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# Corporate Social Responsibility: An Analysis of Challenges and Prospects in India

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## **Abstract**

*The world is looking at India as it embarks on a new phase in its journey towards being a global economic powerhouse. 'Make in India' is the global campaign launched by the Hon'ble Prime Minister, Shri Narendra Modi, to attract Business Houses from around the world to invest and manufacture in India. In this initiative, Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life. But In India, the CSR managers face number of challenges in managing CSR activities. Many companies assume that corporate social responsibility is a peripheral issue for their business; and customer satisfaction is more important for them. They imagine that customer satisfaction is now only about price and service, but they fail to point out on important changes that are taking place worldwide that could blow the business out of the water. The change is named as corporate social responsibility which is an opportunity for the business. It is in this backdrop that this paper attempts to analyze how corporate sector is playing its social responsibility in India, what issues and challenges are faced by companies' managers, and what is the prospects through which they could meet their social responsibility.*

**Key Words:** CSR; Society; Stakeholders; Issues & Challenges; and Prospects.

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**Introduction:**

Corporate social responsibility may be considered as the most long standing concept in the area and has been used by business and the academia for more than fifty years. In 1960 Keith Davis suggested that social responsibility refers to businesses' decisions and actions taken for reasons at least partially beyond the firm's direct economical or technical interest. Corporate social responsibility (CSR) refers to the problems that arise when corporate enterprise casts its shadow on the social scene, and the ethical principles that ought to govern the relationship between the corporation and society. In recent years, the term corporate social performance (CSP) has emerged as an inclusive and global concept to embrace corporate social responsibility, responsiveness and the entire spectrum of socially beneficial activities of businesses (Carroll, 2008). Society and business, social issues management, and corporate accountability are just some of the terms that describe the phenomena related to corporate social responsibility in society. Corporate social responsibility is the firm consideration of, and response to, issues beyond the narrow economic, technical and legal requirements of the firm (Crane, et al, 2008).

In other words, Corporate Social Responsibility (CSR) is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Today, there is a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits, but instead through market-oriented responsible behaviour. Socially responsible initiatives by entrepreneurs have a long tradition. The attempt to manage it strategically and to develop instrument for this

are the recent initiatives in CSR. Broadly speaking, CSR delineates the relationship between business and the larger society. Hence, CSR can be defined as a concept whereby companies voluntarily decide to respect and protect the interest of a broad range of stakeholders and to contribute to a cleaner environment and a better society through active interaction with all. CSR is the voluntary commitment by business to manage its role in society in a responsible way. It is the commitment of business to contribute to sustainable development working with employees their families, the local communities in societies at large to improve their quality of life. 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, the local community and society at large to improve their quality of life*'. Thus, CSR is an umbrella concept including a variety of theories and practices which recognise the social and environmental responsibilities of corporations, as well as those companies are responsible for the behaviour of others with whom they do business (Patil & Sharma, 2009).

**Salient Features of CSR:**

The salient features of CSR are the essential features of the concept that tend to be reproduced in some way in academic or practitioner definitions of CSR. The following features capture the main thrust of CSR; however the meaning and relevance of CSR vary according to organizational and national context:

**Voluntary:** CSR is concerned with voluntary activities that go beyond those prescribed by the law. Many companies are by now well used to considering responsibilities beyond the legal minimum.

***Internalizing or managing externalities:***

Externalities are the positive and negative side effects of economic behaviour that are borne by others but are not taken into account in a firm's decision making process and are not included in the market price for goods and services. Pollution is typically regarded as a classic example of an externality since local communities bear the costs of manufacturers actions.

***Multiple stakeholder orientation:*** CSR involves considering a range of interests and impacts among a variety of different stakeholders other than just shareholders.

***Alignment of social and economic responsibilities:*** The balancing of different stakeholder interests leads to a fourth surface. This feature has prompted much attention to the business care for CSR, namely how firms can benefit economically from being socially responsible.

