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# IMPACT OF CORPORATE SOCIAL RESPONSIBILTY (CSR) ON ORGANISATIONAL PERFORMANCE

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## ABSTRACT

CRS is a driving engine for social progress, which helps companies live up to their responsibilities as global citizens and local neighbors in a fast-changing world. And acting in a socially responsible manner is more than just an ethical duty for a company, but is something that actually has a bottom line pay-off. It depicts the business's role in building a better future is recognized and encouraged by society.Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.There is a clear impact on the financial,ethical,social and organizational development of Business Company by (the Corporate Social Responsibility (CSR).

**Key Words**:Social progress,Global citizen,Economic development

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## INTRODUCTION

Corporate Social responsibility or CSR as known is more widely discussed, debated and reviewed topic in the business, Government and even NGO organizations. It has developed from an ethical concepts to a much needed policy framed program implementation strategy. The starting point for the WBCSD's work is based on the fundamental belief that a coherent

Corporate Social Responsibility (CSR) strategy, based on sound ethics and core values, offers clear business benefits. Sustainable development rests on three fundamental pillars: economic growth, ecological balance, and social progress.

Apart from assessing the scale, scope and implementation of specific CSR policies and institutional arrangements, it is important to consider the wider developmental implications of CSR. There is a fairly generalised perception shared by many individuals and organizations promoting CSR, that both CSR and partnerships, in any shape or form, must be good for social development and environmental protection, and therefore, for development more generally.

*The CSR agenda tends to be somewhat “Northern-driven” and focuses on a fairly narrow set of issues, sectors and companies. Various social and environmental issues or business activities of concern to workers and communities in developing countries may not get much attention.
*Important gender issues often get sidelined. These relate not only to specific concerns and needs of women workers but also the participation of women in trade unions and other negotiating and political processes associated with CSR.
*Small and medium-sized firms in developing countries that form part of TNC supply chains are often expected to pay the costs of CSR. TNCs or Northern consumers may do little if anything to share these costs. Moreover, TNCs and large Northern retailers continue to impose onerous conditions on suppliers in terms of price and delivery schedules. CSR may reinforce trends involving the concentration of corporate power by squeezing small firms from supply chains and concentrating production in larger firms with greater capacity to implement CSR initiatives.
*CSR may have protectionist implications by restricting access of Southern firms to Northern markets.
*CSR and partnerships may enhance the competitive advantage of TNCs at the expense of firms in developing countries.
*The CSR agenda often ignores the bigger picture or the structural causes of underdevelopment, such as certain macro-economic policies, inequitable power structures, and injustices in North-South relations, as well as patterns of investment and economic growth that have negative social and environmental impacts.
*Many developing-country governments, constrained by international pressures associated with debt servicing and “down-sizing”, are unable to develop the type of regulatory and incentive structures that would encourage CSR.
*Voluntary CSR initiatives are often dissociated from national planning processes related to development strategy or poverty reduction and their design and implementation lack inputs from key development actors or “stakeholders”.

## INDIA and CSR

India becomes first country to mandate CSR

**New legislation in India requires companies, including Tata and Birla, to spend at least 2% of their net profits on corporate social responsibility (CSR) projects**

Under s.135 of the Companies Act 2013, which came into force on 1 April, businesses with assets of more than Rs 5000 crores (£500 million), annual sales of more than Rs 500 crores (£50 million) or annual profits of more than Rs 5 crores (£500,000) are legally obliged to undertake CSR activities.

The legislation requires companies to not only put in place a CSR policy and ensure board-level responsibility for CSR, but to also spend at least 2% of their average net profits on CSR activities and publish an annual report on those activities.

The Indian government estimates that the new rules will affect 2,500 companies and will result in Rs 15000 crores (£1.5 billion) being spent on CSR over the next 12 months. India's largest business, Reliance Industries, will on its own spend around Rs 400-500 crores (£40-£50 million).

The mandatory CSR rules are the first of their kind in the world and follow on from existing regulations in India requiring public sector organisations to spend 2% of net-profits on CSR.

