CHAPTER I
INTRODUCTION

1.1 Corporate Social Responsibility: A Theoretical Framework

Corporate Social Responsibility has been in voyage since long and has become even more prominent these days. Milton Friedman, Nobel Laureate in Economics, once wrote in 1970 in the New York Times magazine that “the social responsibility of business is to increase its profits”. This represented that the only responsibility a business has is to maximize its profits, leading to the profiteering in due course in western capitalist societies. However, later when the businesses began to realize the essence of being socially responsible, the business motive was redefined as the instrument of wealth creation and equitably sharing the corporate wealth amongst the beneficiaries including shareholders, customers, employees, suppliers, community, environment and the society at large. This is the reinvention of business motive more towards societal concerns and orientations.

This paradigm shift evinced keen interest in corporate philanthropy that requires a business entity to act beyond its legal obligations and to integrate social, environmental and ethical concerns into its business process. Such a thought was evolved in the form of Corporate Social Responsibility (CSR). The World Business Council for Sustainable Development stated corporate social responsibility to be a continuing commitment by business to behave ethically and contribute to economic development while improving quality of life of workforce and their families as well as of the local community and society at large. The European Commission also defined CSR as the enterprise responsibility for its impacts on society. Thus in order to completely meet the social responsibility, enterprises should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders. In a more systematic way, Carroll (1991) has offered a historical sequence of the main developments in how the responsibilities of business in the society can be understood. Carroll (1991) presented his CSR model as a pyramid, as shown in Figure 1.1. The pyramid starts with the economic responsibilities as the base and moving from legal to ethical responsibilities; it ends with philanthropic responsibilities at the top.
The economic responsibilities that form the base of the Carroll’s pyramid are concerned with the business’ responsibility of producing goods and services needed by the society and selling them at profit. Companies have shareholders, employees and customers who demand return on investments, fairly paid jobs and good quality products at a fair price. It thus becomes the responsibility of an organization to be a well functioning economic unit that earns profit and stay in business. The second in the pyramid are the legal responsibilities which are concerned with business abiding by the rules and regulations of the Law, which means that the business should conduct only those activities for profit making that lies within the framework of Law. The next in the pyramid are the ethical responsibilities that expect a business to accept emerging norms and values of the society and set moral standards from the outset. And above all in the pyramid are the philanthropic responsibilities that are concerned with the practice of giving back to the community by participating in social welfare activities and being a good corporate citizen.

**Figure 1.1**
**Corporate Social Responsibility Pyramid (Carroll, 1991)**
1.1.1 The Corporate Social Responsibility Framework

Various authors across the world have tried to explain the term corporate social responsibility in their own forms. It has been defined in the form of care for the society, planet and people and also in the form of care for stakeholders. The two such most prominent theories are explained below:

i) Triple Bottom Line

The triple bottom line, also referred as 3Ps; profit, people and planet approach to the corporate social responsibility was first coined by John Elkington in 1994. It dictates that the corporates assort bottom line results not only in economic terms but also in terms of company’s effects in the social domain, and with respect to the environment. A triple bottom line not only measures the economic value of a company (profit account), but also a company’s degree of social responsibility (people account) and environmental responsibility (planet account). Elkington argued that companies should not solely focus on its finances but also give due consideration to its social and environmental impact.

The challenge that lies with triple bottom line is that there is no common unit to measure the 3Ps. Financials can be measured in monetary terms but how can social and environmental impact of business be measured. There are no universal standards to measure the 3Ps, which can also be considered as strength because a user can adopt measures to his needs. Profits, revenues, growth, employment distribution and the like can be taken as economic measures. Energy conservation, waste management, water conservation, conservation of natural resources, reduction in harmful gaseous and toxic emissions, tree plantation can be taken as measures of environment impact. And the social impact measurements could include organizational efforts for poverty reduction, health care, rural and agricultural development, promotion of sports, arts, culture and heritage conservation etc.

ii) The Stakeholder Theory

Stakeholder theory which is another framework of corporate social responsibility was given by R. Edward Freeman in his book, Strategic Management: A Stakeholder Approach (1984). The theory argued the traditional view of the companies that only shareholders or owners are important for a company and that it always needs to put their interests first. According to this
theory, there are various other parties involved in the organizations whose needs and interests are to be taken care of by the company like suppliers, customers, employees, investors, lenders, government bodies and the like. Freeman was of the view that the organizations that manage to keep healthier relationships with its stakeholders, perform better and survive for longer time. Freeman suggested that the organizations should develop certain stakeholder competencies, like; making a commitment to observe stakeholder interests, developing strategies to effectively deal with the stakeholders’ concerns, dividing and categorizing stakeholders interests into manageable segments and ensuring that the organizational functions addresses the needs of stakeholders.

1.1.2 Corporate Social Responsibility and Sustainability: Key Concerns

Corporate social responsibility is derived from the concept of sustainable development which refers to the development that meets the needs of the present generation and does not compromises with the ability of future generation to meet their own needs. Sustainable business operations address the resource needs of present stakeholders while supporting, protecting and enhancing the resources that will be needed by the future stakeholders. CSR and sustainability demonstrate the way companies achieve a balance of economic, environmental and social imperatives and enhanced ethical standards while addressing the concerns and expectations of their stakeholders. These are company's verifiable commitment to operate in an environmentally, economically and socially sustainable manner that is explicit and satisfying to its stakeholders. Both CSR and sustainability understands that the community and environment in which a business operates are integral to the success of a business. However, sustainability goes a step further by taking into account the needs of the future generations too. The key concerns inherent in corporate social responsibility and sustainability are presented in figure 1.2.
Corporative Social Responsibility: The Key Concerns

i) **Economic Responsibility:** Economic responsibility means striving to ensure that business is profitable enough to create long-term value for its stakeholders. The economic responsibility of a business is to create worth for its stakeholders by sustaining in long run.

