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Research Paper

An Overview of the Contribution of Corporate Social Responsibility on Economic Development

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ABSTRACT
The world we live in is changing at an accelerated pace, driven by technological development and globalization. India is one of the fastest growing economies in the world. Every developmental activity has its social cost. Therefore it became necessary for corporate sector to put its responsibility in some social areas. Where it can be minimize its negative externality and promote the community welfare as whole. This type of work and activity carried out by the company under the head of corporate social responsibility. The world business council for sustainable development in its publication Making Good Business Sense by Lord Holme and Richard Watts used the following definition "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large". Corporate Social Responsibility under Companies Act 2013 mandates companies of certain category to spend 2% of the average net profits of last three financial years to social development activities. It has laid clear cut mandate, governance and reporting structure to meet the compliance. The act acts as catalyst in combining the regulatory with social obligations to pursue the CSR activities more professionally. The regulatory obligations are still evolving and companies have freedom to interpret these line items liberally. In this conceptual paper we would try to assess an overview of the corporate social responsibility with related to development activities performed by them in present scenario of Indian economy.
KEYWORDS: *CSR, Sustainable Economic Development, Company, Community welfare*

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I. INTRODUCTION

India is a developing economy with scarcity of natural as well as financial resources. So the allocation of resources should be done in way which could fetch maximum revenue as well as sustainable socio economic development to the economy. Government initiate private entrepreneur to invest capital and allocate them the precious scare natural resource to be partner in the process of sustainable development. Corporate sector thus have to take intimation for responsibility to generate financial resources and CSR is courageous step in this direction. Companies engaged in the production sector have some negative externality which includes excessive exploitations of natural local resources. They also cause the environmental pollution in the concern area. This can be divided in water, land, air, sound, etc. this pollution is adversely affecting the community wellbeing, livelihood activities and employment / food habits of the people living nearby areas. To reduce this phenomenon companies have realized that they should have to do something for the social welfare of the community. And a new concept emerge which is known as Corporate Social Responsibility.

The concept of corporate social responsibility (CSR) has been widely used in the world, and it is related to the idea that organization should be not only concerned about making a profit but also engaged in actions which benefit society beyond the interest of the firm and whatever is required by law (McWillams, Siegel, & Wright, 2006). CSR is defined by different scholar, academician and other in their own ways. Some coined it with mere of charitably donations given by companies, some means it is mere a help given to poor people. To some, it conveys the idea of legal responsibility or liability; to others, it means socially responsible behaviour in the ethical sense. A few see a sort of fiduciary duty imposing higher standards of behaviour on businessmen than on citizens at large. The first scholar introduced the concept of Corporate Social Responsibility was Bowen (1953) with the book "Social responsibilities of the businessman". Consistent with McWilliams and Siegel (2001), "CSR can be defined as situations where the firm goes beyond compliance and acts to further some social good, beyond the interests of the firm and that which is required by law". CSR activities have been posited to include in incorporating social characteristics or features into products and manufacturing processes (aerosol products with no fluorocarbons, environmentally-friendly technologies), adopting progressive human resource management practices (promoting employee empowerment), achieving higher levels of environmental performance through recycling and pollution abatement (reducing emissions), and advancing the goals of community organizations (working closely with groups such as United Way).

The same phenomenon is also termed as Corporate Responsibility, Corporate Accountability, Corporate Ethics, Corporate Citizenship, Corporate Sustainability, and Responsible Business and so on. This is how it was developed into business environment of the corporations. CSR is the continuing commitment by businesses to behave ethically & contribute to economic development while improving the quality of life of the workforce & their families, local communities and the society at large. (World Business Council)

Some scholar also strongly coined it with sustainability. But there may have some basic difference between social responsibility and sustainability.

Traditionally, CSR refers to businesses' responsibility to act ethically and consider their impacts on the community at large, and does not necessarily encompass sustainability it is a backward process. Sustainability on the other hand is concerned with preserving resources and operating in a way that is conducive to long-term trading. It has a more prominent forward-facing focus, with targets to secure the future for trading.

To put it another way, both CSR and sustainability understand that the context, community and environment in which a business operates is integral to that business' success. Sustainability, then, goes on step further by taking into account the needs of the future generations.

In business practice, some say that CSR is embedded in the company's mission/vision: who it is, what it wants to represent and achieve. Sustainability, meanwhile, is in the day-to-day operations of that company, for example in how it uses energy.

