Chapter 1

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Corporate Social Responsibility (CSR) is a term that has recently gained worldwide attention and has achieved a new resonance in the global economy. Debates are still going on as to what constitutes the Social Responsibility of business, what is the ambit of Social Responsibility and when a corporation can be termed as truly socially responsible. The present work is an effort by the researcher to explore the unexplored dimensions of CSR and bring something valuable to answer these questions and add something to the existing literature on CSR. This chapter highlights the conceptual background of CSR, relationship between business and society, CSR practices in India, and relevance of the study.

**Corporate Social Responsibility: Conceptual Background**

Business is a part of larger external environment. It is a sub-system of the society. The modern corporation exerts considerable influence on the civil society, polity and the economy of the nation. It has to justify its role in the society as society gives business the license to operate. Simply giving economic benefits to the shareholders is not sufficient as societal expectations are continuously increasing. These expectations are the main reason behind the evolution of corporate social responsibility. And these expectations are the result of rapidly growing size of the business. With the passes of time business has become more powerful and now it has far reaching impact on every aspect of the society. These impacts make it a moral duty of the business to be accountable and responsible for the same.

Different scholars have defined CSR in a different way, in spite of being so popular, there is no common definition of CSR. Academicians have introduced different dimensions of CSR. It has been considered as moral, ethical, legal, discretionary (Carrol, 2000)\(^1\) and strategic concept from time to time (Marc, 2011)\(^2\). Some companies consider it as their ethical duty, while for some it is just a legal compulsion. There are also so many corporate houses who believe that CRS can be used as a strategy to become more popular in the
market. Contrary to them many companies are showing their deep passion to bring development in the society through CSR initiatives.

Thus there is no unanimity, neither on CSR definitions nor on corporate motives behind CSR. Definition given by World Business Council for Sustainable Development is considered as most acceptable definition of CSR. It has defined CSR as the *Continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.* (Watt, 2000)³ As per this definition CSR is an ethical concept and intends to improve the quality of life of the society along with bringing economic development.

This work is an attempt to find out the extent to which business has affected the quality of life of the people. Quality of life is the perceived quality of an individual’s life that is an assessment of their well-being or lack thereof. This includes all emotional, social and physical aspects of the individual’s life (Bottomley, 2007)⁴. Thus, it is a moral duty of the business to improve the emotional, social and physical aspects of individual’s life. Companies have taken CSR initiatives to improve the physical condition of the society but only limited measures have been taken to improve the emotional, social and behavioral aspect of human life.

CSR is a much broader term than it is generally understood. Beyond philanthropic, ethical, legal and discretionary aspect, CSR has one more aspect that has not been properly explored. It is behavioral aspect of CSR. Behavioral aspect of CSR seeks to improve the emotional and social aspect of life that directly affects the behavior of the people.

Thorough review of literature has been done and a pattern has been noticed in CSR practices. The pattern keeps on changing with the change in corporate impact and societal expectations. In India, the concept of social responsibility is very old. In olden times businessmen used to build temples, mosques and wells because these were the things that society was expecting from the business besides giving financial and economic benefits. With the passes of time business became more powerful and consequently societal expectations also increased. CSR became much more than philanthropy. It became an ethical concept, where business was supposed to be responsible for its impact (Buckley,
As it became a corporate citizen, it had to behave like a responsible citizen. Traditional ethical theories are useful to understand the role of ethics in corporate social responsibility. Virtue ethics helps in strengthening the company’s ability for taking responsibility whereas, the utilitarian ethics assesses the impacts and deontological ethics defines the authority asking for the fulfillment of ethical duties (Shinde, 2014). Thus, being an ethical concept CSR requires corporations to assess the impact and take the responsibilities.

London Group Benchmarking Model (LGB) illustrates the impact of different corporate activities (with corporate community involvement) on society.

Exhibit 1.1 The London Group of Benchmarking Model

The LGB model has laid down methodology to measure and report on inputs and outputs of corporate community involvement. The relative sizes of the components are meant to reflect the company’s impact on society. The philanthropic component is typically what companies do for the society without any expectations, like donation of money. (Natrajan, 2005)
Social investment component includes limited range of social issues chosen by the company to protect long term corporate interest and to enhance its reputation. (Natrajan, 2005)⁸

In commercial initiatives, the company is focusing more on the commercial benefits of the social involvement while addressing social issues. Cause related marketing or event sponsorship are typical examples of this type of engagement. (Natrajan, 2005)⁸

The business basics part of the model relate to how the company does its business and whether it is sensitive about the impact of its business on society. (Natrajan, 2005)⁸

As per this model, a company’s business basics activities are expected to impact society more than its Philanthropic activities.