## REVIEW OF LITERATURE

A number of concepts and issues are subsumed under the heading of CSR, including human rights, environmental responsibility, diversity management, sustainability, and philanthropy (Amaeshi & Adi, 2006), meaning that it is a complex area with an interdisciplinary focus.It is generally agreed that CSR involves corporations voluntarily exceeding their legal duties to take account of social, economic and environmental impacts of their operations. For example, the European Commission defines CSR as:"a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis" (European Multi stake holder Forum on CSR, 2004: 3)

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Similarly, the Chartered Institute of Personnel and Development (CIPD) considers CSR to involve corporations taking responsibility for their "impact economically, socially, environmentally and in terms of human rights" (CIPD website). The UK Corporate Responsibility **Bill (2002**) suggests that corporations should "take all reasonable steps to minimise any negative environmental, social and economic impacts" (Article 7b). These definitions tend to emphasise the avoidance of harm, based on the notion of a shared responsibility towards 'stakeholders' and the achievement of sustainability, whereas for others, CSR necessarily entails actively seeking to achieve positive change. For example, **McWilliams & Siegel (2001) d**efine CSR as "actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (117), and similarly **Carroll's (1991)** 'Pyramid of Corporate Social Responsibility' includes philanthropic requirements.

The globalised economy is understood to raise important issues for businesses and governments due to changes in patterns of production and consumption. In particular it is noted that the manufacturing of goods is "highly mobile**" (Cassell, 2001:263)** and that supply chains are often dispersed transnationally, creating difficulties in terms of legislation and regulation. The relative power of large corporations compared to that of certain states is significant:"In their negotiations with the governments of host countries their ability to pick up and leave provides them with a great deal of leverage over states dependent upon the jobs that they provide" **(Wells & Elias** in **Alston, p144, 2005)**

Economic globalisation therefore presents challenges to the ability of states to protect people's rights **(Cassell, 2001).** The notion of corporate social responsibility is part of the 'third way' **(Gond & Matten, 2007),** where the role of the state is now to provide "steering for the promotion of social development and social justice" (Giddens, 2001: 6). There is increased involvement of the private sector in traditionally statutory provision through privatisation and public/private partnerships (e.g. see Meehan, 2003). Economic policies have created a need for markets and business to self-regulate in order to continue to pursue an international free market economy, but also to ensure sustainability (of economic, human and other resources, and of the environment). CSR is seen as a solution to these problems of regulation.

Much of the literature promotes the 'business case' for CSR with many claiming that "ethics can be good for business**" (Swain in *The Independent,* 2007).** CSR is understood to be a means of distinguishing and protecting brands and creating trust, and to attract and retain both potential employees and consumers. It is argued that CSR needs to be made relevant to the concerns of business people by emphasizing and focusing on this 'instrumental' approach:

"CSR needs to be reconstructed in an instrumental linguistic praxis to be meaningful to managers in their day-to-day pursuits of organisational goals and objectives**" (Amaeshi & Adi, 2006: 3)Beesley & Evans (1978)** suggest that governments should promote CSR through taxation and regulation to ensure that it is profitable for corporations to pursue CSR, and that it is only an achievable goal if competitive pressures are removed.

One of the most widely cited and strident opponents of the notion that corporations should be socially responsible is Milton Friedman (1970) who stated that:"The businessmen believe that they are defending free enterprise when they declaim that business is not concerned 'merely' with profit but also with promoting desirable 'social' ends; that business has a 'social conscience' and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers...Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades" (Friedman, 1970).His position relies on the 'theory of the firm' where all activity is directed towards shareholder value (Hemingway, 2005). Carroll (1991) suggests that economic responsibility is the 'bottom line' "because without it the others become moot considerations" (Carroll, 1991: 41). Others acknowledge that ethics and economics might sometimes clash, and suggest that corporations must move beyond the notion that profit "can alone stand as a reason for studying the ethics of business" (Chryssides & Kaler, 2005: 34).

**Prof.. Ruerd Ruben "**Corporate Social Responsibility: the role of public policy' says"Corporate social responsibility (CSR) focuses on creating social and environmental value in addition to economic performance, commonly denominated as the people, planet and profit (or Triple P) dimensions.' It short he means that the businesses themselves decide to what extent they are willing to assume responsibility for developmental processes taking place within and beyond the company walls. Public authorities are increasingly supporting companies that choose to do so.

