

# Corporate Social Responsibility: Issues & Challenges

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**Abstract:** The concept of CSR is in existence since ancient times. The writings of ancient Indian epics have narrated CSR in various forms. Various studies over a period of time have given models for CSR approach. In India, Companies Act 2013, brought an end to the long run discussion on CSR practices by the corporates. The journey of CSR as a corporate responsibility has two broad perspectives, pre Companies Act 2013 and post Companies Act 2013. CSR policy is still in a nascent stage and hence faces number of challenges. The recent Union Budget 2015 clarified that any expenditure on the Swatch Bharat Abhiyan is to be claimed as deduction u/s 80 G and not under CSR. Thus, Indian law on CSR still awaits clarification on many areas wherein claiming deduction u/s 80, exemptions from tax and treating it as CSR all are in existence.

**Keywords:** Concept of CSR, growth and development, issues and challenges.

## I. INTRODUCTION

Finance/ money is the life blood of business. Managing business with efficiency is of prime importance. Focus is on running the business with ethical approach, societal approach and profit motive. With the increase in awareness amongst various segments of the society broadly classified as stakeholders about the non – transparent and unethical approach of earning profit, there has been a paradigm shift from wealth maximization and profit to ethics encompassed with wealth and profit.

The concept of CSR is not new in India. It has found its existence since Vedic times. Various teachings, values and the culture depicted through epics like Bhagwad Gita, Ramayana, Mahabharata along with Vedas, artha shastras etc focus on the existence of concept of ethics in Indian value system.

The following table lists the prominent schools of thought in Ancient Indian ethos.

Scripture	Description
The Vedas	There are four Vedas. Rig-Veda, Yajur-Veda, Sama-Veda, and Atharva -Veda. The prime component of these Vedas is the understanding of concept of universe. An attempt to help achieve ones goals and objective – i.e. union of self (atman) and world (Brahma)
Upanishads	Upanishads forms the hard core soul of the individual, laying a path to connect individual

	self to the supreme power, the God, and rise over and above the desire and liking from the materialistic pleasure.
Bhagavad Gita	Krishna gathas, the rhymes and preaching's Are the fundamental pillars establishing a sound base for spirituality and ethics, pronounced through a dialogue between Lord Krishna and the warrior Arjuna who is at a great crisis of his life? The karma yoga, Bhakti yoga and the notion of three Gunas (sattwa, Rajas, Tamas) have a eminent implications in the context of ethical leadership, decision making and management, the area of concern where the concepts of CSR Corporate Governance and ethics are expected to be practiced.
Ramayana	It depicts the duties of relationships, portraying ideal characters like the ideal father, ideal servant, the ideal brother, the ideal wife and the Ideal king. Apart from this, the Ramayana also teaches how the temptation for lust can bring a powerful and well established man's dooms day.
Buddhism	Lord Gautam Buddha gave the world with four fundamental noble truths. They are (i) Suffering exists; (ii) There is a cause of the suffering; (iii) Suffering can be eradicated; (iv) There is a means for eradication of that suffering. His practice establishes the fact that everything on earth is non – permanent and everything on earth has an "anatta". Buddha also gave the world the eight fold path to liberation from all suffering.

The concept of ethics prevalent since the ancient times has now been termed as the 'Corporate Social Responsibility' in the era of Corporatisation and Globalisation.

## II. THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

Stakeholder, the term includes customers, consumers, governments, regulatory authorities, suppliers, employees & shareholders. Stakeholders represent various segments of the society wherein business is one of the component of society extracting resources and catering to the needs and demands of these groups. The corporates are the explorers and extractors of resources from the society, environment and nature without

giving anything in return. Hence the concept of CSR was innovated and introduced.

CSR is a concept whose soul lies in the term ethics. It focusses on rewarding the society and various other stakeholders with direct concern with quality of life in society. The word responsibility implies that business organisation has some kind of obligation towards the society in which they function to deal with social problems and contribute more than just economic services.

As per Peter Drucker, “the enterprise is an organ of society and its actions have a decisive impact on the social scene. It is thus important for management to realise that it must consider the impact of every business policy and business actions upon society. It has to consider whether the action is likely to promote the public good, to advance the basic belief of society, to contribute to its stability, strength and harmony” (Drucker, 1954). Infosys Chairman, Narayana Murthy, defines CSR as, “Social responsibility is to create maximum shareholder value working under the circumstances where it is fair to all its stake holders, workers, consumers, the community, Government, and the environment”.

