

CORPORATE SOCIAL RESPONSIBILITY: THE EMERGING AREA OF CORPORATE LAW

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Abstract: Corporate world is no longer confined to the idea of economic development. With the growing competition between the different business houses the idea of Corporate Social Responsibility has come into existence. The ideas of economic development and philanthropy nowadays go hand in hand. Almost every major business house is today involved in CSR. It not only improves the reputation of the company but also helps in creating a loyal customer base.

Even the Indian Government has recognized the need for corporate social responsibility and has made special provisions with regards to that in the Companies Act 2013.

This research paper focuses on the meaning of CSR and its evolution as a term. The idea of CSR Pyramid has also been described in detail. In addition to this various CSR projects undertaken by the business houses around the globe and relevant provisions of Company Act 2013 have also been described in detail.

Key Words: corporate social responsibility, csr pyramid, philanthropy, company act 2013, starbucks.

1. MEANING OF THE WORD CORPORATE SOCIAL RESPONSIBILITY

The word Corporate Social Responsibility is made up of three words; corporate, social and responsibility. Therefore before understanding the meaning of the word Corporate Social Responsibility (CSR) it is necessary to understand that what these three words means and also about their origin.

The word corporate has its origin in early 15th century. It is derived from the Latin word *corporatus*, which means to make or fashion into a body or to furnish with a body. In the very beginning this word was used to describe a situation in which people were united in one body.ⁱ Howbeit, at present this word is confined to the idea of a business group or a company. Even the Cambridge Advanced Learner's Dictionary defines the word Corporate as something which is related to a large company or groupⁱⁱ.

The word social is derived from the Latin word *socialis* which connotes companionship, allies or living with others.ⁱⁱⁱ The Cambridge Advanced Learner's Dictionary defines Social as something related re to society and the way people live^{iv}.

The word responsibility is derived from the word *respondere* which means to respond, answer to or promise in return,^v According to the Cambridge Advanced Learner's Dictionary, the word Responsibility means something that it is your job or duty to deal with.^{vi}

The term Corporate Social Responsibility has also been defined differently by the various economists and lexicographers and each definition put forward by them highlights one or the other aspect or feature of CSR.

According to the *Cambridge Dictionary* CSR means, "The idea that a company should be interested and willing to help society and the environment as well as be concerned about the products and profits it makes."^{vii}

According to the *MacMillan Dictionary*, CSR means, "the belief that a company should consider the social and environmental effects of its activities on its employees and the community around it."^{viii}

According to the *United Nations Industrial Development Organization*, "Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders"^{ix}.

CSR can also be defined as putting into effect the Triple Bottom Line Approach because through the means of Corporate Social Responsibility a company aims to achieve a balance between the economic, environmental and social imperatives as well as addressing the expectations of shareholders and stakeholders.^x

As per the United Nations Industrial Development Organization there is a dire need to draw a line of distinction between CSR, which is a strategic business management concept, and the one which is charity, sponsorships or philanthropy etc. which help to alleviate the poverty and also provide an impetus to the reputation of a company.^{xi}

In the words of Howard R Bowen, "The term social responsibilities of businessmen will be used frequently. It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society. This definition does not imply that

business-men as members of society lack the rights to criticize the values. It is assumed, however, that as servants of society, they must not disregard socially accepted values or place their own values above those of society.^{xii}

2. HISTORY OF CSR:

From the definition of word CSR one thing is quite clear that CSR highlights the fact that along with their own economic growth the companies should also focus on promoting the welfare and well-being of the entire society as a whole.

The concept of CSR is having an American Origin. According to a report published by the United Nations Economic and Social Commission For Asia and Pacific in 2011, in the late nineteenth century, businesses raised concerns on the welfare of their employees and their impact on society in general.^{xiii}

Although the legitimacy of philanthropy was not yet well established by that time, benefits offered by those philanthropists were recognized by local communities and various social groups. This trend was further strengthened due to the Great Depression of 1929 with the introduction of public trusteeship management. CSR is largely a post-World War II phenomenon and actually did not come in importance until 1960s and beyond. Thus, initially CSR was in the form of Philanthropy by the Corporates, but after the 1950s, the concept underwent a sea change.^{xiv}

The modern era of the CSR dawned with the publication of the book of Howard R. Bowen titled, "Social Responsibilities of the Businessman" in 1953. The Howard R Bowen is also known as the father of modern CSR. The ideas that motivated him to put forward the idea of CSR were the ways in which the business houses could have a positive impact on the society. In addition to it the responsibilities of business houses towards the society at large and the resultant benefits from it were amongst the other ideas that resulted in the development of idea of CSR.