In general, businesses have a hierarchy of responsibilities to meet, ranging from the basic (making a profit) to the benevolent (benefiting society). Here are some examples:

Economic Responsibilities: A corporation has to meet its economic responsibilities in terms of reasonable return to investors, fair compensation to employees, goods at fair prices to customers, etc. Thus, meeting economic responsibility is the first-layer of responsibility and also the basis or the subsequent responsibilities. The fact remains that meeting economic responsibility is must for all corporations to survive in the time.

Legal Responsibilities: Following the law is the foundation of corporate responsibility. A company cannot benefit society if it does not adhere to labor and tax laws or applicable industry regulations. Abiding by laws is the prerequisite for any corporation to be socially responsible. Corporate history is replete with instances where violation of laws disallowed corporations to run any longer. Enron, Union Carbide, Global Trust Bank, etc. are some of such illustrative corporate cases of social rejection and boycott.

Ethical Responsibilities: These responsibilities refer to obligations which are right, just, and fair to be met by corporations. Just abiding by law, procedure, and rule and regulations does not make business conduct always as ethical or good. The conduct of corporations that go beyond law and contribute to social wellbeing is called ethical.

Philanthropic Responsibilities: The Greek word 'philanthropy' means literally 'the love of the fellow human.' The use of this idea in business context incorporates activities that are, of course, within the corporation's discretion to improve the quality of life of employees, local communities, and ultimately society at large.

Making donations to charitable institutions, building of recreational facilities for employees and their families, support for educational institutions, supporting art and support activities, etc. are the examples of philanthropic responsibilities. As it is known that natural resources of the country belongs to the citizens of the country irrespective of their caste and creed. But then resources are being allocated to the corporate sector by than got go in lieu of preferential allocation or the resources to their class. It is their duty of the corporate sector to compensate for benefits which they have receive by exploiting the resources.

Need for CSR

In present scenario the following need of CSR has been arise:

- CSR requires companies to acknowledge that they should be publicly accountable not only for their financial performance but also for their social and environmental record. CSR encompasses the extent to which companies should promote human rights, democracy, community improvement and sustainable development objectives throughout the world. (Confederation of British Industry, 2001).
- CSR is the commitment of businesses to contribute to sustainable economic development working with employees, their families, the local community and society at large to improve their quality of life in ways that are both for business and good for international development.
- Eradicate extreme poverty and hunger. Achieve universal Primary education. Promote gender equality and empower women. Reduce child mortality. Improve maternal health. Combat HIV/ AIDS, Malaria & other

fatal diseases. Ensure environmental sustainability. Develop a global partnership.(United Nations Millennium Project).

- Business Ethics, values and principles. Accountability and transparency (Legal compliance).Commitments to socio-economic developments. Environmental concerns. Human rights. Workers' rights and welfare. Market relations. Sustainability. Corporate governance.

CSR in India

There is a growing recognition among researchers and policy makers that CSR issues in developing and emerging countries like India are somewhat distinct from those in developed countries. Social, environmental and sustainability problems are more acute in developing countries, especially those impacted by globalization, economic growth, investment and burgeoning economic activity (Visser, 2007). Further, as Amaeshi et al. (2006) point out in the context of Nigeria, CSR in low income countries are predominantly focused on socio-economic issues of poverty alleviation, health-care provision, promoting education and infrastructure development, in contrast to the CSR priorities in Western countries such as issues related to business ethics, fair trade, green marketing, climate change and socially responsible investments. Likewise, the domain of CSR in India as outlined in several public policy documents as well as in the initiatives of corporates and various industry associations is defined around socioeconomic activities geared towards meeting the development goals of the country, while not necessarily sacrificing the economic objectives of the corporates.

The history of CSR in India has its four phases which run parallel to India's historical development and has resulted in different approaches towards CSR. However the phases are not static and the features of each phase may overlap other phases.

The First Phase

In the first phase charity and philanthropy were the main drivers of CSR. In the pre-industrialization period, which lasted till 1850, wealthy merchants shared a part of their wealth with the wider society by way of setting up temples for a religious cause. Moreover, these merchants helped the society in getting over phases of famine and epidemics by providing food from their godowns and money and thus securing an integral position in the society. Thus, in a way they contribute for the community development.