ii) **Social Responsibility:** Social responsibility means striving to ensure collective and balanced progress of all sections of the society. The social responsibility of a business is to create inclusive growth in the community in which it operates. Development of the community through conduct of social welfare and development programs, donations and charities is the key social concern of the organizations.

iii) **Ethical Responsibility:** Ethical responsibility means conducting business with complete integrity and adhering to moral business practices. The ethical responsibility of a business is to develop a code of conduct that outlines its commitment to moral standards and compliance with applicable Laws.
iv) **Environmental Responsibility**: Environmental responsibility means conducting business with a minimal environmental impact that aims at rational use of natural resources and reduced wastage and emissions. The environment responsibility of a business is to safeguard the environment while executing its operations.

1.1.3 CSR Initiatives: A Genesis

Corporate social responsibility and its reporting is not a new phenomenon. There are a number of efforts laying foundation of socially responsible companies across the globe that undertook sustained business orientations. In the 1960s, Migros, the retailing group of Switzerland was involved in this process. In the 1970s, a number of other countries also promoted social and environmental reporting. In France, the law mandated the companies with more than three hundred employees to produce a detail report of their employees. In 1978 Social Audit Limited was set up in the United Kingdom to take up external audits. In 1979, Tata Steel, India’s largest integrated private sector steel company, conducted social audit to find whether and to what extent the company has fulfilled its moral and social obligations. In 1989, the US based food processing firm; Ben & Jerry's charged a social auditor, who interacted with its employees, suppliers, public and private representatives of the community. The social auditor then recommended a stakeholder report to be prepared by the organization which can be divided into the major stakeholder categories: customers, suppliers, investors, communities and employees. This stakeholder report of Ben & Jerry's was the first-ever report to stakeholders. Such socially sustained initiatives continually formed the part of global history and some other CSR related initiatives taken across the globe that are shaping the goals and principles of corporate social responsibility are:

i) **The Global Compact** - The Global Compact initiated by the United Nations in 1999 and launched in 2000, has asked the companies around the world to make their strategies in line with the ten universal principles in the areas of labour, human rights, anti-corruption and environment. These principles are:
Human Rights

Principle 1  Businesses should support and respect the protection of internationally proclaimed human rights.

Principle 2  Business should make sure that they are not complicit in human rights abuses.

Labour

Principle 3  Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 4  Business should eliminate all forms of forced and compulsory labour.

Principle 5  Business should effectively abolish child labour.

Principle 6  Business should eliminate discrimination in respect of employment and occupation.

Environment

Principle 7  Business should support a precautionary approach to environmental challenges.

Principle 8  Business should undertake initiatives to promote greater environmental responsibility.

Principle 9  Business should encourage the development and diffusion of environmental friendly technologies.

Anti-corruption

Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

ii) The Millennium Development Goals: The Millennium Development Goals adopted in September 2000 by the member states of United Nations, is a road map
for United Nations Millennium Declaration. These are the world's time bound and quantified targets, with a deadline of 2015, for addressing extreme poverty in its many dimensions namely income, hunger, lack of adequate shelter, disease and exclusion, while promoting education, gender equality and environmental sustainability. These goals are:

Goal 1: Eradicate extreme hunger and poverty
Goal 2: Achieve universal primary education
Goal 3: Promote gender equality and empower women
Goal 4: Reduce child mortality
Goal 5: Improve maternal health
Goal 6: Combat HIV/AIDS, Malaria and other diseases
Goal 7: Ensure environmental sustainability
Goal 8: Develop a global partnership for development

The Millennium Development Goals (MDGs) targeted eight areas and has achieved significant accomplishments such as globally the maternal mortality ratio dropped by forty five per cent between 1990 and 2015, the number of people living on less than $1.25 a day reduced from 1.9 billion in 1990 to 836 million in 2015, primary school enrolment rate raised from 83 percent in 2000 to 91 percent in 2015, about two-thirds of developing countries achieved gender parity in primary education, approximately 2.6 billion people gained access to improved drinking water since 1990 and the like. Despite these achievements the growth had been uneven across countries and regions with the most disadvantaged and poorest being less touched. But nevertheless it somehow proved that joint action can bring marvelous changes.

iii) The Sustainable Development Goals: From the lessons learnt from the millennium development goals’ achievements and dis-achievements and to further address the emerging global challenges, the sustainable development goals also
known as Transforming our World: The 2030 Agenda for Sustainable Development came into force. The seventeen goals adopted by member states at the UN General Assembly in September 2015 which will direct the funding and policy for the next fifteen years are as follows:

**Goal 1:** End poverty in all its forms every where

**Goal 2:** End hunger, achieve food security and improved nutrition and promote sustainable agriculture

**Goal 3:** Ensure healthy lives and promote well-being for all at all ages

**Goal 4:** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

**Goal 5:** Achieve gender equality and empower all women and girls

**Goal 6:** Ensure availability and sustainable management of water and sanitation for all

**Goal 7:** Ensure access to affordable, reliable, sustainable and clean energy for all

**Goal 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

**Goal 9:** Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

**Goal 10:** Reduce inequality within and among countries

**Goal 11:** Make cities and human settlements inclusive, safe, resilient and sustainable

**Goal 12:** Ensure sustainable consumption and production patterns

**Goal 13:** Take urgent action to combat climate change and its impacts
Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development

Goal 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development

The goals have provided the necessary path and direction to the countries to fight social issues and tackle the climate change expecting in return huge successes in terms of achievement of the goals by time. Now it depends on the countries as to how they mobilize their resources and initiatives to achieve the sustainable goals. Coordination with SDGs for India will include providing clean drinking water, sanitation and healthcare services, creating sustainable livelihood opportunities, promoting equal access to education, eradicating hunger and poverty, promoting sustainable farm practices, promoting rural development and women empowerment, promoting hygiene, mitigating climate change and the like.