***Practices and values:*** CSR is clearly about a particular set of business practices and strategies that deal with social issues; but for many people it is also about something more than that namely a philosophy or set of values that underpins these practices.

***Beyond philanthropy:*** In some regions of the world, CSR is about more than just philanthropy and community projects but about the entire operations of the firm (i.e. its core business functions) upon society (Crane, et al, 2008).

**Corporate Social Responsibility (CSR) in India:**

Corporate Social Responsibility is not a new concept in India, however, the Ministry of Corporate Affairs, Government of India has recently notified the Section 135 of the Companies Act, 2013 along with Companies (Corporate Social Responsibility Policy) Rules, 2014 "hereinafter CSR Rules" and other notifications related thereto which makes it

mandatory (with effect from 1st April, 2014) for certain companies who fulfil the criteria as mentioned under Sub Section 1 of Section 135 to comply with the provisions relevant to Corporate Social Responsibility. As mentioned by United Nations Industrial Development Organization (UNIDO), CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line- Approach"), while at the same time addressing the expectations of shareholders and stakeholders (<http://finance.bih.nic.in/Documents/CSR-Policy.pdf>).

**Issues & Challenges of CSR:**

The role of corporations in society is clearly on the agenda. Hardly a day goes by without media reports on corporate misbehaviour and scandals or more positively on contributions from business to wider society. Corporations have clearly started to take up the challenge. This began with the usual suspects such as companies in the oil, chemical and tobacco industries. As a result of media pressure, major disasters, and sometimes governmental regulation, these companies realized that propping up oppressive regimes, being implicated in human rights violations, polluting the environment, or misinforming and deliberately harming their customers are few examples, were practices that had to be reconsidered if they wanted to survive in society in the present time. Even in a country like India, companies such as Tata can pride themselves on more than a hundred years of responsible business practices, including far-reaching benevolent activities and community involvement (Crane, et al, 2008).

It is important for CSR strategies to become central to business strategy and part of the long-term planning process. Stakeholders are questioning more on CSR initiatives of the

companies today. They are challenging the companies' decisions-making in this direction. It has become imperative to incorporate stakeholders' views. In India, the CSR managers face number of challenges in managing CSR activities. The biggest problem is of lack of budget allocations followed by lack of support from employees and lack of knowledge as well. Lack of professionalism is another problem faced by this sector. Small companies do not take adequate interest in CSR activities and those which undertake them fail to disclose it to the society. In the process they lose out on people and their trust in them. Media can come up with strong support for informing the people at large about the CSR initiatives taken up by the companies. It can sensitize population and also make them aware of the benefits of CSR to them. However, media is not doing enough in this regard. The failure of the government to come up with statutory guidelines to give a definite direction to companies taking up CSR activities, in terms of size of business and profile of CSR activities also results into few companies practicing CSR concept adequately.

Many companies think that corporate social responsibility is a peripheral issue for their business; and customer satisfaction is more important for them. They imagine that customer satisfaction is now only about price and service, but they fail to point out on important changes that are taking place worldwide that could blow the business out of the water. The change is named as social responsibility which is an opportunity for the business. Some of the drivers pushing business towards CSR include:

***The Shrinking Role of Government:*** In the past, governments have relied on legislation and regulation to deliver social and environmental objectives in the business sector. Shrinking government resources, coupled with

a distrust of regulations, has led to the exploration of voluntary and non-regulatory initiatives instead.

***Demands for Greater Disclosure:*** There is a growing demand for corporate disclosure from stakeholders, including customers, suppliers, employees, communities, investors, and activist organizations.

***Increased Customer Interest:*** There is evidence that the ethical conduct of companies exerts a growing influence on the purchasing decisions of customers.

***Growing Investor Pressure:*** Investors are changing the way they assess companies' performance, and are making decisions based on criteria that include ethical concerns. The Social Investment Forum reports that in the US in 1999, there was more than \$2 trillion worth of assets invested in portfolios that used screens linked to the environment and social responsibility.

