CHAPTER 1

INTRODUCTION
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1.1: Backdrop and Evolutionary Overview

Corporatization of global economy gained momentum after the emergence of Industrial Revolution\(^1\) in 18th Century. The concept of joint stock form of enterprises received tremendous popularity all over the world along with taking off of Industrial Revolution. The corporate form of business organizations enjoys the benefits of perpetual existence\(^2\). Almost every country all over the globe regulates and monitors the functions of corporate form of organizations by dint of an Act of Parliament which is known as the Companies Act or Corporate Act. In the 14th Century, the term 'Company' was adopted by certain merchants for trading overseas in England. This was a merchants' guild\(^3\) in foreign trade. The merchant guild was an extension of mechanism for doing foreign trade. By the end of the 16th Century, Royal Charter\(^4\) granted monopoly for trading to the members of the company over a certain territory and such companies are then called regulated companies. The East India Company was one of such regulated companies floated by the Royal Charter in 1600 which was in essence a multinational company. The East India Company\(^5\) had monopoly to trade in India and its members could carry on trade individually and had the option to subscribe to the joint fund or stock of the company. After each voyage, profits made together with subscribed amount were divided among the members. In 1653, however, a permanent subscribed fund was introduced which was called joint fund or joint stock of the company and in this way, the phrase “Joint Stock Company”\(^6\) came into use. In simplicity, members used to contribute to the joint fund and became the shareholders of the

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1 Industrial Revolution is the era of mass investment, mass production and use of factor of production in mass scale with globalization of scientific management in terms of technology, management and market.
2 Perpetual existence is a legal phenomenon. It implies that the company exist for ever unless there is piercing of corporate veil.
3 Merchant guild refers to the association formed by the merchants in securing common interest.
4 Royal Charter is the permission for doing certain acts and omissions by the highest parliamentary authority of the country.
5 The East India Company, also known as the English East India Company, the British East India Company, and Honourable East India Company was an English and later British company founded in 1600 and chartered with the monopoly of trading with Southeast Asia and India.
6 Joint Stock Company means the company whose share capital is jointly held by its members. Joint Stock Company and company are used interchangeably and synonymously. The principal feature of Joint Stock Company is limited liability of the members of the company.
companies concerned. By the end of the 17th Century, all the companies established permanent capitals represented by shares which were salable and transferable and since then the method of obtaining the certificate of incorporation of a company was effected by the Royal Charter or by Act of Parliament. In India, Companies Act 1956/2013\(^7\) regulates and controls the corporate form of business organizations.

In 1844, the Joint Stock Companies Act was passed for the first time and this Act provided for registration of companies with 25 members. It also provided for incorporation by registration and the said Companies Act created the office of the Registrar for the first time. So long there was no concept of limited liability and the same came into being with the enactment of the Limited Liability Act 1855. However, this Act was repealed within a few months and a new Act was enacted under the nomenclature of Joint Stock Companies Act, 1856 and again this was replaced by the companies Act, 1862 and thereafter the Companies Act 1948 came into being after repealing the earlier Acts and this process continued till the present form of the Companies Act came into existence in England. During the period of British India, there was Indian Companies Act 1913 and the same was replaced by the Companies Act enacted by the Indian Parliament in 1956 under the Model of the British Companies Act subject to certain modifications and changes as was warranted for to meet the need of the Indian corporate sector in particular and the country in general. Currently the Companies Act 2013 in conjunction with the certain provisions of the Companies Act 1956 are regulating the functions of the corporate sector of the Indian sub-continent. The theory of Corporate Social Responsibility is the unique feature of the Companies Act 2013.\(^8\)

The Corporate or Company form of organizations is required to function within the legal framework of the Memorandum of Association and the Articles of Association. The Memorandum of Association is known as the Charter of the company by dint of which it functions as an artificial individual and it takes legal, economic, financial and other managerial decisions with the help of the Board of Directors duly elected by the shareholders of the concerned company. A business entity is an organ of the society. The society gets its want

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\(^7\) The Companies Act 1956 is an important piece of commercial legislation and the same has been replaced by the Companies Act 2013. However, certain provisions of the Companies Act 1956 are still in vogue since the corresponding provisions in the Companies Act 2013 are yet to be notified or implemented.

\(^8\) Corporate Social Responsibility (CSR) is mandatory provision in the Companies Act, 2013 and it is a unique feature in Indian Economic Legislation so far even in the corporate history.
removing goods and services produced and generated by the business entity as the sole economic agent of the society. Society is the owner of the factors of production like land, labour, capital and managerial inputs. Thus the business organizations owe to the society. As a custom, it may sound logical to connote business entities as the corporate form of organizations throughout the length and breadth of the thesis. There is a symbiotic relationship between the business and society. The society is the constituency of various parties having direct or indirect interests in the day to day affairs of a business entity and those interested parties are known as stakeholders. The business has to honour the requirements of the customers and the customers are regarded as the king and Business means customer. Peter F Drucker is of the view that the business of a business is to create customers as the first and foremost function. The business has to remain obliged to the government as it maintains law and order in the society. The business remains accountable to the trade unions in a democratic set up since it functions as a bridge between the employees and the management of a firm. The business remains accountable to the shareholders who supply capital for initiating and launching a business. Therefore, in a nutshell, business is an economic agent of the society and it remains accountable to the society and hence the context of "Corporate Social Responsibility (CSR)" became relevant and came into being as a discipline of serious study of 21st Century. Our subject is CSR with particular reference to global and Indian perspectives and practices. The CSR is a philosophy and is of wider connotations. This study aims at understanding the meaning and scope of CSR both in global as well as Indian context and throw lights on Global CSR practices vis-a-vis Indian CSR practice and finding out the gap if there is any.

