The Four Phases of CSR Development in India

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. Culture, religion, family values and tradition and industrialization had an influential effect on 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[2]. 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.[2] With the arrival of colonial rule in India from 1850s onwards, the approach towards CSR changed. The industrial families of the 19th century such as Tata, Godrej, Bajaj, Modi, Birla, Singhania were strongly inclined towards economic as well as social considerations. However it has been observed that their efforts towards social as well as industrial development were not only driven by selfless and religious motives but also influenced by caste groups and political objectives.[3]

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. "I desire to end capitalism almost, if not quite, as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no make-shift, certainly no camouflage. I am confident that it will survive all other theories." This was Gandhi's words which highlights his argument towards his concept of "trusteeship". Gandhi's influence put pressure on various Industrialists to act towards building
the nation and its socio-economic development. According to Gandhi, Indian companies were supposed to be the "temples of modern India". 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 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. Because of the stringent legal rules and regulations surrounding the activities of the private sector, the period was described as an "era of command and control". 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. In 1965 Indian academicians, politicians and businessmen set up a national workshop on CSR aimed at reconciliation. They emphasized upon transparency, social accountability and regular stakeholder dialogues. In spite of such attempts the CSR failed to catch steam.

**The Fourth Phase**

In the fourth phase (1980 until the present) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In 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. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing and able to contribute
towards social cause. Globalization has transformed India into an important destination in terms of production and manufacturing bases of TNCs are concerned. As Western markets are becoming more and more concerned about and labour and environmental standards in the developing countries, Indian companies who export and produce goods for the developed world need to pay a close attention to compliance with the international standards. [5]

**Current State of CSR in India** [edit]

A story of of CSR promoted by Azim Premji Foundation in India [playlist]

As discussed above, CSR is not a new concept in India. Ever since their inception, corporates like the Tata Group, the Aditya Birla Group, and Indian Oil Corporation, to name a few, have been involved in serving the community. Through donations and charity events, many other organizations have been doing their part for the society. The basic objective of CSR in these days is to maximize the company's overall impact on the society and stakeholders. CSR policies, practices and programs are being comprehensively integrated by an increasing number of companies throughout their business operations and processes. A growing number of corporates feel that CSR is not just another form of indirect expense but is important for protecting the goodwill and reputation, defending attacks and increasing business competitiveness. [6]

Companies have specialised CSR teams that formulate policies, strategies and goals for their CSR programs and set aside budgets to fund them. These programs are often determined by social philosophy which have clear objectives and are well defined and are aligned with the mainsteeam business. The programs are put into practice by the employees who are crucial to this process. CSR programs ranges from community development to development in education, environment and healthcare etc. [7]

For example, a more comprehensive method of development is adopted by some corporations such as Bharat Petroleum Corporation Limited, Maruti Suzuki India Limited, and Hindustan Unilever Limited. Provision of improved medical and sanitation facilities, building schools and houses, and empowering the villagers and in process making them more self-reliant by providing vocational training and a knowledge of business operations are the facilities that these
corporations focus on. Many of the companies are helping other peoples by providing them good
standard of living.

On the other hand, the CSR programs of corporations like GlaxoSmithKline Pharmaceuticals’
focus on the health aspect of the community. They set up health camps in tribal villages which
offer medical check-ups and treatment and undertake health awareness programs. Some of the
non-profit organizations which carry out health and education programs in backward areas are to
a certain extent funded by such corporations.

Also Corporates increasingly join hands with Non-governmental organizations (NGOs) and use
their expertise in devising programs which address wider social problems.

For example, a lot of work is being undertaken to rebuild the lives of the tsunami affected
victims. This is exclusively undertaken by SAP India in partnership with Hope Foundation, an
NGO that focuses mainly on bringing about improvement in the lives of the poor and needy. The
SAP Labs Center of HOPE in Bangalore was started by this venture which looks after the
food, clothing, shelter and medical care of street children.

CSR has gone through many phases in India. The ability to make a significant difference in the
society and improve the overall quality of life has clearly been proven by the corporates. Not one
but all corporates should try and bring about a change in the current social situation in India in
order to have an effective and lasting solution to the social woes. Partnerships between
companies, NGOs and the government should be facilitated so that a combination of their skills
such as expertise, strategic thinking, manpower and money to initiate extensive social change
will put the socio-economic development of India on a fast track. [8]

Proposed Draft Corporate Social Responsibility Rules
under Section 135 of the Companies Act, 2013

Guiding Principle

CSR is the process by which an organization thinks about and evolves its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate business processes and strategies. Thus CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good. Socially responsible companies do not limit themselves to using resources to engage in activities that increase only their profits. They use CSR to integrate economic, environmental and social objectives with the company’s operations and growth.

