

FROM CHARITY TO STRATEGY: EVOLUTION OF CSR

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INTRODUCTION

Corporate Social Responsibility (CSR) has become a strategy linked with responsibility for big business houses nowadays as it is a two-sided coin that has both sides, a fruitful impact. On one side it helps assuring sustainable development and on the other side it builds a brand image for corporates. Businesses with the help of society, sustain their existence, make huge profits, and expand their growth. So it becomes a crucial responsibility of them to contribute a little towards the growth of society as well. While doing business, doing good for society becomes essential. It involves integrating social, environmental, and ethical considerations into their business operations and interactions with stakeholders, such as employees, customers, suppliers, communities, and investors. CSR initiatives can range from reducing carbon emissions and promoting diversity and inclusion to supporting charitable causes and implementing fair labor practices.

EVOLUTION OF CORPORATE SOCIAL RESPONSIBILITY:

The Word CSR has gained a buzz in the business world. The concept of Corporate Social Responsibility (CSR) has evolved over time in response to changing societal expectations, economic conditions, and environmental challenges. Here are some key milestones in the evolution of CSR:

Philanthropy Era (the 1800s-1950s): In the 19th century, wealthy industrialists like Andrew Carnegie and John D. Rockefeller gave large donations to charitable causes. Corporate philanthropy continued to be a dominant form of CSR until the mid-20th century.

Social Responsibility Era (the 1950s-1970s): With the rise of labor unions, consumer activism, and civil rights movements, corporations began to recognize the importance of addressing social issues such as labor rights, environmental pollution, and discrimination. This era saw the emergence of corporate social responsibility as a formal concept. The term CSR was well explained by American Economist Howard Bowen in his book: *'Social Responsibilities of the*

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Businessman in 1953. 'The Book Focuses on whether and how CSR can help a business reach the goals of Social Justice and economic prosperity by creating welfare for a broad range of social groups, beyond the corporations and their shareholders.'¹

Stakeholder Era (the 1980s-2000s): In the 1980s, the focus of CSR shifted to stakeholder engagement, as companies recognized the importance of building relationships with their employees, customers, suppliers, and local communities. The concept of the triple bottom line (people, planet, and profit) gained popularity during this era.

Sustainability Era (2000s-Present): In the early 21st century, CSR evolved into a more holistic and integrated approach that aimed to create long-term value for all stakeholders. Sustainability became a key focus of CSR, as companies began to recognize the urgent need to address climate change, resource depletion, and social inequality.

Today, CSR has become an integral part of corporate strategy and a key driver of innovation and competitiveness. Many companies are embracing CSR as a way to create shared value for society and their shareholders.

In India, CSR was legally mandated on 1st April 2014, when the Companies Bill 2013 was passed in parliament. It has been defined under section 135 of the Companies Act, 2013, and Companies (Corporate Social Responsibility Rules), 2014. Also, it is a proud moment for every Indian that, India is the first country in the world to mandate CSR by enacting a law in this regard.²

CONCEPT OF CSR

The concept of CSR is to sail two boats together. It essentially achieves the goal of sustainable development with the economic growth of the country. CSR is generally understood as a way through which a company achieves a balance of economic, environmental, and social imperatives. while at the same time addressing the expectations of shareholders and stakeholders. A company by investing a small portion of its profit in developing society builds immense trust in the hearts of its customers, employees, and society at large. It can broadly be divided into four activities:

¹ Social Responsibilities of the Businessman: By Howard R. Bowen (1953)

² The Economic Times Opinion <<https://economictimes.indiatimes.com/opinion/et-commentary/view-india-becomes-the-first-country-to-have-statutorily-mandated-csr-for-specified-companies/articleshow/90448748.cms?from=mdr>>

1. Taking care of Environment.
2. Doing philanthropic activities.
3. Adopting ethical business practices.
4. Building economic well-being.

