A study on CSR eco-system in India

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Abstract

This paper provides a critical look at the definition of CSR based on the subject matter literature available. Because CSR is an emerging term in both definition and reality, this study aims to illustrate CSR in relation to the different stakeholders and entities termed as CSR ecosystem in this study. Furthermore, this study also offers an outline of factors, interactions and contexts under review, such as CSR, Section 135 of the Indian Companies Act 2013, the effect of the Act on corporate bodies’ CSR operations, the impact of CSR on societal and environmental concerns, contrasting CSR schools of thinking, and gaps in the views of management, government, shareholders and stakeholders.

Keywords: CSR Ecosystem; Section 135 of the Indian Companies Act, 2013; Stakeholders

Introduction

The study gives an overview of variables, associations and contexts under study, such as CSR, Section 135 of Indian Companies Act 2013, the impact of the Act on CSR activities of corporate bodies, the effect of CSR on societal and environmental issues, conflicting schools of thought in relation to CSR, and difference
in perceptions of managers, government, shareholders and stakeholders towards CSR activities. This study seeks to examine the effect that the enforcement of Section 135 of Indian Companies Act 2013 has had on CSR spending of firms and firm performance. Thus, this study gives an overview of CSR spending of firms before and after the enforcement of Section 135, and its effect on firm performance.

CSR is a complex subject, especially when the various complications related to CSR definition, scope and performance are taken into consideration. For example, the stakeholder perspective of CSR advocates that multiple stakeholders must be served, but the question then arises, the interests of how many stakeholders may be served by a firm, and to what extent? This would lead to some areas receiving more attention and others, less so. This in turn would lead to a gap in expected or intended service and actual service rendered. The present study seeks to examine this gap along with issues mentioned in preceding sentences, and this study gives brief descriptions of the same.

In the aspect of business organizations, James Moore’s use of the term “ecosystem” that included buyers, intermediaries (marketing channels, agents, and those producing similar goods and services), suppliers, and industry itself. In the context of this study, the effect and association of CSR on and with multiple elements such as environment, society, shareholders, stakeholders, and the firm itself are examined, and these elements form a larger part of the CSR ecosystem. Thus, this study is a comprehensive study of the CSR ecosystem in India in light of the enforcement of Section 135 of Companies Act 2013.

In the following section, the objectives of the study are listed. Next, the study establishes the context of the study which broadly revolves around Section 135 of Companies Act 2013. The section begins with establishing that formal focus on CSR at the policy level concluded with the enactment of Section 135 of the Companies Act 2013 (MCA, 2013), which made CSR spending and disclosure mandatory for firms falling in certain categories. The section goes on to specify conflicting and opinions that arose due to the enforcement of Section 135, and attempts to objectively evaluate these opinions and schools of thought. The debate whether CSR is voluntary or mandatory, especially after nations such as Indonesia, Denmark, France, Philippines, Spain, Argentina, Brazil, India, Norway and European Union enforced laws related to CSR, has been highlighted. Elements affecting participation of firms in CSR activities, such as firm size and motivation are discussed. The need, significance and interpretation of CSR and its role in relation and conjunction with government responsibility and duty are examined in the section and also later in the study. The section also discusses how the absence of a clear definition of CSR may lead to undesirable outcomes and practices. The difference in the nature of CSR in developed and developing countries and its effect on CSR activities actually being carried out in the two different contexts are considered. It is these issues that lead to gaps in intended and actual services rendered under CSR. As mentioned earlier, firm size and motivation play important roles in how and to what extent firms are engaged in CSR. Voluntary and mandatory CSR and their outcomes and implications are discussed in the section. The section specifically explains and discusses performance driven and stakeholder oriented approaches of CSR. Financial performance would certainly be a very important consideration for all firms, and the relation between CSR and financial performance is one of significant interest. The section discusses the aforementioned association through findings of studies on the topic. The section also attempts to highlight the nature and extent of CSR activities and spending of firms before and after Section 135. The point of view that mandating CSR is indeed an implicit tax has been considered.

The following sections provide definitions of CSR, an overview of CSR in India and explanation of the CSR ecosystem. The study further identifies research gap and establishes the need for the study. Study-wise organization of the present study is provided before conclusion.

