

# CHANGING SCENARIO OF CORPORATE SOCIAL RESPONSIBILITIES (CSR) IN INDIA

Gayasree Ramesh Behra\* & Mushtaq Ahmad Shah\*\*

\*Assistant professor, Department of Management Studies, Guru Ghasidas Vishwavidyalaya, Bilaspur, Chhatisgarh, India.

Research Scholar, Department of Management Studies Guru Ghasidas Vishwavidyalaya, Bilaspur, Chhattisgarh, India.

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## Abstract

In the modern era of globalization, it has become a challenge to business houses to keep the stakeholders in fold and keep natural environment safe, as this is the biggest need of time. While we are committed to faster and more inclusive growth, we need to pay attention to the problem of sustainability. No progress can afford to avoid the environmental cost of economic activity, nor allow the exhaustion and unsustainable deterioration of natural resources. Unfortunately, the understanding of development in many countries, and our own past practices, suggests that this can easily take place unless concrete measures are taken at early stages. Companies too have been on target by this potholed development and as a result, their contributions to society are under severe scrutiny. With the approval of the Companies Act, 2013, the corporate social responsibility mandate (CSR) was formally introduced into the board of directors of Indian companies. This paper is an attempt to provide insights about CSR and examine the trend and sector wise CSR expenditure by firms under the recently enacted Companies Act, 2013. The industry has responded optimistically to the reform measure undertaken by the government. Nowadays the increasing responsiveness about CSR & changing environment forces the companies to contribute for CSR fund for different activities. All corporate should endeavour and bring about a change in the current social situation in India in order to have an effective and lasting solution to the social woes.

**Keywords:** corporate social responsibility, Companies Act, Environmental, Fund

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## 1. Introduction

Indian corporations, like those in other countries, have a long tradition of being engaged in social activities besides the profit maximisation objectives. However, since the late nineties, CSR activities have been increasingly at the reach of both policy makers and corporate stakeholders as governance issues are becoming increasingly important. At the policy level, the formal approach to CSR started in India, with the issuance of the Corporate Social Responsibility Voluntary Guidelines in 2009 by the Ministry of Corporate Affairs (MCA, 2009) that culminated in the enactment of Section 135 of the Companies Act 2013 (MCA, 2013) which make expenditure on corporate social responsibility mandatory and disclosure of CSRs for certain types of companies. Significantly, while CSR issues have become prominent among countries, India has become the first country, and at the time of writing, the only country that did CSR activity was mandatory for large and profitable companies incorporated in the law. In all other countries CSR efforts by companies have been largely voluntary, with only a select number of countries requiring companies to disclose such activities

The image of Corporate Social Responsibility in India has been drastically changed with the Companies Act 2013 which among other things, mandated that companies to spend 2% of their average net profits of the past three years in CSR. The Companies Act 2013 simply moved CSR in India from option to compliance. Given that now all large companies are mandated to undertake CSR activities. Strategic CSR becomes critical for both maintaining/increasing

shareholder value and doing well at the same time. Companies can participate in CSR activities in order to increase shareholder value or, can undertake them because they are the right things to do

The recognition by researchers and policy makers that CSR problems in emerging and developing countries such as India are somewhat different from those of developed countries is growing. Social, environmental and sustainability problems are more acute in developing countries, especially those affected by globalization, economic growth, investment and burgeoning economic activity (Visser, 2007). Taking into account the changing settings of corporate social responsibility (CSR), this paper attempts to provide insights about CSR and examines the trend and sector wise CSR expenditure by firms under the recently promulgated Companies Act, 2013

## 2. Objective

The objective of this paper is an attempt to provide insights about CSR and examine the trend and sector wise CSR expenditure by firms and under the recently enacted Companies Act, 2013. The article analyses the drift of corporate social responsibility disbursement by firms in India, particularly in the wake of the new Companies Act, 2013.