**Shu Zhou, Xiaohong Quan and William Jiang-Journal of Supply Chain and Operations Management, Volume 10, Number 1, February 2012**

The concept of corporate social responsibility (CSR), or corporate citizenship, was introduced by multinational corporations into China in early 1990s. At that time, CSR was not given too much attention either by industry or by academia. With China's entry into the World Trade Organization (WTO) in 2001, an unprecedented number of Chinese companies were integrated into global supply chains. Therefore CSR started to get promoted in such companies due to the impact of western business culture and standards. In 2005, Chinese president Hu Jintao proposed his vision of "Harmonious Society", which set social and environmental problems on top of the government agenda.

Comprehensive models are extremely rare, and so are quantitative analyses, except some CSR

evaluation systems such as CSR index (Jiang et al., 2006; Hua and Zhu, 2009; Zhang, 2009). On the other hand, a great major of papers, are about CSR practices, such as how to promote and manage CSR in China (Liu, 2009; Zheng and Liu, 2009; Huang and Lan, 2006; Feng, 2009).

Götherström, Ulla-Christel opines that the Corporate Social Responsibility (CSR) is an area which has gained much attention the last 10-15 years. To satisfy various stakeholders, corporate social responsibility has increased its importance and often constitutes a substantial part of the firms´ financial reports, in spite of the fact that there are no legal requirements. However, to perform strategic CSR-reporting has become more or less compulsory for firms.

Anupam Sharma* and Ravi Kiran – Corporate social responsibility (CSR) is gaining more and more importance day by day. CSR is not only drawing the corporate magnates into its circumference, but is also luring educationists, social activists, reformists, from all over the world to delve deeper into it. Changing market scenario, globalization, ethical consumerism all are adding heat to the CSR concept. More and more organizations are showing their commitments towards CSR either for enhancing their corporate image or to be in competition. Emergence of different marketing innovations demands direct linkage of corporate social responsibility practices with the business corporate strategies. “Corporate Social Responsibility: Driving Forces and Challenges” International Journal of Business Research and Development ISSN 1929-0977 | Vol. 2 No. 1, pp. 18-27 (2013)

**Khan and Khan (2010)** examined the extent of human capital (HC) reporting in leading Bangladeshi firms using the HC reporting framework. They used the technique of content analysis, three years of annual reports of 32 leading manufacturing and service sector companies listed on the Dhaka Stock Exchange (DSE), selected on the basis of the market capitalization. The study revealed that the HC reporting practices of leading Bangladeshi firms were not as low as projected in relation to the total list of items reported. The most commonly disclosed HC items were information on employee training, number of employees, career development and opportunities that firms provided, and employee recruitment policies. The HR reporting was found to have increased during 2009/2010.

**Menassa (2010)** attempted to identify the type and quality of Menassa (2010) attempted to identify the type and quality of social information disclosed by Lebanese commercial banks, the extent of these disclosures and their relationship with size, financial performance, and other chosen variables. Deductive in nature, this paper used content analysis of annual report social disclosures of 24 Lebanese commercial banks. Results revealed that banks attributed a greater importance to human resource and product and customers disclosures, whereas the availability and extent of environmental disclosure is still weak. In addition, a strong association is found between these disclosures and size and financial performance variables, whereas the relationship with the bank age was found to be a weak one. Finally, findings suggest no difference in social disclosure behavior between listed banks and banks with an overseas presence, and non-listed banks and those operating only in Lebanon. Social information disclosed by Lebanese commercial banks, the extent of these disclosures and their relationship with size, financial performance, and other chosen variables. Deductive in nature, this paper used content analysis of annual report social disclosures of 24 Lebanese commercial banks. Results revealed that banks attributed a greater importance to human resource and product and customers disclosures, whereas the availability and extent of environmental disclosure is still weak. In addition, a strong association is found between these disclosures and size and financial performance variables, whereas the relationship with the bank age was found to be a weak one. Finally, findings suggest no difference in social disclosure behavior between listed banks and banks with an overseas presence, and non-listed banks and those operating only in Lebanon.