**Objectives of the Study**

The objectives of the present study are as follows:

- To evaluate the impact of the enforcement of Section 135 of Indian Companies Act 2013 on CSR spending and organizational performance.
- To assess the impact of firms’ CSR practices on social inclusion (Positive societal change).
To analyze the gap between CSR practices adopted by companies and societal/environmental issues.
To identify processes that companies follow to perform CSR.
To assess managerial perceptions towards CSR.
To assess the perceptions of beneficiaries towards CSR as practiced by companies.

Context

After the global financial crisis that took place in the 2000s, mandatory CSR reporting gained prominence as an issue (KPMG-UNEP, 2010). CSR governance became stricter to make corporations disclose how they acted towards the welfare and benefit of stakeholders and community at large. The formal focus on CSR at the policy level started in the year 2009 by issuance of CSR voluntary guidelines by Ministry of Corporate Affairs (MCA, 2009) that become the base of the legitimate Corporate Social Responsibility resulted in the enactment of Section 135 of the Indian Companies Act, 2013, making 2% of average profit of past three years for specific types of business organizations (MCA, 2013). Regulation of CSR is a fairly controversial topic. Majority of existing definitions emphasize that CSR is voluntary in nature (Dahlsrud, 2008) and associate CSR with acts not legally prescribed (e.g., “CSR is beyond that which is required by law,” McWilliams & Siegel, 2001, p. x), a few occurrences related to mandatory CSR have brought the voluntary nature of the notion under scrutiny (Waagstein, 2011). The debate whether CSR is voluntary or mandatory has intensified (Waagstein, 2011) especially after nations such as Indonesia, Denmark, France, Philippines, Spain, Argentina, Brazil, India, Norway and European Union enforced laws related to CSR.

In India, Section 135 of Companies Act 2013 gave birth to conflicting opinions. According to some, mandatory CSR is an opportunity for corporate bodies to work with government and civil society towards national growth and sustainable development; others view it as a middle path that balances regulatory and liberal aspects of the state to achieve growth and social stability. Yet others opine that mandatory CSR actually is an initiative of the government to make the private sector pay for the government’s own failures. This argument may however be countered by the view that CSR, especially in context of developing nations, supplements government resources and assists in filling up gaps in governance, particularly where central and state governments’ reachability is minimum, dishonest, and under-resourced, and other institutions are also fragile (Matten and Moon, 2008; Blowfeld and Fyrnas, 2005; Visser, 2008). Another argument made is that while CSR has been made mandatory, in the absence of a clear definition of the same, corporate bodies would find ways to circumvent the law and feign activities to fulfil legal requirements. The essential question in this context would then be the actual fulfilment of the welfare gap in India.

An important aspect to be borne in mind is that the nature of CSR and associated issues differ in developed and developing nations. Developing nations face more problems related to society, environment and sustainability; these are further effected by global challenges, financial crisis, economic growth, investment, savings and developing economic movements (Visser, 2007). Accordingly, CSR in low-income nations focuses on alleviation of poverty, health-care, education and development of infrastructure (Amaeshi et al. 2006). Contrarily, developed nations are confronted by concerns related to society, green marketing, fair trade, environment and climate change and ethical responsible investments. In the Indian context, CSR is oriented towards socio-economic activities aimed at development of the nation, though not necessarily at the expense of the economic objectives of corporate bodies. However, given the number, diversity and intensity of environmental, societal and economic issues facing India, it would not be reasonable to expect CSR activities, whether voluntary or mandatory, to resolve all problems immediately.

Besides regulation, the motivation behind firms’ performance of CSR is also of great significance; it determines how firms view CSR and associated activities. This is clear by the fact that companies in India voluntarily engaged in CSR activities even before CSR was made mandatory. Such firms truly wish to work towards the welfare of the people and the environment and give back to the society in which they operate. Studies identify two motivations for firms engaging in CSR - ‘performance driven’ and ‘focus on stakeholders’ (Basu and Palazzo, 2008; van der Wees, 2009). Firms engaging in performance driven CSR are motivated by the notion that CSR would, in the long run, translate into corporate financial performance. Here, expense on CSR is in line with the objective of maximization of shareholders’ wealth with no compromise between...
shareholder interests and business social responsibility. Stakeholder-oriented CSR, on the other hand, is motivated by the firm’s desire to serve all stakeholders’ interests. This approach reconciles the social and economic objectives of a firm motivated by serving the society’s interests (van der Wees, 2009). Again, the stakeholder perspective has been criticized through the argument that maximization of stakeholder value does not align with operational efficiency of the firm. Further, due to the presence of multiple objectives and stakeholders, it becomes unclear what the manager must seek to maximize. Also, without a clear rationale to perform CSR, the exercise may be used for personal gain, dishonest practices and irresponsible managerial behaviour. Firm size is another factor that decides a firm’s participation in CSR activities. Before the enforcement of Section 135, majority of medium-sized Indian firms were not involved in CSR activities. However, for medium sized Indian firms, private returns from CSR activities are smaller. Thus, it can clearly be seen why relatively smaller firms would be hesitant to engage in CSR activities.