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

***Supplier Relations:*** As stakeholders are becoming increasingly interested in business affairs, many companies are taking steps to ensure that their partners conduct themselves in a socially responsible manner. Some are introducing codes of conduct for their suppliers, to ensure that other companies' policies or practices do not tarnish their reputation.

***Lack of Community Participation in CSR Activities:***

There is a lack of interest of the local community in participating and contributing to CSR activities of companies. This is largely attributable to the fact that there exists little or

no knowledge about CSR within the local communities as no serious efforts have been made to spread awareness about CSR and instill confidence in the local communities about such initiatives. The situation is further aggravated by a lack of communication between the company and the community at the grassroots.

***Need to Build Local Capacities:***

There is a need for capacity building of the local non-governmental organizations as there is serious dearth of trained and efficient organizations that can effectively contribute to the ongoing CSR activities initiated by companies. This seriously compromises scaling up of CSR initiatives and subsequently limits the scope of such activities ([http://www.wbiworldconpro.com/uploads/canada-conference-2013/managemet/1370168444\\_430-Sonam.pdf](http://www.wbiworldconpro.com/uploads/canada-conference-2013/managemet/1370168444_430-Sonam.pdf)).

**Challenges to CSR Initiatives in India:**

CSR initiatives face many challenges in India and are often seen as deterrent to even the best intentioned plans. The most important ones are described here:

***Lack of Community Participation in CSR Activities:*** Often, the communities who are the intended beneficiaries of a CSR program show less interest which will affect their participation and contribution. Also, very little efforts are being made to spread CSR within the local communities and instill confidence in the people. The situation is further aggravated by inadequate communication between the organization and the community at the grassroots level.

***Need to Build Local Capacities:*** There is a need to build the capacities of the local non-governmental organizations. Many NGOs are not adequately trained and equipped to operate efficiently and effectively as there is serious dearth of trained and efficient organizations that can effectively contribute to the ongoing

CSR activities initiated by companies. This seriously compromises efforts to scale CSR initiatives and consequently limits the scope and outcome of a company's CSR initiatives.

***Issues of Transparency:*** Lack of transparency is one of the key issues. There is a perception that partner NGOs or local implementation agencies do not share adequate information and make efforts to disclose information on their programs, address concerns, assess impacts and utilize funds. This perceived lack of transparency has a negative impact on the process of trust building between companies and local communities, which is a key to the success of any CSR initiative.

***Lack of Consensus:*** There is a lack of consensus amongst local agencies regarding CSR project needs and priorities. It results in lack of consensus which often results in duplication of activities by corporate houses in their areas of their intervention. The consequence results in unhealthy competitiveness spirit among local implementing agencies, which goes against the necessity to have rather than building collaborative approaches on important issues. This factor limits organization's abilities to undertake impact assessment of their initiatives from time to time. (<file:///C:/Users/mohdsaqlin/Downloads/9788132216520-c1.pdf>).

**Key Learning Issues:**

Corporate Competitiveness, as addressed by strategic management, is a subject rarely discussed in the context of corporate social responsibility. However, unless all strands of corporate responsibility are brought together under a common management framework, CSR and its sustainability will remain a peripheral activity and its impact is likely to remain well below required levels to achieve the Millennium and related goals. Corporate Governance must establish the legal framework



which will protect a company's stakeholders, the relative emphasis being dependent on national models. CSR is aimed at extending the legal requirements to promote ethical practice, philanthropy and social reporting to satisfy stakeholder concerns. Corporate sustainability must focus on the long-term economic and social stakeholder expectations both by optimizing their sustainability performance and by participating in networks with governments, NGOs and other stakeholders. Such an arrangement will significantly enhance the capacities of all stakeholders and lead to faster and more sustainable development. Business ethics and social accountability are important bridges between CSR and corporate governance. Investor demands, philanthropy and corporate citizenship provide a common ground for CSR and corporate sustainability. Performance stability and fair globalization are important aspects both in strategic management and corporate sustainability. Competition policy and regulation affects strategic management and corporate governance; but it also has key issue for strategic management and governance strategy. Specifically, a company must adequately safeguard against and specifically in terms of reputation risks to its reputation. The Parameters for CSR Initiatives are