## 3. Research Methodology

The study is exploratory type based on secondary data, collected from different sources, namely research papers, World Bank reports, text books, websites of associated ministry, published and unpublished reports

## 4. Data Analysis and Discussion

### 4.1. Defining CSR

A review of the existing CSR literature reveals that there is a diversity of opinions and ambiguities regarding the elements that constitute a socially responsible behavior on the part of companies. Achieving an agreed definition of the construct of CSR is important, first of all from the point of view of the entity responsible for CSR, i.e., the company, and secondly from the point of view of the entity that is affected by CSR, that is, society in general, and finally from the point of view of the entity that tries to connect the firm and society, i.e., the regulator. In any national context, the debate about the extent to which social responsibility activities should be regulated should at least start with a consensus between these three entities on what constitutes CSR.

There is no agreed definition of CSR. This raises the question of what can be considered a corporate responsibility according to the European Commission [(2002) 347 final: 5]

"CSR is a concept in which companies integrate social and environmental concerns into their business operations and their interactions with stakeholders on a voluntary basis"

CSR has been conceptualized in terms of a wide range of business behaviors, starting at one extreme with maximizing shareholder gains within the rules of the game (Friedman, 1970) at the other end of an integral balancing goal and objectives environmental issues to serve the interests of shareholders and stakeholders as defined by UNIDO, the World Bank and the World Business Council for Sustainable Development (WBCSD). The notion of CSR incorporated into most of these definitions is that CSR is essentially a voluntary activity that serves as a bridge between the company and the company, with the company's goal redefined to maximize only the interests of shareholders (the supremacy of shareholder see) the interests of all his interest groups. Closely related to this is the focus on balancing economic objectives with social and environmental objectives

### 4.2. Clause 135 of the Companies Act, 2013

In India, the concept of CSR is governed by clause 135 of the Companies Act of 2013, which was approved by both Houses of Parliament and received the assent of the President of India on 29 August 2013. The provisions of the CSR

is applicable to companies with an annual turnover of INR of Rs. 1000 crore and over, or a net INR of Rs. 500 crore or more, or a net income of INR of five crore rupees or more. The new rules, which will be applicable from the 2014-2015 financial year onwards, also require companies to set up a CSR committee made up of members of its board of directors, which includes at least one independent director.

The Act encourages companies to spend at least 2% of their average net profit over the last three years in social responsibility activities. Preliminary ministry rules, which have been submitted for public comment, define net profit as profit before tax as per the books of accounts, excluding profits from subsidiaries outside India.

The law lists a series of activities eligible for CSR. Companies can implement these activities taking into account local conditions after requesting approval from the board. The indicative activities that can be undertaken by a company under CSR have been specified in Schedule VII of the Act

The draft rules (as of September 2013) provide a series of clarifications and, while awaiting public comments prior to notification, some of the most relevant are the following:

- The surpluses deriving from corporate social responsibility activities should be reinvested in corporate social responsibility initiatives, and this will be higher than 2%

The company can implement its CSR activities through the following methods:

- Directly alone
- Through its own non-profit foundation to facilitate this initiative
- Through independently registered non-profit organizations that have a record of at least three years in similar related activities
- Collaborate or group your resources with other companies
- Only CSR activities in India will be considered Activities exclusively for employees and their families will not qualify

A format was provided for the Governing Council's report on corporate social responsibility including, inter alia, activities, reasons for spending less than 2% of the net average earnings of the last three years and a declaration of responsibility related to the policy in CSR, the implementation and monitoring process meets the CSR objectives, in the letter and in the spirit. This must be signed by the Managing Director, the General Manager or a Director of the company

### 4.3. CSR and sustainability

Sustainability (corporate sustainability) is derived from the theory of sustainable development which is defined by the Brundtland Commission as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Corporate sustainability fundamentally refers to the role that companies can play in meeting the agenda of sustainable development and entails a balanced approach to economic progress, social progress and environmental Management.

CSR in India tends to focus on what is done with profits after they are made. On the other hand, sustainability is about factoring the social and environmental impacts of conducting business, that is, how profits are made. Hence, much of the Indian practice of CSR is an important component of sustainability or responsible business, which is a larger idea, a fact that is evident from various sustainability frameworks. An interesting case in point is the NVGs for social, environmental and economic responsibilities of business issued by the Ministry of Corporate Affairs in June 2011.