1.2 Corporate Social Responsibility Initiatives in India

India has always been bestowed with a strong tradition of philanthropy. Since Mauryan time philosophers like Kautilya focused on ethical principles and practices while conducting business. Charity to the poor and disadvantaged was the form of CSR in those ancient times. Thus, philanthropy or charity or tradition of giving to the needy and disadvantaged is not new to India. Who has not heard of daanveer Karna? Even the Bhagwad Gita also talks about Swadharma– one’s selfless duty towards the society and the universe. We take birth and just keep taking from others, returning this debt is Swadharma. Mahatma Gandhiji too was of the view that whatever we have, we have received it from god. Therefore, wealth cannot be a personal property. It has to be used for the welfare of the whole mankind. According to him,
we are all in a way robbers, if we resort accumulating things beyond our requirements it is a type of ‘robbery’ and by doing this we are depriving someone else of those things. His basic philosophy was that the nature has provided sufficiently for everyone’s need but not for everyone’s greed. He was of the view that if everyone took only what they needed, there would be no shortage and no poverty. Thus, it can be said that the CSR is, indeed, deeply enshrined and imbibed in the Indian way of life as outlined below:

**Phase I**

Charity and philanthropy were the main issues of social responsibility in the early part of the 19th century in India. Indigenous culture, religion, family values and tradition had a significant effect on social responsibility in those days. During this period (pre-industrialization period till 1850), merchants with more financial strength shared a part of their affluence with the society by the way of setting up temples and the places of worship. These merchants also ventured to help the society recuperate from the phases of epidemics and famine by providing food and money and thus secured respectful position in the social hierarchy. From 1850 onwards, this further deepened into society for social reforms wherein the business families such as Tata, Godrej, Bajaj, Birla, Singhania were more inclined towards economic empowerment and emancipation from the social evils. However, it was noted that their efforts towards social development were not only driven by philanthropic and aesthetics beliefs but also influenced by political rigidities.

**Phase II**

During the independence struggle, the Indian businesses focused more on the social emancipation and reforms. This was even before Mahatma Gandhi evolved and volunteered the notion of trusteeship, wherein the industry leaders managed their wealth so as to assist the common man. Issues that were widely espoused under this philosophy were women’s empowerment, rural development, abolishment of untouchability and social and religious reforms for growing inclusive independent nation. Gandhiji conceived trusteeship as an arrangement wherein the individuals who have wealth in excess of their needs, held it in form of a trust for the welfare of the society. His concept of trusteeship was developed from his understanding of Bhagwad Gita’s concept of Nishkam Karm, or action without desire. Soon
corporates began to see their potential to dominate the country’s economic and social welfare and hold-firm in the national freedom struggle. Here began the institutionalization of social development with the creation of trusts. The Lala Lajpat Rai Trust was build to run a tuberculosis hospital for women which was named Gulab Devi Chest Hospital. In 1919, Sir Ratan Tata Trust & Navajbai Ratan Tata Trust was formed to promote health and education. Also, Sir Dorabji Trust was built in 1932 to promote health and rehabilitate disaster effects. It may be worth noting that numerous well-known institutions of today are the outcome of social programs undertaken during the period of independence. Kasturbhai Lalbhai of Ahmedabad founded Ahmedabad Education Society, which was contributory in establishing a number of institutions like Indian Institute of Management Ahmedabad and Physical Research Laboratory. Birla Institute of Technology and Science, Pilani was founded by Ghanshyam Das Birla during this period. In Delhi, Lala Shri Ram set up colleges for women and technical education, including the Lady Shri Ram College for girls and the Shri Ram College of Commerce.

Phase III

The period of 1960-80 was the time when the policy of high taxes, industrial licensing and constraints on the private sector lead to corporate malpractices leading to the application of legislation regarding labor, corporate governance and environmental issues. Public sector units were set up by the government to ensure viable distribution of resources to the needy. However, the ineffectiveness of the public sector lead to the shift of the projection from the public to the private sector and their active involvement in the social and economic development of the country became paramount. They emphasized upon social accountability, transparency and regular stakeholder dialogues. But in spite this CSR failed to catch up the steam.

Phase IV

After 1980s, the Indian companies started abjuring their traditional assignation with CSR and confederated it into a sustainable business strategy. In the 1990s, the Indian government initiated reforms to liberalize and deregulate the Indian economy due to which business grew to become more transitional with emphasis on improving labor and environment standards.
The economic growth made India an important global player, bringing to the force concerns over the aggravating disparity in the nation and the need for social responsibility in changing the lives of those who live in poverty. As a consequence of realization that with growing economic profits, businesses also have certain societal roles to fulfill, the stakeholder model came into existence. The model expected companies to avoid becoming a barrier to social, environmental and economic development and assist in sustainable development holistically.

**Phase V**

The myriad challenges that India is facing today, ranging from environmental degradation through poverty and human rights, to energy conservation and resource supply issues, has brought CSR into spotlight again. Social and environmental practices have become an integral part of the corporate philosophy. Organizations these days have social responsibility policies focusing on using their capabilities as a business to improve lives and sustaining planet through contributions to local communities and society at large. As a responsible corporate, organizations now believe in contributing actively to improve lives and create a healthier world considering CSR as an investment and not as a cost or expense. Financial and investment decisions of the organizations are made considering not only the long-term interest of the company but also of its various stakeholders. Organizations have realized that business and society go hand in hand, business is a social process and is intricately linked with various stakeholders such as employees, suppliers, customers, shareholders and the community within which the business exists and operates.