Kitzmueller, Markus,Shimshack Jay-This paper synthesizes the expanding corporate social responsibility (CSR) literature. The authors define CSR from an economic perspective and develop a CSR taxonomy that connects disparate approaches to the subject. Further explore whether CSR should exist and investigate conditions when CSR may produce higher welfare than other public good provision channels. Also explore why CSR does exist. Here, they integrate theoretical predictions with empirical findings from economic and noneconomic sources. It is found that the limited systematic empirical evidence in favor of CSR mechanisms related to induced innovation, moral hazard, shareholder preferences, or labor markets. In contrast, uncover consistent empirical evidence in favor of CSR mechanisms related to consumer markets, private politics, and public politics.

**Research Methodology And Data Analysis**

This Research is based on Secondary data.

The Secondary data is primarily used in the Research. The primary data are collected from the authentic sites of Business enterprises, Various Government Departments and Corporations, Ministry of Commerce,Chamber of Commerce, Industry Associations,Stock Exchange data,and other available statistical data. **Corporate Social Responsibility: Meeting changing expectations**,

**DATA ANALYSIS**

Since 1998, WBCSD dialogues with diverse stakeholders throughout the world have revealed that CSR means very different things to different people, depending upon a range of local factors including culture, religion, and governmental or legal framework conditions. There can be no universal standard.

Armed with this understanding, we produced a report that offers companies practical guidance and hands-on tools for meeting diverse societal expectations. Corporate Social Responsibility: Making good business sense makes the case for CSR as a guiding vision that can help companies maintain their license to operate in an increasingly globalized world. It outlines how to get started, addressing the query common to businesses embarking on the CSR:
The WBCSD's journey: "What do we do differently on Monday morning?" and its "CSR Navigator" offers concrete advice that is flexible enough to respond to any company's particular challenges and dilemmas.

Preliminary findings from research currently being conducted by the United Nations Research Institute for Social Development (UNRISD) suggests that an increasing number of large national and transnational corporations are indeed engaging with the CSR “movement”, not simply in a reactive sense - although many do respond to pressures of various sorts - but more proactively, given a range of benefits that derive from CSR. Many instances of “greenwash” have been identified, but CSR amounts to more than window-dressing or slick public relations. While serious concerns have emerged about the limited scope and effective implementation of CSR initiatives, it is also apparent that many CSR companies, business associations and business-interest NGOs are involved in an active learning process and are evolving gradually towards more rigorous standards and practices, and in the process, the CSR agenda is being broadened.

This mixed report card is very apparent in relation to certain public-private partnerships involving the United Nations and TNCs. The Global Compact, for example, has proved useful in raising the profile of labour, human rights and environmental issues in a global policy context where, for many years, attention focused narrowly on issues of economic liberalisation, stabilisation and structural adjustment. It has served to reinvigorate certain aspects of international “soft law”, such as the ILO Core Conventions and the Universal Declaration of Human Rights, as well as the Precautionary Principle agreed at the 1992 “Earth Summit” in Rio de Janeiro. It has also stimulated discussion and dialogue on specific problems such as the responsibilities of business in conflict zones and in relation to HIV/AIDS.

**Development impacts of CSR**

If CSR is to make a more significant contribution to development, its proponents face two major challenges. First, there needs to be a better integration between voluntary approaches and law or government regulation, rather than the present situation where voluntary initiatives are often seen as an alternative to legal instruments. Second, the CSR agenda needs to become more “South-centred”. For this to happen, the relevant actors will have to start by addressing some difficult questions.

What are the actual or potential developmental problems and contradictions associated with the CSR agenda, as currently constituted? Are the investment and competitive strategies of TNCs, as well as their lobbying and fiscal practices, compatible with basic development objectives? Does the CSR agenda really respond to the development needs, concerns and priorities of workers, communities and firms in developing countries? Are these and other Southern actors effectively shaping the CSR agenda? And is CSR working for or against democratic policy-making, regulatory and planning processes in developing countries?

Unless these questions of regulation and broader participation are addressed, then CSR, as currently constituted, may do more for the conscience of corporate managers, Northern consumers and some activists than for workers and communities in developing countries.Corporate Social Responsibility and Environmental Management provides a practical resource for the ever increasing number of organisations concerned about social and environmental responsibilities in the context of sustainable development and are interested in developing tools to improve their performance and accountability in these areas.

