

Corporate Social Responsibility (CSR) in India- Issues and Challenges

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Abstract

Companies that are spending more than the limit of two per cent set under Section 135(5) of the Indian Companies Act 2013 can sell or trade the surplus to those companies which have failed to meet their annual quota. The recent initiatives of the present Government at the Centre seems certainly encouraging. It has directed its public sector undertakings to earmark certain percentage of their annual budget for the furtherance of the CSR Corporate Social Responsibility is a business approach which enables the company to satisfy and improves the morale of company as well as society. In present scenario, organization face issues in fulfilling CSR as the business environment has become very complex and is bound with many legal obligations. **The Companies (Amendment) Bill, 2020 has been passed by the Lok Sabha on September 19, 2020 and the Rajya Sabha on September 22, 2020. This Bill has done away with some of the draconian changes proposed earlier under clause 21 of the Indian Companies (Amendment) Act 2019 'criminalizing' certain defaults in compliance under the Indian Companies Act 2013. At the same time, it has made spending two per cent of the average net profits of the company during the three immediately preceding financial year's mandatory, albeit with certain relaxations.** This amendment also appears to tie-in with the vision of the proposed new Social Stock Exchange in India. Companies which are spending more than the mandatory two percent of their pre-tax profits on Corporate Social Responsibility (CSR) may soon be able to trade this excess CSR expenditure. This has also been recommended by market watchdog SEBI¹'s activities. The present paper highlights the emerging perspectives of Corporate Social Responsibility in India. The paper also highlights the emergent need of focused, structured and monitored CSR in Indian society which is large size, divergent and a greater section of which is still under privileged. The government focus is to be brought on compliances and impact assessment. The attention is to be paid on a mechanism which looks after the distribution of benefits to all needy in a rational manner. Corporate Houses² may not be left on their wisdom to select area and subject on which they can work upon under CSR.

Keywords: *Social Responsibility, Companies, Corporate Social Responsibility, Issues & Challenges.*

Introduction

Taking into account the need for a sustainable development, Corporate Social Responsibility (CSR) has become an extremely important subject not only for companies but also for communities and public

¹ The Securities and Exchange Board of India was established as a statutory body in the year 1992.

² Corporate houses: It is a term in the relocation industry that implies renting a furnished apartment or corporation on a temporary basis.

policy. In a globalized economy, taking into account the fierce³ competition, CSR is often considered a very important premise for businesses to gain and sustain competitive advantages. In its communication "Towards a global partnership for sustainable development", the Commission has stressed that globalization may result in negative effects if it goes uncontrolled. CSR public policies may help shape globalization in a positive way by promoting good company practices that complement public efforts for sustainable development. The Commission stressed that to be sustainable, development must strike a balance between the economic, social and environmental objectives of society, in order to maximize well-being in the present, without compromising the ability of future generations to meet their needs. Nowadays it is very important to start doing business in a responsible way. In this context, Corporate Social Responsibility (CSR) has grown in importance for organizations because their most important stakeholders expected that through their work they aim not only economic, but also environmental, social and community issues, which are relevant for them. As a response to social, environmental and economic pressures, an increasing number of European organizations are promoting their corporate social responsibility strategies. In its contribution to the March 2005 Spring Council, the European Commission⁴ recognized that CSR "can play a key role in contributing to sustainable development while enhancing Europe's innovative potential and competitiveness".

Definitions of corporate social responsibility (CSR)

What does corporate social responsibility (CSR) mean? This term may refer to a lot of issues. Therefore, there is no single definition of this concept. Although this term is not new, it has evolved conceptually both in academic literature and in business.

- The neo-classical sustainers⁵ considered that the ultimate social responsibility of business is profitability, if done in an ethical way and in obedience to the law.
- Milton Friedman - the Nobel Prize winning Economist – and other neo-classical sustainers of the concept known as the 'shareholder model' argued that companies are not responsible for society as a whole. They considered that only individuals have social responsibilities, while companies seek only the welfare of shareholders. "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." (Milton Friedman, 1970). The shareholder model has been cast doubt by scholars.

Bowen (1953) introduced the idea of social responsibilities of business people in a wider sphere than pure profit-seeking. He was one of the first authors who attempted to define CSR. According to Bowen, CSR is the policies, the decisions, and the actions that align with the goals and values of society. At the beginning of the twentieth century social performance was linked with the market performance in order for business to create a rich and healthy society. The pioneer of this view was Oliver Sheldon. He encouraged management to take the initiative in raising both ethical standards and justice in society through the ethic of economizing (1923, cited in Bichta, 2003). By doing so, business

³ Fierce – strong, dangerous.

