Journal of Advances and Scholarly Researches in Allied Education
Vol. XIV, Issue No. 2, January-2018, ISSN 2230-7540

Evolution of CSR in India: Indian Roots in Emerging Context

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Abstract – The issue of corporate Social responsibility (CSR) has become a movement in India. This article traces the Evolution of the concept of Corporate Social Responsibility in India. Understanding and examining the historical context is very important for understanding CSR practices of Indian businesses. The article traces history of CSR practices during ancient and medieval period. It also traces the evolution of modern CSR thought in the western literature and practices. Finally, it presents and analyzes the current legally mandated CSR system in India by critically examining its different components and their implication on Indian businesses and society.

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INTRODUCTION

The issue of corporate Social responsibility (CSR) has become a movement in India. Of late the researchers and policy makers are focusing on identifying and developing the right CSR model that best meets the needs of a society. In India, the history of socially responsible businesses can be traced since the written history. Later also it remained in force in different forms and shapes. Of late the Government of India formalized CSR in the form of incorporating as part of the Companies Act, 2013. This act along with the associated rules provide the detailed guidelines to be followed by a class of business in India to engage in CSR practices.

This article traces the Evolution of the concept of Corporate Social Responsibility in India. Understanding and examining the historical context is very important for understanding CSR practices of Indian businesses. This is important for many reasons. First, a focus on CSR in India can provide scholars and practitioners with a new model and inform executives about different approaches to sustainable development, especially for a country that is facing several environmental and social issues. Secondly, the author believes that the private sector- large and small can join hands with government to become a powerful change agent in the current social and economic situation. Thus, the author aims to understand the rationale behind the evolution of CSR system and framework through history in Indian context.

The paper is divided into three sections. Section one briefs about the socially responsible businesses in the ancient India. Section two focusses on the emergence of the formal and modern conception of CSR in the western thought. Section three focusses on the recent initiatives of the Government of India making CSR engagement mandatory for a class of companies.

CSR in India: Religious and Philanthropic

The roots of socially responsible businessmen are as old as the civilization in India. In Indian mythology and ancient history many examples are quoted for socially responsible businessmen. There are incidents where these businessmen were associated with many public welfare initiatives like digging of ponds, feeding poor, constructing temples, orphanages etc. From the literature it can be deciphered that probably the primary motive foe engaging with such activities were either religious or philanthropic or some higher calling. A similar pattern was visible during the medieval period also.

During the eighteenth-century Industrial revolution in Europe made it possible to increase the size of business operations resulting in large size industries with a greater influence on not only their employees but also on the consumers and community. Gradually their size further increased, and their impact was felt even outside their home countries.

Later India like other countries also witnessed emergence of large businesses and business houses like Tata, Birla, Bajaj etc. These business houses not only created large size manufacturing facilities generating huge revenues and profits for them but also got engaged with many social initiatives like education, health, community work etc. These business houses even played a key role in the freedom struggle of India. Till independence these business houses were the dominant Indian players along with the British enterprises operating in India. The defining feature of socially responsible behavior during this period was their voluntary initiatives motivated by religious, philanthropic, community service, or nationalistic feelings of businesses.

Modern Conception of CSR

The belief that the businesses have social obligations in addition to their obligation to generate profit for their owners is not new. The businesses having concern for the society can be traced back to centuries (Carroll, 2008). However, it was during 1930s the social performance of the firms and role of executives started getting attention of the authors in the business literature (Carroll, 1999). These researchers started exploring the question about the specific social responsibilities of businesses. A company was thought to be socially responsible if it puts the interest of other stakeholders as its' equivalent. Generally, a company is considered socially responsible when it takes into its economic considerations a collective dimension of its socio environmental context. Large number of researchers and practitioners have defined the concept of Corporate Social Responsibility. An analysis of these definitions indicates CSR as a multidimensional concept.

One of the most frequently cited definitions of CSR is provided by the Commission of the European Communities:

"Corporate social responsibility is about companies having responsibilities and taking actions beyond their legal obligations and economic/business aims. These wider responsibilities cover a range of areas but are frequently summed up as social and environmental–where social means society broadly defined, rather than simply social policy issues."

Thus, from this definition CSR refers to companies having responsibility and taking initiatives beyond their legal, economic, and business aims. This makes CSR a voluntary activity taken by businesses to take care of their environment and society.