1.2: Statement of The Problem

Research on the subject of Corporate Social Responsibility has been undertaken by many learned researchers in the economically developed countries mainly in Europe and America in

9 Factors production is a concept borrowed from Economics. Production and distribution of want removing goods and services is possible only with joint effort of the factors of production.
10 Stakeholders include customers, investors, government, trade unions, creditors and so on.
11 Peter F. Drucker is the advocate of this theory.
12 Corporate Social Responsibility (CSR) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and national and international norms. With some models, a firm's implementation of CSR goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law.
order to assess the role of both domestic as well as multinational companies in uplifting the society from the condition of economic retardation by virtue of philanthropic and charitable projects. CSR has emerged as a subject of serious concern for the academics and social scientists during last 60 years. It is also receiving attention and is growing significantly for playing a pivotal role in corporates India. Indian corporates are feeling imperatively to work for the cause of social up liftment. Wipro being an MNC\textsuperscript{13}, for instance, has already launched a project for offering basic education to the rural population who are not in a position to have the light of modern education. It is now an academic necessity and imperative to undertake a serious study in order to understand the degree of concern for social cause vis-a-vis global practices adopted by the domestic and multinational corporations\textsuperscript{14}. The proposed study is expected to develop a road map for corporations i.e. the ways and means that are needed to be intensified and know how far they are discharging their social responsibilities in terms of legal, environment, ethical and economic perspectives. The proposed research is a necessity for ascertaining the current status of honouring the social obligations by the Indian companies and as foreign corporates who have emerged as multinational corporations and make a comparative study in CSR taking into consideration the Indian practice and global practices. The literature review evidences that there is adequate scope for further research in the chosen field. There are about 10,00,000 registered companies out of which 10,000 are listed in recognized stock exchanges across the country.

Thus, it is imperative to ascertain the areas where more and more companies' involvement is required to generate philanthropic service through the principle of voluntarism and it would play a role of engine for socio-economic development in particular. Companies are expected to play a constructive role in the society and this study aims at finding out existing degree of involvement in the cause of social development and the gap if any and offering suggestions and recommendations for effective discharge of legal responsibilities in terms of stipulations and provisions as are provided by the laws of the respective countries including India.

\textsuperscript{13} A corporation that has its facilities and other assets in at least one country other than its home country. Such companies have offices and or factories in different countries and usually have a centralized head office where they co-ordinate global management affairs and activities.

1.3: Hypotheses

Hypotheses are the assumptions or suppositions based on which a research is undertaken. The following Hypotheses are kept in view while undertaking the research in the chosen field.

1. There is no significant association between CSR practice and financial performance of the business

2. There is no significant association between social objectives and economic objectives of the business

3. CSR Practice is independent of legal obligation of the business

4. There is no significant association between CSR practice and good corporate citizenship

1.4: Objectives of The Study

The Study is based on the following objectives:

1. Assessing the current status of discharging corporate social responsibilities under Indian and global perspectives and contexts.

2. Identifying CSR framework in terms of legal, economic and social perspectives and assessing the degree of international practices of CSR in general with special emphases on legal issues.

3. Assessing Guidelines of United Nations(UN)15, World Trade Organizations16 and other global bodies issued for multinational corporations for honouring social obligations and examining their legal implications as applicable to the corporate sector in general.

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15 The intensity of the debate about business and human rights has increased in manifolds in recent years. At the same time, advances at the United Nations in building consensus around the obligations and businesses owe to society are reaching a critical point. These advances should be followed carefully by practicing Corporate Social Responsibility(CSR) professionals seeking to build coherent, human rights-based CSR policy.

16 WTO can play a role in encouraging and enabling multinationals to utilize their global infrastructure for economic development and positive social change. An Important question is whether the WTO should be in charge if an international system of corporate responsibility is implemented. Though the WTO has a global infrastructure and a dispute settlement system to aid with enforcement of international rules, does it have the resources to address this issue with so many potential ramifications.
4. Offering suggestions and recommendations for effective discharge of corporate social responsibilities in national and international contexts.

5. Examining adequacy of the provisions contained in the Companies Act, 2013 in conjunction with the Companies (Amendment) Bill 2016 with regard to mandatory CSR practices in India and offering suggestions there in for effective implementation.

1.5: Review of Literature

A number of studies have been undertaken to understand the role and impact of corporate social responsibility at global level as well as at the national level. The results of the studies show varied evidence across the world. Some of the authors reported that it enhances brand name of the company and some other researchers showed that it is duty of a company towards the society for bringing about social wellbeing. Lastly, some authors proved that it is only a means to achieve some other goals of the company. So it is imperative to give a list of study undertaken so far in the following manner.

The present study throws lights on conceptual relevance and background of CSR and impact of CSR on society vis-a-vis business operation and performance with reference to the function and operation of the MNCs.

Definitions of CSR tend to vary according to country, organization, and researcher. Although the acronym CSR is now well established in the business lexicon, what the term actually means remains a subject of much debate, Roberts\textsuperscript{17}. In a seminal work, Carroll\textsuperscript{18} defined CSR using four dimensions that encompass the spectrum of responsibilities that business has to society. These include economic, legal, ethical, and discretionary components of business performance. Economic responsibilities pertain to the underlying purpose of business to earn profit. Legal responsibilities relate to the activities, practices, policies, or behaviors that are expected or prohibited by societal members though they are not codified into laws. Discretionary

\textsuperscript{17} Roberts, S. “Supply Chain Specific Understanding the Patchy Success of Ethical Sourcing Initiatives”, \textit{Journal of Business Ethics}, 44, 159-70(2003).

responsibility refers to the voluntary activities that corporations engage in to meet the expectations of society which are not required by law or by ethical standards. This is often manifested as philanthropy. Carroll\textsuperscript{19}, contended that a business’ total social responsibility involves the concurrent fulfillment of the four abovementioned responsibilities.

