CHAPTER I

INTRODUCTION

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1. INTRODUCTION

Over the past few years CSR, as a concept, has been the focus of many deliberations and research. It has grown in importance both academically as well as in the business sense. It captures a spectrum of values and criteria for measuring a company's contribution to social development. As the term "CSR" is used continually, many complementary and overlapping concepts, such as corporate citizenship, business ethics, stakeholder management and sustainability, have emerged.

CSR has its roots in consumer consciousness and solidarity movements in developed consumer societies that saw elements of social and environmental exploitation in the behavior of major global enterprises, whether they were mining or natural resource exploration companies or retailers sourcing consumer goods and produce from cheap labour markets in the developing world.

The entirety of CSR can be discerned from the three words contained within its title phrase: 'corporate,' 'social,' and 'responsibility.' In broad terms, CSR covers the responsibilities corporations (or other for-profit organizations) have to the societies within which they are based and operate. More specifically, "CSR involves a business identifying its stakeholder groups and incorporating their needs and values within the strategic and day-to-day decision-making process. '

CSR is not a defined code or a toolkit to be employed in the manner of an operating manual. Rather, CSR is often a vision based on particular sets of values that business leaders often aspire to, and as such is more of an ever-changing philosophy, quite open to interpretation and re-thinking of business strategy based on decisions related to ethical values, legal compliance, respect for stakeholders, and supporting communities or nurturing environment. The multiple variables like stakeholder awareness, government initiatives, globalization and localization patterns, and the highly volatile business scenario, all have had a role to play in determining the centrality of CSR in today's business environment.

1.1 CORPORATE SOCIAL RESPONSIBILITY: CONCEPT

The concept of corporate social responsibility means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. A traditional view of the corporation suggests that its primary, if not individual, responsibility is to its owners, or stockholders. However, CSR requires organizations to adopt a broader view of its responsibilities that includes not only stockholders, but many other constituencies as well, including employees, suppliers, customers, the local community, local, state, and federal governments, environmental groups, and other special interest groups.

CSR encompasses the economic, legal, ethical, and discretionary responsibilities of organizations, business ethics usually focuses on the moral judgments and behavior of individuals and groups within organizations.

Organizations are expected to be efficient, profitable, and to keep shareholder interests in mind. The legal responsibilities relate to the expectation that organizations will comply with the laws set down by society to govern competition in the marketplace. Organizations have thousands of legal responsibilities governing almost every aspect of their operations, including consumer and product laws, environmental laws, and employment laws. The ethical responsibilities concern societal expectations that go beyond the law, such as the expectation that organizations will conduct their affairs in a fair and just way. This means that organizations are expected to do more than just comply with the law, but also make proactive efforts to anticipate and meet the norms of society even if those norms are not formally enacted in law.

Corporate social responsibility is not a new concept in India. However, what is new is the shift in focus from making profits to meeting societal challenges. Now-a-days, employees are actively participating in the social activities.

Corporate social responsibility is not a new concept in India. However, what is new is the shift in focus from making profits to meeting social challenges. Now-a-days, employees are actively participating in the social activities even on holidays. This is mainly because employees feel a sense of pride when they are involved in such activities. Giving a universal definition of Corporate Social Responsibility is bit difficult. On one hand, it exhibits the ethical behavior that an organization exhibits towards its internal and external stakeholders (customers as well as employees). On the other hand, it denotes the responsibility of an organization towards the environment and society in which it operates. Firms can no longer continue to exploit environmental resources and escape from their responsibility by acting as separate entities regardless of the interest of the society. Organizations, now, are realizing the need to shift their focus on the interest of society. The sense of being socially responsible has to come from within. CSR involves various voluntary efforts in which companies engage themselves in order to give something back to the society.

Corporate social responsibility offers manifold benefits both internally and externally to the companies involved in various projects. Externally, it creates a positive image amongst the people for its company and earns a special respect amongst its peers. It creates short term employment opportunities by taking various projects like construction of parks, schools, etc. Internally, it cultivates a sense of loyalty and trust amongst the employees in the organizational ethics. It improves operational efficiency of the company and is often accompanied by increases in quality and productivity. More importantly, it serves as a soothing diversion from the routine workplace practices and gives a feeling of satisfaction and a meaning to their lives. Employees feel more motivated and thus, are more productive. Apart from this, CSR helps ensure that the organization comply with regulatory requirements.

1.2 EVOLUTION OF CSR IN INDIA:

India has a long tradition of paternalistic philanthropy. The process, though acclaimed recently, has been followed since ancient times albeit informally. Philosophers such as Kautilya from India and Pre-Christian era philosophers in the West preached and promoted ethical principles while doing business. The concept of helping the poor and disadvantaged was cited in several ancient literatures. In the pre-industrialized period philanthropy, religion and charity were the key drivers of CSR. The history of CSR is almost as long as that of companies. Concerns about the excesses of the East India Company were commonly expressed in the seventeenth century. During the independence movement, there was increased stress on Indian Industrialists to demonstrate their dedication towards the progress of the society. Mahatma Gandhi introduced the notion of "trusteeship", according to which the industry leaders had to manage their wealth so as to benefit the common man. "I desire to end capitalism almost, if not quite, as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no make-shift, certainly no camouflage. I am confident that it will survive all other theories." Gandhi's influence put pressure on various Industrialists to act towards building the nation through socio-economic development.

According to Gandhi, Indian companies were supposed to be the "temples of modern India". Under his influence businesses established trusts for schools, colleges, hospitals and also helped in setting up training and scientific institutions. The operations of the trusts were largely in line with Gandhi's reforms which sought to abolish untouchability, encourage empowerment of women and rural development.