Again, it is noteworthy that from the perspective of public policy, mandatory reporting becomes necessary when firms see CSR as non-paying and not converting into financial performance (all the more so in the short run), but CSR remains valuable to society. Further, mandatory reporting may evoke positive CSR response in greater likelihood as opposed to voluntary reporting (where it could hypothetically be zero). Mandatory reporting could help decrease irregularities in information which is vital to stakeholder engagement and establishing corporate accountability (Hung et al., 2013).

Amidst all this debate, a question that arises is that while CSR does benefit society, does it really benefit the firm clearly, if not in measurable terms? Studies show that CSR improves corporate governance, transparency and accountability to stakeholders, and assists in nation building (Shetty, V.S, 2014). Reported benefits from contribution to CSR include enhanced financial performance, decreased operating cost, better brand image and reputation, increased sales and customer loyalty, product safety, material recyclability and greater utilization of renewable resources (Gautam, A.S, 2010). Disclosure of CSR activities also yields similar benefits (Gautam, A.S, 2010). Thus, communication of CSR activities by a firm could lead to better social responsiveness. Enhanced CSR performance has also been shown to lead to better access to finance and help decrease capital constraints and improve stakeholder engagement (Cheng et al., 2013). Studies further show that CSR reduces the need to advertise as CSR activities act as a very good substitute to advertising. Ferrell, Liang and Renneboog (2016) found better governance to be associated with greater CSR expenditures, indicating that CSR may be attributed to efforts to enhance firm value. Whether CSR affects firm performance is a question that concerns many. Significant research has been conducted on CSR and its effect on the financial performance of the firm, and studies have yielded mixed results. It has been reported that CSSR positively affects net profits, but shows no effect on EPS and ROA. Further, CSR showed greater impact on profits if the firm spent more on CSR; this also led to sustainable development of the firm and society (Bafna, A, 2017). (Singh and Misra, 2021) stated that CSR positively impacted organizational performance of Multinational companies in India; organizational performance adopted by the study included managerial perceptions. The study by Abu Bakar & Ameer, 2011; Orlitzky, Schmidt, & Rynes, 2003; Van Beurden & Gossling, 2008 gave similar results. In addition to the positive link between CSR and financial performance (ROC, ROE, ROA, net profit etc.), studies show a positive relation between CSR and non-financial parameters like job satisfaction, employee commitment and internal reputation (Truptha, S.2016). Studies show that after the implementation of Section 135 of Companies Act, 2013, firms, on average spend 2% towards CSR, and that CSR positively and significantly impacts a firm’s overall financial performance (PBT, ROC, ROE and ROA). While it has been reported that overall, firms have increased their CSR spending after Section 135, an interesting outcome of Section 135 has been that large firms that spent less than 2% before the law came into force enhanced their CSR activities thereafter, while firms spending more than 2% before the law took effect reduced their CSR expenditure. Studies assert that increased contribution to CSR enhances a firm’s financial performance, and vice-versa. In light of the above, it may be said that CSR does have a reasonably clear effect on overall firm performance, though it might not significantly impact individual indicators of firm performance. Here, it may be argued that whether motivated by strategic concerns or the desire to serve all stakeholders, a firm would benefit from voluntarily disclosing the CSR activities in which it is engaged.
With respect to Section 135, arguments are made that imposing the Section is actually the imposition of an implicit tax on firms. While many would view this as such, an important distinguishing factor here is that existing CSR provisions serve as a centralized tax for decentralized use by private parties mainly for project execution. This perceived indirect tax indeed gives firms control over how to disburse their funds and resources; firms can choose projects that align with their operations. That money and resources accumulated by the government would be used for CSR and no other purposes cannot be guaranteed under explicit taxation.

It may be concluded that while amendments in the Companies Act seek a balance between firm and shareholder interests and welfare of society and stakeholders, continuous research would be needed to determine the degree to which the objectives were achieved and the actual gap between the two. Of course, the level of achievement and width of gap may increase, decrease or fluctuate with time. This only underscores the need for constant research and monitoring of the phenomenon.