**Civil Society Strengthening:** Capacity for strong performance in the community is the foundation for lasting social benefits. Worldwide, civil society is an important social and economic force with the potential to create a more free, fair and just global order. The collective nature of civic action helps to ensure that the interests of all citizens including women, the poor and other marginalized groups are adequately weighed by public institutions that make policy and allocate resources. Many civil society organizations (CSOs) face common challenges that limit their

effectiveness namely, the ability to manage human and financial resources, weak advocacy abilities, and insufficient management ability to scale up promising innovations and results to achieve wider impact.

**Performance Management:**

It is necessary to measure the outcomes to distinguish success from failure. Thus, managing for results is central to the global revolution in public management and aid effectiveness. Strong performance monitoring systems help to sharpen strategy and learning, improve communications with stakeholders, help ensure that resources are focused on key results, and promote accountability. Yet these systems are often impractical and out of alignment with organizational skills and incentives. Thus, the focus areas for performance management are:

- An acceptable Performance Management Systems designed for a given project, which will identify key result areas, monitor implementing performance management systems for specific projects and programs to reinforce program performance, learning and accountability, encourage learning, and enforce accountability and objectively measure outcomes.
- Building Capacity for Performance Management: All stakeholders must be enabled and their capacities enhanced at both organizational and individual levels, to meet the goals of the CSR initiative building performance management capacity for entire organizations, including international donors and local partners such as governments and civil society organizations.

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### The Prospects of CSR:

The current trend of globalization has made the firms realize that in order to compete effectively in a competitive environment they need clearly defined business practises with a sound focus on the public interest in the markets:

- **Firstly**, the increase in competition among the multinational companies to gain first mover advantage in various developing countries by establishing goodwill relationships with both the state and the civil society is ample testimony to this transformation.
- **Secondly**, in most of the emerging markets, the state has a duty of protecting the interests of the general public and thus gives preference to companies which take care of the interests of all the stakeholders.
- **Thirdly**, emerging markets have been identified as a source of immense talent with the rising levels of education. For example, the expertise of India in churning out software professionals and China in manufacturing has now become internationally renowned. In order to draw from this vast talent pool coming up in developing countries, companies need to gain a foothold in these markets by establishing sound business practices addressing social and cultural concerns of the people. It has been observed that consumers consider switching to another company's products and services, speak out against the company to family/friends, refuse to invest in that company's stock, refuse to work at the company and boycott the company's products and services in case of negative corporate citizenship behaviours.
- **Fourthly**, firms all over the world are beginning to grasp the importance of intangible assets, be it brand name or employee morale. Equity created in a company's reputation or brand can easily be harmed or even lost particularly for companies whose brand equity depends on company reputation. Reputation is built around intangibles such as trust, reliability, quality, consistency, credibility, relationships and transparency, and tangibles such as investment in people, diversity and the environment. Only firms that have gained the goodwill of the general public and are ideal corporate citizens will be to develop these intangible assets into strategic advantages. CSR can be an integral element of a firm's business and corporate-level differentiation strategies.
- **Fifthly**, CSR is an important factor for employee motivation and in attracting and retaining top quality employees as well. Innovation, creativity, intellectual capital and learning are helped by a positive CSR strategy.
- **Sixthly**, better risk management can be achieved by in-depth analysis of relations with external stakeholders. Given the increase in cross border business relationships and the threat of cross-border litigation, boards have to consider the risk management standards of business partners, and even suppliers. CSR also helps in compliance with regulation and the avoidance of legal sanctions, while the building of relationships with host governments, communities and other stakeholders can enhance a company's reputation and credibility and be important with regard to its future investment decisions.