Toyota's Initiatives on the Environment

It is worth mentioning Toyota CSR programs here.From the development of sustainable vehicles and making manufacturing plants sustainable to vehicle recycling, "eco-driving" educational programs and reforestation, Toyota is actively engaged in a wide variety of programs to improve the environment.

Toyota aims at globally "establishing a low-carbon society," "establishing a recycling-based society," and "environmental protection and establishing a society in harmony with nature" to contribute to sustainable growth of society and the planet based on the Fifth Toyota Environmental Action Plan. To realize those aims, we reduce the environmental impact at all stages of vehicle life cycle from development and design, procurement, production and logistics, sales to waste and recycling, and promote environmental management.


(SourcesToyta Website)

Budget constraints and cost fears curbing CSR progress

Although corporate social responsibility activities can help to attract and retain customers and boost profitability, short-term budgetary constraints and cost fears are acting as a break on fulfilling objectives.

According to a survey among 400 global companies entitled **'Corporate Sustainability: a progress report'** undertaken by management consultancy **KPMG** and the **Economist Intelligence Unit**, the main business driver for going down the CSR route was to try and boost brand reputation. Next on the list was a need to comply with regulatory requirements.

The biggest benefits gained from implementing such strategies, however, were attracting and retaining customers (32% of respondents), increased profitability (31.5%) and better quality products or services (25%).

But even though the majority of those questioned were eight in the process of developing a sustainability plan or already had one in place, short-term funding issues (40%) and the risk of increased costs when compared with rivals (36%) were the key inhibitors to further progress.

The situation was not helped by the fact that just over three quarters of organisations were unable to measure effectively how initiatives benefited their bottom line due to a lack of meaningful benchmarks.

Vincent Neate, KPMG’s head of climate change and sustainability, said: "In a tough economic climate, it is crucial that the progress that has been made in engaging the business community in sustainable practices is not stilted through lack of measurability."

But he pointed to task forces within the Global Reporting Initiative and International Integrated Reporting Committee, which are in the process of developing common measurement, benchmarking and technology exchange standards that should help to make financial links clearer.About two thirds of those polled believed that the introduction of such standards were either ‘very important’ or ‘critical’ and there was also widespread support for the creation of tougher international regulations in order to reduce the complexity and cost of different national and state rules.

**Hindrances**

This is the case especially for Small and Medium Enterprises (SMEs). As a result a few of these small businesses are beginning to take their CSR activities seriously. Research has established that there are a number of major obstacles hindering the application of good CSR practices and policies into SMEs. What are some of these obstacles and how can you overcome them?

**Lack of awareness**

It is a fact that many SMEs have little knowledge of CSR. SME owners and managers often do not fully comprehend the demands from the stakeholders and therefore do not fully realize how much they value CSR. In some cases, SMEs may have a greater understanding of CSR issues but lack understanding on how to begin implementing a CSR program. Finally, there is significant ignorance about the benefits that can be gained from good CSR practices. Your business should invest in programs of creating awareness about the importance of CSR.

**Lack of human resources**

Many SMEs claim that they lack the human resource that they can assign to CSR practices. In addition, many management systems being used by SMEs are very unproductive, inefficient and wasteful of human resources. In order to develop good CSR policies and practices, your business should focus on recruiting/training staff that will be able to head and develop CSR initiatives.

**Competing codes of conduct and multiple requirements**

A major concern for many business owners and managers is connected to competing codes of conduct from different customers. Such duplication is expensive and frustrating to suppliers. To avoid this, you business should help customers agree on common standards to be adhered to.

**Costs**

SMEs constantly face the challenge of tighter budgets brought about by rising costs of material, energy and wages. Therefore, most are unable to spend much money on CSR initiatives.

However, CSR activities can be carried out at any level. Even if your business has limited funds, you could create a separate CSR budget so as to ensure unnecessary expenditures are avoided. Selection of appropriate, low cost initiatives will enable you to carry out CSR activities with your limited budget.