⁴ Spring council, the European Commission- It is the executive body of the European Union responsible for proposing legislation, implementing decisions, upholding the treaties and day-to-day management of the UN.

⁵ The neo- classical sustainers- The basic assumption is that the physiological and social aspects of a worker as an individual and his workgroup ought to be focused on. Sustainers are someone who upholds and maintains.

- Provides wealth in society and increases its standard of living whilst retaining a satisfactory level of profit.
- Corporate social responsibility (CSR) is a self-regulating business model⁶ that helps a company be socially accountable to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.
- To engage in CSR means that, in the ordinary course of business, a company is operating in ways that enhances society and the environment instead of contributing negatively to them.

ISO 26000⁷

- In 2010, the International Organization for Standardization (ISO) released ISO 26000, a set of voluntary standards meant to help companies implement corporate social responsibility. Unlike other ISO standards, ISO 26000 provides guidance rather than requirements because the nature of CSR is more qualitative than quantitative, and its standards cannot be certified.
- ISO 26000 clarifies what social responsibility is and helps organizations translate CSR principles into practical actions. The standard is aimed at all types of organizations, regardless of their activity, size, or location. And because many key stakeholders from around the world contributed to developing ISO 26000, this standard represents an international consensus.

Examples of Corporate Social Responsibility

- Starbucks⁸: Starbucks has long been known for its keen sense of corporate social responsibility and commitment to sustainability and community welfare. According to its 2020 Global Social Impact Report, these milestones include reaching 100% of ethically sourced coffee, creating a global network of farmers and providing them with 100 million trees by 2025, pioneering green building throughout its stores, contributing millions of hours of community service, and creating a groundbreaking college program for its employees.
- Home Depot⁹: As part of its annual reporting on ESG¹⁰, Home Depot highlighted its achievements on focusing on its employees, operating sustainably, and strengthening its communities. In fiscal year 2020, it invested over \$2 billion in increased salaries and benefits to enhance its employee well-being. It also reduced energy consumption by 14% from the year prior and is on track to reduce company-wide emissions by 40% by 2030.

⁶ CSR is a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public.

⁷ ISO 26000: 2010 Guidance on social responsibility is an international standard providing guidelines for social responsibility.

⁸ Starbucks – Starbucks Corporation is an American multinational chain of coffee houses and roaster reserves headquartered in Seattle, Washington. It is the world's largest coffee house chain.

⁹ Home Depot – The Home Depot, Inc., is an American multinational home improvement retail corporation that sells tools, construction products, appliances and services.

¹⁰ ESG – Environmental, Social, and Governance. It refers to a set of standards for a company's behavior used by socially conscious investors to screen potential investments.

- General Motors: In 2021, General Motors was placed on the Bloomberg General Equality Index for a fourth consecutive year as well as being placed in Diversity Inc.'s top 50 companies for diversity for a sixth consecutive year. In addition, it has planned for a \$35 billion investment from 2020 to 2025 in electric vehicles and aims for 100% renewable electricity at U.S. sites by 2025.

The Purpose and Objectives of the Research

- The purpose of research is to study the knowledge and development of Corporate Social Responsibility (CSR). Among the objectives set by the research, I would like to highlight three that are directly related to this paper:
- Determining the knowledge level regarding the concept of CSR.
- Identifying ways of planning and organizing CSR activities.
- Drawing relevant conclusions and recommendations.

Social Responsibility

In simple words social responsibility means an intelligent and objective concern for the welfare of society that limits or prevents individual and corporate behavior from ultimately destructive activities, no matter how immediately profitable and leads in the direction of positive contributions, wherever feasible, to ...

Social responsibility is an ethical or theory that an entity, be it an organization or individual, has an obligation to act to benefit society at large. Social responsibility is a duty of every individual or organization has to perform so as to maintain a balance between the economy and the ecosystem. Social responsibility means sustaining the equilibrium between the two. It pertains not only to business organizations but also to everyone who's any action impacts the environment. This responsibility can be passive¹¹, by avoiding engaging in socially harmful acts, or active, by performing activities that directly advance social goals.

There is no definition of the concept of social responsibility, which is valid for all business concerns and for all times. This is because responsibilities of business should be related to the changing social expectations, which is dependent upon the social, political and other environmental factors, which are dynamic too. However, a review of some definitions would be useful to understand the concept of social responsibility.

According to Raymond Bauter, "Social responsibility is seriously considering the impact of the company's actions on society". This definition is quite broad and provides a frame of reference which suggests that business responsibility to the society goes beyond simply assuming the profit-making role.

Archie B. Carrol is of the view that "the social responsibility business encompasses the economic, legal, ethical and discretionary expectations placed on organizations by society at a given point time".

