CONCEPTUAL FRAMEWORK OF CSR AND CSR REPORTING

In this Chapter researcher has covered the definition of CSR across the globe and how it has evolved in foreign and Indian context. To support the study researcher has covered the theories for CSR disclosure and reporting. To know the change in disclosure pattern of CSR in India after Companies Act 2013, researcher has given a glimpse of Companies Act regarding CSR in India.

Corporate Social Responsibility itself suggests the motive of the corporate for the society. According to Freidman, the main motive of CSR by companies is to get profit only and satisfy the real owner of the firm, it means that primary liability towards it stockholders, not for whole communities or stakeholders. Moreover as time passes, the meaning of CSR has changed in triple bottom line concept given by John Elkington, the concept focused on the Profit, Planets and People, so here there is a scope for Profit, Planet and People who are associated with the organization directly or indirectly. Concept and definition of CSR is not new in India as well as all over the world, but the only thing which has changed is its formation and application in each and every country. Carroll’s model for CSR is most famous; it covers four things in pyramid Economic, Legal, Ethical and Philanthropic Responsibilities of companies. Here researcher has talked about CSR from historical context of India and Foreign countries.

2.1 Definitions of CSR across the globe:

Researcher has read various books and research papers and reviewed various definitions from the Milton Friedman’s definition to the current definition. It shows how transformation has taken place in the definition of CSR.

Business’s sole responsibility is to earn profit is the starting point of the view of Milton Friedman in 1970 in New York Times “The Social Responsibility of Business is to increase its Profits". But later on various authors and people criticized it and opposed him. Drucker (1992) believed that one of Friedman’s main focal points, that a business should be focused on increasing its profits to benefit a society best, is also a shallow evaluation of the business’ responsibilities, saying, “Economic performance is the first responsibility of a business. A business that does not show a profit at least equal to its cost of capital is socially irresponsible. It wastes society’s resources…But economic performance is not the sole responsibility of a business. Power must always be balanced by responsibility; otherwise it becomes tyranny”

According to International Labour Organization “CSR as a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors.”

According to Tata “To look beyond the generation of products and profits to serving the communities in which they functioned”

According to World Bank “Corporate Social Responsibilities (CSR) is commitments of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve quality of life in ways that are both good for business and good for development.”

According to CSR Asia “CSR is company’s commitments to operating in an economically, socially and environmentally sustainable manner whilst balancing the interest of diverse stakeholders”

According to The World Business Council of Sustainable Development “Corporate Social Responsibility (CSR) is 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 local communities and society at large”

According to ISO 26000 “The Responsibility of an organization for the impact of its Decision and activities on society and environment through transparent and ethical behaviour”

According to Michel Hopkins “CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner ‘ethical or responsible’ means treating stakeholders in a manner deemed acceptable in civilized societies social includes economic and environmental responsibility stakeholder exist both with in a firm and outside. The wider aim of social responsibility is to create higher standard of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation.”

According to Nigel Griffiths MP Former UK Minister for CSR "CSR or corporate responsibility is about the way business takes account of their economic, social and environmental impact in the way they operate maximizing the benefits and minimizing the downsides"

According to Tim Clement Jones "The management of an organization's total impact upon both its immediate stakeholders and upon the society within which it operates CSR is not simply about whatever funds and expertise companies choose to invest in communities to help resolve social problems it is about the integrity with which a company governs itself, fulfills its mission lives by its value engages with its stakeholders measures its impact and reports on its activities"