Howard R. Bowen in 1953 argued that since social institutions shaped economic outcomes it was to be expected that business firms as an economic outcome of societal interests should consider the social impact of business activity. CSR\textsuperscript{20} implies some sort of commitment, through adoption of corporate policies and action. This operational view of CSR is reflected in a firm’s social performance, which can be assessed by how a firm manages its societal relationships, its social impact and the outcomes of its CSR policies\textsuperscript{21} and actions, Wood\textsuperscript{22}. Social reporting and social audits are examples of how firms can assess their social performance. Keith Davies\textsuperscript{23} argued that CSR refers to ‘the firm’s consideration of, and response to, issues beyond the narrow economic, technical and legal requirements of the firm. Frederick\textsuperscript{24} stated ‘Social responsibility means that businessmen should oversee the operation of an economic system that fulfills the expectations\textsuperscript{25} of the people. And this means in turn that the economy’s means of production should be employed in such a way that production and distribution should enhance total socio-economic welfare, Fredrick\textsuperscript{26}. Thus, the definitions of CSR in 1960s were an attempt to link society and businesses, defining society in broadest terms.

There was one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engage in open and free competition, without deception or fraud\textsuperscript{27}. The idea and inclusion


\textsuperscript{21} Ibid

\textsuperscript{22} See supra note 3.


\textsuperscript{25} See supra note 13

\textsuperscript{26} Ibid (1960)

of stakeholder began to appear. A socially responsible firm is one whose managerial staff balances a multiplicity of interests instead of striving only for larger profits for its stockholders. A responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation. Carroll\(^{28}\) offered the following definition of CSR. The social responsibility of business in general encompasses the economic, legal, ethical, and discretionary (or philanthropic) expectations that society has of organizations at a given point in time.

There were fewer definitions but more efforts to measure and conduct research for the purpose of operationalizing CSR. New concepts which were closely related to CSR were stakeholder theory, business ethics, corporate governance, responsiveness, corporate social performance, and corporate citizenship. These concepts are closely related but not identical. David Lee\(^{29}\) stated that CSR refers to a company’s commitment to operate in an economically and environmentally sustainable manner, while acknowledging the interests of a variety of stakeholders and maximizing economic, social and environmental value. It is a holistic concept that can mean different things to different groups and stakeholders.

Corporate social responsibility (CSR) reporting\(^{30}\), which highlights the link between the reporting function and the organizational functions and operations that are concerned with, and impacted by, activities associated with corporate social responsibility. CSR and CSR (or sustainability) reporting are inextricably intertwined across an organization, and at various levels\(^{31}\), impact on strategic planning, governance, stakeholder- engagement, risk management, decision making, data collection and management systems, performance measurement, public relations and communications.

The corporate social responsibility movement was an early response to an article published in 1970 by Milton Friedman stating that ‘social responsibility of business is to increase its profits’. CSR has emerged as the business issue of the 21\(^{st}\) century and has been studied for over 50 years. To this day academics do not have a consensus on its definition, Wood\(^{32}\), Carroll\(^{33}\). Bowen’s

\(^{28}\) See supra note 17 (1979)


\(^{32}\) See supra note 21 (1991)
definition of social responsibility of businessmen was ‘it refers to the obligations of businessmen to pursue those policies to make those decisions, or to follow those lines of relations which are desirable in terms of the objectives and values of our society. Due to Bowen’s concern with social responsibility and his leadership role in the topic, Bowen should be seen as father of CSR.

The numerous definitions of CSR identified in this section indicate that CSR has evolved from a focused operational concept to a more strategic and global approach encompassing more elements. Initially, the definitions were more limited to the company’s immediate environment. Gradually the definitions have been expanded to include external areas such as stakeholder engagement, community issues and the environment. In other words, the definition has evolved from the bottom line to the triple bottom line emphasizing the economic, environmental and social responsibilities of firms. The literature review has focused on some of the fundamental issues surrounding CSR; a historical definition of CSR from when the concept first started to emerge in the 50s to today’s more focused definition, evolution of CSR which looked at different approaches used by corporations when the topic first appeared, changing business environment which has led to today’s companies being more responsible to the society.

In 1970s Carroll described Bowen as the modern ‘Father of Corporate Social Responsibility’ and he believes that his work marks the beginning of the modern period of literature on CSR. Bowen took a broad approach to business responsibilities, including responsiveness, stewardship, social audit, corporate citizenship and rudimentary stakeholder theory, Windsor. Peter F. Drucker was one of the firsts and pioneers to explicitly address CSR, including public responsibility as one of the eight key areas for business objectives developed in his 1954 book, The Practice of Management.

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34 Large corporations began to go public about corporate social responsibilities and publish some of their efforts, but they also made public that ‘any approach to corporate responsibility must begin with the practical recognition that the corporation must be profitable enough to provide shareholders a return that will encourage continuation of investment’ (Wilson 2000).
35 Howard. R. Bowen, Social Responsibilities of Businessman, 126, (1953)
Management. In a study Carroll came up with the pyramid of CSR in the Journal, Business Horizons, and suggested that there are four kinds of social responsibilities that constitute a total range of CSR business activities. These are economic, legal, ethical and philanthropic responsibilities. Carroll further emphasized that, for CSR to be accepted by a conscientious business person, it should be framed in such a way that the entire range of business responsibilities is embraced.

A similar type of study by Wood described the ideal objectives of CSR in a firm as institutional (upholding the legitimacy in society of the business), organizational (improve the fit of the organizations with the environment), and moral/ethical (create a culture of ethical choice). Wood’s model, when merged with Carroll’s four areas of corporate responsibility, help to identify specific business outcomes associated with each objective, providing clearer guidance to leaders regarding CSR objectives and benefits.