Principle eight relating to inclusive development encompasses most of the aspects covered by the CSR clause of the Companies Act, 2013. However, the remaining eight principles relate to other aspects of the business. The UN Global Compact, a widely used sustainability structure has 10 principles covering social, environmental, human rights and governance issues, and what is described as CSR is implicit rather than explicit in these principles.

Globally, the notion of CSR and sustainability seems to converge, as can be seen from the various CSR definitions presented by global organizations. The genesis of this convergence can be seen in the preamble of the recent draft of the rules on the corporate social responsibility clause in the companies Act 2013, which speaks about the stakeholders and integrates it with the social, environmental and economic objectives, all of which represent the idea of a triple bottom line approach. It is also recognised in the Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Companies issued by the DPE in April 2013. The new guidelines, which replaced two existing CSR and sustainable development guidelines, published in the 2010 and 2011 respectively, mentions the following: "Given that corporate social responsibility and sustainability are closely intertwined, it can be said that corporate social responsibility and sustainability are the commitment of a company with stakeholders to conduct business in an economically, socially and environmentally sustainable, to be transparent and ethical".

#### 4.4 The Rationale of CSR

To understand the drivers of CSR in developing countries and the considerations that have possibly dictated the imposition of mandatory CSR in India, it is important to highlight the rationale of socially responsible activities from the viewpoint of both the society and the corporation along with the need for regulatory oversight of such activities.

##### *CSR and Social Welfare*

At the societal level, it has been increasingly recognized that a company's economic activity must be integrated with social concerns. In fact, much of the CSR discourse takes place in terms of the relationship between business and society, the moral and ethical imperatives of companies that go beyond legal compliance, to contribute positively to society. Bowen (1953), one of the first academics to draw attention to corporate social responsibility, argued that private companies should be assessed exclusively in terms of "demonstrable contribution to general welfare". In terms of production of social goods, as a higher standard of living, and in the spread of economic progress and security. A similar topic was presented by Steiner (1971) who argued that while businesses are primarily economic institutions, they should also contribute to the achievement of social goals, and those responsibilities should increase with the size of the company. This line of thinking has evolved over the years and culminated in the perspective of stakeholders that the goal of a company should go beyond maximising profits for its shareholders and should be defined in relation to all of its stakeholders (customers, suppliers, employees, communities, etc.) including society in general (Freeman, 1984).

While much of CSR's argument from the societal point of view is based on moral and ethical considerations, there are also economic arguments that have been made for and against CSR. Friedman (1970) adopted the strongest position against companies engaged in CSR and claimed that it would be socially irresponsible for companies that maximize profits to participate in CSR; any diversion of funds to create social assets at the expense of shareholder returns would be tantamount to "theft". The implication of Friedman's thesis is that CSR would lead to allocating social inefficiencies and losses. On the other hand, a body of theoretical research has provided the economic justification for the social role of private companies in the provision of public goods through CSR. For example, Besley and Ghatak (2007), based on

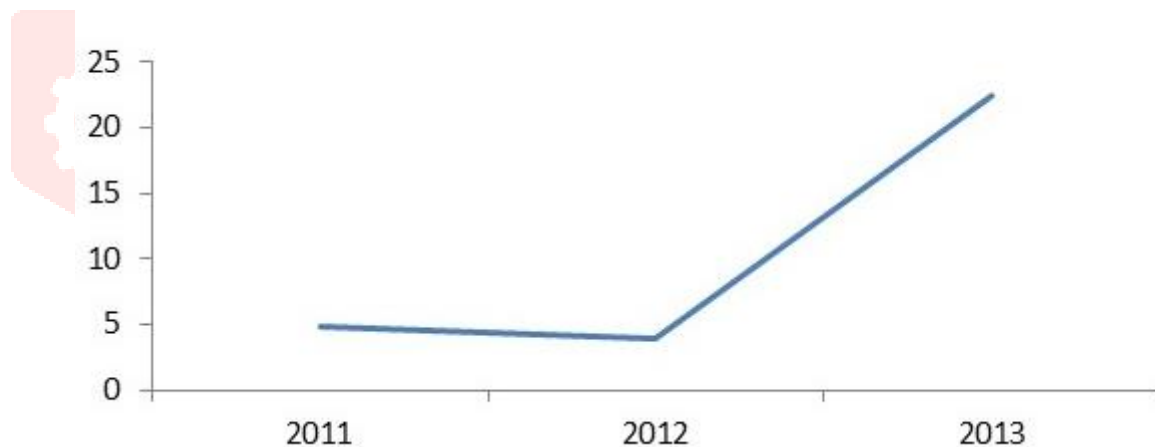
a theoretical model, argue that CSR is not different from the private provision of public goods, which can be an improvement of Pareto and that private companies' CSR will be potentially efficient when the procurement of public goods by governments is suboptimal.

