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Corporate Social Responsibility

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CSR for a company is not just the concept of charity, it expands its realms to more than just abiding by the legal obligations or reducing poverty, it also concerns with company's integrity and its commitment towards the public. To make a corporate socially responsible, it should be accountable to itself and its shareholders in the first place. Corporate social responsibility is an independent business model which allows an enterprise to have a social duty - to itself, its shareholders, and the public. This article will give an insightful view of the topic – Corporate Social Responsibility will be defined in Section – 135 of The Companies Act, 2013. The research conducted in this article is primarily centered on the issue of the rationale behind the need for CSR, the evaluation of these philanthropic activities. Our research findings will indicate the positive effect of CSR on employees working for a company. In addition, this article also envisages the mechanisms for CSR influence on employees. Further, this article delves deeper into the subject matter of CSR influence on organizational identification and social exchange, person-organization: Congruence between employee and company. Also, this article will provide in-depth knowledge with a help of a case study primarily done for the practical and empirical impact CSR ensures for a company.

Keywords: *corporate, social, responsibility.*

INTRODUCTION

India is an extremely paradoxical country. On the contrary, it has remained home to the largest number of people living in absolute poverty and also has the largest number of

undernourished children. CSR for a company is not just the concept of charity, it expands its realms to more than just abiding by the legal obligations or reducing poverty, it also concerns with company's integrity and its commitment towards the public. To make a corporate socially responsible, it should be accountable to itself and its shareholders in the first place. Corporate social responsibility is an independent business model which allows an enterprise to have a social duty - to itself, its shareholders, and the public. The prime reason for India to shift from mere philanthropy to mandatory CSR law was to allocate the benefits that the company makes from its profits to the undernourished, underprivileged, and victims of poverty. CSR in India has become one of the ways for sustainable development. By introducing liberalization and globalization the notion of corporate social responsibility has strengthened, the notion of CSR is extremely encouraged and practiced by several internationally renowned enterprises like OECD, World Bank, and European commissions. The economy, politics, and society of a nation are the focus of modern companies. The CSR strategy and execution process must be focused more closely by developing countries. There is an urgent need to develop and lift the social sector especially in India, CSR, in this case, acts as a catalyst and an attempt to capture its execution and importance of implementing CSR in an enterprise. In emerging nations like India, the major issue is now to build up CSR policies, and to create a sustainable framework, helping firms and society transform public policies into results. By this method, the government has the vision to transcend the mere concept of aid but to improve the social sector. The evolution of the progress of Corporate Social Responsibility refers to the change in the practices of CSR. The concept of CSR is yet to be recognized. The evolution of the progress of Corporate Social Responsibility refers to the change in the practices of CSR. The concept of CSR is yet to be recognized. The main objective of CSR practices is not only confined to the public sector but also the corporate sector. The fifth stage of the five stages of CSR has been made compulsory by the government of India to be added in the Companies act 2013¹, where the CSR section is been codified.

¹ Companies Act, 2013

EVOLUTION OF CSR LAW

The process of the evolution of CSR in India has taken place in five phases. Firstly, CSR was only motivated and recognized in 1914 only as the means of charity and philanthropy. Prior to the 19th-century industrialization had a great impact on the Indian economy and also on the practices of CSR. The arrival of Britishers and the colonial rule made it possible to change the approach towards CSR, the major entities that were considered to hold the propensity towards the economic factors of CSR were: TATA, Godrej, Bajaj, Birla, etc. Nevertheless, the initiatives they have made in the areas of public and economic production were motivated not just by philanthropic and philosophical motivations but also by economic and governmental interests.

Mahatma Gandhi quoted that Indian companies were considered to be the "temples of modern India". In the Gandhian era, businesses formed trusts, scientific research centers, government schools, skill development centers, and rural development which formed a way through which help to create training and research institutes under his patronage. Phase II (1914-1960) comprised the pre-independence movement which induced the industrialists to focus on the amplification of results and the progress in society and also to build a relationship of trust between the public and the stakeholders, moreover the prime concern for the nation at that time was to establish an independent nation.