The industrial families of the 19th century such as Tata, Godrej, Bajaj, Modi, Birla and Singhania were strongly inclined towards economic as well as social developments. Culture, religion, family values, tradition and industrialization were they key influencers of CSR. It was observed that efforts towards social as well as industrial development were not only driven by selfless and religious motives but also influenced by political objectives.

However, the donations, either monetary or otherwise, were sporadic activities of charity or philanthropy that were taken out of personal savings, which neither belonged to the shareholders nor did it constitute an integral part of business. During this period, the industrial families also established temples, schools, higher education institutions and other infrastructure of public use. The term CSR itself came into common use in the early 1970s. The last decade of the twentieth century witnessed a shift in focus from charity and traditional philanthropy toward more direct engagement of business in mainstream development and concern for disadvantaged groups in the society.

Post-independence during 1960 to 1980 the element of "mixed economy", emergence of Public Sector Undertakings (PSUs) and laws relating labour and environmental standards gained importance. During this period the private sector was forced to take a backseat. The public sector was seen as the prime mover of development. Because of the stringent legal rules and regulations surrounding the activities of the private sector, the period was described as an "era of command and control". The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices which lead to enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure suitable distribution of resources (wealth, food etc.) to the needy, but this was effective only to a certain extent.

Expectations from the private sector rose again and their active involvement in the socio-economic development of the country became absolutely necessary. In 1965 Indian academicians, politicians and businessmen set up a national workshop on CSR aimed at reconciliation. They emphasized upon transparency, social accountability and regular stakeholder dialogues. In spite of such attempts CSR failed to catch steam.

During rapid industrialization in 1980 Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy.

In 1990s the first initiation towards globalization and economic liberalization were undertaken. Controls and licensing system were partly done away with which gave a boost to the economy the signs of which are very evident today. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing and able to contribute towards social cause. Globalization has transformed India into an important destination in terms of production, manufacturing and marketing. The overseas markets were becoming more and more concerned about labour and environmental standards in the developing countries. Indian companies who were into producing goods for the developed countries needed to pay a close attention to compliance with the international standards. The basic objective of social responsibility was to maximize the company's overall impact on the society and stakeholders.

CSR policies, practices and programs were being comprehensively integrated by companies throughout their business operations and processes. A growing number of companies felt that economy helped Indian companies grow rapidly but it was important for protecting the goodwill and reputation to increase business competitiveness.

Indian businesses have a very long tradition of ethical / responsible business. The most consistently quoted is the Tata Group (now 91 different companies). There are parallels to the great Quaker businesses in the UK like Rowntree and Cadbury - like Tata -created in the 19th Century - with a very strong, paternalistic and ethical philosophy. Tata, for example, introduced an 8 hour day in 1912 and paid leave in 1915. Besides Tata Group, the other companies which have adopted and followed the

CSR in India are: Wipro, Bajaj Auto Ltd., Larsen & Toubro, Sriram Investments, Otis Elevator Co. India, ACC, Asian Paints, Brook Bond, Colgate Palmolive, Escorts, SAIL, ITC etc. PSU’s have also taken up CSR initiatives at their own level. They have built entire townships around their plants (e.g. BHEL, Haridwar) opening up schools, colleges, hospitals, community centers etc

Largely the trusts and foundations that have been created in the name of CSR work at an arm’s length from the company preventing the mainstreaming of CSR into the core business processes and limiting CSR to community development only. Nearly all companies with CSR embedded in the core corporate activity do so because of company tradition rather than a company strategy leading to ad hoc and largely CEO-driven CSR policy. The third and most recent survey was conducted by Partners in Change (2004). The previous two surveys were conducted in 1996-97 and 1999-2000. The findings of the latest survey from a sample of 536 companies across India reveal that philanthropy is the most significant driver (64 per cent) of CSR, followed by image building (42 per cent), employee morale (30 per cent) and ethics (30 per cent) respectively.

There is another school of thought on CSR in India propounded by Reliance group, founded by Dhirubhai Ambani, which is opposed to CSR as such. "As an industrialist my job is", declared Dhirubhai, "to produce goods to satisfy the demand. Let us be clear about it. Everyone has to do his job. My commitment is to produce at the cheapest price and the best quality. If you dabble in everything then you make a mess of things. If we cannot take care of our shareholders and employees and start worrying about the world, then that is hypocrisy".

In India, CSR has evolved to encompass employees, customers, stakeholders and sustainable development or corporate citizenship. The spectrum of CSR includes a number of areas as human rights, safety at work, consumer protection, climate protection and caring for the environment, and sustainable management of natural resources. From the perspective of employees, CSR activities include providing health and safety measures, preserving employee rights and discouraging discrimination at workplace. This helps in fostering a healthy environment within the company. For example, after 1945, TATA implemented social welfare provisions for its employees that have since become the legislative norm. From the perspectives of customers, CRS activities may include commitment to product quality, fair pricing policies, and so.

CSR taken up by various genres of companies primarily focuses on poverty alleviation, environmental protection and sustained development. Companies are taking initiatives for developing infrastructure in rural areas, e.g., TATA Motors provides desks, benches, chairs, tables cupboards, electrical fittings and educational and sports material to various primary schools in Singur.

The company has also planned similar programmes to upgrade school infrastructure and is also planning to set up a computer laboratory in one of the high schools. Similarly, TVS Electronics was involved in CSR during the Tsunami to provide relief measures to the victims. They have also participated with the government to improve sanitation in a village called Tiruvidenthai. Such initiatives will help in improving the conditions of rural people. Satyam Foundation of Satyam Computer Services Ltd., Infosys Foundation of Infosys Technologies Ltd., GE Foundation of the General Electric Company are exemplary instances of the philanthropic commitment of the corporate sector in India. Irrespective of the profits they make, these foundations are aiming at uplifting of the poor and enhancing the standard of life in the rural sector.