The rationale of CSR in the case of developing countries extends beyond the standard topics, as outlined above, and explicitly includes the role that CSR can play in achieving the goals of developing poverty reduction and inclusive growth. For starters, there is no place for Friedman's CSR vision. On the contrary, the social function of developing companies in relation to that of government becomes an integral part of the discourse. In particular, CSR contributes to government resources and delivery mechanisms, either to complement them, ie to incorporate, or as substitutes, to fill the "governance gaps", especially where governments are weak, corrupt and lack resources and the institutions are weak (Visser, 2008, Blowfeld and Fyrnas, 2005, Matten and Moon, 2008). These arguments faithfully reflect the conclusions reached by Besley and Ghatak on the role of CSR, where public procurement might not be optimal for a number of reasons.

#### 4.6. Compulsory Disclosure of CSR Activities

Prior to 2012-13, many companies voluntarily donated and spent on community development and environmental pollution mitigation. It is only from 2012-13 that companies have started to allocate funds for CSR activities in particular. This was in response to the circular dated August 2012 by Securities and Exchange Board of India (SEBI), which ordered all 100 listed companies to include the business responsibility report as part of their annual report.

**Figure 1: Average CSR Expenditure by firms in (Million Rupees)**

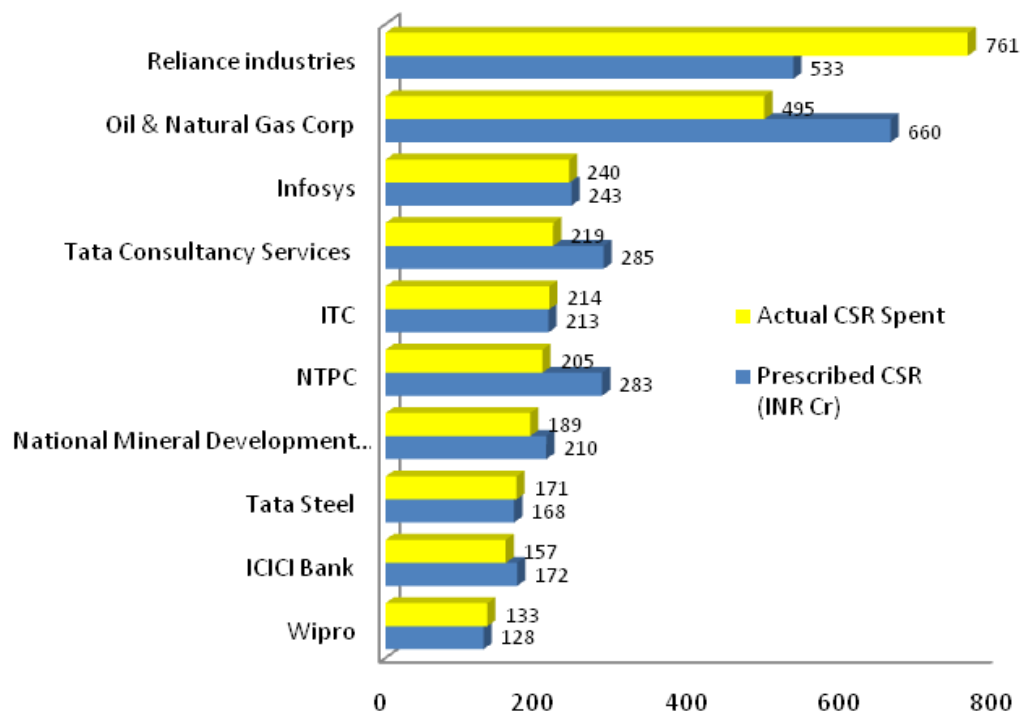


Source: compiled by authors

As revealed by above figure there was 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