Background

Economic expansion and population growth have exerted significant pressure on already depleting natural resources and contributed to environmental degradation. In light of these issues, business organizations have been forced to manage and use their resources more efficiently and responsibly. Business has been widely accepted as a unit of society, and the responsibility thereof towards society almost universally acknowledged. It is argued that a business is responsible towards society because first, business operations impact society and environment, and second, the business becomes a very part of that society in which it operates. Therefore, considering rising concerns about the environment worldwide and the impact of business operations thereupon, there is a clear need of changing conventional ways of doing business. A business organization is an organ of society, and the impact of business operations on not just shareholders, but also the environment and members of the community must be considered by management. This is the principle on which CSR (corporate social responsibility) is based. While most organizations have been engaged in acts of social responsibility of some kind, the pressure to establish CSR as a business discipline and achieve positive outcomes relevant to business (as a result of CSR initiatives) has increased lately. This view emphasizes that the value of a firm is entirely based on the firm’s capability to create wealth for its shareholders, and that any social or environmental initiative not making profits for the firm is a waste of corporate resources. While this line of thought may be questioned, one reason for such opinion could be that manager’s worry that emphasis on CSR would translate into more duty, and think that CSR must be carried out by the government. Another reason is that managers opine that carrying out CSR initiatives would increase operating costs (cost of improving working conditions of staff, increasing employee benefits, and cost of environmental protection equipment) which would in turn reduce profit margins. One more reason is that some managers view CSR as charity, and strongly believe that firms are not for charity originations and under no obligation to solve social problems; thus, CSR is unwanted burden on firms.

However, the profit only perspective has received significant criticism. People are increasingly of the view that firms should not conduct business only for selfish reasons; business organizations should conduct operations without harming public interest and the environment. Businesses must manufacture quality products that don’t harm the environment and adopt processes that keep the environment clean by minimizing effluent release and waste generation, and recycling waste. Further, businesses must take care of the welfare and security of employees. Firms must inform all stakeholders about steps taken towards the betterment and welfare of the environment and society. Corporations today are legally bound to carry out CSR activities. Firms also experience tremendous pressure due to public opinion and campaigns led by non-government organizations. In 2013, the Indian government mandated that the latest provision in Companies Act 2013 (Schedule VII, section-135) be applied for financial year 2013-2014 according to which, every business firm with net worth of Rs. 500 crore or more, or turnover of Rs. 1000 crore or more, or net profit of Rs. 5 crores or more, had to expend at least 2% of average net profits during the last three financial years on CSR activities. According to law, CSR activities are set to have a positive impact on society as a whole.

After CSR being made compulsory by law, many companies have been involved in development of infrastruc-
ture, production of food grains, advancements in science and technology, and imparting education. However, several pressing problems, especially in the Indian context, remain, such as those related to sustainable development, climate change, environmental protection, pollution, etc. Clearly, CSR should focus on inclusive growth and betterment of society, environment and all stakeholders.

The present study analyzes the current CSR ecosystem in the Indian context and examines the effect of mandating CSR reporting with characteristic features and operative issues of CSR.

Corporate Social responsibility (CSR) Defined

Corporate Social responsibility (CSR) is a key concept in organization-society association. CSR, stakeholder management and business ethics have received much research and corporate attention over the last century. The notion that businesses have a responsibility beyond just generating wealth for themselves has been emphasized for a long time. It was, however, in the 1950s and 1960s that the significance, influence and study of CSR grew (Carroll and Shabana, 2010). Sir Howard Bowen’s text in his book “Social Responsibilities of the Businessman” (1953) is regarded by many researchers, academicians as a noteworthy starting point to the discussions and arguments that have taken place in literature. Howard Bowen argued that large corporations actually and significantly impacted citizens’ lives (Carroll, 1999), and emphasized their responsibility. With time, the notion of CSR underwent modification and transformation into different other concepts such as positive societal change, business ethics theory, stakeholder theory, corporate governance, corporate citizenship, triple bottom line (TBL) social reporting, and more recently, CSR 2.0 (Donaldson and Pretson, 1995; Carroll, 1999, Visser, 2008).

Michael Hopkins (2003) defined CSR in terms of treating a firm’s stakeholders responsibly and ethically. While the words ‘ethically’ and ‘responsibly’ imply treating shareholders such that is acceptable in civilized societies, the term CSR entails economic responsibility also. Stakeholders may be internal to a firm or external. Indeed, the natural environment is also a stakeholder. The broader objective of corporate social responsibility is to fashion higher standards of living (for people within the firm and without) while conserving firm profitability.