The post-independence era lead to the emergence of the public sector undertakings, and CSR laws which lasted from 1914 to 1960 and lead to phase III of the development of CSR, various methods and initiatives were taken to encourage CSR activities which would emphasize transparency, social accountability, and regular stakeholder dialogues, these all were supposed to be disclosed to the public. This was done by organizing a national workshop conducted by Indian academicians, politicians, and businessmen. The agenda of this workshop aimed at reconciliation, improving corporate governance, with the help of disclosures, reducing corporate malpractices, and complying with the environmental laws. Despite the efforts made, CSR was not a huge success. The fourth stage started in 1980 and lasted till August 2013. In this era, the conventional methods of CSR were being replaced by a sustainable business strategy. At this time the country was experiencing Liberalisation,

Privatisation, and Globalisation (LPG) which helped in the boosting up of the economy. The prime objective of the government was to improve the country's growth concerning the public, which led to a dynamic shift of the Indian firms which increased their growth and allowed them to allocate money for social causes. This contribution led to a necessity for a CSR to be codified which led to the enforcement of CSR law. With Globalisation, the country had witnessed significant investments from the overseas markets in the manufacturing and production sectors, leading to more stringent environmental and labor laws. These changes persuaded the legislatures to draft the CSR law. With the revamping, the legislatures were convinced with the alterations made in the economy which led to the further modifications of CSR statutes.

The government of India had made CSR spending mandatory for certain firms on 29th august 2013. Intellectual and social capital were encouraged in phase V by the government. These strategies directly affected the production processes, making sure that enterprises complied with the environmental and labor laws. This enhanced corporate sustainability developed human capital; it had become a way to adapt fair social practices. Stage V aims to realign the businesses and its main mission aimed at improving society's well-being. This model was considered to be the sustainable development model primarily because even if the entities are sharing some percentage of the profits, they make it is transforming the core businesses and also the society as a whole. This all leads to the magnification of the positive impact of industrialization in society.

RATIONALE BEHIND CSR LAW

CSR is primarily a major corporation's strategy where the more prominent a company is, the more is the obligation for its industries and society to define ethical and environmental values. CSR has been observed as a crucial factor by numerous firms to build up their corporate image in the belief that since they feel morally accountable to client's dealings with the companies. CSR initiatives may play a prominent role in maintaining public relations in this respect. There have been numerous areas in which the development towards CSR has impacted. In contrast, several firms have taken steps to enhance their organization's environmental stewardship and

set up machinery. Initiatives to decrease dependence on unlawful employment practices such as child labor and slavery have also been made in the production process. Whilst larger enterprises typically have CSR initiatives, small companies are also involved in CSR via smaller agencies like donations to local organizations and funding social activities. (The contribution concerning the philanthropic activities that the company makes sums up to a total of three fourth of the monetary donations made, CSR in this case makes it very feasible for the individual philanthropist to make donations up to 25 % from their share of profits. This influences the employees in a positive way that their hard work is being converted into donations which benefits the non-profit organizations and also indirectly the employees are bringing about the change in the social cause. In 2019, companies gave \$26 billion in total to non-profit organizations. 28% of the total funds have been allocated to education, 25% have been allocated to health care and social services, and 16% to community and economic development initiatives. With the execution of the new organization law from April 1, 2014, India has turned into the main country across the globe with enacted corporate social Responsibility (CSR) and a spending edge of up to \$2.5 billion (Rs15,000 crore). The new law has made this proviso compulsory that all organizations, including foreign firms, with a minimum net worth of Rs 500 crore (\$83 million), turnover of Rs1, 000 crores (\$166 million), and net profit of a minimum of Rs 5 crore (approx \$800,000), spent essentially 2% of their benefit on CSR. According to the survey held by the industrial sector, around 8,000 organizations will fall into the ambit of the CSR provisions and this would convert into an expected CSR spending of \$1.95 billion to \$2.44 billion. The percentage of spending will increase because of the primary reason that the increase in economic growth leads to further increase of companies' profits².

CSR: RESPONSIBILITY OF THE BOARD

²Anupam Singh & Dr. Priyanka Verma, 'From Philanthropy to Mandatory CSR: A Journey towards Mandatory Corporate Social Responsibility in India' (SSRN, 11 December 2014)

<https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2532824> accessed 25 December 2021

Corporate social responsibility is defined under *Section 135 of the Companies Act, 2013*³. Under this act, it states that,

(1) Every company having a net worth of rupees five hundred crores or more, or turnover of rupees one thousand crores or more or a net profit of rupees five crores or more during three shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

Under *subsection 3 of section 134*⁴ of this Act, it is mandatory to disclose all the composition regarding the CSR committee made in a company. The company is been obliged to take all the recommendations made by the CSR committee. The company's board must approve the CSR policy and disclose all the contents of such policy and information should be displayed on the company's official website. Also, the company has to ensure that all the activities included in the CSR policy are diligently performed. Any contravention, in not complying with this section, the company must specify the reasons for not spending the amount mentioned in this section. Any proceedings regarding this matter may be presented before the National Company Law Tribunal (NCLT). The average net profit required in this section is calculated according to the provisions of Section 198 of the Companies Act, 2013⁵. The composition of the CSR committee- three or more directors with at least one independent director, they are responsible to regulate all the CSR policies of the company every year, recommend suggestions and the amount to be spent on CSR activities, every year the CSR committee needs to update the board of the company with new policies and recommendations.