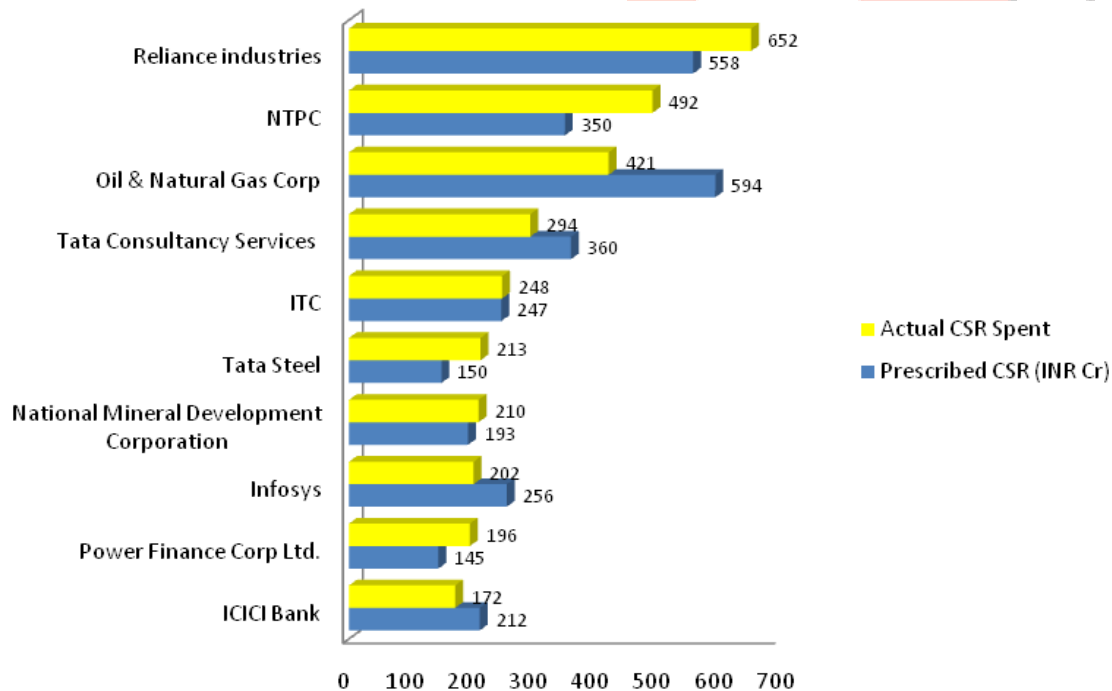
Top 10 companies by Actual and prescribed CSR Spent from financial year 2014-15 to 2016-17

Figure 2: Top 10 companies by Actual and prescribed CSR Spent in the financial year 2014-15