These days the social efforts of the businesses are not just limited to the country of their operations rather globally also. Globalisation and Liberalisation of the Indian economy has forced the Indian businesses to open up to international competition and correspondingly take social initiatives keeping into consideration the whole globe. **Giving Pledge**, a commitment by the world’s richest people to dedicate the majority of their wealth to charity, is an unfailing example of CSR these days. This campaign was started by Bill Gates and Warren Buffet in 2010 and now includes more than 100 individuals and families from all over the globe including Azim Premji, the first Indian to sign up for the ‘Giving Pledge’. Following Premji was Dubai based Menon, founder of Shobha Group who pledged to devote half the fortunes to philanthropic efforts.
In light of this it can be inferred that in India, CSR has gone beyond merely charity and donations, and is approached in a more organized fashion. From inactive philanthropy to the incorporation of the stakeholders' interest in the business model, the Indian business practices various methods of discharging its social responsibility. It has increasingly become prominent in the Indian corporate scenario and is an integral part of the Indian corporate strategy as organizations have understood that it is not only vital to grow their business but also to develop sustainable and trustworthy relationships with the community. Companies have separate teams for outperforming CSR that create specific goals, policies and strategies for their socially responsive programs and set aside resources to support them. This is one of the key drivers of corporate social responsibility in India in the recent past. Another factor leading to the adoption of the corporate social responsibility is the condition of the Indian society. Although India is one of the rapidly growing economies of the world, the socio-economic problems like illiteracy, poverty, malnutrition etc. are still pervasive and the government has confined resources to address these challenges. This situation has opened up several areas for organizations to contribute towards development of society. Integration of the Indian with the global economy has also resulted in Indian businesses opening up to international competition and thereby increasing their operations. In the current scheme of things, business enterprises are no longer expected to play their traditional role of mere profit making enterprises. The ever-increasing role of civil society has started to put pressure on companies to act in an economically, socially and environmentally sustainable way. The companies are facing increased pressure for transparency and accountability, being placed on them by their employees, customers, shareholders, media and civil society.

From the above discussion, it is clear that CSR has progressed through many phases in India. From inactive charity to institutionalization of CSR, Indian corporates has seen a drastic change embarking the development of the concept of social activities in India. Corporates are putting more efforts to bring a change in the present social situation of India so that an effective and lasting solution to the social woes could be achieved.

1.2.1 The CSR Orientations of Businesses for Sustainability
The CSR initiatives taken by the organizations help them not only in fulfillment of their social responsibilities but also in long term sustainability of their businesses. Sustained CSR
orientations help facilitate a constructive effect on staff retention and motivation. It also results into increased customer satisfaction and loyalty, more so when purchase decision is based on relationships, trust, reputation and brand. Loyal customers make repeat and bigger purchases, and become more product loyal and the devoted employees exert more effort and commitment towards the achievement of corporate goals. Satisfying needs, building trust through reliable services, friendliness, good faith and emotional connection are all the drivers of corporate loyalty.

CSR has a significant impact on company's goals, performance and stakeholders’ expectations and delivers desirable moral and business benefits. Companies showing an interest in environmental sustainability, often cut costs on energy consumption and resource use. It also has an ability to develop new products to meet the need of the customers and leverage the inventiveness of their stakeholders. By becoming a good corporate citizen, an organization can improve its competitive edge in respect of attracting and retaining investors, clients and employees. Socially responsible companies have better goodwill and respond early to risk and uncertainty. For many, social responsibility is the way of life and a way to redefine their work. Through corporate social responsibility, individuals realize their personal values and feel greater levels of achievement. It creates confidence in the individuals that the work done by them is important for the community and the world and experience fewer regrets. It also makes them feel exhilarated going for work each day and never characterizes it as tedious and unrewarding. Thus, corporate social responsibility is a source of personal delight and a way to make work important and captivating for many. It is the indication of the personal desire and belief of the industrialists running the organizations to endeavor the philanthropic activities, a sense of giving back to the society.

1.2.2 CSR Trends in India: The Key Concerns

The key concerns maintaining CSR as a continuing trend in India are:

i) Benchmarking of the CSR performance
ii) Discretion in the CSR performance
iii) Reporting and disclosure of the CSR performance
iv) Mandating the CSR performance
i) Benchmarking of the CSR Performance

In January 2008, Standard & Poor’s, KLD Research & Analytics and CRISIL launched the S&P ESG India Index, the first investable index of the organizations whose business performance and strategies reflect a high level of allegiance to meet environmental, social and governance (ESG) standards. Initiated and sponsored by the International Finance Corporation, this pioneering index comprises fifty Indian companies that meet the ESG criteria. Constituents are derived from the top five hundred Indian companies by market capitalisation, which are listed on the National Stock Exchange. The index thus provides the investors with exposure to a liquid and tradable index of fifty of the best performing stocks in the Indian market as measured by environmental, social, and governance parameters. While the social and environmental screens are based on output obtained from the mapping of Global Reporting Initiative, Global Compact and Millennium Development Goal; the governance screen is an adaptation of Standard & Poor’s corporate governance methodology adapted to India’s markets concerns.

The policy guidelines and methodologies of S&P ESG India are monitored by an index committee. The committee is composed of Standard & Poor's, CRISIL, IISL and KLD staff specialized in the global equity markets. Decisions taken by the committee includes all matters relating to methodology, construction and maintenance of the index and is based on the information available publicly.