The nature and scope of corporate social responsibility has changed over time. The concept of CSR is a relatively new one—the phrase has only been in wide use since the 1960s. But, while the economic, legal, ethical, and discretionary expectations placed on organizations may differ, it is probably accurate to say that all societies at all points in time have had some degree of expectation that organizations would act responsibly, by some definition.

In the eighteenth century the great economist and philosopher Adam Smith expressed the traditional or classical economic model of business. In essence, this model suggested that the needs and desires of society could best be met by the unfettered interaction of individuals and organizations in the marketplace. By acting in a self-interested manner, individuals would produce and deliver the goods and services that would earn them a profit, but also meet the needs of others. The viewpoint expressed by Adam Smith over 200 years ago still forms the basis for free-market economies in the twenty-first century.

In the century after Adam Smith, the Industrial Revolution contributed to radical change, especially in Europe and the United States. Many of the principles espoused by Smith were borne out as the introduction of new technologies allowed for more efficient production of goods and services. Millions of people obtained jobs that paid more than they had ever made before and the standard of living greatly improved. Large organizations developed and acquired great power, and their founders and owners became some of the richest and most powerful men in the world.

In the late nineteenth century many of these individuals believed in and practiced a philosophy that came to be called "Social Darwinism," which, in simple form, is the idea that the principles of natural selection and survival of the fittest are applicable to business and social policy. This type of philosophy justified cutthroat, even brutal, competitive strategies and did not allow for much concern about the impact of the successful corporation on employees, the community, or the larger society. Thus, although many of the great tycoons of the late nineteenth century were among the greatest philanthropists of all time, their giving was done as individuals, not as representatives of their companies. Indeed, at the same time that many of them were giving away millions of dollars of their own money, the companies that made them rich were practicing business methods that, by today's standards at least, were exploitative of workers.

Thus the evolution from CSR theory to CSR practice can be broken down into several phases.

1. Pressure building up against the businesses
2. Wave of awareness by the society and the stake holders
3. Realization of the responsibility by the businesses
4. Development of Policies and identification of best practices
5. Implementation of the policies
6. Development of several programs to implement

1.3 THEORIES AND MODELS:

A theory and model presents a systematic way of understanding events, behavior and situations. The theory and model can help and guide the researcher to develop effective instructional tactics and strategies. The study of CSR theory and model will helps to ascertain a connection between two or more types of phenomena any generalized and explanatory principle along with the best practices.

Some of the important theories of CSR are as follows.

1. **Political Theory of Corporate Social Responsibility:**

   The political theory of corporate social responsibility is based on assumptions about the "motivations of public officials and corporations. Political decision-makers orient their behavior towards constituencies that can provide valuable resources". "Elected officials seek resources that can help them get reelected". Appointed officials seek political support to perform their jobs effectively.

2. **Society Contract Theory:**

   The earliest elements of the notion of the existence of a ' social contract' are found in Plato's The Republic. However, the Social Contract Theory developed in the 17th century through Thomas Hobbes' Leviathan. Philosophers such as John Locke (1632-1704) and Jean-Jacques Rousseau (1712-1778) later expanded on Hobbes' work and developed it towards different directions. A social contract, with implicit and explicit terms, is conceived to exist between the organization and the public at large, not just merely its shareholders. Friedman (1962) prescribed that an organization's sole responsibility was to maximize profits for shareholders. In the past, a firm's profits were viewed as a measure of legitimacy.

3. **Stakeholders Theory:**

   Stakeholder theory, which McWilliams (2001) called 'the dominant paradigm in CSR', originated in response to one of CSR's most noteworthy critics, eminent economist Milton Friedman. In 1984, Freeman focused on the stakeholder view and propounded six categories: owners, employees, customers, suppliers, communities and governments. Other scholars have since included the natural environment as an additional stakeholder (Carroll and Buchholz, 1999-2000). Donaldson and Preston (199%) created a well-known stakeholder theory typology to argue for stakeholder engagement as an essential management tool.