Source: compiled by authors

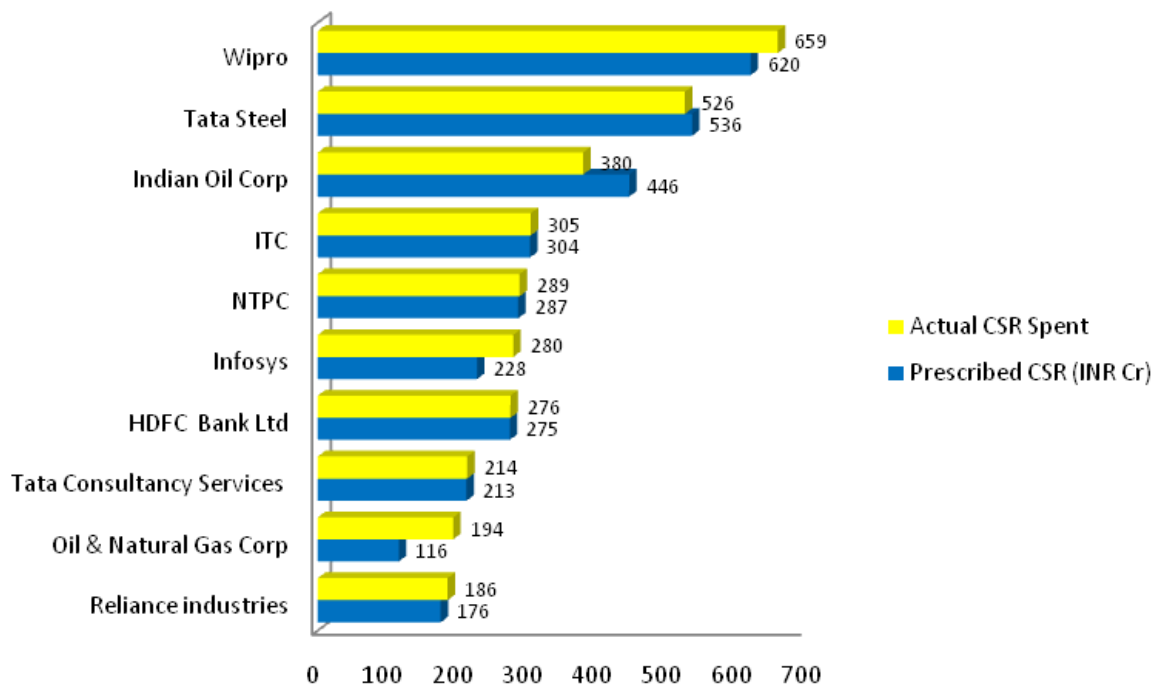
Figure 3: Top 10 companies by Actual CSR Spent in the financial year 2015-16



Source: compiled by authors

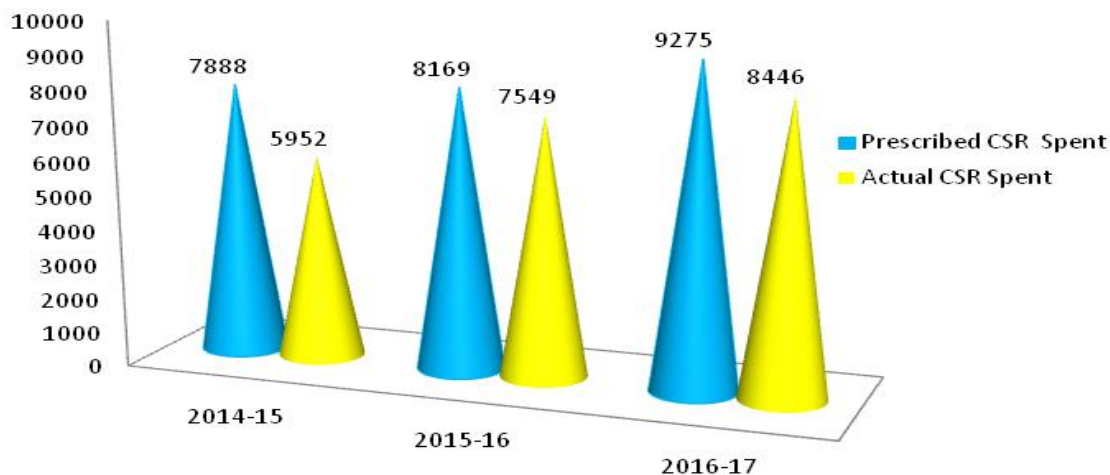
**Figure 4: Top 10 companies by Actual CSR Spent in the financial year 2016-17**

Source: Compiled by authors



These 10 companies together spent INR 3350 Cr in CSR while their prescribed CSR was INR 3064 Cr. This is almost 9% more than that what the section 135 asks for. In 2014-15 only Reliance industries and Tata steel has spent more than the prescribed CSR among the Top 10 performers. While 2015-16, we see five companies among the top 10, spending more than the prescribed CSR and financial year 2016-17 seven companies spent more than the prescribed CSR, this indicates that companies are ready to raise the bar for CSR projects.