In exercise of the powers conferred under clause (o) and clause (q) of sub-section 3 of Section 134 read with Section 135 and sub-sections (1) and (2) of section 469 of the Companies Act, 2013 the Central Government hereby makes the following Rules namely:

PART I

Short title and commencement

1. These rules may be called the Corporate Social Responsibility Rules, 2013.
2. They shall come into force on the date of their publication in the official gazette and shall be applicable from the financial year 2014-15.

Definition:

3. In these Rules, unless the context otherwise requires:-
   (a) ‘Act’ means Companies Act, 2013;
   (b) ‘Corporate Social Responsibility’ means Corporate Social Responsibility (CSR) as defined in Section 135 of the Companies Act 2013;
   (c) ‘Ministry’ means the Ministry of Corporate Affairs;
   2
(d) ‘Net Profit’ for the section 135 and these rules shall mean, net profit before tax as per books of accounts and shall not include profits arising from branches outside India.

(e) 2% CSR spending would be computed as 2% of the average net profits made by the company during every block of three years. For the purpose of First CSR reporting the Net Profit shall mean average of the annual net profit of the preceding three financial years ending on or before 31 March 2014.

(f) Reporting will be done on an annual basis commencing from FY 2014-15.

(g) Tax treatment of CSR spend will be in accordance with the IT Act as may be notified by CBDT.

(h) Words and expressions used in these Rules and not defined herein but defined in the Act shall have the meaning respectively assigned to them in the Act.

PART II
Operating Provisions of the Rules

1. CSR activities may generally be conducted as projects or programmes (either new or ongoing) excluding activities undertaken in pursuance of the normal course of business of a company. The CSR Committee constituted under sec. 135(1), shall prepare the CSR Policy of the company which shall include the following:
   a. specify the projects and programmes that are to be undertaken.
   b. prepare a list of CSR projects/programmes which a company plans to undertake during the implementation year, specifying modalities of execution in the areas/sectors chosen and implementation schedules for the same.
   c. CSR projects/programmes of a company may also focus on integrating business models with social and environmental priorities and processes in order to create shared value.
   d. CSR Policy of the company should provide that surplus arising out of the CSR activity will not be part of business profits of a company.
e. **CSR Policy would specify that the corpus would include the following:**

a. 2% of the average net profits,
b. any income arising therefrom,
c. surplus arising out of CSR activities.

2. The CSR Committee, shall prepare a transparent monitoring mechanism for ensuring implementation of the projects / programmes / activities proposed to be undertaken by the company.

3. Where a company has set up an organization which is registered as a Trust or Section 8 Company, or Society or Foundation or any other form of entity operating **within India** to facilitate implementation of its CSR activities in accordance with its stated CSR Policy, the following shall apply:

   a. The contributing company would need to specify the projects/programmes to be undertaken by such an organization, for utilizing funds provided by it;

   b. The contributing company shall establish a monitoring mechanism to ensure that the allocation is spent for the intended purpose only;

4. A company may also conduct/implement its CSR programmes through Trusts, Societies, or Section 8 companies **operating** in India, which are not set up by the company itself.

5. Such spends may be included as part of its prescribed CSR spend only if such organizations have an established track record of at least three years in carrying on activities in related areas.

6. Companies may collaborate or pool resources with other companies to undertake CSR activities and any expenditure incurred on such collaborative efforts would qualify for computing the CSR spending.

7. Only such CSR activities will be taken into consideration as are undertaken within India.

8. Only activities which are not exclusively for the benefit of employees of the company or their family members shall be considered as CSR activity.
Corporate Social Responsibility (CSR) is now accepted as a means to achieve sustainable development of an organization. Hence, it needs to be accepted as an organizational objective. The Companies Bill, 2012 will make Indian companies to consciously work towards that objective, as it requires a prescribed class of companies to spend a portion of their profits on CSR activities. Businesses can no longer limit themselves to using resources to engage in activities that increase their profits. They have to be socially responsible corporate citizens and also contribute to the social good. Corporate Social Responsibility (CSR) is about integrating economic, environmental and social objectives with a company’s operations and growth. Many consider CSR philanthropy, but that is a limited definition. An organization can accomplish sustainable development if CSR becomes an integral part of its business process.

CSR impacts almost every area of operations: governance and ethics; employee hiring, providing opportunity; stakeholders benefit sharing and energy usage and environment protection. The Companies Bill, 2012 intends to inculcate the philosophy of CSR among Indian companies.

**STIPULATIONS OF THE COMPANIES BILL, 2012**

- Every company with net worth of Rs 500 crore or more, or turnover of Rs 1,000 crore or more or a net profit of Rs 5 crore or more during any financial year to constitute a CSR Committee of the Board consisting of three or more directors, of which at least one director shall be an independent director.
- The Board’s report to disclose the composition of the CSR Committee.
- The main functions of the CSR Committee are to:
  
  1. Formulate and recommend to the board, a CSR policy indicating the activity or activities to be undertaken by the company as specified in Schedule VII of the Act;
  2. Recommend the amount to be spent on these activities; and
3. Monitor the company's CSR policy periodically.