A different type of study by Freeman reported that focus moved from legitimacy and morals towards a new theory of the firm. Social considerations are, thus, no longer outside an organization but are part of its purpose of being. CSR thus becomes a question of stakeholder identification, involvement, and communication. He also reported that purpose of stakeholder management was to devise a framework to manage strategically the myriad groups that influenced, directly and indirectly, the ability of a firm to achieve its objectives. The aim of stakeholder management is thus to analyze how a company can serve its customers and be lucrative while also serving its other stakeholders such as suppliers, employees, and

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39 This is an epoch making contribution in the field of management
40 See supra note 33 (1991)
41 Ibid. (1991)
42 See supra note 32 (1991)
43 Typical examples of CSR practices include charitable contributions, community education, healthcare and environmental programs. Some of these are activities mandated by law, but most are simply expectations society has of business. Managed social responsibility has a number of benefits and these are both economic and non-economic. Intangible benefits (non-economic) primarily relate to consumer expectations and firm reputation and are numerous for example; creation of reputational capital, attractiveness as a potential employer, and more favorable impressions of the firm products.

communities. Recently the stakeholder perspective has dominated the reinterpretation of CSR pushing the question of the legitimacy of corporate power as well as the moral dimension of managerial decisions more into the background.

Against this study Rosabeth Moss Kanter\textsuperscript{45} argued that firms should use social issues as a learning laboratory for identifying unmet needs and for developing solutions that create new markets. She describes, for example, Bank of Boston’s effort in setting up a Community Bank, which has eventually been evolved into a new market for the bank. Similarly, Bell Atlantic has equipped schools with HDSL computers, in the processing learning a lot about how to use and market this new technology. The term corporate social innovation is increasingly taken up by practitioners.

O’ Riordan\textsuperscript{46} reported that there is no one-size-fits-all method for implementing a corporate social responsibility (CSR) approach. Each firm has unique characteristics and circumstances that will affect how it views its social responsibilities; and each will vary in its awareness of CSR issues and how much work it has already done towards implementing a CSR approach. There should be a considerable value in proceeding with CSR implementation in a systematic way i.e. in harmony with the firm's mission, and sensitive to its business culture, environment and risk profile, and operating conditions. CSR can be phased in by focusing carefully on priorities in accordance with resource or time constraints.


The CSR process is considered to comprise two distinct phases: strategy development (which incorporates strategy analysis\(^\text{47}\)); and strategy implementation.

The implementation phase marks the second stage of the CSR process. It includes the factors:

- implement and control which involve the technical aspects of implementation at a more tactical level and the crucial step of control of the entire process (i.e. the feedback loop)
- Finally, the output step is included based on the rationale that a result orientated approach is beneficial to ensure an effective and efficient use of managerial resources.

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\(^{47}\) The strategy analysis is a process based on values which drive the strategy, alternatives which encompasses the various range of options available to decision-makers and finally strategy (or action) which is the ensuing result from the decisions taken in the two earlier steps of phase 1.
Models

Avon’s manufacturing facility in Suffern, New York was first SA 8000 certified in 1998. Current statistics reveal that 68 countries and 67 industries participated in 2008 certifications. In 2008 there were 293 new certifications and 10% increase in the countries that participated in the previous year. The implementation requires the following:

- Preparation
- Management commitment and nominating responsible personnel
- Self assessment and the appointment of a consultant or a local NGO to help setting up social accountability management system
- Implementation, written documentation, training of the staff
- Implementation of the system, maintenance of the records
- Audit process including a pre-audit, formal audit and finally certification, continuous improvement
- Surveillance audit (every 6 months to one year)
- Renewal audit (every 3 years)

Hermansson\(^{48}\) had given a broad framework\(^{49}\) for implementing CSR approach in fields, such as quality and environmental management follows the "plan, do, check and improve" model. It also help stakeholders transform these insights into strategies, commitments, organizational changes and activities that can form the basis for measuring, reporting and evaluating CSR performance and making appropriate changes.


\(^{49}\) A well-designed CSR implementation framework integrates economic, social and environmental decision making throughout a firm. The framework helps boards of directors, managers, employees and others assess a firm's effects on society and the challenges and opportunities associated with taking these impacts into account in decision making and business activities.
Figure 2: CSR Implementation Model (Hermansson, 2008)
Aravossis et al\textsuperscript{50}, had reported a methodological framework\textsuperscript{51} that can be followed by the companies in order to implement an effective CSR programme in all the areas of their operation, consisting of three distinct stages- Analysis, Execution and Performance Evaluation. Taking into account both the internal and external strategic analysis, the organization must define specific CSR targets which can be either quantitative (e.g. a specific level of energy consumption) or qualitative (e.g. a specific level of customer satisfaction).

\textbf{Figure 3: Overview of the suggested CSR Evaluation Framework (Aravossis et. al, 2006)}


\textsuperscript{51} The analysis assesses the external and internal environment of the organization with the use of the appropriate management methodologies. PEST (Political, Economical, Social & Technological) analysis examines factors that can affect the organization directly or indirectly. The environmental assessment enables a consequent SWOT analysis (Strengths, Weaknesses, Opportunities and Threats), which combines the external assessment with an internal one.
Simpson\textsuperscript{52} had proposed a 7 Step model to integrate and implement CSR-related issues within business in order to minimize risks and maximize opportunities is given below:

i)  Triggers: Identify the triggers, rank the triggers in order of priority, consider the impact of the triggers on the business. Potential triggers can be political, social and cultural, economic, technological or raw materials.

ii) Scoping: Includes mapping issues on the corporate ‘radar screen’, assessing business impacts, stakeholder engagement & scenario planning

iii) Making the business case by: knowing the risks, spotting opportunities & stakeholders expectations

iv) Committing to action: By Governance & Oversight, demonstrating Leadership and communicating clearly.

v) Making Strategy: By creating new policies & processes and integrating into existing business

vi) Stakeholder Engagement: Open two-way communications channels to gain credibility through partnerships.

vii) Measuring & reporting

Earlier, when profit-making used to be the prime motive of the companies, they were only concerned and accountable to their shareholders. However, with the emergence of social responsibility companies now focus attention and responsibility towards all which are sensitive to their business.

Stakeholder engagement comprises of the formal and informal ways of staying connected to the parties who have potential interest in the business. Engagement implies understanding their views and taking them into consideration, being accountable to them when accountability is called for, and using the information gleaned from them to drive innovation. Stakeholder engagement spans a continuum of interaction that reflects the degree of influence stakeholders have in decision making.