The creation of the index involves a two step process, the first of which uses a multi-layered approach to determine ESG score for each company. And the second step determines the weighting of the index by score. The evaluation process seeks information relating to companies’ disclosure of the ESG screen indicators available in the public domain, such as a company’s annual report, website and information bulletins submitted to the stock exchanges. The final aim is to determine whether a company has made transparent disclosure in such documents on any of the indicators that are part of the ESG screening system. In cases where a company discloses a public, well-known indicator, it is awarded a score of one and if it did not, it is awarded a score of zero. Similarly, public disclosure of extra point indicators is awarded a score of three and non-disclosure is given a zero.
Constituent selection and composition of ESG Index

The constituents of the index are selected on the basis of the score provided to the companies in the following manner:

Quantitative Score- Each company is assigned a quantitative ranking based on three factors – transparency and disclosure of (1) corporate governance, (2) environmental practices and (3) social governance. Values for each factor are calculated and summed for each company in order to rank the companies in descending order.

Qualitative Score- One hundred and fifty companies with the highest quantitative scores under the transparency and disclosure process are selected for the qualitative process. Independent sources of information, news stories, websites and CSR filings are used to evaluate the actual performance of the company on a scale of 5 to 1, with 1 being the lowest and 5 being the highest. A final qualitative score is determined for each company.

Composite Score- A composite score is calculated for each company by summing the qualitative score and the quantitative score.

Each company’s weight in the index is determined as a function of its ESG score

ii) Discretion in the CSR performance

Providing organizations with the discretion to perform corporate social responsibility, the Ministry of Corporate Affairs, Government of India, issued voluntary guidelines for corporate social responsibility in December, 2009 to encourage Indian corporations to acknowledge the need for observance of the corporate social responsibility. These guidelines provide for a set of good practices which may be voluntarily adopted by the companies. Its core elements includes: care for all stakeholders, respect for worker’s rights and welfare, ethical functioning, human rights, environment and activities for social and inclusive development. The guidelines emphasized that the companies should respect interests of, and be responsive towards all stakeholders, including shareholders, employees, customers, suppliers, project affected people, society etc. and create value for all of them. The guidelines expected the companies to actively engage with all stakeholders, inform them of inherent risks and mitigate them when they occur. The guidelines also stressed that the government
systems of companies should be underpinned by ethics, accountability and transparency and should not engage in business practices that are abusive, unfair, corrupt or anti-competitive.

Talking about the welfare of the workers, the guidelines emphasized that the companies should provide a workplace environment that is safe, hygienic and humane and which holds the dignity of the employees. The guidelines expected the companies to provide its employees with freedom of association, right of collective bargaining, grievance redressal system and equal employment opportunities. In addition to the worker’s welfare, the guidelines also mentioned that the companies should respect human rights for all, take measures to prevent natural resources in a sustainable manner and undertake activities for the development of communities.

iii) **Reporting and disclosure of the CSR performance**

In order to strengthen and enable the Indian corporate sector to evolve into a global leader in responsible business, Ministry of Corporate Affairs came out with National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business in July 2011. These guidelines contained extensive principles to be adopted by the companies as a part of their business practices and a structured business responsibility reporting format requiring certain specified disclosures, demonstrating the steps taken by companies to implement the said principles. These guidelines were a refinement over corporate social responsibility voluntary guidelines 2009. The guidelines were articulated in form of nine principles with the core elements to actualize each of the principles. The first and second principles emphasized organizations to have ethical governance structure at all levels, optimum resource use and ethical and efficient manufacturing processes. The third principle relates to the rights of the employees and equal opportunities for them in the organizations for their well being. The fourth principle emphasized identification of stakeholder’s concerns by the organizations and being responsive to them. The fifth and sixth principles expected organizations to respect human rights and restoration of the environment. The seventh and eighth principles emphasized organizations in influencing public and regulatory policy, inclusive growth and communal harmony and social development. And the last principle emphasized the organizational consideration for overall well being of the customers and consumers as presented below:
Principle 1: Businesses should conduct and govern themselves with ethics, transparency and accountability

Principle 2: Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle

Principle 3: Businesses should promote the wellbeing of all employees

Principle 4: Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized

Principle 5: Businesses should respect and promote human rights

Principle 6: Businesses should respect, protect, and make efforts to restore the environment

Principle 7: Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner

Principle 8: Businesses should support inclusive growth and equitable development

Principle 9: Businesses should engage with and provide value to their customers and consumers in a responsible manner

In line with the above guidelines, the Securities and Exchange Board of India issued a circular in August 2012 to mandate inclusion of Business Responsibility Reports as part of the annual reports for the listed entities. The requirement to include Business Responsibility Reports as part of the annual reports was made mandatory for top hundred listed entities based on market capitalisation at BSE and NSE as on March 31, 2012. Other listed entities could voluntarily disclose Business Responsibility Reports as part of their annual reports. Those listed entities which have been submitting sustainability reports to overseas regulatory agencies or stakeholders based on internationally accepted reporting frameworks, were not required to prepare a separate report for the purpose of these guidelines. The provisions of the circular were applicable with effect from financial year ending on or after December 31, 2012. In addition to the circular, a framework was also suggested by the SEBI providing a
structure of the Business Responsibility Report to be included in the annual report. Five sections were suggested to be made in the Business Responsibility Report providing information regarding the company and social information as follows:

Section A: General information about the company

This section of the framework contains general information about the company like: corporate identity number, name, registered address, e-mail id, financial year reported, sector(s) the company is engaged in, products/services that the company manufactures, total number of locations where business activity is undertaken and markets served by the company.

Section B: Financial details of the company

This section contains financial information about the company like paid up capital, total turnover, total profit after taxes, total spending on corporate social responsibility as percentage of profit after tax and list of activities on which corporate social responsibility expenditure is made.

Section C: Other details of business subsidiaries and associates

This section contains details of company’s subsidiaries and the participation of subsidiaries and suppliers/distributors in the business responsibility initiatives of the parent company.