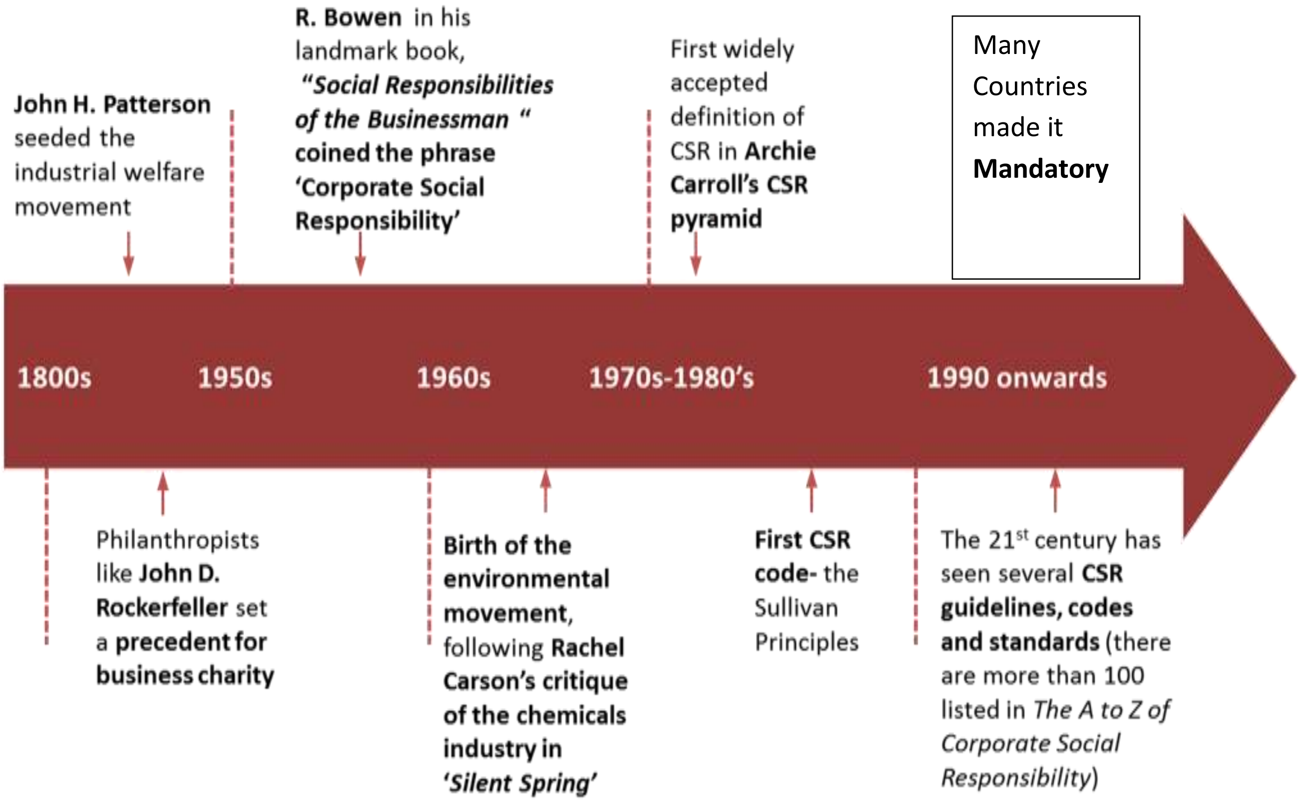
According to PricewaterhouseCoopers "CSR is the proposition that companies are companies are responsible not only for maximizing the profits, but also for recognizing the needs of such stakeholders as employees, customers, demographic groups and even the regions they serve "

All the organizations and people have shared their own views related to the CSR that some says to get profit is only CSR and some says to be ethical towards your stakeholders and some believes that being legal and ethical is CSR, but ultimately the main focus of CSR is being responsible towards all the affected directly and indirectly.

2.2 Evolution of CSR Reporting:

Corporate Social responsibility concept and definition has evolved day by day, it is not a new concept it comes and passes from long time span so meaning and way of performing CSR activities differ on basis of time and need of situation. Early days CSR were considered as philanthropy activity for business Now a days it has become mandatory and one of the strategic tool for the company to maintain good image in corporate world. CSR focuses on sustainable development of any company and give back to society in any form. Researcher has shown the historical background and its evolution from the foreign context and Indian context about the development of Corporate Social Responsibility. For the detail of the evolution of concept is shown in figure given below:

Chart 2.1 Evolution of CSR Reporting:



(Source: Joel Evans, Company Secretary Gujarat Mineral Development Corporation Ltd presentation at Oak Brook Business School on 19th September 2014.)

2.2.1. Foreign Context:

No single historical event marks the birth of CSR. Some observers date its origins to the early environmentalism of the 1960s.When the first regulations were put in place in North America and Europe. At the same time, the long tradition of corporate philanthropy in the U.S. has remained a standard component and expectation of "responsible business" since the early days of the large American industrial firm. CSR reporting in world forms and name changed as time passes in initial year it was published more on Environment reporting from 1992 to 2000 but later on it converted to in environment and safety and now most famous reporting from 2011 are Sustainability reporting and Corporate Social Reporting.(Tschopp & Huefner, 2014)