Kotler and lee (2005) explained CSR in terms of dedication towards improving the well-being of the community through appropriate business practices and assistance in the form of business resources.

The World Business Council for Sustainable Development (WBCSD) defines CSR as ”the commitment of business to contribute to sustainable economic development, working with employees, their families and the local communities” (WBCSD, 2001). It may thus be concluded that primarily, the notion of CSR entails business corporations’ obligation to work towards fulfilling a broad set of stakeholder needs (Clarkson, 1995; Waddock et al., 2002). In general terms, CSR may be seen as a group of management practices seeking to ensure maximum positive effects of a firm’s operations on society. Thus, CSR implies that a business should seek to function in a manner that fulfills and goes beyond the legal, ethical, commercial and public expectations that members of society have of the business (BSR, 2001). It is also noteworthy that while governments have been conventionally responsible for improving the living conditions of their populations, needs have often exceeded governments’ abilities. This has led to the debate on responsibilities of businesses towards society and environment. Business firms themselves have assumed responsibility and engaged in CSR activities which has in turn helped firms to differentiate themselves from competitors in the eyes of stakeholders.

Furthermore, the expectations of local community members and the society in which a business organization exist, are continuously changing, mostly determined by the economic and social theories, different political and cultural events, socio-economic behavior, environment and transformation in the knowledge of society that really puts a burden on the domestic as well as multinational business organizations. Social progress and success of business are interrelated. As social progress depends on the success of businesses in that society, businesses too depend on the stability of society to thrive. Thus, corporate bodies should reconsider and restructure their roles considering the interdependence of business and society, and engage in CSR activities accordingly.
Dahlsrud (2008) identified key themes considered by several definitions that were used by CSR researchers to forward a synthesis of the position of CSR definitions by way of content analysis of present definitions. The first theme based on the relationship between business and the society (such as CSR can “contribute to positive societal change”, “community welfare”, and “social inclusion”). The second theme related to the environmental concerns such as “carbon footprint”, “ecological balance”, and “climate change” (Van Marrewijk, 2003). The third theme comprised financial and economic aspects related to firm’s responsibilities such as “contribution toward economic development”, “sustainable development”, and “organizational performance” (World Business Council for Sustainable Development, 2000). Another and important theme is based on organizational links with stakeholder groups such as “how business firms interacts with their suppliers, customers, employees and community members” (Lea, 2002). Out of all these themes the final common portion is the voluntary nature of Corporate Social Responsibility such as “CSR could be beyond the legitimate requirement”, “voluntary support to the local community needs”, and “voluntary support to the natural environment” (McWilliams & Siegel, 2001). In a study, made by Dahlsrud’s (2008) emphasized the importance of voluntary aspects of corporate social responsibility. In his study Dahlsrud’s (2008) found that 21 out of thirty seven CSR definitions were based on the voluntary dimension, and no any single definition considered any mandate characteristics.

While the above argument may be made to emphasize the voluntary nature of CSR, the voluntary perspective may be criticized on the basis that it promotes irresponsible behaviour and fails to establish accountability. On the other hand, mandatory aspect of CSR could help in creating awareness and may priorities CSR as an appropriate policy intervention (Cominetti & Seele, 2016). Horrigan (2007) stated that mandatory provision may enable the regulatory environment for assessable socially responsible indicators that might be valuable not only for one state but the whole nation.

### CSR in India

Being the country known by its largest democracy, also the second most populous nation (around 1.2 billion) reported by (CIA, 2012) and has been achieved the significant economic growth in terms of global comparison, the role of businesses in India must be examined not only with respect to economic growth, but also social welfare, especially considering the country’s diverse social, cultural and economic background. After 1991, India’s economy gained momentum, especially when the GoI dismantled the Licence Raj. It also has been predicted that by 2035, the country would be the third largest economy in the global world after US and China (Wilson and Purushothaman, 2006; Kaplinsky and Messner, 2008). In spite of bright expectations and predictions, India is heavily over-populated, home to nearly 33 percent of the world’s chronically malnourished, and faces serious issues such as widespread poverty, corruption, and environmental degradation (CIA, 2012). In light of the above, CSR assumes greater importance in the Indian context and warrants greater research attention and examination. Practices, barriers, drivers and responsibilities associated with CSR in India must be studied so that CSR may offer more value to the nation not only in terms of economic growth, but also societal and environmental well-being and preservation.

