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GIVE AND TAKE: ASSESSING THE ECONOMIC IMPACTS OF CSR REFORM POLICY IN INDIA

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ABSTRACT

The paper reviews the implementation of CSR reform in India via a comparative contextualization of Indian and Western backgrounds to assess the economic consequences. Secondary research utilizing survey data and existing academic scholarship is applied to the present scenario, to understand a 'give and take' mindset attached with CSR policies as a reciprocal process with corporates receiving increased brand and marketing perks for the performance of social good, as opposed to doing so for community, social, or environmental betterment. The study hence systematically draws a causal link between the policy reform backdrop, implementation style and level, and the economic consequences in the Indian context. WIth observations gained from this, broad policy recommendations are provided for future perusal and application.

INTRODUCTION

Corporate Social Responsibility (CSR) is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (Shyam, 2016). The implementation of Section 135 of the Companies Act 2013, seeks to mandate CSR for companies in India. CSR has the potential value to be a tool to generate social consciousness amongst corporates and improve lives of stakeholders associated with them directly or indirectly. Thus, this paper seeks to analyse the philosophy behind corporate social responsibility in the Western and Indian context by considering the background and discussions of the concept, implementation practices, consequences of varied forms of implementation, and provide policy recommendations for corporations and governments to consider for the future. The discussions concludes with the argument that CSR practices in the Indian context must be core to business philosophies, placed in an efficient and economical setup and contextualised in order to transform the existing status quo to a more sustainable structure of community empowerment.

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BACKGROUND

Kotler and Lee define CSR as "Corporate social responsibility is a commitment to improve community well-being through discretionary, business practices and contribution of corporate resources" (Kotler, Phip, Lee, Nancy, 2005). Corporate social initiatives are major activities undertaken by a corporation to support social causes and to fulfill commitments to CSR. CSR has moved far ahead from its previously defined ambit of philanthropy and charity through methods of 'self regulation' to a new hallmark of monitored and accountable corporate responsiveness and action to social issues and demand for sustainability aimed at holistic development of communities. The impact of Corporate Social Responsibility on profits and long term growth of enterprises is ambiguous (McWilliams, Abagail; Siegel, Donald 2000).

The concept gained popularity in the 1970s after companies started to identify 'stakeholders' as communities who were impacted by the activities of a business. R. Edward Freeman authored the influential book "Strategic Management: A Stakeholder Approach" in 1984 which stated, "Companies must voluntarily do business in an economically, socially and environmentally responsible manner to be sustainable over the long term" (Freeman, 1984). A business's CSR can encompass a wide variety of programmes, from giving away a portion of a company's proceeds to charity, to implementing sustainable business models. The concept of CSR rests on a give-and-take ideology. Companies take resources in the form of raw materials and human resources from the society. By performing the task of CSR activities, companies intend to give something back to the society (Tandon, 2017). The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on not just the company's stakeholders but also the environment and communities at large. CSR has moved from a social practice to an effective business tool. There are several globally recognised guidelines, frameworks; tools pertaining to it such as the Organization for Economic Co-operation and Development Guidelines for Multinational Enterprises. These guidelines offer a comprehensive code of conduct designed to provide multinational enterprises (MNEs) with guidance and support in their interactions with trade unions, the environment and consumers.

CSR, in the modern day is beneficial not just to the society but also to the company and the economy. It enhances the image of the company in the minds of the consumers which makes commodities produced by the company more attractive. A Nielsen worldwide survey of 30,000 consumers in early 2015 found that 56% of consumers were willing to pay more if the product is from a company known for its commitment to social values (Nielsen, 2015). CSR makes companies more sustainable and innovative, which contributes to a more sustainable economy. A study by Kenexa High Performance Institute in London, 2015 found that companies with active CSR initiatives had a higher level of engagement with employees (Kanexa, 2015).

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The Indian philosophical thought can be traced back to the 1940s when the industrialist G.D Birla espoused the trusteeship concept of management. This entailed that the wealth that one generates and holds is to be held as in a trust for our multiple stakeholders (Making a Difference, Aditya Birla Group, 2013). With regard to CSR, this means investing part of our profits beyond business, for the larger good of society. For a long period of time CSR in India revolved around philanthropic activities conducted by very few conglomerates such as the Tata Group and the Aditya Birla Group which were unregulated and arbitrary. However, this changed with the passing of the Companies Act, 2013, which presently governs it.