**Over-emphasis on inspections and cheating**

Many SMEs are guilty of not complying with codes of conduct. Many SME owners and managers have the perception that they can not do business and make profits while adhering to codes of conduct and regulation. Your business, however, does not have to 'cut corners' to remain in business. You need to dialogue with key stakeholders and find a balance between making profits and full implementation of CSR codes of conduct.Government but it will not bear any fruit unless imperative and pragmatic approaches have been undertaken by the all stakeholders ranging from corporate world to SMEs.

**Various beneficial impacts of CSR**

There is constant debate and contentions about various benefits which can be drawn by the Businesses, corporate entity and even NGOs from CSR. There are ample examples and statistics where it has been found that there are number of benefits by adopting and implementing CSR by a Business

**Stronger Financial Performance and Profitability**

Businesses can use CSR and corporate sustainability to produce direct benefits for the bottom line. For example, operational efficiencies can be achieved through reducing energy and materials as input factors for production. Wastes can also be reduced and materials can be recycled. These sorts of actions from eco-efficiency can produce concurrent environmental and economic benefits for the company and thereby contribute to stronger financial performance and more positive profitability. Operational efficiencies can be achieved in other facets of CSR such as streamlining the way that information is provided to the investment community as well as to other stakeholders that demand increased transparency. Managing potential risks and liabilities more effectively through CSR tools and perspectives can also reduce costs. Using corporate responsibility and sustainability approaches within business decision-making can result not only in reduced costs but can also lead to recognizing new market opportunities such as when new manufacturing processes are developed that can be expanded to other plants, regions or markets. There are various studies that have examined the relationship between CSR and corporate financial performance and most of the evidence suggests that the links are positive.

**Improved Relations with the Investment Community and better access to Capital**

The investment community has been exploring the links between corporate social responsibility and financial performance of businesses. There is growing evidence (through indices such as the Dow Jones Group Sustainability Index (DJGSI), the FTSE4 Good indices, and the Jantzi Social Index) that companies that embrace the essential qualities of CSR generally outperform their counterparts that do not use features of CSR . This information is being translated into action within the investment community (e.g. with creation of funds such as Socially Responsible Investment, Domini Social Equity Fund, EcoValue 21). An increasing number of mutual funds are now integrating CSR criteria into their selection processes to screen in sounder companies and/or screen out businesses that do not meet certain environmental or social standards. Thus, a CSR approach by a company can improve the stature of the company in the perspective of the investment community, a company's stock market valuation, and its capacity to access capital from that community.

**Enhanced Employee Relations, Productivity and Innovation**

A key potential benefit from CSR initiatives involves establishing the conditions that can contribute to increasing the commitment and motivation of employees to become more innovative and productive. Companies that employ CSR related perspectives and tools tend to be businesses that provide the pre-conditions for increased loyalty and commitment from employees. These conditions can serve to help to recruit employees, retain employees, motivate employees to develop skills, and encourage employees to pursue learning to find innovative ways to not only reduce costs but to also spot and take advantage of new opportunities for maximizing benefits, reduce absenteeism, and may also translate into marginally less demands for higher wages.

**Bonding with the Communities**

A key feature of CSR involves the way that a company engages, involves, and collaborates with its stakeholders including shareholders, employees, debt holders, suppliers, customers, communities, non-governmental organizations, and governments. To the extent that stakeholder engagement and collaboration involve maintaining an open dialogue, being prepared to form effective partnerships, and demonstrating transparency (through measuring, accounting, and reporting practices), the relationship between the business and the community in which it operates is likely to be more credible and trustworthy. This is a potentially important benefit for companies because it increases their "licence to operate", enhances their prospects to be supported over the longer term by the community, and improves their capacity to be more sustainable. Companies can use stakeholder engagement to internalize society's needs, hopes, circumstances into their corporate views and decision-making. While there are many questions about how far a company's responsibilities extend into communities relative to the roles of governments and individual citizens, there is a strong argument that CSR can effectively improve a company's relations with communities and thereby produce some key features that will improve business prospects for its future

A potential benefit of CSR is that it can improve a company's reputation and branding and this in turn improves the prospects for the company to be more effective in the way that it manages communications and marketing in efforts to attract new customers and increase market share. CSR as a concept with various tools can help a company to position itself in the marketplace as a company that is more responsible and more sustainable than its competitors.

