



# Corporate Social Responsibility: Concepts, Realities & Challenges in India

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## Abstract:

*Corporate Social Responsibility or CSR is nothing new as it dates back to the time of Koutilya & is embedded in Indian culture but certainly it is an idea which was not given that much emphasis which it commands now. This article attempts to examine & to develop a comprehensive meaning of CSR, understanding it in today's corporate scenario which is rapidly changing & also to understand various challenges posed to or by CSR. CSR is now one of the widely talked about topics in modern world but no unified definition has yet been made, this is due to various differences existing from one country to the other or even within the same countries having a variety of cultures like in India so the article gives an insight of the debatable topic as to what CSR is?. This article also gives an insight of the recent policy change in respect of CSR with the introduction of mandatory provisions-Section 135 on CSR in Companies Act 2013.*

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**Keywords:** Corporate Social Responsibility, Section 135 of Companies Act 2013

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## 1. Introduction

Corporate Social Responsibility or CSR as we call it has now become the matter of concern for corporate across the globe. Gone are the days when corporate entities could consider themselves as isolated from the society. Whatever they do, they do it for society & with the help of society & its members only, and so corporate cannot avoid their responsibility towards its various stakeholders that ranges from shareholders to public at large. Many corporate take & realize their responsibility towards society but many don't & this leads to creation of various policies & provisions by Governments & various regulatory & compliance authorities to ensure that such corporate do not avoid their responsibility but at the same time question arises 'if it is RESPONSIBILITY than why it is imposed it has to be something that comes from within as a call of conscience that is why the article also talks about the mandatory provision as introduced in Companies Act 2013 and also its implications as to coverage.

## 2. Meaning of CSR

The most traditional form of CSR is philanthropy or donations but CSR is much wider than just donating. The whole concept of CSR as a philanthropic activity has gone through a complete change. CSR has now become a balancing activity of economic, environmental & social goals & at the same time not compromising with the expectations of the stakeholders.

Various authors/researchers have defined CSR in their own way but none of the definitions can be taken as conclusive due to the existence of various Macro level differences i.e. differences from one country to another to Micro level differences i.e. differences within the same country.

CSR as a whole can be defined as a combination of all the activities that serves the society & ensures long term & sustainable growth of the entities. CSR, in broad summary, is the ethical

behavior of a company towards society. In particular, this means management acting responsibly in its relationships with other stakeholders who have a legitimate interest in the business – not just the shareholders. Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.<sup>1</sup>

CSR may include the following **activities/areas**

- Commitment to human values
- Providing quality products to consumers
- Generating employment & accelerating growth
- Adhering to basic values of doing business without any deception
- Contributing to the quality of life
- Ensuring social justice
- Being fair & moral
- Taking care of the environment
- Supporting human rights
- No discrimination on grounds such as race, age, gender, color, ethnicity etc & providing equal opportunities
- Consistent with the laws of land & not conflicting with them
- Indulging into free & fair competition
- Acting with integrity & honesty
- Providing timely & accurate information
- Developing formal codes of conduct for efficient governance of the entity

The above list is not exhaustive & may include many other related activities & areas in its folds.

### 3. Literature Overview

Smith N. C. (2003) observed that majority of firms find CSR a compelling act & for some an unavoidable one too, he studied various opportunities & threats as posed by CSR. He raised questions about the activities those which do not contribute any return to shareholders.

**D'Amato A, Henderson S**, Florence contended that businesses are now becoming more conscious about their relationship with society, CSR is at top agenda of senior business managers.

**Jamali D, Mirshak R (2007)** found that even after having good intentions many of the companies perform amateurish & have not developed comprehensive targets for CSR. CSR in developing countries require more systematic planning.

**Sahoo C** concluded CSR is narrowly viewed in terms of philanthropy & community development, she maintained that it's time for the corporate to take CSR as their own step rather a state imposed condition.

**Khanna P, Gupta G (2011)** suggested that CSR is not a tactic of brand building rather it directly goodwill building, they suggested that CSR should not be seen as something superadded rather as a core of all business activities.

**Ghose S (2012)** developed a positive correlation between sales & CSR investment & suggested that companies should be judged beyond the legal requirements of the system.