- After the CSR Committee makes it recommendations, Board of the company shall approve the CSR Policy and disclose contents of such policy in its report and also place it on the company's website. Further, details about the policy developed and implemented by the company on CSR initiatives during the year to be included in the Board's report every year.

- Board to ensure that the activities listed in the CSR Policy are undertaken by the company.

- Board to ensure that at least 2% of average net profits of the company in the three immediately preceding financial years are spent in every financial year on such activity.

- Preference to be given to the local area and areas around the company operates for CSR spending.

- If a company fails to provide or spend such amount, Board to specify reasons in its report for that failure.

- Companies required to comply with CSR shall give additional Information by way of notes to the Statement of Profit and Loss about the aggregate expenditure on CSR activities.

- Schedule VII of the Companies Bill 2012 prescribes activities that may be included by companies in their CSR policies:

  1. Eradicating extreme hunger and poverty;

  2. Promotion of education;

  3. Promoting gender equality and empowering women

  4. Reducing child mortality and improving maternal health;
5. Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;

6. Ensuring environmental sustainability;

7. Employment enhancing vocational skills;

8. Social business projects;

9. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socioeconomic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and;

10. Other matters as may be prescribed.

EXISTING PROVISIONS:
There are no provisions in The Companies Act, 1956 on CSR.

Impact/Industry Response:
With CSR spending becoming mandatory for prescribed class of companies, there is bound to be increased engagement of companies with social and development projects. So far, there were only voluntary guidelines for companies to follow.

- The rationale for CSR activity is that corporates earn their profit by exploiting different resources of the society, and so a portion of the benefit derived by them should be channeled for the betterment of society.
- Though compulsory CSR spending may seem burdensome for some class of companies, it will create a sense of responsibility among Corporates, especially when they see benefits in the long term.
- Children, women, uneducated, and unemployed would be among the beneficiaries as CSR activities may be focused on them.
• The intention of policy makers is quite clear - to report business community's contribution for fulfillment of social, environmental and economic responsibilities. While contribution to the local community is a good objective, businesses should choose social, environmental and economic activities that contribute to society at large.

• CSR activities will also help improve the image of a company within the society as one that cares for the community.

• Significantly, there is no penalty for defaulting on CSR norms. Only an explanation is to be given by the board in its report for such non-compliance. So, it seems there is no real coercive factor.

• The Government has adopted a "Gandhi wad" with the provision - either contribute to society or inform to society why you are not contributing.

Existing CSR Activities of some companies-

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Major CSR Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITC Limited</td>
<td>e-Choupal, social &amp; farm forestry, watershed development, women's empowerment, livestock development, primary education</td>
</tr>
<tr>
<td>Infosys</td>
<td>Employees take up social causes like education, rural rehabilitation and inclusive growth. energy conservation, water sustainability, afforestation, waste management, awareness on carbon footprint.</td>
</tr>
<tr>
<td>Jubilant Work Sciences</td>
<td>Basic healthcare facilities, supporting government rural primary education system, developing resource pool through vocational training programmes.</td>
</tr>
<tr>
<td>Reliance Industries Limited</td>
<td>Health, education, infrastructure development (drinking water, improving village infrastructure, construction of schools etc.), environment (effluent treatment, tree plantation, treatment of hazardous waste), relief and assistance in the event of a natural disaster, and miscellaneous activities such as contribution to other social development organizations.</td>
</tr>
</tbody>
</table>
Expected contribution for CSR after the CSR provisions are enforced -

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of the companies</th>
<th>Average Profits (of the FY 2009-10, 2010-11, 2011-12) (Amt in Rs. millions)</th>
<th>Proposed contribution in CSR (2% of the Average Profits) (Amt in Rs. millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>GAIL (INDIA) LIMITED</td>
<td>34,516.03</td>
<td>690.32</td>
</tr>
<tr>
<td>2.</td>
<td>HINDUSTAN UNILEVER LTD</td>
<td>23,998.00</td>
<td>479.96</td>
</tr>
<tr>
<td>3.</td>
<td>Infosys</td>
<td>69,053.33</td>
<td>1,381.07</td>
</tr>
<tr>
<td>4.</td>
<td>Larsen &amp; Tourbo Ltd</td>
<td>42,633.03</td>
<td>852.66</td>
</tr>
<tr>
<td>5.</td>
<td>NTPC Ltd</td>
<td>90,181.73</td>
<td>1,803.63</td>
</tr>
</tbody>
</table>