## CSR as an Investment

CSR can be viewed by businesses as a form of investment that helps to differentiate a company and its goods and services.What then is the right way to look at CSR as an investment - particularly given that it frequently involves intangible and less quantifiable domains. The bottom line is that a prudent business may tend to regard CSR in the same way it treats most investment decisions. It would be inclined to use the same systematic approach to assess the anticipated benefits and related revenues relative to the costs that it employs for investment proposals. A rigorous and systematic approach to CSR investment is likely to yield the most positive results for both the business and society as it is likely to demonstrate the most efficient allocation of resources from the perspective of both the firm and society.There are many different areas where a firm can invest to develop CSR attributes (e.g. human resource management, environmental protection, health and safety, community involvement, etc.). Investment decisions on CSR need to take account of various factors and parameters as well as the anticipated cost and benefit stream to be produced by the investment

## INDIA and CSR

### India becomes first country to mandate CSR

IEMA Fellow Lakshminarayanan Ramakrishnan, an environment practitioner in India, commented: “It appears that the government has taken the legislative route to rope in the corporate sector to support its millennium development goals and other social sector initiatives.

“The government itself has generally failed in its efforts to address the nine areas which it identifies qualify as CSR, such as eradicating poverty and ensuring environmental sustainability, and seems to be trying to use corporate involvement as a last resort.”

According to Ramakrishnan, companies in India are likely to see the new legislation as a tax. “2% of net-profits is a significant amount of money, more indeed than many companies spend on research and development. I would not be surprised if Indian corporates manage to find ways to avoid this ‘tax’,” he told the environmentalist.

Although firms are required to report on CSR activities, Ramakrishnan points out that this report doesn’t have to include any information on the nature of the CSR project undertaken or any targets, performance indicators or social improvements it achieves

One of the most applauded aspects of the new Company Law regime is the mandatory **social spending requirement**. Faced with innumerable economic and social challenges as our country is, our lawmakers could not have ushered in a more revolutionary change through the new law. The new Companies Act, 2013, has made it mandatory for companies to be socially responsible by introducing the '**corporate social responsibility**' (CSR) regime. Section 135 of the new Companies Act, read with the CSR Rules, mandates companies meeting certain criteria to set aside two per cent of their net profits for undertaking and promoting socially beneficial activities and projects in India. The Ministry of Corporate Affairs (MCA) recently issued the CSR Rules, 2014, to implement this legislative mandate, which comes into effect on April 1, 2014.

**Radical Changes Expectations**

Every company with a net worth of at least Rs 500 crore, or a minimum turnover of Rs 1,000 crore, or a minimum net profit of Rs 5 crore, is obligated to constitute a CSR committee dedicated to undertake a mixed spectrum of initiatives, such as promoting education, gender equality, women's empowerment, improving maternal health, or ensuring environmental sustainability. The company's net profit would, however, exclude any profit from its overseas branches or companies, and would also exclude any dividend received from other companies in India. The law does not treat foreign companies differently, and includes foreign companies doing business in India, whether by themselves, or through an agent or even electronically.

The company can choose the social cause or project it wants to support from the list of activities specified in the Act. The CSR committee will then have to frame a CSR policy in accordance with the rules and implement it. The company's board of directors will have to play an active role by participating in the CSR initiative at various stages, including the identification of the activities, approving the policy, and disclosing its contents in the board's report and on the company website.

Surplus funds in respect of the CSR projects cannot form a part of the company profits. The rules specifically exclude contributions or donations made to political parties from CSR activity.

The CSR regime complements the efforts of the government and non-government organisations by requiring companies in India to initiate activities for the economic well-being of the underprivileged and for the environment. Companies can also join hands to undertake CSR projects.

Social and economic initiatives, as a responsibility of the companies, are gaining popularity internationally. The Financial Reporting Council in the United Kingdom is in the process of introducing guidelines for disclosures regarding environmental, social and governance (ESG) issues by a company. The intention is for these to replace the existing 'business review' section of annual reports, and companies would be required to provide complete disclosure about their business activities, including social efforts.

Also, the European Parliament's Legal Affairs Committee approved draft legislation on corporate non-financial reporting, which requires some companies to disclose information about their environmental, social and employee-related impact, as well as their diversity policy.