Behavioral Aspect of CSR

World business council for sustainable development has given a complete definition of corporate social responsibility. (Agrawal, 2008)⁹. There is a need to understand the definition in the right perspective. It says about quality of life, which encompasses physical, emotional and social aspect of life. Those CSR initiatives that aim to improve these three aspects of human life come under behavioral aspect of CSR. Human behavior is directly affected by their emotional and social status. Corporate sector has significant impact on people’s socio-psychological status, which in turn affect their behavior (Ingram, 2014)¹⁰. Societal expectations have changed dramatically. Society has become more conscious about the intrinsic impacts that businesses have on the social and emotional lives of the people. Ethical and moral issues have become more important for the society, as it is facing rapid downfall of these values. Behavior aspect of CSR is the study of intrinsic impact of business on social behavior.

Business and society

The relationship between business and society has gone through different phrases, as the nature of this relationship has changed a lot over a period of time. Since the inception of the social life, business exists. Unknowingly, people started barter system of trade to exchange their goods for something more useful to them. Since then, business became the integral part of the society. It served the society as a means to satisfy their needs by
exchanging their goods. Business became the medium of social interaction, as exchange was possible only by interacting with other peoples, living in the same society. Concept of neighborhood evolved when people started going out in search of better deal. This was the first phase of the relationship between business and society where business became the platform for social interaction and fulfillment of personal needs. Personal needs were limited to the extent of food clothing and shelter.

Gradually, business grown wider, new inventions took place, money came into existence and business became a medium to earn livelihood, it started providing employment and creating wealth in the nation. People started considering business as an independent unit, but in reality it has never been so. Company form of organization was not there instead small family owned business and sole proprietors were common.

With the introduction of company form of organization, corporate image of business came into the picture. Huge capital, large resource base, large scale production, marketing and sale, introduction of shareholders and stakeholders, government intervention were the key features of company form of organization. Business became powerful and influential. Power always brings responsibility, same happened in case of business. Earlier social responsibility was the term of government’s interest only. But with the growing complexities, increasing pressure and introduction of giant corporate houses, the term bended towards business community. When we talk in context of Indian corporate sector, it is well known that Indian businessmen have always shown their concern towards the social issues. The term Corporate Social Responsibility was formally coined in 1950s, but Indian business houses have been practicing it ever since their inception. (Quder, 2011)

Since 1991, when economic reforms were introduced, businesses have been showing their true interest in social welfare. Well planned CSR initiatives are the example of sincere effort by the companies. Before 1991, Government was assumed to be solely responsible for social conditions. Companies could take social initiatives only to some limited extent. Though there were no formal restriction, but the status of companies was not very favorable for such practices. After reforms, companies were given free hand to decide their matters; flexibility was there to decide anything without much government interference.
This paved the way for the companies to come forward and show their potential in bringing up social development

Generally, it is believed that business has to perform two basic roles or functions in the society

First is wealth creation

And the second is, to bring social satisfaction

Wealth creation is the most important role of business. The term is generally understood by people as something necessarily financial. But actually, wealth creation is a broader term. The word wealth comes from two English words, ‘weal’ and ‘th’ meaning” the condition of well-being.” thus, wealth creation needs to be understood beyond financial ambi ts. According to Robert Kennedy wealth creation encompasses the practices that make life worth living.

Another important role that business plays is the role of bringing social satisfaction. When we look at the above meaning of wealth creation, it will definitely bring social satisfaction by improving the conditions of lives of the people. Thus satisfaction is the outcome of wealth creation practices. And by creating wealth for its stakeholders, business brings satisfaction in the society.