IMPLEMENTATION

India is the first country in the world to make CSR mandatory, following an amendment to the Companies Act, 2013 in April 2014. The amendment notified in the Schedule VII of the Companies Act advocates that those companies with a net worth of US$73 million (Rs 4.96 billion) or more, or an annual turnover of US$146 million (Rs 9.92 billion) or more, or a net profit of US$732,654 (Rs 50 million) or more during a financial year, shall earmark 2 percent of average net profits of three years towards CSR. In the initial Companies Bill of 2011, CSR was voluntary for companies to opt into (Ministry of Corporate Affairs, Government of India). It contained provisions for the creation of a Corporate Social Responsibility Committee, members of which would be directors of the company. It also made it mandatory for companies to disclose their spending to shareholders. Section 135 also provides that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities (Section 135, Companies Act (2013).The Ministry of Corporate Affairs (MCA) expected a fund flow of more than Rs 10,000 crore a year from private companies for social welfare initiatives as part of their CSR as the Bill was being debated in the Parliament (Singh, Mahendra Kumar, 2013).

The principle behind this Act was to make corporate houses to spend the sum set aside for CSR in social sectors such as education and health rather than involving themselves in individual philanthropy. The Ministry of Corporate Affairs' draft voluntary guidelines on CSR are along global principles governing ethics and transparency, well-being of employees, human rights, health and safety, use of environment-friendly raw materials, following regulatory frameworks and larger engagement of stakeholders (Shyam, 2016). This was celebrated as a major victory by the then Congress led United Progressive Alliance Government as it upheld the Gandhian principles of collective responsibility and social equality that should be initiated by individuals holding positions of economic power. Gandhi viewed commerce without ethics was a fault not just on corporates, but also on humanity and he termed it as one of the 'deadly sins' (Baraka, 2015).

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Despite the mandation existing only for the biggest companies, there has been an increase in the CSR initiatives by Small and Medium Scale industries in the past decade. The overwhelming motivating factor for SMEs to engage in CSR is not external pressure but an internal drive to 'doing the right thing' or 'putting something back' or showing 'entrepreneurial spirit' (Shyam, 2016). To remain competitive SMEs in India such as Elin Appliances Pvt. Ltd have realized the need to adapt to emerging changes in society and focus on CSR to gain crucial business advantages and market share.

CONSEQUENCES

In India several companies have started realizing that it is a sensible move to take up CSR activities and integrate it with their business process. Corporations are becoming increasingly aware of their role towards the society. They are responsible bodies that feel a sense of duty towards the common welfare and the environment. This comes with a growing realization that they, as an integral part of this society themselves, can contribute to its upliftment and empowerment of the entire country in turn. Thus, companies now are setting up specific departments and teams that develop policies, strategies and goals which are for their CSR programs and allocate separate budgets to support them. These programs are based on well-defined social beliefs or are carefully aligned with the companies' business domain. The programs are put into practice by the employees who are crucial to this process. CSR programs ranges from community development to development in education, environment, and healthcare and so on.

Listed companies in India spent US$1.23 billion (Rs 83.45 billion) in various programs ranging from educational programs, skill development, social welfare, healthcare, and environment conservation. The Prime Minister's Relief Fund saw an increase of 418 percent to US$103 million (Rs 7.01 billion) in comparison to US$24.5 million (Rs 1.68 billion) in 2014-15. The education sector received the maximum funding of US$300 million (Rs 20.42 billion) followed by healthcare at US$240.88 million (Rs 16.38 billion), while programs such as child mortality, maternal health, gender equality, and social projects saw negligible spend (Dezan Shira and Associates, 2017).

Corporates also joined hands with NGOs and use their expertise in framing programs which address wider social problems. For example, SAP India along with Hope Foundation, an NGO rebuilds the lives of tsunami affected victims (Tandon, 2017). To provide impetus to various philanthropic initiatives of Mukesh Ambani led Reliance Industries Limited, Reliance Foundation (RF) was set up in 2010 as an expression of its vision towards sustainable growth in India even before the Parliament passed the Companies Act, 2013. Led by Nita Ambani, it has

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most recently taken the responsibility of educating children of soldiers martyred in terrorist attacks in the region of Jammu and Kashmir (Asian News International, 2019).

Welspun Energy has engaged with local communities to bring a positive change in their lives by initiating programs like ‘Training the Trainer’- Enrolling children in Schools, ‘Healthy Baby Competition’ and Skill Development for Women (The CSR Journal, 2012) . It is also involved in various forums which are focused on sustainable growth on a global scale including the B20’s Green Growth Action Alliance, World Economic Forum’s (WEF’s) Steering Committee on Sustainable Infrastructure & Urban Development (The CSR Journal, 2016).The Tata Group is a pioneer is developing communities as it considers social development as a core principle of conducting economic operations. Three Tata Group companies have been ranked in the top ten in CSR consecutively according to a survey by the Economic Times (Economic Times, 2014). The Tata group's social activities relate to health, primary education, skills training and entrepreneurship, livelihoods, women empowerment and strengthening services for the differently-abled. Most recently, it has pledged to provide free high-speed WiFi facility at more than 4,000 railway stations across the country. This project will be carried out by Tata Trusts as part of its Corporate Social Responsibility (CSR) (Nag, 2019).