Section D: Business Responsibility information

This section contains details of the director responsible for implementation of the business responsibility policies and business responsibility head.

Section E: Principle-wise performance

This section contains information regarding performance of the organization in response to the nine principles constructed under national voluntary guidelines.
iv) Mandating the CSR Performance

Corporate social responsibility spending has been mandated in India for some selected companies. The mandatory rules are applicable to the corporate India from the financial year 2014-15 onwards. In India, the corporate social responsibility is governed by clause 135 of the Companies Act, 2013, which was approved by the Lok Sabha on December 18, 2012, and by Rajya Sabha on August 8, 2013. It received assent of the President of India on August 29, 2013. The CSR provisions within the Act are applicable to the companies with an annual turnover of Rs. 1,000 crore and more or net worth of Rs. 500 crore and more, or net profit of Rs. 5 crore and more. The act encourages companies to spend at least two percent of their standalone average profit before tax in the previous three years on the CSR activities. The Act also mandates the companies to set up a CSR committee consisting of their board members including at least one independent director, which is supposed to formulate and recommend a CSR policy to the board, recommend amount of expenditure to be incurred on CSR activities and regularly monitor the CSR policy of the company.

The Act further mentions the responsibilities of the board such as to approve the CSR policy recommended by the CSR committee, disclose contents of such policy in its report, place it on company’s website, ensure undertaking of CSR activities by the company, ensure two percent spending on CSR activities, report CSR activities in board’s report and disclose non-compliance of CSR provisions (if any). The act lists out a set of eligible CSR activities under Schedule VII, which can be undertaken by a company. The listed activities are as under:

i) Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water;

ii) Promoting education, including special education and employment enhancing vocational 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

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iv) 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;
v) Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art;
vi) Measures for the benefit of armed forces veterans, war widows and their dependents;
vii) Training to promote rural sports, nationally recognized sports, Paralympics sports and Olympic sports;
viii) 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;
ix) Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;
x) Rural development projects.

1.3 CSR Reporting and Disclosure
These days stakeholders not only expect from the organizations to fulfill their interests and expectations but also to be responsive towards the society and environment. The decision making of the stakeholders to invest their interests in an organization now not only depends on its economic but also on the social and environmental performance. Before investing its interest in an organization, a stakeholder not only looks at the financials of the organization but also at the efforts made by the organization in restoring the environment and community development. Thus, the stakeholders are not only concerned about the organization achieving its targets but also achieving targets in a sustainable way.

As the sustained CSR orientations affects the stakeholders decision making in an organization, it becomes imperative for an organization to disclose its social and environmental efforts in order to facilitate stakeholders in their decision making. Companies need to disclose their community development activities, contribution to the community development projects, sustainable development efforts, environmental targets, risks and restoration efforts as it shapes the stakeholders views and expectations of the company’s
social and environmental responsibility. An organization through its website and reports can disclose such information, thus facilitating the stakeholders’ decision making.

1.3.1 CSR Reporting Trends

At the end of the 1990s, the corporate social responsibility related reporting was dominated by the environmental performance reports. The KPMG International Survey of Corporate Sustainability Reporting, 2002, exhibited that non-financial reporting was an ordinary activity for big corporations, with forty five percent of Global Fortune top 250 companies publishing a report called sustainability report that focused not only on environmental performance but collectively on economic, social and environmental performance.

The KPMG International Survey of Corporate Responsibility Reporting, 2005, confirmed that non-financial reporting is improving and increasing. The survey showed that fifty two percent of Global Fortune top 250 companies and thirty three percent of the hundred largest companies by revenue in sixteen countries issued separate sustainability report, compared with forty five percent and twenty three percent, respectively, in 2002. The survey reported highest reporting increase in Italy, Spain, Canada and France over the last three years in most of the sixteen countries surveyed. The results of the survey also reported an increase in the number of companies publishing corporate responsibility information as part of their annual reports. Almost two thirds of corporate responsibility reports were found having a section on corporate governance but lacked specifics on how corporate responsibility is structured and how governance policies are implemented within the organization. Stakeholder dialogue was found in almost forty percent of reports with dialogue focused more on corporate responsibility policies rather than reporting. Core labor standards, working conditions, community involvement and philanthropy remained social topics that were discussed by almost two-third of the companies.

The KPMG International Survey of Corporate Responsibility Reporting, 2008, found that corporate responsibility reporting has gone mainstream with eighty percent of the Global Fortune top 250 companies issuing sustainability reports and an additional four percent integrated corporate responsibility information into their annual reports. Forty five percent of the hundred largest companies by revenue in twenty two countries surveyed were found
reporting sustainable performance, with the highest numbers in Japan and the United Kingdom. Integration of corporate responsibility information into annual reports was found on rise in Norway, Brazil, France, Switzerland and South Africa. Ethical considerations and innovation were found to be the most common reasons for reporting among both Global Fortune 250 and N100 companies (the largest 100 companies in each country surveyed).

The KPMG International Survey of Corporate Responsibility Reporting, 2011, confirmed rise in corporate responsibility reporting. Ninety-five percent of the Global Fortune top 250 companies and sixty nine percent of the hundred largest companies by revenue in thirty four countries surveyed were found issuing corporate responsibility reports. Rise was also seen in the companies reporting corporate responsibility information in the annual reports. Europe continued to demonstrate the highest reporting rates and America and Africa region were found gaining the ground. Only around half of Asia Pacific companies were found reporting on their corporate responsibility activities.