In today's times' businesses are aligning their CSR activities with International Conventions like United Nations Framework on Climate Change (UNFCCC), KYOTO Protocol for reducing carbon footprints, and the 17 Sustainable Development Goals (SDGs) by United Nations. It can be visible in the amounts allocated by the corporates and the awareness created in the general public for achieving equitable growth.

WHAT COMPANIES ACT, 2013 SAY ABOUT CSR?

Corporate Social Responsibility under the Companies Act, 2013 is governed by Section 135³. This Section provides the thresholds of Net-worth, Turnover, and Profits which trigger mandatorily spending a portion towards CSR activities and also formulate a proper CSR committee.

It provides that the company has:

- ✓ The net worth of rupees 500/- crore or more; **or**
- ✓ Turnover of rupees 1000/- crore or more; **or**
- ✓ Net Profit of rupees 5/- crore or more
- ✓ In the immediately preceding financial year, shall constitute a CSR committee (Section 135(5)).

Here, the Company includes its holding/subsidiary company and any foreign company defined in clause (42) of Section 2 of the act having its branch office or project office in India. The CSR Committee will be composed of three or more directors out of which one shall be an independent director of the company. Provided that where the company is not required to appoint an independent director, it shall form a committee consisting of two or more directors (Section 135(1)). Provided further that, when the amount to be spent by the company is less

³ The Companies Act, 2013, s (135).

than rupees fifty lakhs then, the company shall not be required to formulate a separate committee, the Board will discharge the functions of the same. (Section 135(9))

FUNCTIONS OF CSR COMMITTEE (SECTION 135(3)):

- To formulate and ensure a proper policy on CSR for the board including the activities to be undertaken by the company aligning with activities mentioned in Schedule VII of the companies act.
- To recommend total expenditure to be spent on CSR activities.
- To provide the manner of execution of policy
- To monitor the company's CSR policy from time to time.

AMOUNT REQUIRED TO SPEND ON CSR

The Companies shall spend not less than 2% of the Average net profits of immediately three financial years for CSR activities.

PENAL PROVISIONS FOR NOT COMPLYING SECTION 135(5) OR (6):

- If the company makes a default or fails to comply with the provisions of the above-mentioned sections, it shall be liable to a penalty of:

Twice the amount to be spent on the CSR activities **or** Rupees one crore whichever is less.

- And Every officer in default shall be liable to a penalty of:

One-tenth of the amount to be spent **or** Rupees Two lakhs whichever is less.

SCHEDULE VII OF THE COMPANIES ACT

Schedule VII⁴ of the Companies act, 2013 provided for the activities which are considered CSR activities:

1. Eradicating hunger, poverty, and malnutrition;
2. Promoting healthcare activities;
3. Providing safe drinking water;
4. Promoting education;
5. Promoting gender equality by empowering women;

⁴ Companies Act, 2013 schedule VII

6. Ensuring environmental sustainability, and ecological balance;
7. Protection of art and culture, national heritage;
8. Providing benefits to armed forces veterans, war widows, and their dependents;
9. Promoting rural sports, Paralympic sports, and nationally recognized sports;
10. Contribution to PM national relief fund; PM CARES fund or any other fund set up by Central or state government;
11. Contribution to incubators or research and development in the field of science and technology;
12. Contribution to publicly funded institutions;
13. Slum area development
14. Disaster management including relief, and rehabilitation activities.

THE COMPANIES (CORPORATE SOCIAL RESPONSIBILITY) RULES, 2014⁵

The Companies (CSR) Rules, 2014 guides the implementation of the provisions mentioned under section 135 of The Companies Act, 2013. As we saw above that how Schedule VII of the Companies acts referred to the activities which will be considered CSR activities. Here, Companies (CSR) Rules describe the activities which WILL NOT be considered CSR activities.