The Second Phase

In the second phase, during the independence movement, there was increased stress on Indian Industrialists to demonstrate their dedication towards the progress of the society. This was when Mahatma Gandhi introduced the notion of "trusteeship", according to which the industry leaders had to manage their wealth so as to benefit the common man. Gandhi's influence put pressure on various Industrialists to act towards building the nation and its socio-economic development. Under his influence businesses established trusts for schools and colleges and also helped in setting up training and scientific institutions. The operations of the trusts were largely in line with Gandhi's reforms which sought to abolish untouchability, encourage empowerment of women and rural development. The second phase mainly emphasis on societal development of the country as a whole.

The Third Phase

The third phase of CSR (1960–80) had its relation to the element of "mixed economy", emergence of Public Sector Undertakings (PSUs) and laws relating labour and environmental standards. During this period the private sector was forced to take a backseat. The public sector was seen as the prime mover of development. The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices. This led to enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure suitable distribution of resources (wealth, food etc.) to the needy. However the public sector was effective only to a certain limited extent. This led to shift of expectation from the public to the private sector and their active involvement in the socio-economic development of the country became absolutely necessary

The Fourth Phase

In the fourth phase (1980 - 2013) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In the 1990s the first initiation towards globalization and economic liberalization were undertaken. Controls and licensing system were partly done away with which gave a boost to the economy the signs of which are very evident today. Globalization has transformed India into an important destination in terms of production and manufacturing bases of TNCs are concerned. Indian companies which export and produce goods for the developed world need to pay a close attention to compliance with the international standards related to labour and environment.

CSR - Mandatory regulation under new Companies Act 2013

The Companies Act 1956 was revamped with the New Companies Act 2013, the Act of Parliament received the assent of the President on the 29th August, 2013. The New Companies Act 2013 has also introduced a new Section on Corporate Social Responsibility (CSR), Section 135, making CSR mandatory for all Companies operating in India, with an eligible criterion based on their finances. In case of a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India which fulfill the criteria u/s 135 of the Act. The net worth, turnover or net profit of a foreign company shall be computed in accordance with B/S and P&L A/c of such company prepared in accordance with the provisions of the Act.

The criterion is simple every company having net profit or profit before tax (PBT) of Rs 5 crores or more, net worth of Rs 500 crores or more, or turnover of Rs 1,000 crores or more, during any financial year shall constitute a Corporate Social Responsibility Committee on the Board, consisting of three or more directors, out of which at least one director shall be an independent director. The rules further say that CSR is not charity or mere donations. The companies should use CSR to integrate economic, environmental and social objectives with the company's operations and its growth. The CSR committee shall formulate its CSR policy, based on which activities and specific budget would be allocated. The programmes implemented would be monitored and reported through company's website and annual report. 2% CSR spending would be computed as 2% of the average net profits made by the company during the preceding three financial years.
The formula for calculation of CSR is as follows

CSR = $\frac{2}{100}$ **x [** $\frac{1}{3}$ **x (sum of net profits of previous 3 financial years)]**

Companies have to carry out and report their CSR initiatives for the financial year 2014 – 2015 and so the assessment year would be 2015 – 2016. The reporting or governance is simple "State what you will do, report what you did".
Where the company fails to spend such amount, the Board shall, in its report, specify the reasons for not spending the amount.in this regard Disclosure has to be made in board's report u/s 134 and Penalty u/s 134(8) Co. Fine which shall be not less than Rs. 50000 but not more than Rs. 2500000. Every officer – Imprisonment extending upto 3 years or fine not less than Rs. 50000 but not more than Rs. 500000.
There are four CSR Approaches

- Link to business
- Delink to business
- Address nations passing problems
- Address the local community needs

The most popular now in India is Link to Business, which helps companies integrate CSR as part of its business strategy and present a win-win situation at both ends. This approach expedites focused social development, creates stronger financial performance and higher understanding of social & environmental dimensions of a company's performance. Thus help build effective partnership, integrate and enrich supply chain, establish a company as employer of choice and improve relationship with its stakeholders to harness open dialogue with transparency. Today company's financial performance has direct effect on its social equity and this process is more sincere and pragmatic. Correcting one's actions are very crucial for survival and effective growth "what got you here won't get you there" (book title written by Marshall Goldsmith). Companies are building specialized CSR teams to formulate policies, strategies, goals and budget. Themes and programs are often determined by values, philosophy and policies of the company. Mere programs of employee's engagement will not be enough to fulfill a company's CSR commitment; it would require regular and structured interventions. The United Nations Development Program (UNDP) ranks India relatively low, 135th rank in Human Development Index (HDI). India's performance continues to be below global average in most of the HDI indicators like life expectancy at birth, mean years of schooling, expected years of schooling and even per capita income. Some key indicators to worry about are: mean years of schooling 4.4 versus 7.7 years of global average, 62.8% adult literacy rate against global average of 81.2% and 6.5 physicians per 10,000 people versus global average of 34. Given the above challenges India needs prospective and progressive policies to address long overdue skewed social indicators support and augment government social development programs and move ahead with changed perspectives. It is a step closer in achieving an equitable, harmonious society with building vibrant economy marching towards global power.