The KPMG Survey of Corporate Responsibility Reporting, 2013, found ninety three percent of the Global Fortune top 250 companies and seventy one percent of the hundred largest companies by revenue in forty one countries surveyed to be reporting on corporate social responsibility. The survey reported dramatic increase in corporate responsibility reporting rates in Asia Pacific over the last two years. Almost seventy one percent of the companies based in Asia Pacific were found publishing corporate responsibility reports, which was an increase of twenty two percentage points since 2011. The American companies overtook the European companies as the leading corporate responsibility reporting region. Highest growth in corporate responsibility reporting was found in India followed by Chile and Singapore. Over half of reporting companies worldwide were found including corporate responsibility information in their annual financial reports.

The KPMG Survey of Corporate Responsibility Reporting, 2015, found ninety two percent of the Global Fortune top 250 companies and seventy three percent of the hundred largest companies by revenue in forty five countries surveyed to be reporting on the corporate social responsibility with growing trend of regulations to publish non-financial information being the main driver. Asia Pacific was found to have risen to become the leading region for corporate responsibility reporting with growth being driven by a surge in reporting in
countries like India, Taiwan and South Korea, where mandatory and voluntary reporting requirements have been introduced. Seventy nine percent of the companies were found reporting on corporate responsibility in Asia Pacific followed by seventy seven and seventy four percent in the America and the Europe. Highest growth in corporate responsibility reporting was found in India followed by Indonesia, Malaysia and South Africa.

1.3.2 Corporate Responsibility Reporting Standards and Indicators

A number of reporting initiatives were undertaken during 1990s to develop standards for responsibility reporting. These are as under:

The Global Reporting Initiative (GRI)

The Global Reporting Initiative started in 1997 by the Coalition for Environmentally Responsible Economies, is a leading organization in the field of sustainability, with a goal to make sustainability reporting standard practice for all organizations around the world. It has developed an exhaustive sustainability reporting framework that is extensively used around the world. Its performance indicators are classified in three sections covering the three dimensions of sustainability namely; economic, social and environmental. The focus of economic dimension of sustainability is on how the changes in an organization’s activities bring about changes in the economic status of the stakeholder. The environmental dimension of sustainability concerns an organization’s impacts on natural systems including water, air, land and ecosystems. The social dimension of sustainability concerns an organization’s impacts on the social systems in which it operates. GRI has selected the indicators by identifying key performance aspects surrounding human rights, labour practices and broader issues affecting community, consumers and other stakeholders in society.

The first version of guidelines was launched in 2000 and the second generation of guidelines was unveiled in 2002. In 2006, GRI launched its third generation of guidelines and in May 2013, it released fourth generation of the guidelines.

The AA1000 Standards

AccountAbility's AA1000 series are principle based standards to help organizations become more responsible, accountable and sustainable. It does not prescribe what should be reported
on, rather how. AA1000 standards include the AA1000 Assurance Standard and the AA1000 Stakeholder Engagement Standard. The AA1000 Assurance Standard provides an inclusive way of holding an organization accountable for its performance, management and reporting on sustainability issues by evaluating its adherence to the AccountAbility’s principles and the reliability of associated performance information. The AccountAbility's assurance principles are:

Materiality: Does the sustainability report provide information on all the issues that influences the actions, decisions and performance of an organization or its stakeholders.

Inclusivity: Has the stakeholders participated in developing and achieving a strategic and accountable response to sustainability.

Responsiveness: Has the organization responded to stakeholder’s issues that affect its sustainability performance.

The AA1000 Stakeholder Engagement Standard provides a basis for designing, implementing and evaluating the quality of stakeholder engagement.

**ISO 26000**

International Organization for Standardization launched ISO 26000 or International Standard guidelines for social responsibility in November 2010 with a goal to contribute to the global sustainable development by encouraging organizations to practice social responsibility to improve their impacts on natural environments, workers and communities. It provides guidance on how organizations can act in an ethical and socially responsible way that contributes to the welfare of the society. The seven core principles of ISO 26000 are: human rights, organizational governance, labor practices, fair operating practices, environment, community development and consumer issues.

**Dow Jones Sustainability Indices (DJSI)**

The Dow Jones Sustainability Indices launched in 1999 are a family of indices that evaluates the sustainability performance of companies listed on the Dow Jones Global Total Stock Market Index. It is based on the analysis of economic, social and environmental performance
of the corporate while assessing issues such as risk management, corporate governance, climate change mitigation, branding, labor practices and supply chain standards. Companies are assessed and selected on the basis of their economic, social and environmental plans, to be incorporated in DJSI. Companies continue to make improvements in their sustainability plans to remain on the index as the selection criteria is enlarged every year.

**FTSE4Good Indices**

FTSE4Good Indices launched in 2001 by the FTSE Group, measures the performance of companies demonstrating strong environmental, social and governance practices. Its selection criteria covers corporate policies, management system and reporting on corporate responsibility and is evolved every year. Companies must meet criteria requirement in three areas for inclusion in the FTSE4Good Indices namely; working towards environmental sustainability, up-holding and supporting universal human rights and developing positive relationships with stakeholders.

**KLD Domini 400 Social Index**

KLD Domini 400 Social Index is a market cap weighted index of four hundred publicly traded companies that meets certain standards of social and environmental excellence. The criteria of corporate selection in the index relates to product safety, employee and human relations, corporate governance and environmental safety. It is maintained by the research firm KLD Research & Analytics and solaces the investors who integrate social, environmental and governance factors into their investment decisions. Social ratings of KLD consists of two categories namely; social and controversial business issues. Social issue ratings measure social responsibility of the corporate towards its stakeholders and controversial business issues reflect company’s involvement in business lines that are of interest to social investors.

**The Calvert Social Index**

The Calvert Social Index is market capitalisation weighted index created by Calvert Investments, that measures the performance of mid and large cap United States based firms that meets the responsible investment criteria. The criterion relates to the environment, labor
rights, consumer protection, community relations, international operations and human rights. It acts as a benchmark of large companies that are considered ethical or socially responsible.