Stakeholder approach was put forward by Johnson in 1971. As per this approach, instead of striving only for larger returns to its shareholders, a responsible enterprise should take into account the interests of employees, suppliers, dealers, local communities and the nation as a whole.^{xv}

As per the three dimensional model put forward by Carroll in 1979, the concept consists of corporate responsibilities (i.e., economic, legal, ethical and philanthropic), social issues of business (e.g., labour standards, human rights, environment protection and anti-corruption) and corporate actions (e.g., reactive, defensive and accommodative).^{xvi}

The three-dimensional model of principles, policies and processes put forward by the Wartick and Cochran in 1985 focuses on the integration of the principles of corporate responsibility, the policies of social issue management and the process of action into an evolving system.^{xvii}

In the institutional framework and extended corporate actions put forward by the Wood in 1991 there were four types of corporate responsibilities (i.e., economic, legal, ethical and philanthropic) that were linked to three institutional levels (i.e., legal, organizational and individual), while corporate actions were extended to assessment, stockholder management and implementation management.^{xviii}

The new concept of CSR put forward by the European Commission in 2011 defines CSR as a process to integrate social, environmental, ethical, human rights and consumer concerns into business operations and core strategy in close corporation with the stakeholders.^{xix}

3. CSR PYRAMID

The four-part definition of CSR which was originally published in 1979 was extracted by Carroll in 1991 and was re-casted in the form of CSR pyramid.

The main purpose behind this idea of pyramid was to illustrate the building block nature of the four part framework. The pyramid was selected as a geometric design because of its simplicity, intuitiveness and ability to withstand the test of time. Consequently, the economic responsibility was placed as the base of the pyramid because it is a foundational requirement in business. The point here is that the infrastructure of CSR is built upon the premise of an economically sound and sustainable business.^{xx}

ECONOMIC RESPONSIBILITIES

Businesses have an economic responsibility. This is fundamental for their existence. As a general idea business organizations are expected to be able to sustain themselves and the only way this is possible is by being and having enough resources to continue in operation. It is expected from the society that the businesses will produce and sell the goods that they require. For sustaining in the highly competitive world and also to be able to fulfill other responsibilities the pre-requisite is the ability of the business to economically sustain them.

LEGAL RESPONSIBILITIES

There are certain established rules in the society as per which the businesses are expected to work. In other words they are codified ethics as they uphold the idea of fair business. In fact nowadays there are certain specialized

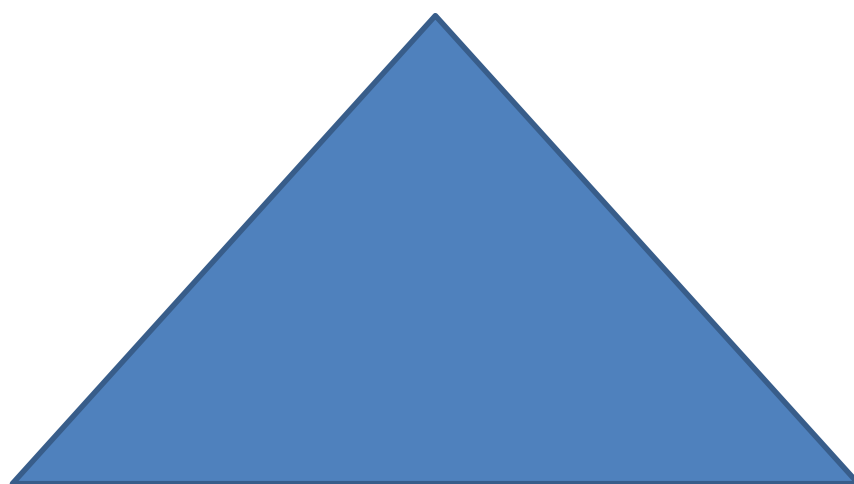
departments in the companies that mainly deal with the compliance of these legal codes and ethics. The businesses are expected to abide by the ideas put forward by the governments at local and national level and to envisage themselves as law abiding corporate citizens.

ETHICAL RESPONSIBILITIES

Morals and ethics are of a great importance to the society. Even the society expects the businesses to conduct their affairs in an ethical fashion. It means that organizations will embrace certain activities, norms, standards and practices that even when they have not been codified into law. It means that businesses will abide by the spirit of law. In other words the focus will be on upholding the moral rights of stakeholders. In fact the ethical responsibilities help in promoting a good will for the company which rests on the ideas of morality.

PHILANTHROPIC RESPONSIBILITIES

Philanthropy is not a responsibility in a literal sense. Certainly, the quantity and nature of these activities are voluntary or discretionary. They are guided by business's desire to participate in social activities that they are not required to participate in by the virtue of law but in case the company engages in them then it acts as an impetus to the reputation of company and also highlights its self-sacrificing nature. These activities range from monetary donations to volunteerism by the employees.