4. **Economic Theory of Self Regulation**

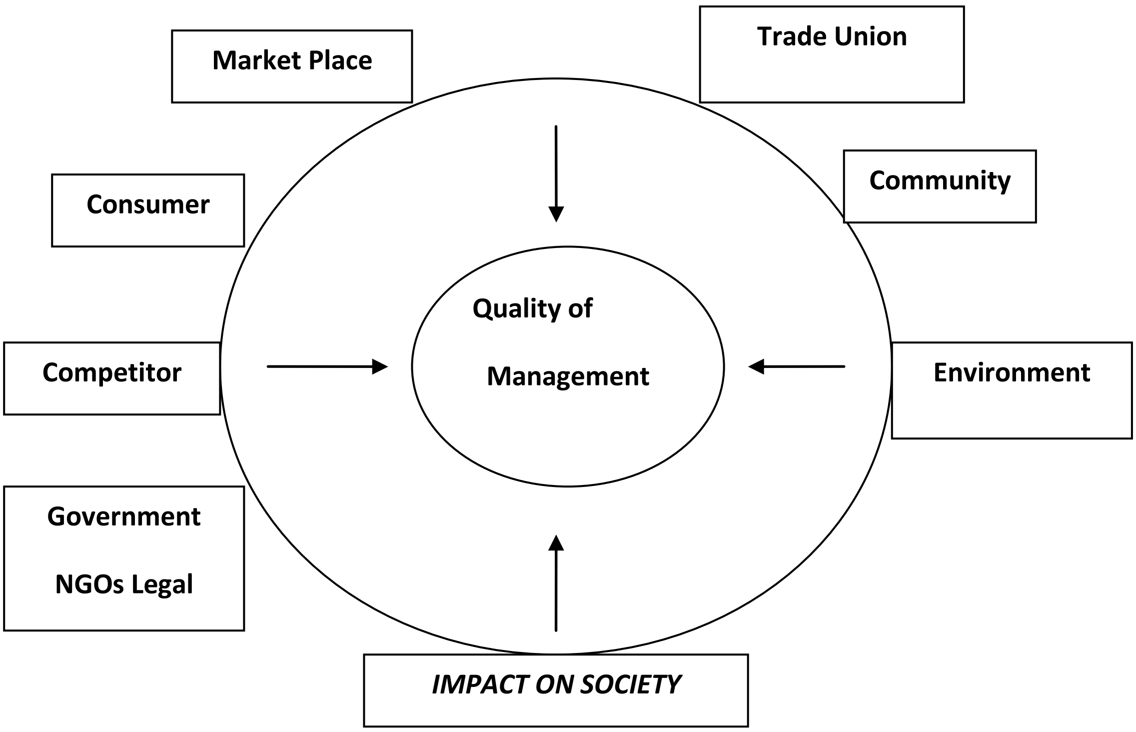
   In addition, certain CSR activities represent corporate self-regulation. In general terms, these most commonly are environmental and ethics efforts. "A more specific list of self-regulatory activities would include: The adoption of business ethics codes or codes of conduct; efforts to ensure racial, ethnic, and gender diversity; transparency and accountability measures; compliance with labor laws and protection of human rights.

1.4 Models of CSR:

Some of the important models of CSR as follows

1. **Stakeholder Model Of Corporate Social Responsibility:**

In all business entities, several individual or institutions have their interest. These interest groups are known as stakeholder. Some of the important stakeholders are shareholder, customers, employee, trade union, government, local community etc. these stakeholders are influenced by the action and of a corporation. If any of the decision or action results in some negative impact of any of the stakeholder, business is held responsible. Thus, stakeholder theory holds that business does not work in isolation. Different constituents of external environment are directly related to operations of an organization. The stakeholder model of corporate social responsibility can be explained by following diagram:



The concept of corporate social responsibility is based upon the principals of responsiveness and concern of enterprises for the negative impact on people and society created by their decisions or actions. Corporate social responsibility is also understood as being responsive to the harm if any created to people and society because of corporate decisions and actions.

2. **The neoliberal, neo-Keynesian, and radical political economy approaches:**

   In defining CSR, neoliberal writers tend to see it fundamentally as the adoption of a set of voluntary policies, codes or guidelines, initiated and driven by the corporation. For example, the Australian Treasury, in a Submission to the Joint Parliamentary Inquiry on CSR, defined CSR as a company's management of the economic, social and environmental impacts of its activities' (Australian Government, Parliamentary Joint Committee on Corporations and Financial Services 2006)

   The neoliberal discourse around CSR generally shares the view articulated by Milton Friedman in the **New York Times on September**13, 1970:'… there is 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, engages in open and free competition without deception or fraud.

   Much of the discourse about CSR in business and management publications shares this assumption. For example, the neoliberal journalist Janet Albrechtsen writing in an opinion piece for the

1.5 MAIN COMPONENTS OF CSR:

The scope of CSR is conceptually quite unbound at the present time. The debate between the private sector, civil society and governments focuses on a few key issues. As there is no single, commonly accepted definition of CSR, there is also no commonly accepted classification of the main components of CSR.

1. **Environmental Protection:**

   Over the past several years, environmental responsibility has expanded to involve substantially more than compliance with all applicable government regulation or even a few initiatives such as recycling or energy efficiency. Many citizens, environmental organization and leadership companies now define environmental responsibility as involving a comprehensive approach to a company's operation, maximizing the efficiency and productivity of all assets and resources; and minimizing practices that might adversely affect the enjoyment of the planet's resources by future generations.

2. **Labor Security:**

   It includes freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced and compulsory labor; the effective abolition of child labor; and the elimination of discrimination in respect of environment and occupation.

3. **Human Rights:**

   Business practices can profoundly affect the rights & communities. The main focus is on developing workplaces free from discrimination where creativity and learning can flourish decent codes of professional conduct, and where a proper balance can be maintain between work and other aspects of our lives. Behaving irresponsibly on the issue of the issue of human right could be costly because their reputation and bottom line is at stake. This is also related to globalization and increasing international trade and challenge of findings ways of doing business word – wide that respect human right and social justice and facilitate the appropriate development of the emerging economies. Countries are expected to support and respect the protection of international human right within their sphere of influence; and sure their own corporation is not complicit in human right abuses. So, socially responsible management practices may contribute directly to profits.

4. **Community Involvement:**

   It includes: community partnership, employee giving, global community involvement, philanthropy, product and services donation, release time, volunteerism etc. Corporate Community involvement refers to a wide range of actions taken by companies to maximize the impact of their donated money, time, products, services, influence, management knowledge and other resources on the communities in which they operate. When strategically designed, and executed, these initiatives not only bring values in local communities where they have significant commercial interests – as well as around the world.

5. **Business Standards:**

   Cover a broad area of corporate activities such as ethics, financial returns, environment protestation, and human rights and labor standards. The standards are usually accepted at corporate, business association, industry or country level. The risk of international trade, globalization, and instant communication has led to increasing pressure from various groups for the formation of global business conduct standards.