LATEST AMENDMENT IN SECTION 135

- All the philanthropic activities made by the company regarding the PM CARES fund will be included as a CSR activity.
- Any company indulging in Research and development program (R&D) and having a committee for the same (for example, developing a new vaccine, drug, or any other

³ Companies Act, 2013, s, 135

⁴ Companies Act, 2013, s, 134

⁵ Companies Act, 2013, s, 198

technological advancements in the field of medicine.) Companies engaging in such activities under the pursuance of a normal course of business can claim these as CSR activity for three consecutive financial years.

CONDITION: The Company will pursue this R&D program in collaboration with any of the institutions or organizations mentioned in item IX of schedule VII of the Act (which are AYUSH, ICMR).

CSR INFLUENCE ON EMPLOYEES

CSR can be extensively characterized as corporate activities resolving issues that are past the extent of its restricted financial, specialized, and legitimate prerequisites (*Aguilera et al., 2007*; *Carroll, 2008*⁷). The emphasis on shareholder interactions makes it conspicuous why personnel affects CSR strategy as a shareholder as a whole. Fundamentally, employees in an organization act as a catalyst for any social change as they become the primary contact of the corporation. Employees serve as an influential and revolutionary change in any corporation, the rationale being they stimulate the key change to adapt to a new change (*Aguilera et al., 2007*⁸). Furthermore, environmental policy exhibits that employees' support is important to get powerful CSR initiatives and policies (*Ramus and Steger, 2000*⁹). Additionally, employees as a

⁶ Ruth V. Aguilera, Deborah E. Rupp, Cynthia Williams, and Jyoti Ganapathi, 'Putting the S Back in Corporate Social Responsibility: A Multilevel Theory of Social Change in Organizations' (*Research Gate*, January 2004) <https://www.researchgate.net/publication/237420061_Putting_the_S_Back_in_Corporate_Social_Responsibility_A_Multilevel_Theory_of_Social_Change_in_Organizations> accessed 25 October 2021

⁷ Archie B. Carroll, 'A History of Corporate Social Responsibility: Concepts and Practices' (*Research Gate*, January 2008) <https://www.researchgate.net/publication/282746355_A_History_of_Corporate_Social_Responsibility_Concepts_and_Practices> accessed 25 October 2021

⁸ Ruth V. Aguilera, Deborah E. Rupp, Cynthia Williams, and Jyoti Ganapathi (n 6)

⁹ Catherine A. Ramus & Ulrich Steger, 'The Role of Supervisory Support Behaviors and Environmental Policy in Employee 'Eco initiatives' at Leading Edge European Companies' (*Research Gate*, August 2000) <https://www.researchgate.net/publication/273077200_The_Role_of_Supervisory_Support_Behaviors_and_Environmental_Policy_in_Employee_'Ecoinitiatives'_at_Leading_Edge_European_Companies> accessed 25 October 2021

shareholder group, assess, judge, and evaluate CSR projects and activities (Rowley & Berman, 2000¹⁰; Rupp et al., 2006¹¹; Wood & Jones, 1995.¹²)

MECHANISMS FOR CSR INFLUENCE ON EMPLOYEES

Organizational Identification

Organizational identification can be characterized as the extent to which a corporation can define its attributes. (Ashforth and Mael, 1989; Pratt, 1998). As ascertained by the social identity theory, individuals will generally resonate with the organization when they observe that (a) it is exceptionally esteemed and has an appealing reputation and image; and (b) Organisational identity can improve individuals' self-esteem (Ashforth and Mael, 1989; Pratt, 1998; Tajfel and Turner, 1985). Social identity theory answers the question of why real company workers care about CSR drives created by organizations. Initially, CSR activities disclose an organization's character. Furthermore are –not just central and moderately encounter yet in addition regularly more particular than other corporate activities (Sen and Bhattacharya, 2001: 228). Workers are probably going to relate to socially responsible organizations, particularly when organization esteems match a personnel's 'self-personality. Besides, socially responsible firms will quite often acquire positive public notoriety (Fombrun and Shanley, 1990). Employees could feel proud to have a place with, and work for, an organization that is recognized for its good commitment to society (Brown and Dacin, 1997; Turban and Greening, 1997). Employees