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53 The list of stakeholders include, employees, stockholders, suppliers and contractors, consultants and business associates, neighborhood community, customers and consumers and the natural environment.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>CSR activities</th>
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<tbody>
<tr>
<td>Natural environment</td>
<td>• Judicious use of natural resources</td>
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<td></td>
<td>• Energy conservation</td>
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<td></td>
<td>• Abatement of polluting emissions</td>
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<td></td>
<td>• Waste management</td>
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<td>Consumers</td>
<td>• Production of safe items and using biodegradable packages</td>
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<td></td>
<td>• Educating consumers on product use and disposal</td>
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<td></td>
<td>• Being truthful in advertising</td>
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<tr>
<td>Employees</td>
<td>• Providing fair compensation and benefits and safe work environment</td>
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<td></td>
<td>• Eliminating discrimination</td>
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<td></td>
<td>• Providing opportunities for personal and professional development</td>
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<td></td>
<td>• Having progressive human resource policies</td>
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<td>Government agencies (local state and</td>
<td>• Fulfilling obligations under regulations and statues of these agencies</td>
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<td>central government)</td>
<td>• Cooperating in planning and investigations</td>
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<td></td>
<td>• Coordinating administrative activities with these agencies</td>
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<tr>
<td>Community</td>
<td>• Providing economic stability</td>
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<td></td>
<td>• Safe guarding public safety</td>
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<td></td>
<td>• Protecting the environment</td>
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<td></td>
<td>• Aiding in development of social and cultural resources of the community</td>
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<tr>
<td>Media</td>
<td>• Being cooperative and truthful about issues that affect public welfare</td>
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</tbody>
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Table 1.1: Stakeholders in CSR (Basu, 2007)

A recent study conducted by Yisau Abiodun Babalola\textsuperscript{55} reported that through corporate social responsibility, businesses reaffirm their principles and values, both in their processes and

\textsuperscript{55}Babalola, Yisau Abiodun, "The Impact of Corporate Social Responsibility on Firm's Profitability in Nigeria", \textit{European Journal of Economics, Finance and Administrative Sciences}, Vol. 45, pp. 39-51(2012). This study examines the relationship between corporate social responsibility and firms’ profitability in Nigeria with the use of
operations and in their interaction with other social actors. Corporate social responsibility is generally voluntary in nature and refers to activities that exceed a mere compliance with the law. The social and environmental responsibilities of enterprises may reflect the changing expectations of society. Pragmatism in corporate social responsibility is essential because despite the many issues it can address, corporate social responsibility also has its limits and cannot substitute for the role of government in enforcing laws and international labour standards.

A similar kind of study Tatjana Chahoud showed that there are 10 Principles of the Global Compact and they are furnished under the following sub-points.

**Human Rights**

Principle 1: Businesses should support and respect the protection of international human rights within their sphere of influence; and

Principle 2: Make sure that they are not complicit in human rights abuses.

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

Principle 4: There should be elimination of all forms of force and compulsion.

**Labour**

Principle 5: The effective abolition of child labour; and

Principle 6: The elimination of discrimination in respect of employment and occupation.

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56 The enterprises consider convenient practices today may become indispensable ones tomorrow. In addition, it is expected that different social actors interested in the activities of a certain enterprise will prioritize different social and environmental demands, which may contradict or compete with one another at times. Corporate social responsibility poses several challenges for enterprises, including the need to define their responsibilities with respect to those of the public sector, determine the extent of their obligations in the supply chain and decide until what point in the future they should anticipate and plan for the consequences of their activities, especially in the case of natural resource use.

Environment

Principle: 7: Businesses should support a precautionary approach to environmental challenges;

Principle: 8: It should undertake initiatives to promote greater environmental responsibility; and

Principle: 9: It should encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

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

From the foregoing literature review, it is clear that the subject chosen for undertaking research is a virgin area and it is a time honored initiative. The research is to develop an answer to questions as to how corporate sector in general can do social good side by side achieving the principal goal of the companies. The proposed work is expected to examine the ethical, moral, philanthropic and other aspects and perspectives of social responsibilities by the corporate form of organizations. It, more specifically, aims at ascertaining the Indian corporate sector practices of CSR doing social good against the global practices. It would like to offer pragmatic suggestions to corporate sector in general for designing the projects and schemes of social developmental perspectives.

58 93% of the world’s largest 250 companies now publish annual corporate responsibility reports, almost 60% of which are independently audited. That means companies from sectors as diverse as financial services, information technology and consumer goods to oil, gas and mining making billions of dollars of public commitments to help solve societal challenges. Moreover, the legacy of the global financial crisis, concerns about corporate tax practices and challenges such as youth unemployment and climate change have forced corporations to lift their sights further above the bottom line and to judge their performance against wider social goals. Economic growth must now be more inclusive and more sustainable. The onus is on firms to produce more jobs, products, services and infrastructure for more people, while putting more emphasis on decent work and fairness, and less strain on natural resources. It is in this context that the field of Corporate Social Responsibility (CSR) has matured over the past decade. Progress has been driven by a combination of evolving global guidelines, increased stakeholder expectations and more demanding corporate disclosure requirements. Voluntary action by corporate leaders themselves has also played a role, both individually and collectively, to embed CSR into core business practices, account publicly for performance, and scale up impact. CSR has become as central to some businesses as, say, accounting or human resource management. Yet, this progress is happening at neither the speed nor scale needed to drive the type of systemic change that is required to address social and environmental challenges.
Gray, Owen, & Maunders\textsuperscript{59} defined CSR as "the process of communicating the social and environmental effects of organizations economic actions to particular interest groups within society and to society at large". Similarly, R. W. Perks\textsuperscript{60} defined corporate social reporting as “the disclosure of those costs and benefits that may or may not be quantifiable in money terms arising from economic activities and substantially borne by the community at large or other stakeholders”.

Another trend appearing in literature is the increasing dialogue between stakeholders. Companies are augmenting their discussions with labor unions, environmental groups and other relevant stakeholders and the implementation of certification solutions by corporations, which is the establishment of codes of conduct, Kapustin\textsuperscript{61}, monitoring and reporting.