Business community has been fulfilling the societal needs and expectations since ages. Times to time changes have been introduced in corporate practices to suit the needs and demands of the society. Companies have been identifying the needs of the society and accordingly they are going for production, more customized goods are produced, better delivery system is being opted, after sale services are being improved, better employment conditions are promoted by the corporations, employees are given financial and social securities, environment protection measures are being taken and legal requirements are being fulfilled. This strong commitment of business to serve the nation deserves appreciation.

But when we look at another side of the coin, the picture is not as rosy as it seems. Corporate sector has failed to gain the trust and faith of the society. Increasing rate of corporate frauds and scams, continuous detection of harmful substances in their products,
growing dissatisfaction rate of corporate employees are some of the reasons behind suspicious image of business community.

In more recent times, companies have realized the importance of ethical business. Every company has their own values but only few of them follow a formally written values or code of conduct, as a guide to their behavior (Gautam, 2010). This lack of strict conceptualized ethical guidelines causes ethical downfall of the Indian Corporate Sector. CSR initiatives that are taken by these business houses are also considered as marketing stunt by the public, due to their poor image in the society.

Business gets all its resources from the society, it operates in the society, sells its products and services to the society. At the same time society also receives so many benefits from the business in the form of employment, social and financial security, standard of living, goods and services and sense of belongingness.

Business cannot run in isolation and society cannot survive without business, thus, there is a strong interdependence between business and society. The study is concerned with the responsibility of business towards society. Social expectations become corporate responsibility. In upcoming chapters, it has been explained how societal expectations have changed tremendously and how corporate sector is managing these expectations.

**Legal Framework for CSR**

With the introduction of companies’ act 2013, India has become first country to mandate CSR. The fact that CSR initiatives are taken voluntarily, has been ignored and the act has provided for compulsory spending on CSR. As per section 135 of the new act, 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 CSR committee of the board consisting of three or more directors (at least one shall be independent director). The committee shall

1. Formulate and recommend to the board a CSR policy
2. Recommend the amount of expenditure, and
3. Monitor the CSR policy.
Such companies have to spend two percent of their average net profit of preceding three years on CSR. The act has also mentioned the activities that will be considered as CSR activity for the purpose of section 135. On the one hand government has mandated CSR but on the other hand companies have given free hand to decide their CSR activities.

**Indian Corporate Sector - An Introduction**

A corporate sector is a section of society consisting of industries and firms. The Indian corporate sector consist of closely held and publicly held companies or privet limited and public limited companies. Indian corporate sector has shown tremendous increase in terms of number of registered companies and the paid up capital, over the previous two decades. After the introduction of LPG (liberalization, privatization and globalization) and with the abolition of “lisecce raj”. Indian corporate sector has become more powerful and its contribution has also increased substantially. In terms of GDP (gross domestic product) India is seventeenth largest economy of the world as per the IMF (international monetary fund). It is the result of existence of small and large companies operating efficiently in different sectors of the economy.

In India companies are governed by companies act and government has also constituted a ministry of corporate affairs to regulate the functioning of Indian companies act. A company comes into existence on its registration with the registrar of the companies in accordance with the guidelines given in the act. Indian companies cannot perform any act which is beyond the scope of companies act. Those acts are considered as ultra violet and the company becomes answerable for that in the court of law. Recently, ministry of corporate affairs has introduced a new act to govern the administration of the companies. The new act has replaced the companies act, 1956 and came into existence w.e.f. 1st April 2013.

**Current CSR Trends in Indian Corporate Sector**

The concept of socially responsible organization is not new to India. It just needs to be adapted to the present scenario. CSR has become a critical business issue. It is quite difficult to say as to why companies are interested in social issues. Three reasons are
generally identified behind increasing investment on CSR; genuine interest in solving societal problems, strategic benefit and legal compulsion.

In India CSR largely revolved around activities like donations, planting trees, community development, setting up schools and hospitals and so on. It creates duplication and unavailability of the CSR projects. In India education is the most preferred area for CSR investment, with 85% of the companies surveyed in a study engaged in it followed by health (67.5%) and rural development and livelihood (57.5%) (Berad, 2013). Recently companies are contributing toward government’s Swachh Bhart Mission and few companies have come forward to build toilets and create awareness among people on the use of clean toilets. However, when it comes to maintenance and monitoring of toilets, companies feel they can only have a limited impact. Also companies are opting for traditional low cost options for building toilets even though a host of new technologies are available. Somewhere, it denotes lack of innovation and restricts CSR to these particular traditional initiatives only.