CSR reporting remains voluntary in the European Union countries. However, some individual countries of the EU have taken a more proactive approach. In May 2001 France became the first country in the world to require public companies to issue CSR reports. In France, since 2001 all of the companies quoted on the stock exchange must have submitted information on their social and human resource activities in their annual financial statements. In the United Kingdom such a requirement has functioned since 2007. In Denmark as from 2010, the biggest public and private companies and institutional investors have been obliged to submit sustainability reports. In 2008, Denmark passed a mandatory CSR reporting law where the largest 1100 Danish public companies must explicitly report on their work with CSR. Sweden since 2009 has obliged public companies to issue sustainability reports consistent with the GRI guidelines. Sweden was the first country in the world to require CSR reports from all state-owned companies and in 2007 the Swedish government announced its commitment to require state-owned companies to present CSR reports based on the Global Reporting Initiative (GRI) guidelines. Also Spain as from 2012, for public companies and firms employing more than 1,000 introduces mandatory CSR reporting. In 2009, the Norwegian government published a white paper on CSR that was endorsed by the Norwegian Parliament and lays the groundwork for further government driven CSR initiatives. And the Finnish government has been described as ‘‘very active’’ in regards to promoting CSR.(Vazakidis, Stavropoulos, & Galani, 2013)

KPMG International conducts a survey every three years “to gain insight into CSR reporting and to contribute to the evolving global dialog on transparency and accountability” (P., 2012). In 2008 the survey showed that 79% of the top 250 companies of the Fortune 500 (Global 250) issued separate non- financial reports, compared with 52% in 2005. In 2011, 95 percent of the 250 largest global companies report on their CR activities. The report shows that the level of disclosure changes along countries and industries as well. These differences might be originated by regulation, since in some countries like Australia, Japan and UK, there are rules requiring disclosure, while in others, companies report on a voluntary basis. Besides regulation, the level of adoption of the rules depends on the role of enforcement. Companies in a country with low levels of enforcement will be slower in adopting a rule than companies in more punitive countries. Nowadays increases the reporting by following GRI guideline to report on social matters from 2001 to 2011 it raises form 0 % to more than 50% (Tschopp & Huefner, 2014).

According to EIU survey in 2005 approximately 40% of American and European respondents to the survey said that the main reasons for emphasizing CSR included the need to improve community relations and to deflect pressure from regulators where as in Asia where companies are less sensitive to community relation and where regulators are less powerful only 33% of respondent took this view (The Economist Intelligence Unit (2005)

2.2.2. Indian Context:

CSR is not a new term in India. The religious text Geeta advocates for devotion of one's life for the cause of other. During the freedom fighting many companies help for the freedom, After First World War in 1930 Jamashedaji Tata had given steel plant for nation so it's a part of corporate social responsibility for nation and communities. As far back as 1965, the Prime Minister of India, Lal Bahadur Shastri, prescribed over a national meeting that issued the following declaration on the Social Responsibilities of business:
"Business has responsibility to itself, to its customers, workers, shareholders and the community. Every enterprise, no matter how large or small, must, if it is to enjoy confidence and respect, seek actively discharge its responsibilities in all directions… and not to one or two groups, such shareholders and workers, as expense of community and consumer. Business must be just and humane, as well as efficient and dynamic."(Visser & Tolhurst, 2010)

India has lots of examples for CSR activity. In ancient times many king had made ponds, lakes, wells for the public. From 1850, industrialization had started and when India was under British rule corporate sector had done traditional charity for the society. But after 1915, Mahatma Gandhi had given new concept of trusteeship to the businessman. Trusteeship suggests that businessman is a trustee of the wealth. After independence India have lots of economic and social problems so Indian government came with five year plans for the growth of country but it would not help to sustain at international level. So India adopted Liberalization, Privatization, and Globalization (LPG) policy. .LPG policy helps for economic growth but it doesn't help for social development. CSR is done in Public Private Partnership form and trust and NGO sponsorship. After Companies Act 2013, CSR has become mandatory for corporate sector under specific condition so it would help for socio-economic growth of India. Pattern of disclosure is changed from qualitative to quantitative and monetary aspect.

Chart 2.2 Evolution of CSR in Indian Context:

(Source: Researcher has adopted from Nandini Deo Gateway house Blog)

2.3. Various Standards for CSR Reporting:

There are currently few established standards or guidelines for CSR reporting. However there is a notable international standard that is Global Reporting Initiative and others, but mostly GRI is used for the CSR reporting.

Universal Declaration of Human Rights: Adopted by United Nations, this declaration paved way for many international human rights standards for all sectors entities.

UN Global Compact: An international multi-constituent, voluntary initiative based on internationally accepted ten principles in pursuit of a more sustainable inclusive global economy. The ten principles covers human rights forced labor, child labor, environmental challenges and responsibility, non-discrimination, freedom of associations, collective bargaining, corruption, etc.