Another study by Mullins\textsuperscript{62} argues that the CSR to consumers may be seen as no more than a natural outcome of good business. However, there are broader social responsibilities including:

a) providing good value for money;

b) the safety and durability of products/services;

c) standard of after-sale service;

d) long-term satisfaction – serviceability, adequate supply of products/services, and spare parts and replacement parts.

e) fair standards of advertising and trading; and

f) full and unambiguous information to potential consumers.

In similar line, a study by Palmer and Hartley\textsuperscript{63} argue that business organizations should act in a socially responsible manner for two self-evident reasons: one philosophic and the other


\textsuperscript{60} Perks R.W., \textit{Accounting and Society}, (1993).


pragmatic. Philosophically, models of a responsible society require organizations to do their part along with the family and other social institutions (the schools, the religious institutions, etc.). Pragmatically, organizations have to take the society’s values into account, otherwise they will be isolated and therefore their long-term survival will be jeopardized.

Another study by European Commission (2001) recognizes that CSR can play a key role in contributing to sustainable development while enhancing innovations and competitiveness, thereby also contributing to employability and job creation. From its contribution to the March 2005 Spring Council, the Commission believes that CSR can contribute to a number of public policy objectives to create a philanthropic climate in which entrepreneurs are appreciated not just for making a good profit but also for making a fair contribution to addressing certain societal challenges.

On the contrary, Global Initiative Report reported that CSR Guidelines identify “Governance” as a key reporting indicator. Specifically, company sustainability reports are to describe the governance structure of the organization including committees with responsibility for specific tasks such as setting strategy or organizational oversight. They ask sustainability reporters to indicate responsibility for economic, social and environmental performance within the

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64 Two crucial pillars underpin an effective CSR strategy, regardless of industry sector or location: First is responsible business conduct. This refers to the commitment of companies to comply not only with laws and regulations everywhere that firms operate, but also to adhere to relevant global guidelines, normative frameworks and industry-wide voluntary principles and standards. It means proactively identifying, mitigating and, where necessary, offsetting negative environmental, social or governance impacts wherever they occur along global value chains. The second pillar is that of shared value creation. This refers to the strategic decision of companies to address explicit social and/or environmental challenges in a manner that also benefits their business.


68 Although the arguments for effective CSR are increasingly clear, challenges remain in embedding good practice within individual company operations and scaling up this effort across complex global value chains, sectors and countries. Within firms, there is a need to strengthen policies, management and reporting systems, skills and incentives to drive better decision-making, performance, transparency and accountability. External barriers must also be confronted. They range from governance gaps, such as corruption and weak rule of law, to market failures
committee’s mandate. Other governance reporting indicators include the linkage between compensation for members of the board and the organization’s performance including social and environmental performance; board procedures for overseeing the organization’s management of economic, environmental, and social performance including relevant risks and opportunities, and compliance with international standards, codes of conduct, and principles and the frequency with which the board assesses the company’s sustainability performance; and process for evaluating the board’s own performance, particularly on economic, environmental and social matters.

The research explores the existing literature available on CSR. The literature review shows trends and evolution in definitions starting from the early days of 1950s when CSR was in its budding stage. As of now the, trends have changed and CSR affects not only the company’s reputation and goodwill but also govern the financial performance. It was analyzed that the reporting practices range from the very sophisticated and well-established system to “a brief mention of CSR” in the annual report. CSR reporting will continue to improve globally but the information it contains would need to be standardized. A feature noticed in the development of CSR reporting is the influence of several international and local organizations with different frameworks, indices, directives and initiatives etc., many of which are voluntary but are likely to hinder rather than assist the development in the reporting systems. India’s markets continue to exhibit a profusion of negative externalities where the costs of resource use, environmental degradation, or community disruption are neither paid by those who incur them nor are reflected in actual prices. Today’s economic framework gives little encouragement for companies to consider the long-term – the essence of true sustainable development.

There are several companies in India involved in diverse issues such as healthcare, education, rural development, sanitation, microcredit, and women empowerment. Analysis of several surveys in India suggest that though many companies in India have taken on board the universal language of CSR, CSR seems to be in a confused state. Individual companies define CSR in their own limited ways and contexts. The end result being that all activities undertaken in the name of and short-termism among investors and consumers. The sheer complexity, number and diversity of actors operating along global value chains create another major challenge. In addition to ongoing work by individual companies and governments, three areas of joint action offer particularly strong potential for overcoming some of these barriers.

First, collective action by corporations: This has been one of the most important developments over the past decade, helping companies operating in the same industry or location to scale up their public commitments to promote specific goals or public policies.
CSR are merely philanthropy or an extension of philanthropy. It seems that CSR in India has been evolving in domain of profit distribution only. There is a need to increase the understanding and active participation of business in equitable social development as an integral part of good business practice.

Also it was felt that GRI\textsuperscript{69} gives emphasis to the aspects like human rights more which should not be mixed with community engagement activities, charitable donations, human resources management tools and ethics based issues such as corporate training programmes and none of these can replace human rights performance. Business houses all over the world are realizing their stake in the society and engaging in various social and environmental activities. CSR holds a very important place in the development scenario of the world today and can pose as an alternative tool for sustainable development. As companies have shown great concerns for their immediate community and the stakeholders, it can be safely concluded that much of the fate of society lies in the hands of the corporates. The need of the hour is to formulate effective strategic policies and adopt various instruments according to the company- history, its content, peculiarity in relationship with its different stakeholders so that CSR can best be implemented towards its goals i.e. sustained environmental, social and economic growth. Creating trusts and foundations seem to be a favorite route of CSR\textsuperscript{70} practice by Indian companies but largely such trusts and foundations work at an arm’s length from the company preventing the mainstreaming of CSR into the core business processes and limiting CSR\textsuperscript{71} to community development only. Corporates no doubt have made significant contributions towards the sustainable development of our country. Considering the limitations of the corporates in their CSR activities, some recommendations which can be used towards satisfaction are:

\textsuperscript{69} The GRI should design a worldwide grid of sectors and regions and their corresponding human rights risks to which companies would refer in their reports. Human rights performance should start with a comprehensive overview of its positive and negative operations with details provided about high- risk operations. An industry- specific combined with sector- specific reporting can be done.