The dynamics of business are changing rapidly and it cannot be escaped, whether we acknowledge it or not. The ambit of CSR has moved beyond these traditional limits. CSR can take a number of forms, including formal company policy and community development initiatives. However, individual human behavior can also play a large role in CSR (Ingram, 2014). The way in which people treat others while at work, whether it be a manager interacting with an employee, employee interacting with a customer, an executive interacting with a journalist or any other interaction on behalf of the company can have a social impacts either benefitting or harming others in the community. Understanding human behavior component of social responsibility is a key to develop a positive corporate reputation and enhance the quality of life in the community (Ingram, 2014).

Forbes has recently published that companies are now preparing themselves to tackle with human right issues domestically and globally.

A shift is being noticed in CSR practices from simply following the traditional practices to non-traditional behavioral aspect of CSR. Moreover, companies are showing real interest in having positive impact on social life.
The research aims at studying the CSR philosophy of Indian corporate sector; it requires selection of some companies to represent corporate sector. Companies registered under the Indian companies act were included under the study.

Indian corporate sector is the combination of public and private organizations. Companies from both the sectors are included in the study.

Public sector enterprises

Public sector enterprises are companies that are owned by central or state government. Following PSUs have been taken for the study.

- Oil and Natural Gas Corporation (ONGC)
- Coal India Limited (CIL)
- Steel Authority of India Limited (SAIL)
- National Mineral Development Corporation (NMDC)
- Gas Authority of India Limited (GAIL)
- Bharat Heavy Electricals Limited (BHEL)
- National Thermal Power Corporation Limited (NTPC)
- Oil India Limited (OIL)

Private sector organizations also constitute a major part of Indian corporate sector. Private companies taken for the study are

- Reckitt Benckiser
- Essar India Limited
- Alstom India Limited
- Skoda Auto India Private Limited
- Jindal Group
- Polaris India Private Limited
- Mahairshi Ayurveda Products Private Limited
• Cognizant Technology Solutions India Private Limited
• Inbisco India Private Limited
• Max Health care

Financial sector of Indian corporate sector is represented by two giant financial companies
• State bank of India (SBI)
• United India insurance company limited

Relevance of the Study

The dynamic character of business and society calls for constant work to be done to define and re-define their relationship. Simultaneous works are being done on CSR by different scholars to improve and add something new to the existing knowledge. This research is also an effort to redefine CSR in the context of changed societal expectation and corporate impact.

Social responsibility of business is something that cannot remain constant. It keeps on changing its form and scope. Today the social expectations have changed dramatically as a result of change in corporate impact. Now CSR is being linked with behavior by the society and academicians. Though companies are also trying to incorporate this changed approach of CSR, but any visible initiative could not have been noticed yet.

It was found in the pilot survey (done during this research period) that business has much deeper impact on the society than have they realized. Current social initiatives are also not sufficient to meet the entire needs of the society. So, in spite of being socially responsible and investing a huge amount of their money on the society, business has failed to get due respect, love and faith in the society. It has become just a way to earn money.

Any research, whether it is descriptive, causal or exploratory needs a justification for its being done. Research must add to existing level of knowledge or awareness or facilitate current way of working.

This research is a genuine effort to elaborate the behavioral aspect of CSR by studying and analyzing the point of view of society as well as business on behavioral aspect of CSR.
The results are going to be useful for the researchers as well as corporate sector as it deals with the budding issue of CSR. The research is based on a very sensitive and recent problem and hence is extremely useful in today’s context.

A sound theory leads to precise practice. This study is very useful for further research and theory building. It will provide a conceptual foundation for further research and theory building by highlighting the relationship between business and behavioral aspect of the society.

The study is also needed to make the organizations realize the intrinsic impact that they have on the society. It seeks to redefine the role of business in the society. So that business may increase their contribution in the society.

In short, the study is needed to

- Help the researchers for further detailed study and theory building
- Assess the changed societal expectations
- Help the organizations to broaden the scope of their social activities and redefine their role in the society.
References

2. Orlitzky, Marc; Siegel Donald; Waldman, David (2011). “Strategic Corporate Social Responsibility and Environmental Sustainability.” Business and Society. 50(1). PP 6-67