The Pros and Cons' of Social Responsibility Of Business Follows

- The most powerful argument against social responsibility is that business has profit maximization as its main objective. Since business operates in a world of scarce¹² resources, the

¹¹ Passive – denotes lack of action.

¹² Scarce – Deficient in quantity or number compared with the demand.

economic efficiency of business is a matter of top priority and should be the sole mission of business.

- Business's function is economic, not social and economic values should be the criteria used to measure success. In this kind of system, it is assumed that managers are agents of the stockholders¹³ and all their decisions are controlled by their desire and obligation to maximize profits for the stockholders and to safeguard the company, while complying with law and' social custom.

Top Companies for CSR in 2021

- Godrej Consumer Products Limited: Godrej Consumer Products Ltd. (GCPL) spent Rs. 34.08 crore on CSR initiatives in FY 2020-21. The company's CSR initiatives reached over 2.77 lakh people from the most vulnerable communities.
- Infosys Limited: Infosys Limited is an early adopter of CSR in India. It has been undertaking most of its CSR initiatives through Infosys Foundation, which was established in 1996, way before CSR was mandated in the country. In FY 2020-21, the company spent Rs. 325.32 crores on its CSR initiatives.
- Wipro Limited: Wipro implements its CSR programs happen through multiple channels, majority of them being through Wipro Foundation. The company spent Rs. 251 crores for CSR in the last financial year.
- Mahindra & Mahindra Ltd.: Mahindra & Mahindra Ltd. invested Rs. 92.78 crore in various CSR projects across India during FY 2020-21. This amount does not include Rs. 20 crore donation made by the company to the PM CARES Fund in FY 2020. M&M Ltd.
- Toyota Kirloskar Motor India: Toyota Kirloskar Motor (TKM) was established in India in 1997, as a joint venture between Toyota Motor Corporation Japan and the Kirloskar Systems Limited.

Ways of Planning and Organizing CSR Activities:

- Choose the right people for the CSR activities management.
- Create a strategic planning¹⁴ for your CSR activities.
- Communicate the CSR activities in several channels.
- Make sure your CSR activity message is inclusive and accessible to all.
- Associate your brand with a specific CSR activity

¹³ Stock holders – A stock holders is also known as a shareholder of a company or an individual that owns at least one share of an organization's capital stock.

¹⁴ Strategic planning - It is a process in which an organization's leaders define their vision for the future and identify their organization's goals and objectives.

List of Permitted Activities to be included in accordance with schedule VII of the Companies Act, 2013

The Board shall ensure that the activities included by a company in its CSR Policy fall within the purview of the activities included in schedule VII. Some activities are specified in Schedule VII as the activities which may be included by companies in their Corporate Social Responsibility Policies. These activities are related to: Eradicating poverty, hunger and malnutrition, promoting health care which includes sanitation and preventive health care, contribution to the Swachh Bharat Kosh set up by the Central Government for the promotion of sanitation and making available safe drinking water.

Improvement in education which includes special education and employment strengthening vocation skills among children, women, elderly and the differently-abled and livelihood enhancement projects.

- Training to stimulate rural sports, nationally recognized sports, Paralympic sports¹⁵ and Olympic sports.
- Contribution to the Prime Minister's National Relief Fund (PM-CARES)¹⁶ or any other fund set up by the Central Government for socio-economic development providing relief and welfare of the Scheduled castes, the Scheduled tribes and backward classes, minorities and women.
- Contribution to incubators¹⁷ or research and development projects in the field of science, technology, engineering and medicine, funded by the Central Government, State Government, Public Sector Undertaking or any agency of the Central Government or State Government.
- Rural development projects.
- Slum area development.
- Disaster management, including relief, rehabilitation and reconstruction activities.

Fines and Penalties for Non-Compliance

In case a company fails to comply with the provisions relating to CSR spending, transferring and utilizing the unspent amount, the company will be punishable with a minimum fine of Rs 50,000 which may increase to Rs 25 lakh. Further, every officer of such company who defaults in the compliance will be liable for a punishment which is imprisonment for a term which may extend to three years or with a minimum fine of Rs 50,000 which may increase to Rs 5 lakh, or with both.

¹⁵ Paralympic sports – It comprise all the sports contested in the summer and winter Paralympic games.

¹⁶ PMNRF – It was established entirely with public contributions and does not get any budgetary support. It accepts voluntary contributions from Individuals, Organizations, Trusts, Companies and Institutions etc.

¹⁷ Incubator – It is an organization that helps startup companies and individual entrepreneurs to develop their businesses by providing a full scale range of services starting with management training and office space and ending with venture capital financing.