The following activities shall not be considered CSR activities (Rule 2(d) of Companies CSR Rules, 2014):

- Activities undertook pursuance normal course of business;
- Activities are undertaken by the company outside India (Except training of sports personnel representing any state or union territory);
- Contribution of any amount directly or indirectly to any political party under section 182 of the companies act;
- Activities benefitting employees of the company as defined in clause (k) of section 2 of the Code on Wages, 2019 (29 of 2019);
- Activities supported by the companies sponsorship basis for deriving marketing benefits for its products or services;
- Activities carried out for the fulfillment of any other statutory obligations under any law in force in India;

⁵ Companies (Corporate Social Responsibility) Rules, 2014

SIGNIFICANCE OF CSR APART FROM THE LEGAL MANDATE:

Until now, we have talked about all the legal faces of CSR, Right from its evolution to the mandates as per law. Now, Let us talk about the benefits CSR lends to businesses and society:

The brand recognition of the company: When a company invests in CSR initiatives, it will get a boost in its brand, the fact that people at large will get to know about the company's doings. Since the company puts its CSR policy, and CSR initiatives on its website, it will get more reach to the public, which will result in increased recognition of the company.

Improves business reputation: Positive things attract positivity says the Law of attraction. The same is applicable in this case also. The continuous efforts to make something good for society will boost the company's reputation.

Builds trust in society: When a company promisingly performs great things for society; or when a company understands its responsibility to pay back what society has provided to the company, it impacts largely on the minds of the people and builds strong trust in the company.

Increased customer loyalty: Customers are more likely to remain loyal to a company that has a strong commitment to social responsibility.

Better employee engagement: Companies that engage in CSR initiatives are more likely to attract and retain top talent. Employees are more likely to be motivated and engaged when they feel that they are working for a company that is making a positive impact on society.

Reduced operational costs: Companies that adopt sustainable practices can reduce their operational costs by conserving resources, minimizing waste, and improving efficiency.

Enhanced stakeholder relationships: Companies that engage in CSR initiatives can build stronger relationships with their stakeholders, including customers, employees, investors, and the communities in which they operate.

Improved risk management: Companies that adopt socially responsible practices are better equipped to manage risks associated with environmental, social, and governance issue

Support to the community: Spending for social development, considering environmental degradation, providing literacy to the illiterate, ensuring gender equality, building infrastructure in rural areas, helping the below-poverty line people, etc., provides huge support to society and stands as a supporting pillar for the community.

Helps in tax planning: There are no tax deductions given in the Income Tax act, of 1961 for CSR expenditure but there are some activities that enjoy exemptions under the income tax act such as contributing to Prime Minister's Relief Fund, agricultural extension projects, scientific research, rural development projects, skill development projects, etc.

CSR IN ACTION: INDIA CSR OUTLOOK REPORT⁶

The 8th edition of India's CSR outlook report, a publication of CSR Box and NGO box, states the CSR spending analysis of 301 large companies for the financial year 2021-2022.

- The report states that INR 12260 crores were spent by these 301 companies on CSR activities in FY 2021-22.
- INR 40 crores were the average prescribed CSR per company.
- Reliance Industries, HDFC Bank, Tata Consultancy Services, Oil and Natural Gas Corporation Limited, Infosys, ITC Limited, Indian Oil Corporation Limited, NTPC Limited, Tata Steel Limited, and ICICI Bank Limited were the top 10 companies on CSR spending.⁷
- These five companies accounted for more than 1/4th of the total CSR spending.
- About 37.87 percent spent more than their prescribed CSR budget.
- The report also highlights that Poverty Alleviation, Healthcare, WASH, Education, Skill Development, and Rural Development emerge as the priority thematic areas that jointly cover 70 percent of India's total CSR fund.

LEADING COMPANIES IN CSR ACTIVITIES

Reliance Industries Limited: Being at the top amongst all other companies in India, Reliance Industries Limited has spent Rupees 737 crores on CSR activities in the FY 2021-2022. As per its annual report, around 4,00,000 people have benefitted from their programs.⁸

- They allocate their CSR expenditure to the sectors of Education, Health, Environment, and Social Development.