Global Reporting Initiative (GRI): Since its founding in 1997, the GRI has been addressing the need for standardized approaches to corporate sustainability reporting. In 2006, GRI published

Version 3.0 (G3) of its Sustainability Reporting Guidelines emphasizing performance indicators, which contain a separate section titled "Human Rights" with nine performance indicators.

GRI 4 is new guideline to maintain CSR report and mostly worldwide GRI is accepted as main CSR reporting standard.

Organization for Economic Co-operation and Development (OECD):OECD guidelines contains recommendations on core labor, environmental standards, human rights, competition, taxation, science and technology combating corruption and safe guarding, consumer rights.

Social Accountability 8000:'SA 8000' standard for social accountability, created in 2000 by the Council on Economic Priorities Accreditation Agency (CEPAA). SA8000 developed by an international coalition of businesses, trade unions and non-governmental organizations (NGOs) on the basis of International Labor Organization (ILO) conventions - the Universal Declaration of Human Rights and the UN convention on the Rights of the Child. The SA8000 code of practice is broken down into nine key areas child labor, management systems, working hours, compensation, disciplinary practices, forced labor, health & safety, freedom of association &collective bargaining and discrimination.

Principles for Responsible Investment (PRI): A set of global best practice principles for responsible investment. It provides a framework for achieving better long term investment returns and more sustainable markets.

Equator Principle: Equator principle is a set of environmental and social benchmarks for managing environmental and social issues in development project finance globally. They were developed by private sector banks- led by Citigroup, ABN AMRO, Barclays and West LB and were launched in June 2003.

Role of International Labor Organization (ILO): ILO seeks the promotion of social justice and internationally recognized human and labor rights. It formulates international labor standards in the form of conventions and recommendations setting minimum standards of basic labor rights.

International Organization for Standardization (ISO) 26000: ISO an International Standard setting body is developing a new standard on Social Responsibility namely ISO 26000 to be published in Nov., 2009. ISO 26000 is intended for use by all types of organizations and in all countries and to assist organization to operate in a socially responsible manner.

Occupational Health & Safety Advisory Services (OHSAS) Standard: OHSAS 18001 is applicable to any organization which aims to establish a health and safety management system at work.

Three distinct but complementary categories reinforce CSR reporting. They are:

1. Codes of conduct (e.g., OECD Guidelines, ILO Declaration; define standards of corporate behaviour);
2. Management standards (e.g., SA8000; ISO 14000; offer frameworks for implementing socially responsible practices);
3. Screenings and rankings (e.g., Dow Jones Sustainability Index, FTSE4Good; provide basis for responsible investing and comparing companies).

It is interesting to note that Global Reporting Initiative has already included elements of other standards such as ISO 14000, SA8000, OECD and the Global Sullivan Principles in its reporting guidelines (Hopkins, 2003). This development indicates the desire to provide a globally acceptable uniform standard of reporting.

2.4 Theoretical Framework for CSR:

There are three theories and concepts for CSR reporting, which shows the importance and determinants for CSR disclosure and details are discussed as under.

2.4.1. Legitimacy Theory

Legitimacy theory has become one of the most cited theories within the social and environmental accounting area. Legitimacy theory is the most widely used theory to explain social reporting practices of a firm (Adams, Hill, & Roberts, 1998) Yet there remains deep skepticism amongst many researchers that it offers any real insight into the voluntary disclosures of corporations. CSR disclosure mostly depends on the legitimacy approach (Newson & Deegan, 2002)

"**Legitimacy** is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995)

Compared to stakeholder theory, legitimacy theory appears to be less tied to the assumption of discrete and identifiable factions of stakeholders there may be internal legitimacy and external legitimacy strategy.(J. D. Mahadeo, Oogarah-Hanuman, & Soobaroyen, 2011)

2.4.2. Stakeholder Theory

Stakeholder theory extends legitimacy arguments to consider not only society as a whole but particular stakeholder groups (Newson & Deegan, 2002) here stackholder theory main emphasizes on two aspect normative and instrumental aspect normative consist ethical behavior and instrumental means managerial approach (Jyoti Devi Mahadeo, Oogarah-Hanuman, & Soobaroyen, 2011) stakeholder skepticism towards CSR reduce the legitimacy, Greater the CSR disclosure make it more stronger legitimacy (Bachmann & Ingenhoff, 2016; Beddewela & Fairbrass, 2015).