The Axis Bank Foundation (ABF), the Corporate Social Responsibility arm of Axis Bank Ltd aims to provide 'Sustainable Livelihoods' to the economically weaker and underprivileged sections of the society. To achieve this goal, ABF has partnered with several likeminded and reputed Civil Society Organizations across 26 states in India (Chowdhary, Seema, 2015). Under this overarching goal of 'Sustainable Livelihoods', ABF conducts programmes to help provide equitable and quality education to children from weaker socio-economic background, vocational skills for people with multiple disabilities and unemployed youth of urban and rural India. It also creates new opportunities for poor farmers especially the tribals and helps to build the capacities of artisans and craftsmen (Mitter, 2018). Snapdeal has pioneered CSR in the e-commerce sector by setting up hand pumps in the village named Shiv Nagar which suffered due to problems of water shortage (TechCrunch, 2011).

POLICY RECOMMENDATIONS

It is extremely difficult for corporations to conduct CSR activities without the cooperation and contribution of their employees (Sabharwal, Narula, 2015). To this end, companies must take the responsibility of generating awareness about those activities through conferences, seminars and workshops. Committees can be formed from amongst employees to focus on efforts to ensure the company takes action regularly. Companies should you encourage all stakeholders to contribute in the promotion of CSR activities and fund new civil society organizations focused

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on particular social and environmental issues, such as sanitation, clean water, female empowerment, child and maternal health and so on.. This model is effectively implemented that Tata Group where approximately two third of the equity of the parent firm, Tata Sons Ltd., is held by philanthropic trusts endowed by former leaders of the company including Jamsetji Tata Sir Dorabji Tata and JRD Tata. Through these trusts, Tata Sons Ltd. utilizes on average between 8 to 14 percent of its net profit every year for various social causes (Srivastava, Negi, Mishra, Pandey, 2016). Lawmakers also have a responsibility to create the enabling conditions for development of such societies.

It becomes imperative that CSR projects are monitored and the outcomes are evaluated to ascertain whether the objective with which it was made mandatory, is achieved. Rising awareness about the CSR will lead to stakeholders raising queries about the way the companies are spending this money and the compliance levels. It is imperative to hold companies accountable for their CSR activities to ensure there are no malpractices. Companies, in 2015 spent 1.4% of their profits on CSR which is considerably lower than the 2% mandate (Kaur, 2017). An efficient monitoring mechanism helps in measuring and reviewing the progress amd checking gaps, if any. Evaluating the projects can help assess the degree of desired outcome and impact has achieved in terms of the amount of benefits received by intended beneficiaries. With a comprehensive monitoring mechanism in place, companies would be better equipped to plan their programmes and also engage with multiple stakeholders who have interest in their CSR activities. Monitoring should be done not only to assess the progress made on the programme but also on the financial utilisations for the same (Seth, 2016).

It is also strategically beneficial for companies to venture into social schemes that is relevant to their core business. For example, businesses related to manufacture and sale of food should venture into providing leftover manufactured food to the homeless. It is also imperative to form relevant and companitable partnerships to increase the effectiveness of plans. This association must be one where each partner adds value to the entire process. Online supermarket company Bigbasket has partnered with the Robin Hood Army, a volunteer-based organization and launched #MissionMillion2018, to commemorate India's 72nd Independence Day. People could support this by purchasing the Hunger Independence kit that included 1 kg of Rice and 500 gm of Dal from the website or app between 7th and 16th August 2018. Bigbasket contributed an additional 10% of which donations to the programme (The CSR Journal, 2018).

Initiatives such as these have the potential to not just make the lives of the underprivileged better but also generate a more conducive and sensitive environment for the growth of businesses and communities. Investment from the largest and most profitable corporations has started to trickle

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down to cause tangible in those in the margin. Projects must be carefully planned so that they are in line with the operations and philosophies of corporations.

Corporate Social Responsibility presents a golden opportunity to integrate economic and social welfare through hands of private business owners. Market leaders across the world have realized the importance of being associated with socially relevant causes as a means of protecting their goodwill and reputation. As the realm of these activities has expanded to include Small and Medium Scale Enterprises it becomes even more important to implement plans efficiently. In the context of India, it is difficult for one single entity to bring about change, as the scale is enormous. Symbiotic relationships between corporates, NGOs and the government will place India's social development on a faster track.

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