6. **Market place:**

   Marketplace issues, as they relate to corporate social responsibility, ex tend across a wide range of business activities that define a company's relationship with its customers. These activities may be grouped into six categories; (1) product manufacturing and integrity; (2) disclosure, labeling and packaging; (3) marketing and advertising; (4) selling practices; (5) pricing; and (6) distribution. In each of these areas, companies are retooling their business strategies to address new issues such as privacy and technology, marketing to children, heightened expectations for product safety and environmental impact, increased scrutiny by consumers and non – governmental organization, and the steady globalization of the consumer movement.

7. **Enterprise And Economic Development:**

   This broad concept includes: competitiveness, development of local Sees, entrepreneurship, community economic development, micro finance in emerging economies etc. the drive of entrepreneurs in developing countries can provide the catalyst to life and economy onto an upward growth spiral. In many cases, however, the lack of an enabling business framework and a scarcity of support structures for new businesses can work their wealth of financial, technical, and managerial expertise, are being called upon to provide a focal point of support for local businesses.

8. **Health Promotion:**

   The workplace is now recognized as an important setting for health promotion in industrialized countries, and interest is growing in the wider role that business can play as a partner in health development. Private sector business plays a dominant role as the driver of current global economic development, and globalization is bringing new social and economic challenges. for those concerned with promoting well – being, it is essential that policies and programs are adjusted to address this new reality and that the business community is, as far as possible, engaged as a partner in the promotion of well – being.

9. **Education and Leadership Development:**

   As education is one of the key elements of sustainable development and pro poor growth, business, working together with public sector and civil society, can make an important contribution to providing an access to quality education for all. Companies can also make more critical impact on the development process by raising standards in corporate education and leadership development, and bringing best practices to their partners in developing and transitional economies.

10. **Disaster Relief:**

    Companies, in co – operation with public sector, civil society, and international organization, have played an important role in supporting humanitarian relief operations. Due to the rising cost, threat and complexity of the consequences of major disasters on society, the key players to utilize more development oriented approach.

1.6 GLOBALIZATION and CSR:

The globalization is affecting the CSR in a great way, some of the major aspects are as follows

1. **World Trends in CSR Demand & Supply:**

   The European Commission has established a "European Multi-stakeholder Forum" to exchange best practices and explore the European approach to CSR. Corporate progresses towards greater responsibility have always been the result of both push and pull forces. Business leaders pulled their organizations to higher standards and, their counterparts in society pushed for change. Pascal Lamy, EU's Commissioner for Trade strongly advocates that in order to extend the limited societal benefits of CSR practices it needs to be integrated into broader strategies and public policies.

2. **CSR and WTO Requirements**:

   CSR is one of the responses to the imbalances resulting from the acceleration of the globalization process. Imbalance between the advanced governance systems in industrialized countries, who dispose of a highly sophisticated set of economic and social regulations, and the lack of such governance in developing countries as well as at international level.

   International growth of business and the efforts of WTO to remove global barriers has also pressurized the smaller economies to become competitive. Big business entities are not only concerned about their CSR strategies, companies are also keen to ensure that their suppliers, distributors and even consumers are informed about the company's ethical and social performance.

   Investment groups have also started pressing the companies on their social issues. They require disclosure on wide range of CSR issues including environment responsibility, workplace policies, community involvement, human rights practices, ethical decision making and corporate governance.

3. **Business Case:**

   The business case for CSR is now a reality proven through a number of researches. Case studies of organizations all over the globe have clearly identified a linkage between socially responsible practices and greater financial gains. The challenge is to create companies that have the vision and capacities to create socially and environmentally responsible business models that can outperform competitors who do not accept this challenge.

4. **Brand Image and Reputation:**

   Companies or brands with good image and clearly defined strategy on corporate social responsibility attract a large number of customers. A socially responsible organization can benefit from its good reputation amongst its customers and is also recognized as a respectful entity in their business community. Increasing their ability to attract investment and trading partners. Saves revenue on advertising to restore brand image and increase financial viability through increase share prices.

5. **Growing Sales and Customer loyalty:**

   The common concerns of the customers include price, quality, appearance, taste, availability safety and convenience. CSR has created potential incentives for entrepreneurs who can now cater a growing market segment of ethically motivated consumers who are inclined to value based criteria.

6. **Productivity and Quality Enhancement:**

   Companies that invest in the working conditions and environmental friendly atmosphere and also involve the employees in decision making tend to have an increase in productivity. Employee loyalty and dedication results in effective man hour utilization and hence increase in quality.

7. **Employee Retention:**

   Companies perceived to have strong CSR commitments often find it easier to recruit employees, particularly during tight labour markets. Retention levels may be higher, too, resulting in a reduction in turnover and associated recruitment and training costs.

8. **Less Scrutiny by Regulatory Bodies:**

   Another important advantage observed in case of organizations practicing corporate social responsibility is that they are less scrutinized by the regulatory authorities and are given prompt treatments and extra benefits.

1.7 GOVERNMENT REALIZATION OF IMPORTANCE OF CORPORATE OF CORPORATE SOCIAL RESPONSIBILITY:

The Companies Act 1956 was revamped with the New Companies Act 2013, the Act of Parliament received the assent of the President on the 29th August, 2013. The New Companies Act 2013 has also introduced a new Section on Corporate Social Responsibility (CSR), Section 135, making CSR mandatory for all Companies operating in India, with an eligible criterion based on their finances.

The criterion is simple every company having net profit or profit before tax (PBT) of Rs 5 crores or more, net worth of Rs 500 crores or more, or turnover of Rs 1,000 crores or more, during any financial year shall constitute a Corporate Social Responsibility Committee on the Board, consisting of three or more directors, out of which at least one director shall be an independent director.