\textsuperscript{70} CSR is becoming a fast-developing and increasingly competitive field. The case for demonstrating corporate responsibility is getting stronger as expectations among key opinion formers, customers and the public are increasing. Being a good corporate citizen is increasingly crucial for commercial success and the key lies in matching public expectations and priorities, and in communicating involvement and achievements widely and effectively.

\textsuperscript{71} Despite the development of Indian CSR from its initial philanthropic focus, there are still cultural influences to modern CSR. The underlying philosophy is that CSR is responsibility of business to society at large. Three major areas of CSR identified are human resources, community development, and environmental activities. In India, the high levels of poverty and the growing disparity has encouraged the development of communities activities. Moreover, the high level of unemployment has stimulated firms to offer employment.
• Companies should extend their CSR activities in less privileged states rather than concentrate in resource rich states.

• It is essential that companies develop an effective value chain system of their products through their CSR activities, which is essential for competing in the global market.

• It will give better results if activities are based on a more practical and participatory approach and touch the grassroots levels.

• Voluntarism among employees should be encouraged and institutionalized through recognition and incentives.

• There is also need for public-private partnership with well-defined controls and process for the best use of resources for social change.

• Special training need to be given to business managers in working with social issues.

• Participation of small and medium business should be encouraged.

• Experience has shown that working with NGOs is more worthwhile and result-oriented. Joining hands with related NGOs is therefore advisable.

Judicial Response to Corporate Social Responsibility (CSR) In India

The fundamental legal issues relating to CSR practices in India was presented before the Hon’ble Supreme Court of India in M. C. Mehta’s case72 in which the Hon’ble Supreme Court took into consideration the provisions of the Article 32 of the Constitution of India which deals with Remedies for enforcement of rights.

Writ Petitions were filed before this Court, challenging the action of the owners/proprietors of the stone-crushers whereby stone-dust and smoke was allowed to pass into the air, and due to pollution, lives of the people living in some parts of South Delhi, especially rural, and workers, their families living at the site as well as people living in the villages bordering Haryana were

72 M. C. Mehta v. Union of India (1992) 2 SCC 256. This case has been dealt with by the Supreme Court of India under the light of the provision of Article 32 of the Constitution of India and it was held that environmental changes are the inevitable consequence of industrial development in the country, but, at the same time the quality of environment cannot be permitted to be damaged by polluting the Air, Water and Land to such an extent that it becomes a health-hazard for the residents of the area.
suffering from different diseases and their lives were in danger, and praying for issue of writ of mandamus and directions to the respondents and authorities concerned to take steps to stop pollution, and provide necessary medical facilities to the affected persons. The salient substance of the judgment of this case may be referred to that environmental changes are the inevitable consequence of industrial development in our country, but at the same time the quality of environment cannot be permitted to be damaged by polluting the air, water and land to such an extent that it becomes a health-hazard for the residents of the area. The authorities concerned in the Union Territories of Delhi have been wholly re-miss in the performance of their statutory duties and have failed to protect the environment and control air-pollution in the Union Territory of Delhi. Utter disregard to environment has placed Delhi in unenviable position of being the world's third grubbiest, most polluted and unhealthy city as per a study conducted by the World Health Organization. This is a famous case in which judgment delivered by Hon’ble Supreme Court Judges on the legal implications on CSR practices particularly what should be and what violates the CSR compliance.

Therefore, it may be asserted that a research gap arises concerning the role of the state in protecting environment and making the corporate sector abide by the law of the land while any industrial or commercial project is undertaken.

This Case is a landmark in the history of Corporate Social Responsibility in India. The Apex Court is serious enough to protect the environment and safeguard the interest of the society at large. Therefore, CSR is highly of legal, environmental and ethical relevance and needs comprehensive research for finding out boarder perspectives as far as Indian corporate sector is concerned. Law has a prominent role to make CSR a successful effort of the companies in maintaining the social, environmental, and economic health of the society in lawful manner.

1.6: Scope of The Study

The title of the research Topic is "Corporate Social Responsibility: An Analytical Study of Global and Indian Perspectives and Practices" and therefore the scope of the study would remain confined to the global and Indian perspectives and practices of corporate social responsibilities. Company form of organizations is the modern concept of business and they remain engaged in the process of wealth creation for the shareholders mainly who supply capital
which is one of the most important resources needed for doing business. The study also shows a comparative analysis of comparative position of India against that of developed countries across the globe in the domain of CSR practice. Finally, it would contain suggestions and recommendations for effective CSR Practices.

1.7: Research Methodology

The whole research is based on analytical and critical study of various cases published in journals both national and international and standard materials available on the subject. Both primary and secondary materials and data are collected through a structured questionnaire and the same have been processed and used to develop and substantiate the findings and conclusion. Modern statistical tools and techniques i.e. descriptive and as well as inferential statistical tools and techniques are used to obtain the results that have emerge from the study. The research in chosen area is conducted to examine both doctrinal as well as non-doctrinal aspects of CSR practices and the relevant tools and techniques depending on the requirement of the study. Our study is confined within the circumference of CSR practices by the companies within the meaning of the Companies Act, 2013 and standard definition of the corporate form of organization. Our research is conducted on the sampled firms which are 450 be covering multinational as well as domestic corporations with certain threshold limits in terms of turnover or any other parameter. Generally, any company or a group of companies that derive a quarter of its revenue from the commercial operations outside of its home country is considered to be a multinational corporation. According to DIPP data, some 35,000 companies have direct investment in foreign countries and the largest 100 of them control about 40 percent of world trade. Under the given definitional backdrop of Multinational Corporation, the research on CSR practices is carried out on the basis of authentic data that are available from the authentic

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73 Multinational corporations are corporate form of business organizations which have commercial establishment in more than one counties across the globe. For example, Infosys India Ltd, Microsoft Corporation, Tata Motors Ltd. etc.