CSR related activities some facts in India

Public sector companies spent only 66.7% of what they had to spend in the year ended 31 March 2015 while private companies spent 82% of the prescribed spend in the first year of mandatory CSR spending, according to showed data compiled by NextGen, a CSR management firm. Under Companies Act of 2013, both public and private companies had to set aside 2% of their net profits. Earlier, public companies needed to set aside anywhere between 0.5% to 5% of net profits based on the profits of the company, according to the 2010 CSR guidelines issued by department of public enterprises.

NextGen's data from 85 NSE-listed companies from top 100 companies by market capitalization on the National Stock Exchange of India (NSE) shows that the 19 public sector unit (PSU) companies spent Rs.1,686 crore FY15, while 66 private companies spent Rs.3,307 crore. The data was collected until 14 September 2015.

PSUs have taken time to evolve and they have been a bit complacent about CSR. PSUs are in industries where customer perception of the company does not matter as much as it does for a private company and this has led to a degree of complacency in meeting the CSR spending target.

Public companies, however, outspent private companies in one area: environment. Public companies spent Rs.391.3 crore on environment, which is 23% of their total spending, while private companies spent Rs.291.7 crore or 8.8%. This is because many PSUs are natural resource companies and since they have a direct impact on environment, they have taken it up as a cause. They have spent on initiatives like planting trees and water conservation, which is very basic. On the basic of spending in CSR top 5 companies are listed below.

Table 1: Ranking based CSR spending

Rank	Private Company	PSUs Company
1	Tata Steel Ltd	SAIL
2	Tata Chemicals Ltd.	GAIL India
3	Mahindra & Mahindra Ltd	NTPC
4	Maruti Suzuki	Indian Oil Corporation
5	Tata Motors Ltd	ONGC

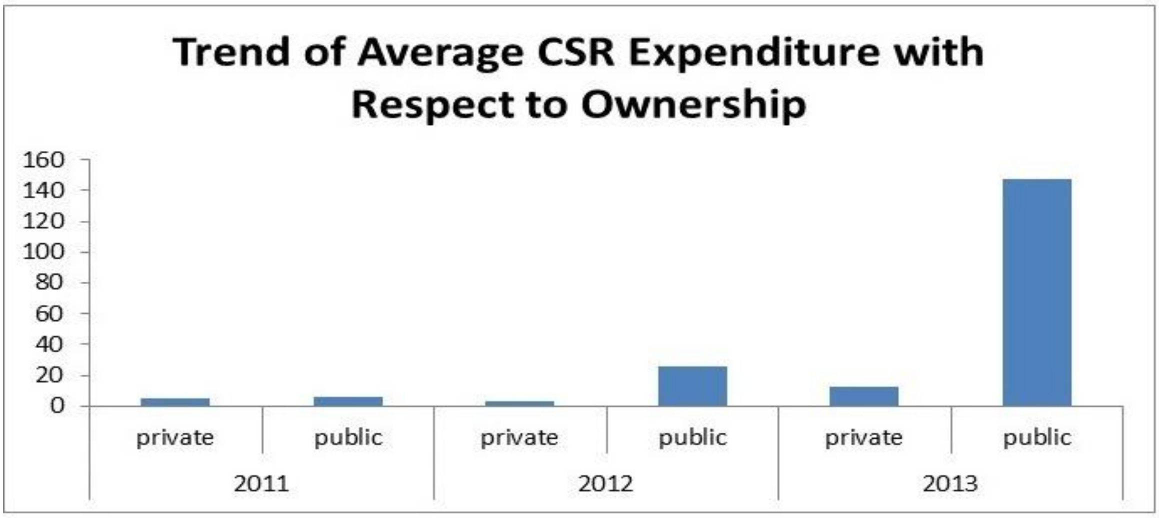
It has been noticed that women-led companies had a better rate of meeting the 2% spending target. Six women-led companies—State Bank of India, Axis Bank Ltd, ICICI Bank Ltd, Hindustan Petroleum Corporation Ltd, LIC Housing Finance, Apollo Hospitals Ltd—of the 85 surveyed saw their CSR spending amounting to 90.5% of what they had to spend, while the total average of the 85 companies was 76.1%. This is because women are more inclined towards social and environmental matters.