Since decades studies have shown the existence of relationship between business and society. However the same are debated over different period of time. Study by Caroll in 1999 and Lantos in 2000 have proved that there has been a dramatic change in societies expectation from the business since the 1950's and 1960's.

The definition of CSR was discussed in the edition of Wall Street Journal “Big Issues” forum where B.W. Heineman, a senior vice president for law and public affairs at General Electric Co, described three elements of CSR.

1. Strong, sustained economic performance
2. Rigorous compliance with financial and legal rules
3. Ethical and citizenship actions beyond formal requirement, which advances corporation's reputation and long term health (The Wall Street Journal, 2005).

CSR, in its true sense, is hard work and must be seen in conjunction with the basic functioning of the company. It must radiate outwards to the society from within the core efficiencies of the firm in order to strengthen them in a not-too-long-run. CSR, thus, self-consciously raises the stakes for itself and in doing so sets new targets and challenges that eventually impact the industry as a whole.

### III. CSR: OPINIONS OF VARIOUS INDIAN CORPORATES

Dr. Abdul Kalam, former President of India (2012): Sustainable development refers to a mode of human development in which resource use aims to meet human needs while preserving the environment so that these needs can be met not only in present, but also for the generations to come.

Azim Premji, Chairman of Wipro limited, (1998): Corporate Social Responsibility aims at fundamental social development. In Indian context, it means an attempt to realize the vision of just, humane and equitable society and where every action, however small, is driven by this larger vision, that is real social action.

Ratan. J. Tata, Chairman, Tata Group: The developing world has two options. The first is to sit back and react when problem arises. The second is to act as a conscious citizen and rise above our vested interest for the sake of future generation, so that the history does not records that we have deprived them of their livelihood.

Narayana Murthy, Infosys Founder (2012): social responsibility is to create maximum shareholder value working under the circumstances, where it is fair to all the stakeholders, workers, consumers, community, government and the environment.

### IV. BRIEF HISTORY AND DEVELOPMENT OF CSR GLOBALLY

The concept of CSR is not new though it is recently conceptualised. The concept of CSR though now defined and explained, it is still in a nascent stage. In global context the recent history goes back to the seventeenth century i.e in 1790's, when England witnessed its first large scale consumer boycott over the issue of slave harvested sugar which finally forced importer to have free labour sourcing.

In the 1800's the growth and development of industries contributed to the fastening in the movement away from classical economic view.

According to Spring (2007), the history of CSR globally can be divided in to two periods:

1. Before 1900 and
2. From 1900 to present.

*History & Development of CSR in India:*

*Ethical Model ( 1930 – 1950):*

The ethical model reflects the Gandhian concept of trusteeship. The idea of the trusteeship concept is to manage the business entity as a trust held in the interest of community. Many family owned businesses were motivated to reward back the society by socioeconomic development.

*Statist model (1950 – 1970):*

Ideologies replicating the believes of Jawahar lal Nehru came into being in the post-Independence era, as statist model. India was following a mixed and socialist kind of economy. The statist model focussed on the concept of state ownership and legal requirements deciding the corporate responsibilities.

*Liberal Model (1970 – 1990):*

Milton friedman’s concept of corporate responsibility confined to triple bottom line represents the liberal model. This implies that it is sufficient for business to obey the law and generate wealth, which through taxation and private charitable choices can be directed to social ends.

*Stakeholder Model (1990 – Present):*

The model came into existence during 1990s as a consequence of realisation that with growing economic profits, businesses also have certain societal roles to fulfil. The model expects companies to perform according to “triple bottom line” approach. The businesses are also focusing on accountability and transparency through several mechanisms CSR needs to be understood within this context captured in the development oriented CSR framework given below.

Model	Focus	Champions
Ethical	Voluntary commitment by companies to public welfare	M.K.Gandhi
Statist	State ownership and legal requirements determine Corporate responsibility	Jawahar Lal Nehru
Liberal	Corporate responsibilities limited to private owners (shareholders)	Milton Friedman
Stakeholder	Companies respond to the needs of stakeholders-customers, employees, communities, etc	R. Edward Freeman

V. CURRENT STATUS OF CSR IN INDIA

CSR activities performed by the corporate giants lacked specific guidelines about their measuring yardstick, investment parameters, areas to be covered for CSR activities etc. With the span of time India became an opened economy from a closed economy, all due to the LPG movement launched in India in the year 1991. Since time immemorial CSR as a term lacked a precise definition, structure, criteria’s and transparency. All Central Public Sector Enterprises (CPSE) were following the CSR guidelines issued by the Director of the Ministry of Heavy Industries and Public Enterprises since 2010. However the Companies Act, 2013 brought an end to the long wait by inserting sec 135 under the Companies Act 2013.