**Figure 5: Total Prescribed and Actual CSR spent from financial year 2014-15 to 2016-17**

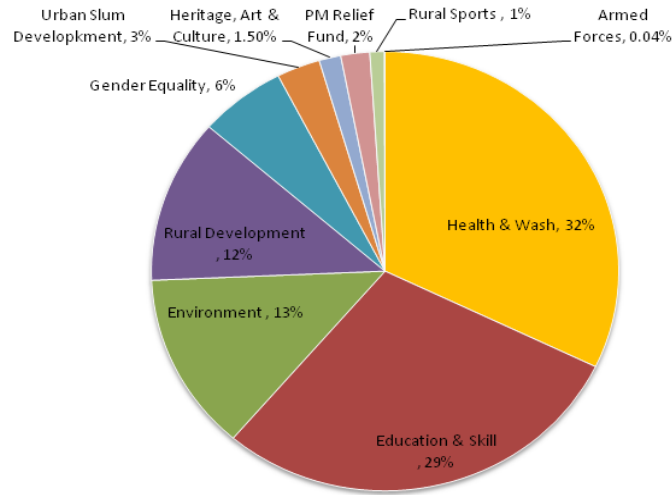


The prescribed amount of CSR In 2014-15 was 7888 which had increased to 9275 in financial year 2016-17 which clearly indicates the growth rate of 18%. Whereas the actual amount of CSR Spent in financial year 2014-15 was 5952 which had increased to 8446 in 2016-17 which indicates the growth rate of 42% in actual CSR Spent by companies from financial 2014-15 to 2016-17. The Amount of CSR spending by companies is on hike.

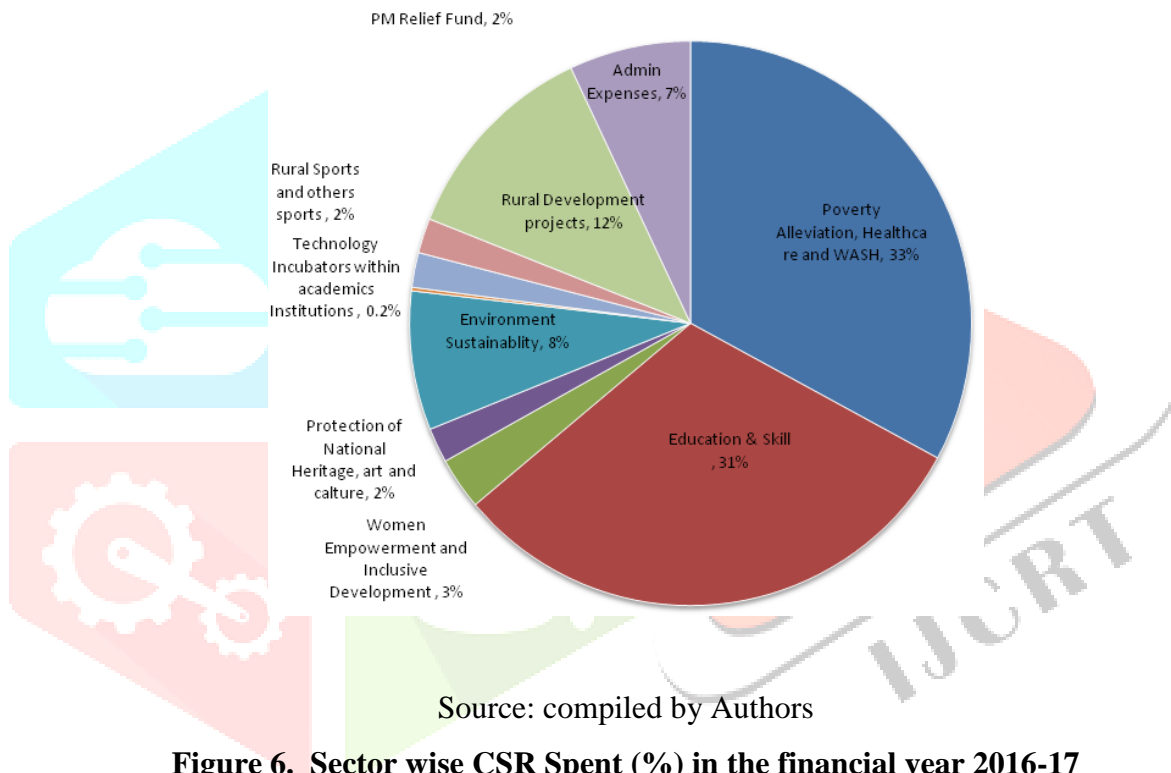
**4.7 Sector wise CSR Expenditure by Firms from financial 2014-15 to 2016-17**

Most companies invest in education, health & wellness, environment and rural development initiatives for the community, in and around their operation. The initiatives however differ across industries.