The rules further say that CSR is not charity or mere donations. The companies should use CSR to integrate economic, environmental and social objectives with the company's operations and its growth. The CSR committee shall formulate its CSR policy, based on which activities and specific budget would be allocated. The programmes implemented would be monitored and reported through company's website and annual report. 2% CSR spending would be computed as 2% of the average net profits made by the company during the preceding three financial years. Companies have to carry out and report their CSR initiatives for the financial year 2014 – 2015 and so the assessment year would be 2015 – 2016. The reporting or governance is simple "State what you will do, report what you did".

1.8 COMPANY CEASES TO BE COVERED UNDER SECTION 135

Rule 3(2) of the Corporate Social Responsibility Rules, 2014 provides that every company which ceases to be a company covered under section 135(1) of the Act for three consecutive financial years shall not be required to:

a) Constitute a CSR Committee ; and
b) Comply with the provisions contained in subsection (2) to (5) of the said section till such time it meets the criteria specified in sub section (1) of Section 135.
c) Accordingly, if a company, for 3 consecutive years, ceases to be covered under the ambit of section 135(1), it shall not be required to fulfill the conditions relating to the constitution of CSR Committee and other related provisions.

1.9 RECENT AMENDMENT TO CSR RULES AND SOME RELEVANT VIEWPOINTS:

- **Impact Of Changes To CSR Rule 4(2) On Mode Of CSR Spending:**

The Ministry of Corporate Affairs recently notified on 23rd of May, 2016 through G.S.R. 540(E) that the Central Government amended the Companies (Corporate Social Responsibility Policy) Rules, 2014, as follows, which shall come into force on the date of its publication in the Official Gazette.

It states that Rule 4 sub rule (2) shall be substituted, namely:—

"(2) The Board of a company may decide to undertake its CSR activities approved by the CSR Committee, through

(a) a company established under section 8 of the Act or a registered trust or a registered society, established by the company, either singly or along with any other company, or

(b) a company established under section 8 of the Act or a registered trust or a registered society, established by the Central Government or State Government or any entity established under an Act of Parliament or a State legislature :

Provided that

- if, the Board of a company decides to undertake its CSR activities through a company established under section 8 of the Act or a registered trust or a registered society, other than those specified in this sub-rule, such company or trust or society shall have an established track record of three years in undertaking similar programs or projects; and,

the company has specified the projects or programs to be undertaken, the modalities of utilization of funds of such projects and programs and

1.10 GROWING NEED TO STRATEGIES CSR:

Today CSR requires strategic intervention due to impact it is expected to create. Increase in CSR spends and scale has made it even more important for companies to carefully look at CSR plan and delivery. CSR around the world follows four approaches, which could be categories as Link to Business, Delink from Business, Address nations pressing problems or address the local community needs. The most popular now in India is Link to Business, which helps companies integrate CSR as part of its business strategy and present a win-win situation at both ends. This approach expedites focused social development, creates stronger financial performance and higher understanding of social & environmental dimensions of a company's performance.

Thus help build effective partnership, integrate and enrich supply chain, establish a company as employer of choice and improve relationship with its stakeholders to harness open dialogue with transparency. Today company's financial performance has direct effect on its social equity and this process is more sincere and pragmatic. Correcting one's actions are very crucial for survival and effective growth "what got you here won't get you there" (book title written by Marshall Goldsmith) Companies are building specialized CSR teams to formulate policies, strategies, goals and budget. Themes and programs are often determined by values, philosophy and policies of the company. Mere programs of employee's engagement will not be enough to fulfill a company's CSR commitment; it would require regular and structured interventions.

1.11 INTEGRATING SOCIAL AND ORGANIZATIONAL VALUES THROUGH CSR:

CSR professionals need to balance and recognize the links between the society welfare and the success of the organization. They need to examine the opportunities which should be designed to benefit the organization as well as the community, now and in future. To build a stronger commitment it is important to integrate CSR into key business areas, by identifying and managing the positive and negative impact of business activities on the society. If a company wants to integrate and drive CSR throughout the organization, it needs to align its social responsibility strategies and goals with organizational objectives. This will embed CSR within the business culture to sustain the strategy over the long term.

It is important to evaluate potential and complex impacts due to social and environments initiatives before investing. This will help build a clear action plan and avoid deviation. Identifying current vulnerabilities and predict future pitfalls related to business practices would be useful to identify your core CSR theme areas.

A CSR approach can help improve corporate governance, transparency, accountability and ethical standards. Companies are global ambassadors of change and values. Technology offers opportunities to improve dialogue and partnerships. Consumers and investors are showing increasing interest in supporting responsible business practices and are demanding more information on how companies are addressing risks and opportunities related to social and environmental issues.

People in many countries are making it clear that corporations should meet the same high standards of social and environmental care, no matter where they operate. At the same time, there is increasing awareness of the limits of government legislative and regulatory initiatives to effectively capture all the issues that CSR address. Businesses are recognizing that adopting an effective approach to CSR can reduce the risk of business disruptions, open up new opportunities, drive innovation and enhance brand.

The Ministry of Corporate Affairs, Government of India has recently notified the Section 135 of the Companies Act, 2013 along with Companies (Corporate Social Responsibility Policy) Rules, 2014 "hereinafter CSR Rules" and other notifications related thereto which makes it mandatory (with effect from 1st April, 2014) for certain companies who fulfill the criteria as mentioned under Sub Section 1 of Section 135 to comply with the provisions relevant to Corporate Social Responsibility. As mentioned by United Nations Industrial Development Organization (UNIDO), CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line-Approach"), while at the same time addressing the expectations of shareholders and stakeholders; both internal and external.