2.4.3. Institutional Theory:

Institutional theory is one concept that covers the social behavior guideline that makes structure, schemes, rules, norms process become ethical routine. Legitimacy makes organization behave ethically but when it fails institutional structure useful for the social behavior (Meyer and Rowan, 1977) and institutional theory is "a widely accepted theoretical posture that emphasizes rational myths, isomorphism, and legitimacy." (Scott, 2008)

2.5 Current Company Act 2013 Detail for CSR:

India has passed from many Phases after independence. Government always thinks about the growth of the society, and all over development of country but somehow it is not possible that richer become more richer and poorer become more poor. Indian economy faces many social and economic problems. So Government thought about the private organization participation towards social activities and made new Companies Act 2013 which comes with new clause 135 for Corporate Social Responsibility. This clause indicates mandatory CSR spending of at least 2 % of their average profit of preceding three years, for such companies that have more than 5 crore profit or more than 500 crore net worth and more than 1000 crore of turnover. This bill passed in both the houses of Indian legislature, and came into effect from the first day of April 2014. (MCA,2013). In Companies Act 2013 each and every guideline for CSR activities has been given.

2.5.1. Companies Act 2013 Accounting Aspect for CSR:

Clauses 135 in Companies Act 2013, each and every condition are mentioned for CSR activities and rule for implementation of laws in smooth way. The details of CSR reporting and accounting are as under taken from ministry of corporate affairs websites:

- The compliance of the provisions of CSR under the Companies Act, 2013 i.e. constitution of CSR Committee, formulation of CSR Policy, the spending of requisite amount on CSR activities came into force from April, 2014.
- Salary paid by the companies to regular CSR staff as well as employees, who render their services for CSR will be part of Administrative overheads and should not exceed 5% of the total CSR expenditure as per rule 4(6) of CSR Policy, Rules 2014.

- The CSR projects or programs or activities that benefit only the employees of the company and their families shall not be considered as CSR activities in accordance with section 135 of the Act. One-off events such as marathons/ awards/ charitable contribution/ advertisement/sponsorships of TV programs etc. would not be qualified as part of CSR expenditure. Expenses incurred by companies for the fulfillment of any Act/ Statute of regulations (such as Labour Laws, Land Acquisition Act etc.) would not count as CSR expenditure under the Companies Act. Contribution of any amount directly or indirectly to any political party shall not be considered as a CSR activity. Activities undertaken by the company in pursuance of its normal course of business

2.5.2. Schedule VII for CSR in Detail:

This covers activities of companies are going to be considered as CSR activities under section 135. The lists of those activities are as under

Table 2.5.1 Schedule VII for CSR activities under Companies Act 2013

Category	**Activities**
1	Eradicating hunger, poverty and malnutrition, promoting healthcare, including preventive health care, sanitation, including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation, and making available safe drinking water.
2	Promoting education, employment-enhancing vocational skills, especially among children, women, elderly, and the differently-abled, livelihood enhancement project
3	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
4	Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro forestry, 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 the rejuvenation of river Ganga.
5	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 arts and handicrafts.
6	Measures for the benefit of armed-forces veterans, war-widows and their dependents.
7	Training to promote rural sports, nationally-recognised sports, Paralympics sports and Olympic sports.
8	Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women.
9	Contributions or funds provided to technology incubators located within academic institutions, which are approved by the Central Government
10	Rural Development Projects.
11	Slum area development

2.5.3. Impact of Companies Act 2013:

- **Positive:**

Companies Act 2013 makes all the companies to be ethical firms and spend at least 2% of their average profit. So companies earlier not spending on CSR now onwards have to compulsory spent on this. It increases over all social activity by companies, as earlier most of the companies were spending less than 1 % amount for CSR but after Companies Act it will increases (Shin, Jung, Khoe, & Chae, 2015). Research of one of researcher from 2001 to 2012 data of BSE 30 companies spending on CSR shows that less percentage of spending on CSR activities by companies (Verma, 2014).

- **Negative:**

Government has participated actively for the CSR activities. But here companies are not able to do overall growth of the country as they perform at regional level where they are working, so it may create imbalance growth of region. If some region has good industrial area they might get the benefit of it but rest of the demography will not cover. Government has hold on the entire country so it would be better if government does it and collect extra 2% as income tax. But government is not doing it.(Deodhar, 2016)

In the next chapter researcher has done exhaustive literature review for this study. Researcher has classified the literature on various theme basis as well as foreign and Indian context basis, researcher has prepared model for CSR reporting from this literature review.

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