CSR’s history in India can be traced back to the days of the Kings. According to Arthashasthra by Kautilya, “the welfare of the king lies in the welfare of the people and his happiness in their happiness” (cited in Jose et al., 2003). The nineteenth century saw attempts for mutual wellbeing by traders and religious/ethnic groups; certain advantages even flowed beyond the community (Jose et al., 2003). Charity and faith have been closely connected in India; people in India are normally raised with the belief that giving is pleasant (Jose et al., 2003). Businesses made valuable contributions to schools, hospitals and rural development projects long before India’s independence in 1947, even big corporations especially public sector companies carried out state-sponsored CSR operations since independence (Mohan, 2001). CSR in India could be seen as an integral part of long-term market growth initiatives over the last couple of years (Balasubramanian et al., 2005).

Awareness about CSR among stakeholders and activities associated therewith by business firms have been growing; this may be seen as a result of government regulations, expectations of the public (Mohan, 2001) and also corporate will, nevertheless, CSR is still evolving. Regulators and the government have also shown...
interest in CSR institutionalization in recent years. In 2009 and 2011, voluntary guidelines on CSR were introduced by the Government of India. In 2011, in accordance with the voluntary guidelines on CSR set out in the same year, SEBI directed the top 100 listed companies to submit details of their CSR activities in a Business Responsibility Report accompanying the annual report. And then, the Government of India made mandatory provisions for CSR spending, reporting, policy and governance under the Companies Act, 2013. According to Section 135 of Companies Act, 2013 every company with any of the three - 1) net worth of Rs. 5000 million or more; 2) turnover of Rs. 10000 million or more; or 3) net profit of Rs. 50 million or more –

Figure. CSR spending criteria for Indian Companies

A governing CSR committee of at least three senior board members must be established by all businesses falling within the scope of this law, where one would be an independent director from outside the company. CSR procedures, architecture and activities will be controlled by this board. This task should specifically include the broad goals of the CSR, implementation processes for developing relationships with other organizations, as well as audit and monitoring duties. The activities expressly included in this Act to be eligible for CSR Spending include (As on 31st Jan 2021):

- (i) “Eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water”.
- (ii) “Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects”.
- (iii) “Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centers and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups”.
- (iv) “Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga”.
- (v) “Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts”.
- (vi) “Measures for the benefit of armed forces veterans, war widows and their dependents”.
- (vii) “Training to promote rural sports, nationally recognized sports, Paralympic sports and Olympic sports”.
- (viii) “Contribution to the prime minister’s national relief fund or any other fund set up by the central govt. for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women”.
- (ix) “Contribution to incubators funded by Central Government or State Government or any agency or Public Sector Undertaking of Central Government or State Government, and contributions to public funded Universities, Indian Institute of Technology (IITs), National Laboratories and Autonomous Bodies (established under the auspices of Indian Council of Agricultural Research (ICAR), Indian Council of Medical Research (ICMR), Council of Scientific and Industrial Research (CSIR), Department of Atomic Energy (DAE), Defense Research and Development Organization (DRDO), Department of Biotechnology (DBT), Department of Science and Technology (DST), Ministry of Electronics and Information Technology) engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs)”.
- (x) “Rural development projects”.
- (xi) “Slum area development. Explanation.- For the purposes of this item, the term ‘slum area’ shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force”.
- (xii) “Disaster management, including relief, rehabilitation and reconstruction activities”.
The Act further describes “fraud” with the creation of a separate entity to investigate where appropriate, the law seeks to plug loopholes in the system to create “a better business environment”. The amended company law reinforces balance of power in the governance system of companies, enables greater transparency to decisions of the board, and enhances responsibility of firms’ directors and auditors. The legislation requires firms to rotate auditors and clarifies the supervision of firms accepting public fund deposits and intra-company loans.

In the Indian sense, empirical literature on the existence of corporate-initiated CSR is minimal. There exist a few case studies that focus on best practices. Most of these case studies emphasize that structural and strategic association between the industry and financial and non-financial stakeholders is key to successful outcomes of stakeholder engagement. Some literature mentions elements that possibly explain enhancement in performance, like greater number of activities and expending 2% of firm’s net profit. Others suggest a lack of analytical data on the effects of CSR in India on the types of interventions that include expanding business performance simultaneously or shifting their CSR routes to paths of community growth. In the Indian background, however, there is a notable lack of detailed studies on the relationship between CSR (strategy and scope) and corporate success and sustainability. There is a clear need for a study on CSR ecosystem which may contribute to finding CSR as a link between business and society.