A more practical and sensible approach to implementing the CSR regime in India is to make efforts to support a good cause in every move made by a company. The principles of social responsibility can be incorporated into the business strategy of the company. The company can make efforts to internally create awareness about ethical business practices and principles.

Charity events sponsored by companies can promote the cause they support, rather than a brand.

Employees can be made more aware of alternative uses of office resources, and about saving paper, electricity, water and so on. Employees who believe in contributing to the society should be encouraged to assist the CSR committee in formulating a socially beneficial CSR policy.

**Clarity of Rules**

A bare reading of the new CSR rules may indicate simplicity and reader-friendliness. But close analysis of the fine print leaves ample room for ambiguity at various places.

While the Companies Act prescribes a specific method for computing net profits and the CSR contribution, the CSR rules take a step backwards in carving out exclusions from the net profit so calculated. Most shockingly, one of the exclusions provides that the profits of a branch of an Indian company located outside India cannot be merged into the profits of the parent company for the purpose of computing the two per cent contribution. This exclusion goes against the very mandate of Section 135 and is, to that extent, ultra vires.

Secondly, there appears to be a major contradiction in the rules in respect of the meaning of the words 'corporate social responsibility'.

The Companies Act, 2013, defines CSR activities to mean an identified set of activities set out in the separate schedule to the Act. However, a reading of the definition in the rules indicates that the list of CSR activities provided in the rules (which also includes the schedule activities) is only illustrative and not exhaustive. At the same time, an overall reading of the rules strongly suggests that the scheduled activities alone will be considered for the purpose of CSR. Whether or not social activities falling outside the purview of the schedule form a part of CSR activities still remains doubtful.

Another aspect of ambiguity in the new law that was expected to be corrected through the rules was the 'local area preference'. The Act provides that a company should give preference to the local area in which it operates for CSR spending. How would this work if a company has more than one operational office in the same city, or even otherwise? Is the location of a factory, as opposed to the corporate office, the target of preference?

The CSR rules have rightly excluded contributions directly or indirectly made to a political party from the scope of CSR activity. But, what about contributions made to institutions affiliated with one or more politicians or those located in a constituency represented by a politician who has some form of regulatory supervision or leverage over that company? What about activities/institutions being run under the trusteeship or office of a politician?

Another aspect of the rules that may be abused is the carve-out made in respect of CSR activities undertaken 'only' for the benefit of the employees and their families. Could the intent of the legislation have been to mean activities undertaken 'primarily' to benefit the employees? If a company undertakes a project primarily but not exclusively benefiting its employees, should that be considered CSR activity?

While the new rules are well-meaning, there is definitely room for further clarity and certainty. The last thing anyone wants is a select group of people with vested interests benefiting from this noble legislative initiative.

## CONCLUSION

It can be drawn from our above analysis that Corporate social responsibility is about the integration of social, environmental, and economic considerations into the decision-making structures and processes of business. It is about using innovation to find creative and value-added solutions to societal and environmental challenges. It is about engaging shareholders and other stakeholders and collaborating with them to more effectively manage potential risks and build credibility and trust in society. It is about not only complying with the law in a due diligent way but also about taking account of society's needs and finding more effective ways to satisfy existing and anticipated demands in order to build more sustainable businesses. Ultimately, it is about delivering improved shareholder and debt holder value, providing enhanced goods and services for customers, building trust and credibility in the society in which the business operates, and becoming more sustainable over the longer term. Is there a business case for CSR , and if so, what is it?While there are different ways to frame the benefits because they are interrelated, they generally include the following:

- stronger financial performance and profitability through operational efficiency gains
- improved relations with the investment community and better access to capital
- enhanced employee relations that yield better results respecting recruitment, motivation, retention, learning and innovation, and productivity
- stronger relationships with communities and enhanced licence to operate
- improved reputation and branding

CSR can be viewed by businesses as a form of investment that helps to differentiate a company and its goods and services. The bottom line is that a prudent business may tend to regard CSR in the same way it treats most investment decisions.. A rigorous and systematic approach to CSR investment is likely to yield the most positive results for both the business and society as it is likely to demonstrate the most efficient allocation of resources from the perspective of both the firm and society.

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