The provisions under the Companies Act 2013 are as follows.

- 1) Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore 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.
- 2) The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee.
- 3) The Corporate Social Responsibility Committee shall,—
  - (a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;
  - (b) recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
  - (c) monitor the Corporate Social Responsibility Policy of the company from time to time.
- 4) The Board of every company referred to in sub-section (1) shall,—
  - (a) after taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and
  - (b) ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.
- 5) The Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy:
 

Provided 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:

Provided further that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount.

*Explanation.*—For the purposes of this section “average net profit” shall be calculated in accordance with the provisions of section 198.

However there still exist various issues and challenges in making the CSR activities performed successfully.

## VI. DRIVERS FOR PERFORMING CSR ACTIVITIES

### *Role of Government:*

Government since decades have been performing the role of implied authority for various CSR activities performed by the corporates. On the other hand Corporates believe that CSR is a peripheral issue for their business and customer satisfaction more important for them. With the implementation of Companies Act 2013, Sec 135, the government has performed their responsibility, however only partially. CSR as a responsibility to be discharged requires strong implementation at the first instance.

Secondly it requires clarity as to the inclusions of area for performing CSR activity. The areas included are broad guideline ignoring well defined areas. The guideline is still at a nascent and amateur stage.

### *Demands for Greater Disclosure*

There is a growing demand for corporate disclosure from stakeholders, including customers, suppliers, employees, communities, investors, and activist organizations. More emphasis is on performing CSR activities in order to give wider disclosure before the stakeholder group and achieve recognition through brand building and customer loyalty.

### *Increased Customer Interest*

There is evidence that the ethical conduct of companies exerts a growing influence on the purchasing decisions of customers. In a recent survey by Environics International, more than one in five consumers reported having either rewarded or punished companies based on their perceived social performance.

### *Competitive Labour Markets*

Employees are increasingly looking beyond paychecks and benefits, and seeking out employers whose philosophies and operating practices match their own principles. In order to hire and retain skilled employees, companies are being forced to improve working conditions.

## VII. ISSUES & CHALLENGES

### *Supplier Relations*

As stakeholders are becoming increasingly interested in business affairs, many companies are taking steps to ensure that their partners conduct themselves in a socially responsible manner. Some are introducing codes of conduct for their

suppliers, to ensure that other companies' policies or practices do not tarnish their reputation. Dr Ratnam said the concept of CSR had different meanings depending on the stakeholder and that depending on the specific situation of the enterprises expectations can also vary. A CSR project can begin in response to a crisis or adverse publicity that a company may suffer. The motive for launching CSR can vary between philanthropy or notions of corporate citizenship. In India, over time, the expectations of the public has grown enormously with demands focusing on poverty alleviation, tackling unemployment, fighting inequality or forcing companies to take affirmative action.

The historical driver of CSR has been philanthropy or a sense of ethics. After the Second World War, a variety of national and international regulations arose through bodies such as the International Labour Organization (ILO) emphasizing the need for an active social policy for transnational companies (TNC's). This additional driver, international institutions, has relevance for India through the work of the ILO, the OECD, Socially Responsible Investment (SRI), the SA8000 Social Accountability scheme and through the work of the UN Commission on Human Rights which tackled the human rights responsibilities of TNC's. In India, some public sector companies can spend up to 5% of their profits on CSR activities. Pressure groups have been quite successful in inducing companies to fund CSR schemes, even to the point of using kidnapping as a tactic! Forms of CSR differ according to the country or region. In Europe, for example, notions of CSR probably developed out of the Church and a sense of ethics. In India, CSR has evolved to encompass employees, customers, stakeholders and notions of sustainable development or corporate citizenship. In transnational companies, the approach to CSR typically emerges from one of three elements including a decentralized strategy (which might examine human rights), a centralized strategy (which would be company-wide) or a globally integrated strategy (which would include Coca Cola or oil companies - where local actions can impinge globally).<sup>9</sup> The survey conducted by Times of India group on CSR used a sample size of 250 companies involved in CSR activities through a method of online administration of questionnaire. The questionnaire was evolved after due diligence including focus group meetings, consultations with key stakeholders and a pilot in four metros. Finally 82 organizations responded to the questionnaire. These comprised 11 public sector undertakings (PSUs), 39 private national agencies and 32 private multinational organizations. The respondent organizations form a satisfactory percentage of 33 per cent of the sample size, given the fact that only those companies that had direct or indirect involvement in CSR activities were chosen to be approached for the survey.