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<sup>1</sup> <http://www.wbcds.org/pages/edocument/edocumentdetails.aspx?id=82&nosearchcontextkey=true>

Mishra S, suggested that CSR should satisfy the stakeholders & should not only be a means of self-satisfaction, business organizations can't do good to all social ills but they should make good for the ills created by them.

**Wang L (2011)** emphasized on CSR as a more ethical & responsible way of doing business, CSR serves as the control instrument at top level of management & recommended the use of values proposition & connection for interpretation of CSR. He also specified the harmony approach to CSR that emphasizes virtues rather than selfish material desires

**Thomas G. Nowak M.** in their working paper developed various definitions of CSR ranging from 1920 & onwards. They actually piled up various definitions & try to establish a meaningful sense for CSR & its understanding. Major definitions that they compiled are Business for Social Responsibility (America's largest organization devoted to CSR), Prince of Wales Business Leaders Forum, Prince of Wales Business Leaders Forum, Anonymous respondent to an Accountancy Ireland survey.

#### **4. Section 135, Companies Act 2013-Critical Evaluation**

Now with the introduction of a mandatory provision in the companies act the scenario of CSR might change but the real question is as to what extent this section is effective. As per section 135 of the act every company having net worth of rupees **five hundred crores** or more, or turnover of rupees **one thousand crores** or more or a net profit of rupees **five crores** or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. The prime purpose of this committee is to ensure that board of the company makes every endeavor that the company spends at least two percent of its average net profits<sup>2</sup> in pursuance of its CSR policy. Also provided that if the company fails to comply with the requirements of this section the board shall specify in its report the reasons for such non compliance. The act also specifies the activities in form of schedule VII to be undertaken by the company for pursuance of its CSR goals.

#### **5. Challenges ahead**

1. The very first argument that can be raised is 'what if the company does not spend that 2% of average net profit'-The act doesn't not provide any penal provisions for such non compliance, at most it asks is a disclosure & reasons thereof for such non compliance & in a country like India where misuse of law is not very uncommon the directors can very easily escape their responsibility by assigning some vague reasons.
2. Also there is no clarity as to what a company suppose to do next year of the amount that it could not set aside in the previous year-should it vanish or should it be carried forward next year as a liability over the company, also the period to which such non compliance & reasons thereof can be used as a shield for non contribution is not given.
3. Another issue that may creep in is 'what if a company sets aside two percent of its average annual profits but could not spend the entire two percent'-should it carry forward the unutilized amount to use in next year or not?
4. One more point is that the threshold limits of Turnover (Rs. 1000 cr.), Net worth(Rs 500 cr.) & Net profit(Rs 5 cr.) is likely to cause problems for some small enterprises those though do not have such huge net worth or turnover but may be due to their excellent resources(managerial or otherwise) are able to reach the threshold limit of profit would be covered under the provision seems a little unjustified.

<sup>2</sup> To be calculated as per section 198 of the Act

## 6. Suggestions

After going through the discussion above as a concluding note following recommendations can be made.

1. Companies should themselves understand that adhering to CSR & Good Corporate Governance practices is in their best interest only.
2. Government interventions should be minimized but again this can only happen if corporate entities realize their responsibility.
3. As far as section 135 of companies act is concerned there is need to have a re look at this since some small sized enterprises would unnecessarily be covered under its purview.
4. Some punitive actions should also be provided in case of non compliance with the requirements of section 135.
5. CSR should be directly linked to some benefit scheme so that even companies feel enthusiastic about it.
6. Attempts should also be made to develop a comprehensive definition of CSR sp as to decide which activities are CSR & which are not.

## 7. Conclusion

The area of CSR is constantly evolving with additions to theory & empirical works. The paradigm of CSR has changed a lot as compare to some 10-20 years ago. Companies have now become more conscious about the society & various stakeholders. As far as India is concerned Government has also come into action & the enactment of companies act 2013 is a classic example of that with a whole section & schedule dedicated to CSR activities. Contributing to CSR will directly enhance the reputation of a company but CSR goes beyond this. India's corporate base is rapidly growing where not only Indian but many MNCs are expanding so various challenges are awaiting for the officials & Government bodies to tackle & CSR is one of them. The debate is never ending as to what activities should be included under CSR & whether it should be made mandatory or be left discretionary with government having a close eye on corporate but as a whole & in its true sense, Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders.

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