Most of the CSR theorist see it from a capitalist perspective. It was Carroll (1979), who identified social responsibility as a way of getting the business to be profitable while respecting laws and ethics. In 1979, Carroll proposed the first model that superimposes the economic, legal, ethical, and discretionary dimensions by giving each a different meaning. The model later got popularized as Carrol's CSR pyramid (Carroll, 1979) .

One of the remarkable comments on CSR was made by Milton Friedman in the year 1963. He argued that the only social responsibility of business is to increase its profit. This was the time of shareholder primacy. Accordingly, Friedman declared that that executives who imposes social obligation and associated costs on corporation are disloyal to their principal who are the shareholders. He justified all actions by mangers which aimed to maximize the return for the shareholders. Any reduction in earnings without any complementary effect was thought to be value destroying as it resulted in reduced earnings for the shareholders. Few researchers (Godfrey, Merrill, & Hansen, 2009; Husted, 2005; Kitzmueller & Shimshack, 2012; Orlitzky & Benjamin, 2001) highlighted the point that CSR engagement reduces social risks for the firms. By social risk, these authors meant the risk that arises because of social activism or local community politics. Few researchers studied and found that CSR engagement of firms also helps in reducing their political risk (den Hond, Rehbein, de Bakker, & Lankveld, 2014; Jo & Na, 2012; Kitzmueller & Shimshack, 2012; Webb, 2012). Further Minor and Morgan (2011) found that CSR engagement of the businesses work as a reputation insurance for the firm. Thus, from the above discussion it may be concluded that CSR engagement may create value through risk reduction irrespective of its form as philanthropy or community engagement. The bottom line is that the firm CSR engagement helps protect or create value for the shareholders.

Departing from the Friedman's view R. Edward Freeman (2010) proposed his stakeholder theory. According to which corporate should not consider the interest of the shareholders but also of other stakeholders, like employees, customers, suppliers, community, government etc. which directly get affected by the actions of the corporation. Freeman (1984) defined stakeholder as *"any group or individual who can affect or is affected by the achievement of the organization's objectives".* This general idea of stakeholders led to a complete reconceptualized of business organizations. Organizations were thought as a grouping of different stakeholders and job of the manger was to manage the interest, needs and viewpoints of these stakeholders. R. Edward Freeman (2001) changed his definition of stakeholder as *"those groups who are vital to the survival and success of the corporation".* As per his views corporate managers should take the consideration of the perspective of the stakeholders themselves and their activities in the management of companies. He further argues the principle of stakeholder recourse according to which stakeholders may initiate action against the management of the companies in case they fail to perform their duty of care (R.E Freeman, 2004). The stakeholder theory changed the perspective of managing the modern businesses. Earlier approach focused on the idea of value creation and capture by the firm. Shareholders primacy was the accepted norm. But the stakeholder perspective changed the idea of shareholder primacy. Now managers were obligated to manage the firm while taking into consideration interest of all concerned stakeholders.

CSR and Value Creation

Natural outcome of the stakeholder theory was the recognition of CSR as value creator. Researchers and practitioners started looking CSR as a strategic tool confirming that it pays-off not only to firm but its stakeholders and larger society as such. Burke and Logsdon (1996) examined social responsibility programmes which create *strategic benefits* for firms and identified five strategy dimensions of corporate strategy which help to assess the value created for the firm by CSR programmes: centrality, specificity, proactivity, voluntarism and visibility. Here centrality refers to closeness with the firm's mission and objectives; specificity refers to ability to capture private benefit by the firm; proactivity refers to planning in anticipation of social changes; voluntarism refers to self-initiative and visibility refers to making CSR projects highly visible and observable to the concerned stakeholders. Further R. Edward Freeman, Harrison, Wicks, Parmar, and Colle (2014) made a distinction between residual CSR which focusses on returning profits to society to integrated CSR which focusses on integration of CSR to social, ethical, and environmental concern into the management criteria for corporate decisions.