Hence, Companies can set a network of activities to be taken up in a consortium to tackle major environmental issues. It would also provide an opportunity to learn from each other. Everyone in the organization needs to recognize their own role in promoting CSR. Companies should provide wider professional development activities. Training, conferences and seminars could be organized by companies to disseminate and generate new knowledge and information in this sector. A strong budgetary support would definitely help to grow this sector and research related to respective industry would enhance their organizations contribution further. Government regulations which are supporting in this direction could attract more response from organizations. All this would also lead to benchmark CSR activities. Companies need to involve their stakeholders in order to build meaningful and long term partnerships which would lead to creating a strong image and brand identity. It is also suggested to review existing policies in order to develop more meaningful visions for the companies and broaden their contributions to reach to local communities ([http://www.ijbmi.org/papers/Vol\(1\)1/C112229.pdf](http://www.ijbmi.org/papers/Vol(1)1/C112229.pdf)).

In this age of globalization, Corporations and business enterprises are no longer confined to the traditional boundaries of the nation-state. In the last 20 years, multinational corporations (MNCs) have played an influential role in defining markets and consumer behavior. The rules of corporate governance have also changed. Reactions to this change have been varied. On the one hand, globalization and liberalization have provided a great opportunity for corporations to become globally competitive by expanding the production base and market share. On the other hand, the conditions that favored their growth also placed these companies in an unfavorable

light. Laborers, marginalized that favored their growth also placed these companies in an unfavorable light. Laborers, marginalized consumers, environmental and social activists protested against the unprecedented (and undesirable) predominance of multinational corporations. The revolution in communication technology and the effectiveness of knowledge based economics threw up a new model of business and corporate governance. Growing awareness of the need for ecological sustainability paved the way for a new generation of business leaders concerned about the community response and environmental sustainability. Corporate Social Responsibility (CSR) is, essentially a new business strategy to reduce investment risks and maximize profits by taking all the key stake holders into confidence. The new generation of corporations and the new economy entrepreneurs recognize the fact that social and environmental stability are two important prerequisites for the long-term sustainability of their markets. From the eco- social perspective, corporate social responsibility is both a value and a strategy to ensure the sustainability of business. For the new generation of corporate leaders, optimization of profit is the key, is more important than its maximization. Hence there is a noticeable shift from accountability to shareholders to accountability to all stakeholders for the long-term success and sustainability of the business. Stakeholders include consumers, employees, affected communities and shareholders, all of whom have the right to know about the corporations and their business. This raises the important issue of transparency in the organization (<file:///C:/Users/mohdsaqlein/Downloads/9788132216520-c1.pdf>).

**Conclusion:**



To conclude, the new CSR provisions in India are not a case of government abrogating its responsibility to the private sector. The estimated annual amount of CSR spending by corporate judged in context of total social sector spending by the government is just around two per cent of what listed companies would have spent after applying the criteria under Section 135. Rather, the new CSR provisions should be looked at as an effort by the government to make the corporate sector play a complementary role in meeting the broader society goal of encompassing development. Under the new CSR rules, the flexibility given to the companies in choosing and monitoring the projects is likely to promote efficiency and effectiveness in project implementation without the CSR Rules coming into serious conflicts with the primary objective of shareholder value maximization of companies. Social and economic incentives seem to have been well balanced in the new CSR rules and one can hope that the corporate sector will willingly lend a helping hand to the government in contributing to the inclusive growth of the nation.

### About the Author:

Ms. Razdha Parveen is pursuing Ph.D. in the Department of Sociology, Aligarh Muslim University, Aligarh since March 2013. She is also availing Junior Research Fellowship under the scheme of UGC (JRF-UGC). Her research topic is “Imprisonment and Health: A Study of the Women Inmates of Selected District Jails of Western Uttar Pradesh”.

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