CSR Ecosystem Defined

"In the context of business firms, James Moore introduced the term "ecosystem" and defined it as comprising "customers, market intermediaries (including agents and networks, and those selling complementary goods and services), suppliers, and, of course, the organization itself. Moore’s concept of business ecosystem considered the firm linked to its larger environment and emphasized the role of individual firm and the collective health of the system in which the firm existed (Moore, 2006)."

We refine and extend Moore’s original concept to highlight the necessity of generating value for society through CSR. With respect to CSR in India, three drivers are key – coordination bodies (government and infrastructure provider/funders), beneficiaries (local communities) and awareness creators (annual reports, news and media). These three drivers have an impact on multiple stakeholders in business and society, and combine with them to create CSR ecosystem. In terms of interconnectedness of stakeholders, CSR may be defined as follows:

“A CSR ecosystem is a mutually dependent system interconnected by various ecosystem members, including industry, government, society, and awareness creators ”.

Business firms impact and act as enablers in CSR ecosystem. However, the interrelatedness between stakeholders forms the core of the CSR ecosystem. In future, this CSR ecosystem could extend to participation in or leveraging broader social activities. Society would determine the context at the macro-level within which CSR policies would be established and developed at the micro level.

Drivers of the CSR ecosystem
Coordination Bodies: Coordination bodies make sure that CSR is practiced as laid down by law, and doesn’t clash with accepted cultural norms. These bodies assist in communication on legal procedures and follow CSR activities to enforce social justice and protect the environment. The main coordination bodies in CSR ecosystem are as follows:

Governments: Governments ensure that firms act as per law and established CSR norms (Neha, 2014). Government action is vital to creating an environment that reduces risk, cost and barriers to operations, and rewards and offers competitive and responsible organizations opportunities to grow. Hence, the role of governments in CSR initiatives by firms is significant. Government bodies, when promoting a CSR agenda, face problems associated with identifying priorities, creating awareness, offering incentives and support, and mobilizing resources through cross-sectoral cooperation (Neha, 2014). Key roles of governments when supporting CSR include (but are not limited to) the following:

1. Regulation – This applies to the rules and penalty provisions therein and other mechanisms for regulating the practices and operations of business. Governments regulate firm behaviour and practice by establishing minimum standards for business performance, appointing enforcers and inspectorates to oversee business conduct, establishing codes or laws to restrict undesirable business conduct, granting licenses to operate and mandating environmentally friendly industrial systems.

2. Facilitating – Governments facilitate firms’ engagement in CSR activities to promote social and environmental well-being. Governments may also provide tax incentives and impose penalties to promote responsible business practices. Other measures for facilitation may include: steps to ensure that firms may access required information; dissemination of information about minimum legal requirements for carrying out responsible business practices; formulate policies for CSR activities to be carried out by firms; Providing, where appropriate such as capacity development, business consulting services and industry technical assistance; or, promoting supply chain programs and voluntary certification.

3. Brokering - Government may act as a broker between partnering public sector bodies, businesses, civil society organizations and other stakeholder groups to address complex social and environmental challenges. Government may initiate dialogue in multi-stakeholder processes, and engage in government-industry collaboration towards capacity building and developing sectoral CSR guidelines. The role of government can expand to engaging stakeholders in the setting of standards, fostering public-private community development collaborations, and mobilizing capital. In this position as broker, government
may also facilitate the involvement of key players in a CSR agenda by, for example, providing research funding or leading initiatives, collaborating and disseminating information, teaching, or raising awareness.

4. Instigating - It can take various kinds, including dedication to the application of international principles: education or awareness-raising programs; official policy documents; publicity of good CSR activities carried out by other leading companies; unique award schemes related to CSR (such as the National Green Business Award); or support of specific metrics, rules, frameworks and criteria for pro-CSR.

**Infrastructure Providers/ Funders**

Companies seek to fill some gaps through reinforcing social infrastructure - a part of the infrastructure sector – and developing social services like schools, universities, hospitals, prisons and community housing. Several providers and stakeholders confirm their active role in such CSR activities; this role goes beyond the conventional role of being a mere funds provider.

A few modes of being a provider are given below:

**In-house Implementation:** A firm sets up an internal department to work directly with communities towards designing and implementing projects.