¹⁰ Tim Rowley & Shawn Berman, 'A Brand New Brand of Corporate Social Performance' (Research Gate, December 2000) <https://www.researchgate.net/publication/238431120_A_Brand_New_Brand_of_Corporate_Social_Performance> accessed 25 October 2021

¹¹ Deborah E. Rupp, Jyoti Ganapathi, Ruth V. Aguilera, & Cynthia Williams, 'Employee reactions to corporate social responsibility: An organizational justice framework' (Research Gate, June 2006) <https://www.researchgate.net/publication/227533309_Employee_reactions_to_corporate_social_responsibility_An_organizational_justice_framework#:~:text=The%20model%20in%20Rupp%20et,as%20job%20satisfaction%20and%20performance> accessed 25 October 2021

¹² Jean-Pascal Gond, Assaad El-Akreimi, Jacques Igalens, & Valerie Swaen, 'Corporate Social Responsibility Influence on Employees' (Research Gate) <https://www.researchgate.net/profile/Assaad-El-Akreimi/publication/267962026_Corporate_Social_Responsibility_Influence_on_Employees/links/54cf3ca40cf29ca810fdc2e2/Corporate-Social-Responsibility-Influence-on-Employees.pdf> accessed 25 October 2021

would like to work for a person who lends their helping hand towards social welfare rather than for a devastated individual who simply focuses on himself¹³.

Social exchange

Other than organisational identification, personnel's responses to CSR activities might be administered by collaborations, defined as a pattern of mutually contingent exchange of gratifications (*Gouldner, 1960*). Social exchange can take various structures within organisations. Structures range from individualized, restricted, and calculative ways to approach – lined up with the economic model of exchange – (*Blau, 1964; Homans, 1961*) to a collective, indirect, and socialised exchanges– like anthropological records of social exchange (*Malinowski, 1922; Mauss, 1954; Bearman, 1997*).¹⁴

CSR INFLUENCE ON ORGANISATIONAL IDENTIFICATION AND SOCIAL EXCHANGE

Corporate CSR activities impact personnel's behavioral aspects and personality to the degree these shareholders as a whole observes and assess them (*Barnett, 2007; Bhattacharya and Sen, 2004*). As needs are, the perspective of workers of CSR is the central variable intervening the impact of CSR activities on the personnel (*Rupp et al., 2006; Schuler and Cording, 2006*). Carroll (*1979*) distinguished four degrees of economic, legal, ethical, and discretionary corporate social responsibilities. Several Researchers held that managers, customers, and additionally employees ' views of CSR would be organized by these four classes (*Aupperle, Carroll, and Hatfield, 1985; Maignan and Ferrell, 2001; Peterson, 2004*).¹⁵

PERSON-ORGANIZATION: CONGRUENCE BETWEEN EMPLOYEES AND COMPANY

The person-organization (P-O) fit alludes to the parallelism amongst the employees and organizational characteristics and qualities (*Kristof-Brown, Zimmerman, and Johnson, 2005; O'Reilly, Chatman, and Caldwell, 1991*). *Kristof (1996)* characterized the P-O fit as –the

¹³ *Ibid*

¹⁴ *Ibid*

¹⁵ *Ibid*

congruence among individuals and associations that happens when: (a) one entity gives different necessities, or (b) they share comparatively similar key attributes, or (c) a combination of both. Identification clarifies how imminent workers and customers respond to CSR (*Brown and Dacin, 1997; Sen and Bhattacharya, 2001; Turban and Greening, 1997*). It impacts the obligatory personnel particularly on the grounds that CSR directly influences social identification in fields of, for instance, a corporation's notoriety and external environment showcases, and workers 'self-esteem (*Ashforth and Mael, 1989; Dutton and Dukerich, 1991; Riordan et al., 1997; Tajfel and Turner, 1986*). CSR acts as a technique by which it can regulate the standards of reciprocity among organizations and their workers (*Blau, 1964; Gouldner, 1960; Molm and Cook, 1995*). Fundamentally, by socially and genuinely advancing employer-employee relationships, CSR can invigorate reciprocal behavior through pro-social or citizenship behavioral aspects in the work environment. Furthermore, as per the process of gift and counter-gift (*Blau 1964; Mauss 1925*). Company's employees might uphold a corporate choice to lend their hand for a reason which augments contributions in the philanthropic activities. Third, the advancements inter-organizational social exchanges between corporate shareholders (*Brickson, 2005*), CSR can trigger workers 'practices that recreates those trades at the intra-organizational level.¹⁶