74 Department of Industrial Policy and Promotions was established in 1995 and Department of Industrial Development was merged with it in 2000. This department is under the control of the Ministry of Commerce and Industry, Government of India. This department is responsible for formulation and implementation of promotional and developmental measures for growth of industrial sector keeping in view the national priorities and socio-economic objectives.
national and international websites and other sources. We have dedicated Chapter 6 of the thesis to have empirical analysis and in order to make an empirical analysis; we have adopted a moderate sample size of the companies as mentioned above and made statistical analysis for finding the trend in CSR practices mainly under Indian and global contexts.

1.8: Universe of The Study

Universe of study in case of empirical study is limited to a moderate sample size of Indian companies as well as MNCs who are practicing CSR. Overall socio-economic and legal study has been carried out at global and Indian level for a general analysis of the problem.

1.9: Research Questions

The following research questions were kept in view during the research period while dealing with research under the proposed research topic:

1. What is the operational definition, meaning and scope of CSR?
2. What is evolutionary emergence of CSR?
3. What are the legal, economic, ethical and philanthropic issues involved in CSR Practices?
4. Is there any necessity for regulatory framework for CSR Practices?
5. What is the link between earning profit and philanthropic activity of a business organization?
6. Is the CSR burden on the Business?
7. What is the current status of CSR Practices in India?
8. What is the current status of CSR Practices in countries such as USA, UK, Australia, Canada, Japan and South Africa?
9. What is India’s position in CSR Practices against the CSR Practices of economically advanced countries across the globe?
10. Can law compel business to take care of social problems and environment protection issues as CSR?

11. Is CSR synonymous with good corporate citizenship?

12. Should CSR Practices be linked with financial performance of the business entities

1.10: Research Gap

From the comprehensive and extensive literature review, it is found that lot of works have been done in the chosen area and there is a lot of commendable work also. But, work on CSR practice in India vis-a-vis global practice is of recent origin. Though, there are many companies like Tata, Birla, Infosys, Wipro etc are doing a lot of CSR works but there is no professional assessment of their work and no benchmarking is visible against the CSR work across the globe. Literature review itself evidences that there is prominent research gap in the chosen area and a comprehensive research would enable the policy makers to adopt appropriate measures to make CSR initiative much more effective in the interest of the nation. Moreover, from this research, Multinational companies shall also be able to strengthen their CSR Practices.

1.11: Significance of The Study

Significance of study lies in highlighting the CSR practices developments taken place generally at national and international levels. The study has highlighted on global and Indian perspectives of CSR practices. An effort has been made to find out whether this growing legal CSR policies development is helpful for growth of the company or not. The researcher has made an effort to find out the benefit or drawback of the present system of CSR policies.

1.12: Likely Contribution of the Study

The proposed research has achieved the research objectives in terms of its objectivity. It has found out the answer to the research problem as to whether the companies are fulfilling the expectations and objectives of the legislatures who framed the laws for companies with respect to complying with CSR requirements. This study has also found out as to whether commitments of the companies in terms of legal, ethical, social and moral perspectives under the contemporary context are in consonance with set national and global standards. Suggestions
and recommendations offered are based on the findings of the study and the same can be useful to the policy makers, researchers and the legislatures who are directly involved in the process of framing laws in the concerned subject. This has also ascertained the shortcomings in the existing provisions of law and prescribe the means for bridging the existing gaps.

1.13 Chapter Plan of the Thesis

The whole study is portrayed through the following Chapters:

**Chapter 1: Introduction**

This chapter contains the evolutionary backdrop of corporate form of organizations as it is seen today along with the relevance of Corporate Social Responsibility (CSR) and its genesis. This chapter offers an account of last five hundred years and shows the evolvement of corporate form of organizations and how they are morally responsible to the society by and large.

**Chapter 2: Conceptual Dimensions of Corporate Social Responsibility (CSR)**

This chapter offers conceptual dimensions of CSR mainly with reference to the contribution of A. B Carroll and Bowen, being the father of CSR philosophy. It also contains the views of various national and international learned personalities and experts on the subject like Friedman Milton and others.

**Chapter 3: CSR-Emerging Global Perspectives and Practices**

This chapter offers an account of CSR practices across the globe and the sampled countries include France, Germany, UK, USA, Canada, Japan, South Africa, Pakistan, Bangladesh, Sri Lanka etc.

**Chapter 4: CSR-Indian Framework – Social, Legal and Economic Issues**

This chapter is devoted to portray CSR practices in India and its present practices and future trends. It accounts for CSR – Indian Framework with reference to social, legal and economic issues.

**Chapter 5: CSR- A Judicial Approach and Standard Guidelines in CSR Practice**
This chapter is devoted to assess the role of law and judiciary in making CSR practice successful and also to portray the roles and relevance of standard guidelines issued by international bodies like UNO, UNESCO, UNDP etc. in formulating CSR policies of an organization.

**Chapter 6: CSR-An Empirical Study On Indian and Global Context**

This chapter is devoted to offer an empirical analysis of cause -effect phenomenon with the help of social science tools and techniques. Both primary and secondary data of a moderate sample size of listed companies have been collected and the same are analyzed, discussed and interpreted in logical manner to project the findings of the study.

**Chapter 7: Conclusion and Suggestions**

Finally, this chapter is devoted to portray conclusion, suggestions and recommendations based on the critical analysis and findings of the study. This chapter also contains the limitations of the study and future directions of research.

**1.14: Chapter Summary**

This chapter i.e. the introductory chapter of the thesis provided an overview of introductory background of the study in the chosen field. It contains evolutionary account, scope of the study, research gap and contribution of the research and an outline of the chapters along with their subjects in brief. This chapter mainly shows justification for research in the selected field.