The survey elicited responses from participating organizations about various challenges facing CSR initiatives in different parts of the country. Responses obtained from the participating organizations have been collated and broadly

categorized by the research team. These challenges are listed below:

- a. *Lack of Community Participation in CSR Activities:* CSR, the term is a combination of Corporate and societies responsibility in together. However, there is a lack of interest of the local community in participating and contributing to CSR activities of companies. This is largely attributable to the fact that there exists little or no knowledge about CSR within the local communities as no serious efforts have been made to spread awareness about CSR and instil confidence in the local communities about such initiatives. The situation is further aggravated by a lack of communication between the company and the community at the grassroots.
- b. *Need to Build Local Capacities:* NGO's can prove to be a boon for performing/carrying out various CSR activities. However NGO as a tool is rarely considered due to reasons like their inefficiency, incompetency, lack of resources and support for their development. Hence, there is a need for capacity building of the local non-governmental organizations as there is serious dearth of trained and efficient organizations that can effectively contribute to the ongoing CSR activities initiated by companies. This seriously compromises scaling up of CSR initiatives and subsequently limits the scope of such activities.
- c. *Issues of Transparency:* Lack of transparency is one of the key issues brought forth by the survey. There is an expression by the companies that there exists lack of transparency on the part of the local implementing agencies as they do not make adequate efforts to disclose information on their programs, audit issues, impact assessment and utilization of funds. This reported lack of transparency negatively impacts the process of trust building between companies and local communities, which is a key to the success of any CSR initiative at the local level.
- d. *Non-availability of Well Organized Non-governmental Organizations:* It is also reported that there is non-availability of well-organized nongovernmental organizations in remote and rural areas that can assess and identify real needs of the community and work along with companies to ensure successful implementation of CSR activities. This also builds the case for investing in local communities by way of building their capacities to undertake development projects at local levels.
- e. *Visibility Factor:* Communication in the right sense, of the right act, to the group of right people leads to success and motivation to perform perpetually. The role of media in highlighting good cases of successful CSR initiatives

is welcomed as it spreads good stories and sensitizes the local population about various ongoing CSR initiatives of companies. This apparent influence of gaining visibility and branding exercise often leads many nongovernmental organizations to involve themselves in event-based programs; in the process, they often miss out on meaningful grassroots interventions.

- f. *Narrow Perception towards CSR Initiatives:* Non-governmental organizations and Government agencies usually possess a narrow outlook towards the CSR initiatives of companies, often defining CSR initiatives more donor-driven than local in approach. As a result, they find it hard to decide whether they should participate in such activities at all in medium and long run.
- g. *Lack of Consensus on Implementing CSR Issues:* There is a lack of consensus amongst local agencies regarding CSR projects. This lack of consensus often results in duplication of activities by corporate houses in areas of their intervention. This results in a competitive spirit between local implementing agencies rather than building collaborative approaches on issues. This factor limits company's abilities to undertake impact assessment of their initiatives from time to time.

## VIII. RECOMMENDATIONS

Corporate Social Responsibility to be successful and acceptable from the grass root levels to the hierarchical structures needs several acts to be performed.

In order to crystal gaze the future of CSR in India and take time bound steps to mainstream it, the recommendations of the survey are firm indications of the existing state of affairs in the CSR domain; they correspondingly call for necessary and appropriate steps to be initiated to put CSR on firmer ground. Keeping in view the broad results of the survey, the following recommendations are listed for serious consideration by all concerned stakeholders for their effective operationalization to deepen CSR in the company's core business and to build collaborative relationships and effective networks with all involved.

It is found that there is a need for creation of awareness about CSR amongst the general public to make CSR initiatives more effective. This awareness generation can be taken up by various stakeholders including the media to highlight the good work done by corporate houses in this area. This will bring about effective changes in the approach and attitude of the public towards CSR initiatives undertaken by corporate houses. This effort will also motivate other corporate houses to join the league and play an effective role in addressing issues such as access to education, health care and livelihood opportunities for a large number of people in India through their innovative CSR.

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