NextGen's data also showed that only 33 of the 85 companies spent the entire 2% of their profits or more on CSR while 52 did not meet the target in the first year after the new CSR rules were implemented. The most common reason that companies cited for not meeting the target is that they had undertaken long-term projects. This means that the amount was earmarked for a long-term initiative and the company is carrying forward spend.

Many companies also said that they lacked prior expertise and delay in project identification as reasons for not spending. To be sure, companies have to mandatorily disclose the reasons why they failed to meet the 2% target. About 65% of the 85 firms surveyed used their own foundations to carry out CSR. In this way companies have better control over their funds and they can better monitor their initiatives.

CSR scores: Manufacturing companies, on an average, score far better than service companies. This difference is attributable to higher sustainability scores indicating that these issues are more important for the manufacturing sector. Public sector companies perform somewhat similar to private companies. Again, sustainability is the primary cause for the difference. Companies are reasonably strong on governance, weak in disclosure, weak on stakeholder based CSR and, surprisingly, weak on sustainability. At least a third of all companies fail to beat the half way mark on all the fronts.

CSR spend: Studied on spending patterns on CSR showed that only 18 % of the companies studied are currently complying with the 2% norm. Current CSR spend of 147 companies out of Top 214 companies is Rs 4281 cr. during 2013-14. Data for 67 companies is not available hence it is excluded from this study.



X axis: Year and Ownership; Y-axis: Average CSR expenditure (in million rupees)

Presently only 27 corporate are complying with these norms with a spending of 2% or more. Most corporates are not meeting with the proposed 2% CSR norm – the average CSR spend as a percentage of PAT (profit after tax) for 147 companies is 1.28%. Further 45 companies are spending between 1%- 2% of their PAT. Rest 75 companies have a CSR spending of less than 1% of their PAT.

II. CONCLUSION

The concept of CSR has the potential to bring a revolution in the development of the economy. With rising fiscal deficit and leakages in the welfare schemes, CSR seeks to address the problems of society in a cost effective manner. The concept has the potential to generate Rs 20,000-25,000 crore every year, which can give a boost to investment in human and physical capital. Presently, CSR expenditure is mostly incurred at the local level through the foundations established by firms. This aligns CSR initiatives with the ideology of the firm and minimizes transaction costs for it. For efficient utilisation of funds allocated for CSR and full realisation of potential benefits, these expenditures need a direction.

The recent commitment of Rs 100 crore each, by two leading companies, Tata Consultancy services and Bharti Airtel, as a part of their CSR initiatives to build toilets for girls in schools in the wake of government's Swachha Bharat Abhiyan is only the tip of the ice-berg. Some more thought needs to be given to the most pressing problems of society and whether CSR resources could be utilised to address them. Contrary to some pessimistic voices in the society, CSR expenditure may not affect profits adversely and could help in building the brand name of the firm. CSR expenditure helps to improve the brand name of the company among the ultimate users and have in a very enhances the acceptability of the brand among the society. Than in a way if it contributes in advertisement to name their company brand.

Though the new Companies Act, 2013, which made spending 2% of their profits on CSR mandatory, came into force only in April 2014, the last couple of years have seen a significant increase in CSR expenditure by firms. This can be attributed to the desire of companies to project themselves as socially responsible. The CSR expenditure by firms is affected by the industry to which they belong. Firms in polluting industries spend more on activities related to the environment, while firms in the iron and steel and power sector spend more on local community development, as their projects cause large-scale displacement. They also do it in the hope that it might prevent future boycott and protest movements.

Until now, donations by firms were driven by their interests; it was arbitrary, and in some cases very small in comparison to the size of the firms. The CSR activities of the firms depended upon the nature of their industry and restricted to the area where the firm was located. This was largely driven by factors such as cost minimization and "visibility" among the consumers. But this may change with the new law. Firms may be driven to diversify their areas of operation and part of population which had been left behind in the development process may gain tremendously from this. In light of the recent legislation, it would be interesting to see how companies would change their CSR strategies. After community development, education (including skill development) attracts the largest share of CSR expenditure. Health is also a major area where firms like to invest.

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