Moreover, while proposing the Corporate Social Responsibility Rules under Section 135 of the Companies Act, 2013, the Chairman of the CSR Committee mentioned the Guiding Principle as follows: "CSR is the process by which an organization thinks about and evolves its relationship with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental and social objectives with the company's operations and growth."

1.12 THE STATUS OF CSR IN THE ORGANIZATION:

HR leaders can influence three primary standards of CSR i. ethics, II employment practices and III community involvement – that relate either directly or indirectly to employees, customers and the local community, as outlined below. By considering these three CSR standards, HR leaders can then identify the CSR stage of their organization before making decisions to develop and implement CSR initiatives.

1. Ethics – Ethical standards and practices are developed and implemented in dealings with all company stakeholders. Commitment to ethical behavior is widely communicated in an explicit statement and is rigorously upheld.

2. Employment Practices – Human resource management practices promote personal and professional employee development, diversity at all levels and empowerment. Employee are valued partners, with the right to fair labor practices, competitive wages and benefits and a safe, harassment-free, family-friendly work environment.

3. Community Involvement – The Company fosters an open relationship that is sensitive to community culture and needs and plays a proactive, cooperative and collaborative role to make the community a better place to live and conduct business.

Table 1 : Stages of CSR in the Organization*

Stage 1	Introduction	Introducing and understanding CSR concepts and how they interact with company values and business objectives/ goals.
Stage 2	Exploration	Understanding CSR's implication in the business.
Stage 3	Development	Planning and creating a CSR strategy.
Stage 4	Implementation	Putting CSR into practice.
Stage 5	Evaluation	Measuring and monitoring performance, looking for continues improvement.

***Source:** Adapted from Corporate Social Responsibility, Making Good Business Concern for Sustainable Development, January 2000, www.wbcsd.org

1.13 RELEVANCE OF CSR IN TODAY WORLD:

CSR as a strategy is becoming increasingly important for businesses today because of three identifiable trends:

1. **Changing social expectations**:

Consumers and society in general expect more from the companies whose products they buy. This sense has increased in the light of recent corporate scandals, which reduced public trust of corporations, and reduced public confidence in the ability of regulatory bodies and organizations to control corporate excess.

2. **Increasing affluence:**

   This is true within developed nations, but also in comparison to developing nations. Affluent consumers can afford to pick and choose the products they buy. A society in need of work and inward investment is less likely to enforce strict regulations and penalize organizations that might take their business and money elsewhere.

3. **Globalization**:

   The growing influence of the media sees any 'mistakes' by companies brought immediately to the attention of the public. In addition, the Internet fuels communication among like-minded groups and consumers—empowering them to spread their message, while giving them the means to co-ordinate collective action (i.e. a product boycott).

   These three trends combine with the growing importance of brands and brand value to corporate success (particularly lifestyle brands) to produce a shift in the relationship between corporation and consumer, in particular, and between corporation and all stakeholder groups, in general.

   The result of this mix is that consumers today are better informed and feel more empowered to put their beliefs into action. From the corporate point of view, the market parameters within which companies must operate are increasingly being shaped by bottom-up, grassroots campaigns. NGOs and consumer activists are feeding, and often driving, this changing relationship between consumer and company.

   CSR is particularly important within a globalizing world because of the way brands are built—on perceptions, ideals and concepts that usually appeal to higher values. CSR is a means of matching corporate operations with stakeholder values and demands, at a time when these values and demands are constantly evolving.

   CSR can therefore best be described as a total approach to business. CSR creeps into all aspects of operations. Like quality, it is something that you know when you see it. It is something that businesses today should be genuinely and wholeheartedly committed to. The dangers of ignoring CSR are too dangerous when it is remembered how important brands are to overall company value; how difficult it is to build brand strength; yet how easy it can be to lose brand dominance.