The link between CSR and value creation was clearly delineated by Linde and Porter (1995). They thought of business expenses in improving environment as an opportunity to enhance firm competitiveness. While writing about corporate philanthropy Porter and Kramer (2002) pointed out that there is no inherent conflict between value creation and giving. The authors emphasized that the context focussed philanthropy, if done systematically, can offer companies a new set of tools to enhance competitiveness leading to maximization of value creation. The author concluded that CSR provides companies sources of new opportunities, to innovate, and to achieve competitive advantage. The culminating point in the thought connecting corporations and society is the concept of shared value (Porter & Kramer, 2006). The concept of shared value shifts focusses from corporate cantered value creation to corporate stakeholder cantered value creation. The shared value concept recognizes that societal needs not just conventional economic needs defines markets. The proposed approach of shared value system has capability to convert capitalist system as socially, environmentally, and financially sustainable economic system. Here CSR efforts and business are interdependent. From then on, Porter suggested the value chain be used to show how a CSR project could impact the company's strategy. According to authors in short run by embedding CSR in value chain may result into capital market pressure for short run profits but in the long run will result in a stronger and more sustainable value chain.

CSR as a Regulatory Mandate in India

During post-independence period characterised by mixed economy the primary focus of giving push to public sector organizations was a strong social and developmental agenda in the backdrop of making India a self-reliant nation. After liberalization it witnessed a state of confusion where many of the multinational and foreign companies became significant players on the one hand and on the other role of public sector was found to be shrinking. Multinational companies often move their manufacturing operations to developing countries where economies are not very strong, governments are willing to offer many benefits and concessions to attract foreign investments and regulatory and institutional mechanisms are little week. In this backdrop the Ministry of Corporate Affairs (MCA), Government of India launched the CSR voluntary guidelines in 2009 which were later updated and renamed as the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVG). Later these guidelines were passed as the Section 135, Schedule VII, and CSR Rules of the Companies Act, 2013 by the Parliament of India. The provisions made it mandatory for a class of companies meeting specific conditions to spend 2% of their net profit on the activities of their choice from the Schedule VII. The Section 135 broad CSR before the board of the companies by making it imperative that the CSR amount and activities must be authorised by the board of the company. This provision is binding for both Indian and foreign companies that fall within the mandate. Any company or body corporate that is incorporate outside India is treated as a Foreign company for the purpose of this section. This provision will affect the CSR practices of around 20000 companies in India.

Indian CSR model is quite different from the popular and dominant western model. In the western model companies has option to voluntarily engage in the CSR activities of their choice with the spend decided by the management. On the other hand, Indian companies are bound by the law to not only spend mandated amount but also engage in CSR activities listed in Schedule VII of the companies Act. The CSR policy and decision has also been mandated on the board of the companies. The companies are also required to present the details of CSR activities in their annual report.

The companies are required to disclose the amount which they spend on CSR activities. This provision is going to make CSR spend transparent and comparable at least from the input perspective. It also made CSR a regular exercise which is dependent on the profits made by companies. This will make CSR a regular phenomenon for the companies, as in majority of the cases profits are not going to fluctuate much. The third aspect of this provision is that it also fixed the responsibility of the CSR which is on the board itself. All decision and spend must be authorised by the board and none lower them. The fourth aspect is fixing the CSR budget by connecting it with profits of the company. Fifth aspect is to align CSR activities with the Schedule VII of the Act. The activities listed in Schedule VII is supposed to be aligned with the inclusive development agenda of the nation. The schedule may be amended depending on the changing priorities of the nation. Finally, the spirit of the legal mandate is that CSR is for the poor, the marginalised, the deprived, the downtrodden, and handling of difficult situations. Thus, the law obligates companies to perform activities beyond the legal mandate. It is assumed that the corporate sector in India has many strengths which can be used to solve larger social, environmental, and economic issues with the right framework. Further CSR is not expected to be the core business of the companies. They are expected to associate with the non-profit sector which has got a strong presence in India and have long standing capabilities to implement social projects. One important aspect is the reporting of CSR activities by the company. For the said purpose, a template has been designed which the companies are expected to fill and report.

CONCLUSION

Thus, it may be concluded that the concept of socially responsible business is not new to India. Since ancient times many businesses behaved in a socially responsible manner. In modern times before independence large Indian businesses also actively engaged themselves with many socially important initiatives. Their impact is very remarkable and visible. Although the modern conception and thought of CSR emerged and evolved in the west it was adopted by some of the large businesses in India. Government of India, realizing the complexity of Indian context, and the type of diverse issues being faced by the Indian legally mandated CSR spend and activities on a particular class of company. This is a novel idea departing from the prevalent CSR approach in the best. The law has provided a format, the corporates has the ability, the NGOs are willing to cooperate which takes whole process of CSR at a different level.

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