**PHILANTHROPIC
RESPONSIBILITIES**

ETHICAL RESPONSIBILITIES

LEGAL RESPONSIBILITIES

**ECONOMIC
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4. NEED OF CSR:

Over the past few decades the idea of CSR has gained a lot of popularity. There are numerous reasons for this. It helps in improving the public image which in turn leads to more sales as more and more customers are attracted towards that particular business.

It also has some long term benefits. A better public image also increases the rate of customer loyalty.

A company or firm that is sensitive towards the needs of the society is held in high regard by the people. In addition to this in case a business is working for the social welfare than the government authorities do not intervene in it to regulate its affairs and the company is able to work in an independent manner.

In addition to this when a big company is endorsing a major social cause then it also creates awareness amongst the masses with regards to that issue.

Moreover by adopting the idea of CSR in the form of medical camps for employees the company or business house also improves the quality of its workforce.

5. CSR IN THE COMPANIES ACT 2013

The Company Act 2013 has made specific provisions with regards to the Corporate Social Responsibility. According to Section 135 of Companies Act,

Every company which is having a net worth of rupees five hundred crore or more, or which is having turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any given financial year shall constitute a Corporate Social Responsibility Committee of the Board which will consist of three or more directors including an independent director. It clearly states that the Corporate Social Responsibility Committee shall formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company. In addition to this it shall also recommend the amount of expenditure that has to be incurred on various activities.^{xxi}

This section also makes it clear that details of all the CSR related activities shall be put up on the website and the CSR Board of the company shall ensure that such activities mentioned on the company website are regularly followed.^{xxii}

With regards to the areas in which these activities are to be carried out it has been clearly mentioned that the main focus shall be on the nearby areas.^{xxiii} However in 2019 some new rules and regulations have been introduced by amending the Company Act. As per these new rules,

- If there is any unspent CSR funds during a financial year the company is required to transfer such unspent CSR funds into a special account within a period of 30 days from the end of the financial year. Such account, to be opened with a will be called an Unspent Corporate Social Responsibility Account and the proceeds of the Unspent CSR Account will have to be spent by the company towards the CSR projects (under its CSR policy) within 3 (three) financial years from the date of such transfer.^{xxiv}
- If a company fails to comply with above mentioned obligations, the Amendment provides for imposition of penalty of not be less than INR 50,000 but which may extend to INR 2.5 million.^{xxv}
- It has also been clarified that if the company has not completed 3 years from the date of incorporation, the amount to be spent on a CSR fund will be equivalent to 2 percent of the net profits made by the company in the previous financial year.^{xxvi}
- Moreover the Central government has been given the rule making power to ensure compliance^{xxvii}

6. MAJOR CSR INITIATIVES:

• LEGO

In response to a letter by a nine-year old child, this company launched its infamous initiative- Build the Change . Under this a series of events are organized all over the world which provide the children with a platform to tackle various challenges that they face in their daily lives. Under this initiative children are encouraged to find the creative solutions to these problems and then the company collaborates with kids to solve these problems.^{xxviii}

• STARBUCKS^{xxix}

Starbucks has launched the C.A.F.E Initiative. In its simplest form, C.A.F.E. is a set of buying guidelines that ensure that all the coffee which is purchased by the company meets their standards of quality and must be sustainably grown. It also focuses on supporting the farmers. In addition to this under this programme, the company requires all the suppliers to submit evidences of payments made throughout the coffee supply chain in order to demonstrate how much of the price Starbucks has been paying for green coffee and how much gets to the farmer.

• XEROX

The XEROX Community Involvement Program is the company's longest running program of its kind which takes a "glocal" approach to CSR. Under this initiative XEROX funds employees in their local communities to make a difference on projects of their choosing. Right from 2012, XEROX has sponsored over 18,000 projects with more than 400,000 employee participants. Xerox is a global company and under this program employees also have the opportunity of paid leave to focus on the program that they have chosen.^{xxx}

• RELIANCE INDUSTRIES

CSR is a long term business strategy of the Company which focuses on the holistic development of people and communities. The Company's CSR initiatives help to elevate the quality of life of the disadvantaged sections of the society. Reliance is having six focus areas under its CSR and these are: Rural Transformation, Healthcare, Education, Environment, Protection of National Heritage, Art and Culture, Disaster Response etc. Special focus is also on the Balangir village of Odisha where protection is provided to the people against the snake bites etc.^{xxxi}

7. CONCLUSION:

Thus corporate social responsibility has today become an inseparable part of the business. Almost every major company in India and from around the world is engaging in the CSR related activities so as to do their bit in improving the society and making it a better place to live in.

In India under the Companies Act 2013 special provisions have been made with regards to the CSR and these provisions have been made more stringent lately.

The term which had its origin in early 1950's has today taken the corporate world by strides.

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