations are held where it focuses on encouraging the companies to contribute in addressing various social and developmental aspects. It is now expected that such norms will restructure and streamline the efforts in which corporate bodies are working and consequentially improve the welfare of minority investors with sustainable development. The honest onus of achieving required levels of corporate governance lies with corporations themselves and not in external measures.

INDIAN LAWS ON CSR:

Indian take on CSR became highlighted when a legislative push was made by enacting section 135 of Companies Act, 2013 prescribing a mandatory "CSR spend of 2% of average net profits during the three immediately preceding financial years".[22] While the legislative process was going on there was a powerful debate as to whether the expenditure requirements must be made compulsory, but in the culmination due to a conciliation the law approved a "comply-or-explain" approach.[23] Hence, as there is no compulsion to mandatorily apply the set share of profits in the direction of CSR, there is a prerequisite for such companies that do not observe to elucidate the reasons for non-compliance.[24] Now according to the law, each company must found a CSR committee of the board consisting of three or more directors, of which at least one must be an independent director. Also such CSR committee must formulate and endorse to the board a CSR programme that specifies the initiatives and activities to be carried out by the company as specified in Schedule VII to the Companies Act, 2013. Also the board is required to reveal the contents of the CSR policy in its report and upload it on the company's website.[25] The Ministry of Corporate Affairs has itemised the list of various activities that are permitted to be reckoned towards CSR spending which include eliminating hunger, poverty and malnutrition; promoting education; encouraging gender equality; safeguarding environmental sustainability; protection of national heritage, art and culture; initiatives for the assistance of armed forces veterans; training to encourage rural sports; contribution to the Prime Minister's National Relief Fund; contributions or funds to technology incubators; and Rural development projects.[26]

In case of failure to spend the stipulated amount, the company must provide reasons for the failure in its board report.[27] In the instance of non-compliance with the necessities of section 135 of the Companies Act, the company and its officers will draw penal consequences under section 460, the company and every other officer of the company who is found defaulting shall be punishable with fine which may extend to Rs. 10,000, and where the infringement is in continuing nature, with an additional fine which may range to Rs. 1,000 for every day after the first during which the infringement lingers.[28] Penalty is there only for failure to make apposite revelations, predominantly the reasons for not spending the set amount.[29] To sum up this, it can be concluded that the Government does hold enforcement powers in instance of non-compliance with the reporting necessities, in case of a failure by companies to found CSR policies and CSR committees, while the degree of the penalties is perhaps trivial.

The high-level committee established by the government on observing CSR activities has said that the government should have no part taking in regulating Corporate Social Responsibility (CSR) spending by corporates and this should be the work of their particular boards and managements and CSR should not be understood as a basis of financing the gaps and breaches in inclusive growth.[30] Bimal Arora, chair of the Delhi-based Centre for Responsible Business, argues that the so-called 2% law has carried CSR [corporate social responsibility] from the borders to the boardroom and Companies currently have to ponder seriously about the resources, timelines and tactics needed to meet their legal obligations.[31] It can be inferred

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that corporate social responsibility has a greater role to play in development but with legal provisions it has become a challenging role as well.

CONCLUSION:

The institution of a CSR policy is a decisive factor of a company's competiveness. It is application of policies and procedures which assimilate social, environmental, moral conduct, human rights or consumer-related apprehensions into its commercial operations in close collaboration with all stakeholders. Indian CSR legislation is more of a self-regulatory measure rather than penal, which demands a mature tactic from both corporate bodies and governments. Because company is taking resources from community, which is governed by government, it is important to mention that both parties must collaborate harmoniously to achieve the utmost public good. It is important that CSR investments are made to contribute to continuing developments in the social and economic status of communities. A network where companies and government departments , other agencies interact on a systematic basis to conjointly scrutinize as to how they can contribute to nation-building, managerial competences of the public service delivery mechanism and introducing revolutionary programmes is the need of the hour to guarantee better results.

Corporate social responsibility initiatives have upgraded the conditions of employment. It undoubtedly has brought more attention to the environmental problems along with opportunities and prospects of many productive processes and industries. Somehow it has thus inspired companies to develop advanced and innovative products and solutions to address environmental problems. It is a smart business strategy where relationships between companies and citizens, have improved for good because it aims at mutual development of company and community simultaneously. CSR is very much relevant for strengthening relationships with investors, other stakeholders. It helps enabling incessant development and encourages innovation. If a company has a good corporate governance record and good reputation in the market, it attracts the best industry talent which is an added advantage. Risk mitigation is of the prime importance in an effective corporate governance framework and is essential to reap improved benefits and contribute to inclusivity of development.

After passing law on corporate social responsibility, India has already taken a bold step in corporate governance. But it is also important to work with greater stringency and enforcing the provisions strictly. It is pertinent to suggest that, media has an important role to play in sensitising population and telling success stories to inspire the small corporate initiatives. Sincere efforts must be made to create awareness about CSR in local communities. This way, CSR can give enormous benefits to a company because it inspires the leadership for innovative research and implement ways which are benevolent to the society.

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