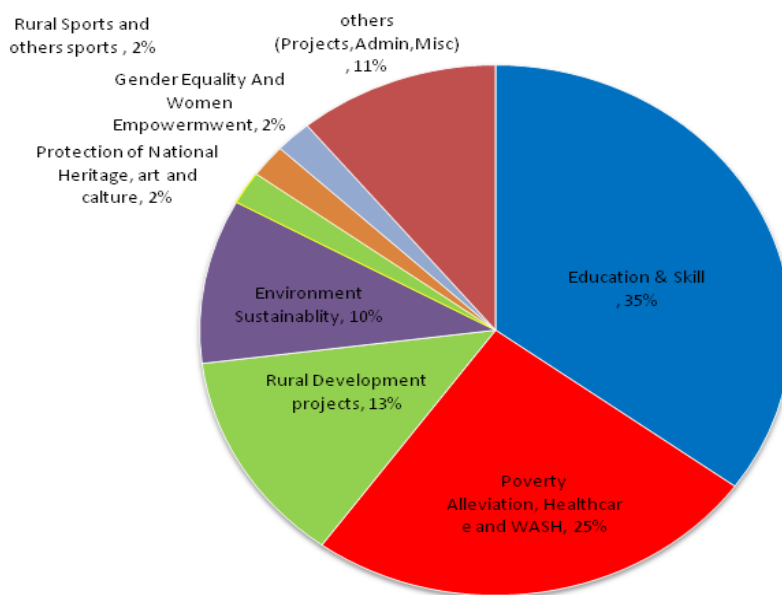
**Figure 2: Sector wise CSR Spent (%) in the financial year 2014-15**



**Figure 4: Sector wise CSR Spent (%) in the financial year 2015-16**



**Figure 6. Sector wise CSR Spent (%) in the financial year 2016-17**



Source: compiled by Authors



According to our study, we found that minimal investments were made for rural sports, veterans of the armed forces / war widows, the protection of national heritage and the elderly. This could be due to the fact that the intervention in these areas is relatively difficult and there are almost no precedents. However, it is commendable that a significant number of companies invest in critical areas to eradicate hunger and poverty and women empowerment.

**Education:** Most companies in all industries support the development / restoration of school infrastructure support, provide funds or scholarships or adopt schools. But from our study, we have found that some industries focus on other initiatives in education. For example, provide school uniforms, books, study accessories, etc

**Health & Wellness :** Similar to education, we observe that although all sectors have a significant investment in disease / disease specific control fields, the IT sector focuses on health awareness campaigns in Health and Wellness

**Environment:** Ten percent of total CSR spending were invested in environment sustainability in agro-forestry within Environment related investments, unlike other sectors that are primarily into tree plantation and conservation of natural resources to a lesser extent

## 5. Conclusion

CSR has gained prominence during recent years and it has the potential to bring a lures in the development of the economy. The concept has the potential to generate crore every year, which can stimulate investment in human and physical capital. With the increase in the fiscal deficit and losses in welfare systems, CSR tries to tackle society's problems in a profitable way. Currently, CSR spending is mainly done at the local level through the foundations established by the companies. This aligns CSR initiatives with the company's ideology and minimizes transaction costs for it. For an efficient use of the funds allocated to CSR and the full realization of potential benefits, these expenses require an address.

Despite the new Companies Act of 2013, which made spending 2% of its CSR profits mandatory, in recent years there has been a significant increase in CSR disbursement by firms. This can be attributed to companies' desire to project them as socially responsible. Corporate CSR spending is influenced by the industry to which they belong. Companies in polluting industries spend more on environment-related activities, while companies in the steel and energy sector spend more on developing the local community, as their projects cause large-scale displacement.

CSR activities of companies depended on the nature of their industry and limited themselves to the area in which the company are located. This was mainly determined by factors such as cost reduction and "visibility" among consumers. But this can change with the new law. Companies can be driven to diversify their operational areas and a part of the population that has lagged behind in the development process can reap great benefits from this

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