**Formation of Own Foundations:** Several large stipulated corporations spend through their own foundations which become a repository for the firm’s CSR fund. In recent years, this practice has gained prominence and become more compliant to the requirements of the statute.

**Third Party Implementation:** A firm may choose to involve a local or an international NGO as third party to work with local communities on CSR projects; this may include supporting or assisting in an existing initiative being carried out by others.

Multi-stakeholder Partnership: A firm may set up or join a voluntary or collaborative alliance, network, or partnership to share risk, responsibilities, resources and competencies; such an alliance shares a common cause and commitment thereto.

Hybrid: A firm employs a combination of two or more implementation models to deliver the various components of its CSR program.

Clearly, there are several ways in which a firm may choose to discharge its duties related to CSR, but an increasingly large number of companies today prefer to establish their own foundations to carry out CSR.

In India, the law allows firms to engage in CSR through a registered trust or society which has at least three years of experience in a given area, a foundation (Section 25 Company) set up by the firm or a subsidiary/associate company. Most large companies such as Tata Motors Ltd and Marico Ltd adopt a mixed model of CSR; they carry out projects themselves as well as establish foundations and work through non-profit organizations. Organizations such as State Bank of India (SBI) and Reliance Industries Ltd prefer the foundation route.

A company must follow a thorough and stringent selection process to ensure that the organizational business responsibility goals are being achieved in the most transparent, effective and efficient manner.

Maximum transparency should be ensured during the selection process. A Company before appointing an organization should check background of organization to ensure that it is able to implement its Corporate Social Responsibility programs.

**Beneficiaries:**

According to literature, CSR beneficiaries act as important sources of information and offer managers key insights into firm behavior and attitude towards CSR practices. In India, several firms engage with local communities near their area of operations; these communities become the beneficiaries of CSR activities.
Husted and Allen (2006) asserted that the key difference between global and local CSR was the community demanding it. Local CSR focuses on a firm’s obligations towards the standards of the local community, while global CSR concerns itself with a firm’s obligations that relate to hyper norms or universal standards to which all societies can be held (Husted and Allen, 2006).

CSR is not limited to philanthropy, abiding by international codes of conduct, or disseminating them across supply chains; CSR, in essence, seeks to bring about a visible difference in lives and livelihoods of people, develop local capability and fulfill needs and aspirations of locals (World Business Council for Sustainable Development, 2001).

Studies have shown that before CSR legitimation in India, local communities believed that while firms contributed towards societal development through social infrastructure investments, the impact of such efforts remained marginal in terms of capacity building or decreasing inequality among communities. However, after the enforcement of new Companies Act, contribution of businesses towards socio-economic and environmental initiatives has increased. Education, healthcare, livelihood and skill development have been the recipients of majority of CSR funds.

**Awareness Creator**

A valid argument is that if a firm displays strong commitment towards CSR but that commitment is not acknowledged or recognized, then does engagement in CSR activities yield any benefit to the firm? Stakeholder perception towards a firm’s CSR activities is vital as such perception leads to customer loyalty and firm reputation. Over the years, CSR awareness has increased in developing Asian nations (Levine, 2008). There also has been increased acknowledgement among Indian firms of the importance of CSR in the resolution of societal and environmental issues and the benefits CSR offers in terms of value creation, effective management of the triple bottom line and employee engagement. Benefits such as positive brand image and reputation bestowed by CSR could act as a competitive advantage in the marketplace (Gupta, 2002). However, these rewards may be secured only when stakeholders know of the firm’s CSR endeavors (McWilliams and Siegel, 2001). Multinational firms are increasingly adopting the practice of not only carrying out CSR activities, but also reporting them on company websites and annual reports (Holcomb, Upchurch, and Okumus 2007). Media has an important role to play in the dissemination of information related to CSR. Dissemination of information may inspire others to either engage or increase engagement in social causes; it is also necessary to highlight initiatives that are inspired as such.

Companies like ITC and Vedanta have conducted impressive advertising campaigns to highlight their values and communicate their CSR initiatives. Organizations such as Shell have devised innovative methods to make people aware of their CSR initiatives. The belief that CSR offers a competitive edge in the highly competitive marketplace is becoming increasingly prevalent among firms. Firms must consider communicating with as many stakeholders as possible, including constituent bodies, public and private enterprises, academic institutions, media, government support organizations and individuals to strengthen the CSR ecosystem and devise initiatives that offer maximum value to stakeholders while aligning with firm objectives.

References:


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