CASE STUDY: HOW HAVE CSR PRACTICES IMPACTED THE COMPANY NESTLE

It has been observed that over the years, CSR has been a positive influence on the building the relationship between the employees and the company, the trust that and the reputation a firm brings in by exercising philanthropy, which is beyond just abiding by the legislation has made Nestle, particularly a successful enterprise. Nestle started around 1921 and had its major operations taking place in developed foreign countries. Nestle was established as one of the world's largest renowned food and beverages companies. Over the last 130 years, this company has never seen a fall, it was around the 1960s when nestle wanted to enter the Indian market. India back then was a victim of acute poverty and had just got back on its feet this made nestle induce some major changes in their marketing and selling styles. At first, nestle

¹⁶ Jean-Pascal Gond, Assaad El-Akreimi, Jacques Igalens, & Valerie Swaen (n 2)

did not come to contribute to the CSR activities. But indulging in such CSR activities, indirectly helped the peasants and milk suppliers living in India at that time. CSR activities played a vital role in winning the market trust and the trust of poverty-stricken milk suppliers and farmers, it enhanced the reputation of such companies, and this reputation would eventually help in bringing new business opportunities. The circumstance when nestle entered the Indian economy was when India was in separate need of foreign investors as India was in a deplorable condition, there was only one cow each farmer could afford that too for their consumption, secondly, peasants and milk suppliers typically owned less than five acres of land which poorly irrigated and had infertile soil. Farmers were deprived of any basic equipment for farming or even telephones, transportation, electricity, or medical care. With Nestle making investments in the village Moga it created employment for 75,000 farmers and milk suppliers in the region. Over time with the advancement in the profits the company would make, nestle started investing in CSR activities, which would result in better market opportunities as this company did not particularly focus on just meeting the requirements mentioned under the law but it created a shared value way higher than the standard level of philanthropy. Business happened to flourish over time and strengthened its supply and chain management, tax revenues, foreign investments as well as humongous charitable contributions. This case study developed three types of hypotheses such as H1 - the investments made by Nestle developed a sustainable business model which would improve the contributions made for CSR activities. Nestle also created a shared value creation model which would make employees and customers loyal to this enterprise. The second hypothesis which was highly accepted, H2- the surplus made by Nestle was equally enjoyed by the company as well as underprivileged people. The implementation of CSR practices, it was observed that CSR and Nestle had a positive impact and it was directly proportionate to the market shares, customer trust, and satisfied employees. Thirdly, the H3 hypothesis proposed that increased market share and satisfied customers are major motivations and act as driving forces for implementing CSR and creating a true value for the enterprise.

CONCLUSION

The company seeks at reconciling short-range and long financial, social and cultural concerns. Being at its finest and an innate physiological endeavour even though it has defined objectives and realistic objectives. This article is empirical study research that aims to give insight into CSR, its evolution, rationale, and practices adopted by organizations. There have been enormous changes in the role of the business sector worldwide. The growth of poor nations has taken a major turn-on financing and new businesses. The organizations of the 21st century will have no real option except to follow CSR. CSR policies become increasingly crucial for whatever business's existence as a result of globalization and liberalization. Numerous corporations have challenged the notion of required financial leverage and disclosure. This recommended obligatory 2% CSR expenditure is indeed desirable for 2 purposes: one seems to be insignificant in terms of all its execution and indeed the second is more accurate in increasing social expectations and the adherence of spontaneous rules and procedures. Having followed Nestle's lead, commercial enterprises may produce core understanding by embracing the CSR success motto. The Concept of CSR will aid in the development of commercial companies, the advancement of civilization, and the improvement and flourishing of all segments. As a result, it could be assumed that by implementing CSR practices, commercial firms would be effective in improving their competitive edge and brand reputation. By establishing required CSR acceptable norms to the business community, the Government of India (GOI) must first persuade firms that this is not a levy upon enterprises; rather, businesses who intentionally implement mandated CSR norms would indeed be officially acknowledged, and their payroll tax will be reduced. Furthermore, the Government of India (GOI) must ensure businesses that there has been no considerable pressure or disruptions in the design and execution of their policies.