**The Ethibel Sustainability Indices (ESI)**

The Ethibel Sustainability Indices enables the examination of financial performance of corporates in terms of sustainability. Companies included in the indices are selected from the Ethibel Investment Register database, based on sustainability criteria divided into four areas namely, environmental policy, internal and external social policy and the ethical economic policy. It includes four regional indices namely; ESI Americas, ESI Europe, ESI Global and ESI Asia Pacific.

**ISO 14001 Standards**

The ISO 14000 family of standards provides guidelines to the organizations for improvement of their environment management system. It assists the organizations in continuously improving their environmental performance. ISO 14001:2004 focus solely on environmental systems whereas the other standards in the family focus on other approaches such as life cycle analysis, audits, labeling and communications. ISO 14001:2004 sets out a framework of an effective management system that an organization can follow. Usage of ISO 14001:2004 standards provides assurance to the company’s stakeholders that impact of the company business operations on the environment is being studied and improved.

**1.3.3 CSR Reporting Trends in India**

The trend of social responsibility reporting in India has its roots in the numerous Laws, Acts and rules that were introduced in Indian constitution on environment protection, well being of employees, customer care and community development. According to Article 51A of Directive Principles of Indian constitution, it shall be the duty of every citizen of India to improve and protect the natural environment including lakes, forests, wildlife and rivers and be compassionate towards the living creatures. The Indian constitutional provisions are backed by a number of rules, notifications and acts on environment protection, well being of employees, customer care and community development like; The Industrial Disputes Act 1947, The Factories Act 1948, The Wildlife Protection Act 1972, The Equal Remuneration

The Department of Environment was established in 1980 under the Ministry of Environment, Forest and Climate Change in India with a goal to ensure a healthy environment in the country. Later in 1985, the department came to be known as the Ministry of Environment and Forests. The ministry brought a number of regulatory and non regulatory initiatives to harmonize environmental protection and economic development. The first non-financial reporting requirement for business entities was introduced by the Ministry of Environment and Forests in 1993, with the launch of the Air, Environment, Waste and Water Acts that aims at prevention and control of pollution of natural resources. Since then, the regulatory scenario has been evolving. The Government of India announced to companies to disclose in their directors report their environmental compliances and steps taken for waste minimization and recycling, water and natural resource conservation and reduction in the pollution.

Under section 217 (1) (e) of the Companies Act, 1956, the Central Government made Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, enforceable with effect from April 1, 1989. The rules made it mandatory for every Indian company to disclose the particulars with respect to the conservation of energy and technology absorption. It is mandatory for every company to disclose energy conservation measures, investments and proposals for reduction of consumption of energy, impact of the energy conservation measures on the cost of production of goods, total energy consumption, efforts made in technology absorption, adaptation and innovation and benefits derived as a result of the technology absorption efforts.

In June 2007, the Department of Public Enterprises launched guidelines on corporate governance for central public sector enterprises to be voluntarily utilized for reporting which were later made mandatory. In January 2008, Standard & Poor’s, KLD Research & Analytics
and CRISIL launched the S&P ESG India Index, the first investable index of the organizations whose business performance and strategies demonstrate a high level of allegiance to meet environmental, social and governance (ESG) standards. In December 2009, Ministry of Corporate Affairs, Government of India, issued voluntary guidelines for corporate social responsibility to encourage Indian corporations to acknowledge the need for observance of corporate social responsibility. In July 2011, the above guidelines were revised to launch the National Voluntary Guidelines on Social, Environmental and Economic responsibilities of business. The guidelines are based on nine principles around environmental and social sustainability.

In February 2012, S&P BSE Greenex was launched. The index includes the top 25 companies according to their performance against carbon emission footprint, offset and financials. In August 2012, SEBI mandated the top hundred listed companies at Bombay Stock Exchange and National Stock Exchange as per market capitalisation to include a business responsibility report in their annual reports. The report was to be made on the basis of National Voluntary Guidelines on Social, Environmental and Economic responsibilities, in the format prescribed by the SEBI. In September 2013, the Companies Act 2013 mandated the companies to spend at least two per cent of their standalone average profit before tax in the previous three years on the CSR activities. A progress report on the activities undertaken was to be included in the annual report duly signed by the director of the company. After the Indian regulatory scenario witnessed such significant activities, the corporate responsibility reporting rate was found to be highest in India by the KPMG survey 2013. The survey reported that in India where much of corporate responsibility reporting was on community development and investment, the reporting rate was rising due to recent regulatory requirements.

This chapter has extensively described the framework of corporate social responsibility in India emphasizing its genesis, sustainable business orientations and initiatives, key social concerns and indicators and the like. Social responsibility has its roots proliferating across every corner of the world whether it is in the form of charity to the needy and disadvantaged or philanthropy or a much organized corporate social initiative. India is also not an exception to this and has always been bestowed with a strong tradition of philanthropy. Moving from
social reforms during pre-independence period to trusteeship, to adaptation of triple bottom line and stakeholder framework and now to mandatory reporting and expenditure on corporate social responsibility; India has a very rich and intensive observance of social responsibility. The Indian scenario, filled with voluntary and regulatory activities is speedily moving towards consumerism and responsible corporate behaviors. The Government of India also keeps facilitating several initiatives to maintain corporate social responsibility in trend such as issue of voluntary guidelines for CSR in 2009, National Voluntary Guidelines on Social, Environmental and Economic Responsibilities in 2011, mandatory inclusion of the Business Responsibility Report in the annual reports in 2012, two percent mandatory spending on CSR by selected profit making entities and the like. Such orientation of the Indian scenario towards CSR indicates that day is not far when Indian companies will be setting benchmarks for global sustainability behavior.
References