⁶ India CSR Outlook report <https://csrbox.org/media/CSRBOX-India-CSR-Outlook-Report-2022_Full-version.pdf>

⁷ India CSR <<https://indiacr.in/corporate-responsibility-in-action-the-top-10-companies-leading-the-way-in-csr-for-fy-2021-22/>>

⁸ CSR by RIL <<https://www.ril.com/OurCompany/CSR.aspx>>

- They create community infrastructure, infrastructure for water conservation, schools, health care centers, hospitals, primary health care centers, and HIV/DOTS therapy centers in various locations.
- Reliance Foundation was created with the aim of sustainable development in the year 2010.
- They have conducted the following Programs: Women and youth empowering program, Reliance Community development Program, Project Jagruti for uplifting Dyslexic students, and Protsahan scheme to provide financial aid for meritorious students.

HDFC Bank: Qualifying for the second position HDFC bank has spent rupees 733.86 crores on CSR initiatives. They have spent their CSR expenditure in the following sectors:⁹

- Rural Development, by helping farmers improve their productivity, Nurturing self-help groups, Re-invigorating farmlands through farm building, and Building rain shelters from protected farming.
- Skill development: organizing skill-building programs and training programs to enhance the skills of the population.
- Healthcare and Hygiene: by building integrated sanitation units, reducing impacts of dry waste.

Tata Consultancy Services:¹⁰ Being third on the list, TCS has got the position of Technology Driven CSR innovator. By organizing various programs, TCS has spent about 716 crores on CSR initiatives. Some of its well-known initiatives are:

- GoIT stands for Go Innovate Together. It is a career readiness program that helps youth get ready for their future growth.
- ‘Literacy as a service’ provides education to the people of underdeveloped areas in our country.
- ‘Ignite My Future’, ‘Youth Employment Program’, and ‘BrideIT’ are some other programs driven by TCS in fulfilling their CSR expectations.

⁹ Initiatives by HDFC Bank <<https://v.hdfcbank.com/csr/index.html>>

¹⁰ Reference to the activities undertaken by TCS <<https://www.tcs.com/who-we-are/corporate-social-responsibility>>

Oil and Natural Gas Corporation Limited: ONGC limited standing in the fourth position spent Rupees 436.02 Crores on CSR activities. Their vision statement is: 'To support responsible and sustainable initiatives while taking care of the concern for People, Planet and Profit'.¹¹

Their focus areas are Health Care, Education, Skill Development, Swachh Bharat, and Rural Development. Some of their major achievements are¹²:

- A 300-bed Multi-Specialty for the underprivileged in Sivasagar, Assam.
- A Cancer Institute in Nagpur.
- Door Step Medical treatment for elder people.
- Ensuring clean drinking water facilities across India.
- Open Defection Free Initiatives.
- Clean Himalayas, Reviving River Saraswati,
- Project Sakhi- Promoting Menstrual Hygiene through Sanitary wending machines.

CONCLUSION

Corporate Social Responsibility (CSR) has become an essential factor in the business world. It is a way in which organizations take responsibility for the social and environmental impact of their operations. Modern-day consumers are increasingly conscious of the impact of businesses on society, and hence they prefer to associate with companies that demonstrate good social and environmental practices.

Companies that practice CSR are not only fulfilling their ethical and moral obligations but are also reaping significant benefits. They are able to attract more customers, improve their brand image, and gain a competitive advantage in the marketplace. Moreover, CSR can also help companies to reduce costs and increase efficiency by adopting sustainable practices and reducing waste. In today's world, where sustainability and social responsibility are increasingly important, CSR has become a fundamental aspect of business operations. Therefore, it is important for companies to prioritize CSR and integrate it into their overall strategy to ensure long-term success and create a positive impact on society and the environment.

¹¹ ONGC CSR Vision <<https://ongcindia.com/web/eng/csr/csr-vision>>

¹² Projects undertaken by ONGC <<https://ongcindia.com/web/eng/csr/major-csrprojects>>