CSR Benefits and Challenges

Responsibility towards Shareholders only

People confuse the objective of a business with the concept of Corporate Social Responsibility. Some entrepreneurs say that the sole aim of the business should only lie in the interest of the stakeholders. Anything done out of this objective violates the fundamental principles of the business and moreover is not acknowledged in the eyes of the community. An organization has the responsibility to earn as much profit as it can for the shareholders or the owners. It is totally accountable to the shareholders of the business. How can a business forgo this basic purpose just for the sake of society or how can it even make a decision that undermines the basic objective of the business?

Failure of the public to recognize organizations through CSR

Even if the activities of the organization benefit the society, the actual benefit is totally negligible in the eyes of the community. Companies that work in this direction never get the due credit for it. Moreover, Corporate Social Responsibility should result in a positive outcome that benefits both society and the organization as a whole.

Input not Equal to the Output

The input provided by the organizations in the business for the community is far less than the output received. But if they use the same input for earning purposes, the organization will end up making huge profits for themselves. The public always fails to see the good deeds of the organization made for the betterment of society. It always denies them the appropriate appreciation and acknowledgment for their work.

Mentality of Consumers

Many organizations work in the best interest of the community and the environment. But the consumers always think that the business is done for some secret objective which is for their own good. So the hard work of the organization is never recognized. Hence, there is no point of working day and night for the benefit of society. No matter what, the organization is criticized by society even if they are actively involved in socially responsible projects.

Carroll's pyramid suggests that corporate has to fulfill responsibility at four levels – Economic, Legal, Ethical and Philanthropic: XI

- **Economic Responsibility:** The lowest level of the pyramid represents a business's first responsibility, which is to be profitable. Without profit, the company would not be able to pay their workers; employees will lose their jobs even before the company starts CSR activities. Being profitable is the only way for a company to be able to survive long term, and benefit society. Additionally, this also means that it is a company's duty to produce goods and services that are needed/wanted by the customers, at a reasonable price.
- **Legal Responsibility:** The second level of the pyramid is the business's legal obligation to obey the law. This is the most important responsibility out of the four levels as this will show how companies conduct their business in the marketplace. Employment laws, competition with other companies, tax regulations and health and safety of employees are some examples of the legal responsibilities a company should adhere to. Failing to be legally responsible can be very bad for businesses.

- **Ethical Responsibility:** The ethical layer of the pyramid is described as doing the right thing, being fair in all situations and also avoiding harm. A company should not only be obeying the law, but it should also do their business ethically. Unlike the first two levels, this is something that a company is not obligated to do. However, it is best for a company to be ethical as this not only shows their stakeholders that they are moral and just, but people will feel more comfortable purchasing goods/services from the company as well. Being environmentally friendly, treating suppliers/employees properly are a few examples of being ethically responsible.
- **Philanthropic Responsibility:** At the top of the pyramid, occupying the smallest space is philanthropy. Businesses have long been criticized for their carbon footprint, their part in pollution, using natural resources and more. To counterbalance these negatives, they should "give back" to the community they take from. Even though this is the highest level of CSR, it should not be taken lightly as many people would want to do business with companies that are giving back to society. Philanthropic Responsibility is more than just doing what is right, but it is something that holds true to the company's values, to give back to society.

Conclusions and Recommendations

The current context of economic development, changes faced by the domestic and international organizations require their traditional attitude change in relation to the results and performance activity. In the context of globalization and fierce competition, social responsibility entails legal, ethical, economic or other accountability to expectations that society has towards companies and also make decisions that balance the needs of all stakeholders. The study conducted on identifying the knowledge and implementation of the concept of CSR found that the surveyed organizations are still at the beginning of their change process regarding the implementation of corporate social responsibility practices. In the research it was found that although organizations largely acknowledge social responsibility, most have not yet been able to plan and implement CSR-oriented management practices.

Taking into account the research results obtained, in line with all the above-mentioned, we provide some recommendations which may accelerate CSR:

- More concern and involvement in the planning process of CSR practices and their integration in the business strategy.
- Identifying business opportunities and competitive advantages that can be obtained by CSR implementation.
- Appropriate organization of CSR activities and nominating the department / service / people responsible for CSR activities.
- Developing a CSR strategy to be integrated into the business strategy.
- Implementation of CSR commitments that flow from the CSR assessment and strategy.
- Creating communications plans and make commitment public.
- Partnerships between the higher educational system and business environment. It is very important to encourage the dialogue on this subject between the business and education in order to understand and promote CSR principles and practices. In this context, integrating CSR into education, training and research is a must.

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