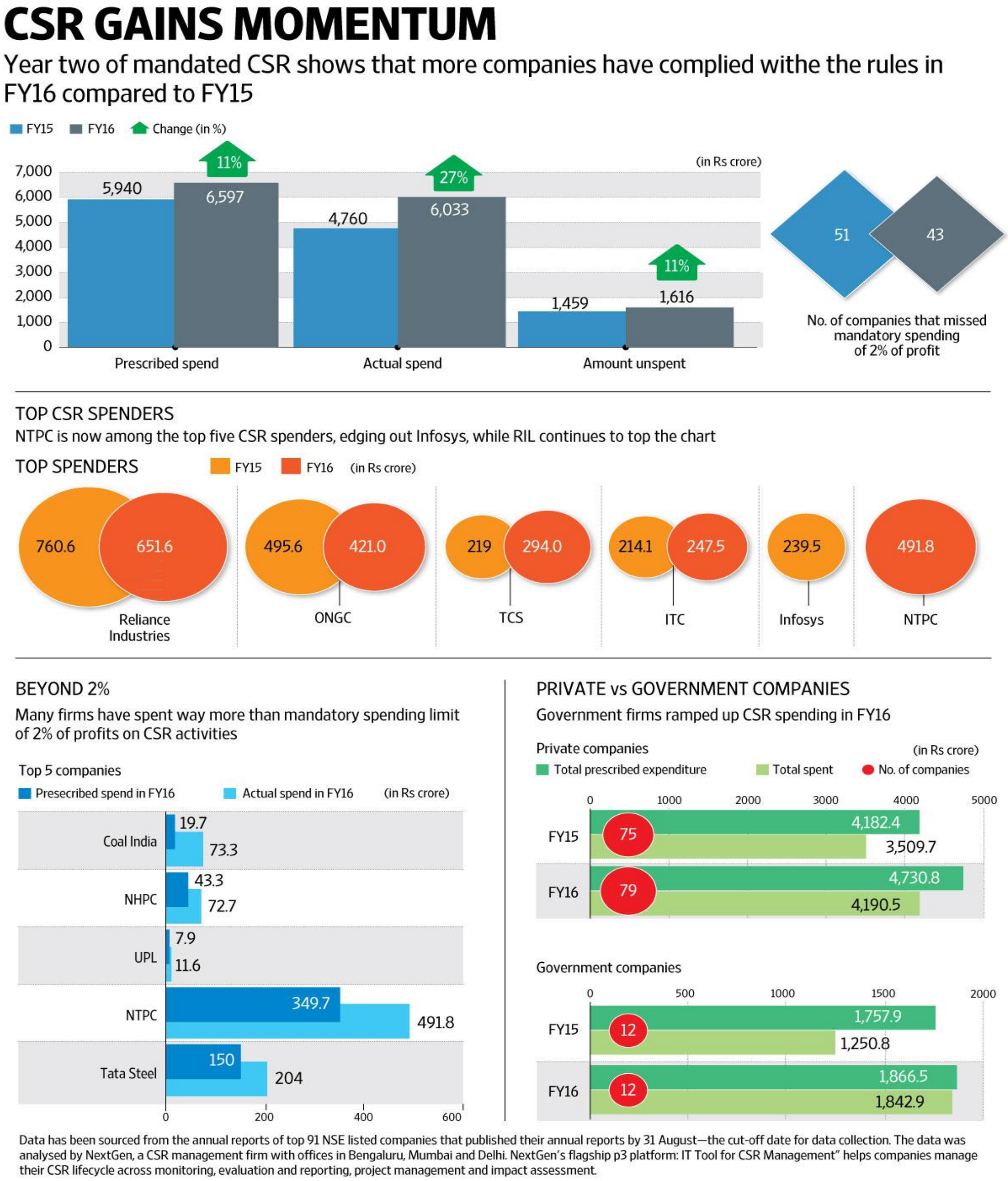
   CSR is, therefore, also something that a company should try and get right in implementation.

1.14 CSR SPENDING STATUS IN THE FINANCIAL YEAR 2016

The financial year 2016 saw an overall increase in fund allocation for corporate social responsibility (CSR) activities and focused expansion of CSR projects. When CSR Rules came into force, the 100 top firms listed on National Stock Exchange (NSE) spent a total of Rs 4,760 crore on CSR activities. The figure rose to Rs 6,033 crore in year two, as per data sourced from the annual reports of the top 91 NSE-listed companies by market capitalization and analyzed by NextGen Pvt. Ltd, a CSR management firm.

The spending by these 91 companies—those that had published their annual reports by 31 August, the cut-off date for data collection—was compared with their spending in the previous year. The latter set may not necessarily have been among the top 91 in financial year 2015. The remaining nine companies among the top 100 have either not released their annual reports or follow a different financial year.

Twenty-six of the 91 firms showed that their total CSR spending had exceeded 2% of their profits. The number stood at 21 in Financial Year 2015.



CSR Rules, which came into effect on 1 April 2014, state that companies with a net worth of Rs500 crore or revenue of Rs1,000 crore or net profit of Rs 5 crore should spend 2% of their average profit in the last three years on social development-related activities such as sanitation, education, health-care and poverty alleviation, among others, which are listed in Schedule VII of the Rules.

As per the report CSR legislation and its reporting mandate had led to a kind of "negative reinforcement" that will continue to increase corporate spending on social development. As per the analysis the top spenders more or less remained the same. Reliance Industries Ltd (RIL), which was the highest spender in financial year

2015 at Rs760.6 crore, remained on top with an allocation of Rs 651.6 crore to CSR in financial year 2016.

Similarly Oil and Natural Gas Corp. Ltd (ONGC) was among the top five spenders in 2015 at Rs495.2 crore and was among the top five in 2016 at Rs421 crore. A number of firms that failed to meet the 2% target in 2015 surpassed that in 2016. Coal India Ltd (CIL), which was required to spend only Rs19.7 crore in 2015-16, spent Rs73.3 crore instead. Similarly, India's largest power producer NTPC Ltd missed the 2% target in financial year 2015, when it spent Rs193.05 crore instead of the Rs 271.35 crore it was required to allocate to social development activities. In 2016, NTPC spent Rs 491.8 crore, which was 3.62% of its profit.

Apart from the increase in overall CSR spending by companies, the trends did not change dramatically. As Ganapathy pointed out, education, health, sanitation and rural development remained key focus areas of CSR initiatives. CSR spending of the firms on education and skill development was Rs1,703.9 crore in 2016—an 11% jump from Rs1,532.2 crore in 2014-15, according to data analyzed by NextGen.

1.15 CONCLUSION:

In nutshell it can be concluded that Corporate has as obligation to society as they impact environments, institutions and a variety of stakeholders. The modern corporation exerts considerable influence on the civil society, polity and the economy of a nation.

The responsibility to society is different from the responsibility it has towards selected segments of society like shareholders, customers, employees, dealers, suppliers, Government, etc., all of whom are stakeholders in one form or the other. These stakeholders are benefited because they directly contribute towards the activities and success of the organization.

Corporate leadership can demonstrate a high degree of commitment to the core values of the business and empower their managers to incorporate the same. It is the responsibility of the top management of the company to articulate the principles of CSR and ensure companywide programmes for creating strategic groups within the organization.

There is a need to spend out a message that corporate social action is not incompatible with profit, provided that the norms of transparency are introduced by the corporation