Corporate Social Responsibility (CSR) In India: Origin, Evolution and Relevance in the Post-Pandemic Era

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Abstract

Discussions about what corporate governance aims at and how companies should cope with existing socio-economic difficulties and problems have gained traction in recent years, particularly in the aftermath of the COVID-19 crisis. The COVID-19 pandemic has undoubtedly affected the economy of many countries. With the actions of governments imposing lockdowns and curfews that were to tackle the spread of contagious COVID-19, the reactions followed which had a substantial impact on the economies of many countries and thus the socio-economic development of many countries was at a halt. Such a situation makes understanding the evolution of CSR of utmost importance to freshly initiate discussions on CSR and what role can it further play in society. The article attempts to trace the origin the evolution and development of CSR over the course of time and to initiate fresh discussions on the importance of CSR in the post-pandemic era where the economies as well as companies are slowly opening up and trying to restore themselves to the pre-pandemic era. With many people arguing that the mandatory CSR should be done away with due to the effect of COVID-19 pandemic on companies and the resource deterioration due to the same, we also find many people asserting that more companies should be incentivized to enter the domain of CSR. The article strives to take every possible nuance relating to the importance of CSR in society and its evolution into consideration and to come out with probable solutions regarding the current deliberations and discussions on CSR.

Keywords: Origin and Evolution of CSR in India, Corporate governance and its theories, Phases of CSR development in India, Impact of COVID-19 pandemic on Indian Companies, Role and relevance of CSR in the post-pandemic era.

Introduction

"A company should have in its DNA, a sense to work for the welfare of the community. CSR is an extension of individual sense of social responsibility. Active participation in CSR projects is important for a company." - Ratan Tata In India, people often have perspectives that one should often strive to return back to the society which has helped him develop and grow in numerous ways. On similar lines, it should be noted that in a country like India where religion is an important societal concept, the notions of contributing to the betterment of society exist in the religious practices followed by people since ancient times. The Sikh religion encourages its adherents to donate one-tenth of their earnings to charity, a practise known as *'Dasvandh'*. In Hinduism, merchants and those with a lot of money and resources contributed to the destitute and built temples and night shelters for them to stay in. In Islam, there is also a concept known as *'Zakaat'*, which dictates that a specific amount of one's profits must be donated to the poor. Conclusively, what we see here is that all these religious notions go on to contribute to the progress and betterment of the society. Thus, the practice of promoting the social responsibility among people to help their society progress in socio-economic terms was known to the people way before the mighty corporations and the concept of Corporate Social Responsibility came into the limelight.

What we know today as Corporate Social Responsibility, as a concept, has been into discussions in the modern world for various reasons. Since its inception as a concept in various lawbooks and statutes, people are keen to know about the nuances of the concept. The very debate whether the companies should strive to inflate the profits of its shareholders or to strive to develop all the stakeholders is constantly into the mainstream discussions. To put it simply, since the 1970s, companies have contested, whether they should maximise shareholder value or stakeholder welfare when it was first recognised that the company should look beyond just shareholders and should help society develop along with the company. It is a well-established fact that the business organizations are a part of society. We often tend to think that the business organizations make use of the resources that society provides them and it is because of this fact that they should be made to have some responsibilities towards the society which is helping them proliferate in size. The organization should not just be an association that helps its shareholders/owners grow, ignoring the society that is helping it in numerous ways, it should help the organization develop an inclination to hand out some of its earnings to the society in the form of various social activities. As an engine for social progress, CSR helps companies live up to their responsibilities to the society. It helps the general people in a society develop in socio-economic terms and helps companies gain goodwill which is undoubtedly a very important asset for the company in the world dried by consumer awareness.

Methodology and Objectives

The research article is based on the secondary data collected and scrutinized from various research articles and papers, newspapers, blogs, statues, laws, books and reports.

The objective of this research is to trace the origin and evolution of CSR for it to enter a new arena of discussions in these contemporary times. The article also strives to determine the role and relevance of CSR in the post-COVID pandemic era where the discussions on social responsibility of the companies is into continuous into debates and discussions.

Literature Review

The concept of CSR is a very vast concept to grasp. Various scholars and jurists, at various times, have tried to explain the concept of CSR in various aspects and prisms. A very basic definition of CSR would be that the CSR is a self-regulatory business model that enables a firm to be socially accountable to itself, its stakeholders, and the general public. That is the CSR (Corporate Social Responsibility) is an organization's ongoing commitment to integrate social, environmental, and economic concerns into its operations.

The concept of Corporate Governance has gained importance while discussing the evolution of CSR in contemporary times. The concept of CSR as we know today, didn't develop overnight. The concept of CSR has undergone a slow and steady development in phases and rounds of progress with many new aspects of the concepts being found every day. The concept of CSR has undergone a journey from a mere moral obligation to a legal obligation that now binds companies in many countries. Companies are also looking at CSR from a variety of prisms and parameters, which is not only shaping their methods of Corporate Governance, but also their attitude towards society. In the past decade the search for these answers led to the development of the concept corporate social responsibility (CSR). n many respects, it is the outcome of professionals' practical attempts to discover solutions for organisations to cope with their expanded roles and obligations in contemporary society. To organise the model presentation, the notion of CSR is articulated in a brief exposition, resulting in a generic CSR management model.

CSR is one of the recent umbrella brands to acquire prominence. This label is being used to address many of the rising challenges. Human rights, health, renewable energy, child labour, and eco-efficiency are just a few of the themes and subjects covered by CSR. It is perceived favourably, yet it is frequently not incorporated into an organization's primary business. Despite continued hopeful dialogues, it is frequently regarded insufficiently urgent in the face of competitive pressure, shifting expectations, or economic downturn. CSR is sometimes considered as a notion that is too broad and intricate to be put into effect in business. Finally, shelter is frequently sought in activities such as collaboration, emission reduction, stakeholder communication, reporting, and the implementation of a new generation of standards. After a decade of varied projects, it is time to consider whether these actions have significantly contributed to the desire for new methods, concepts, and business strategies. Based on existing study and practise findings, the conclusion is that CSR is mostly a future promise.

Corporate social responsibility (CSR) is a buzzword topic all around the world. One of the major issues that businesses confront in today's globalised environment is integrating CSR into their operations. Stakeholders expect much more from businesses than just chasing development and profits. In India and other emerging countries, CSR has gone a long way. Corporates have clearly demonstrated their potential to make a big difference in society and improve the general quality of life, from responsive actions to sustainable projects. This article examines the notion of CSR, its aspects, and its importance in emerging economies, with an emphasis on India.

The Concept of Corporate Governance

Governance refers specifically to the set of rules, controls, policies, and resolutions put in place to dictate behaviour of a corporation, i.e. corporate governance is defined as a combination of systems, mechanisms and organisations aimed at effectively monitoring and controlling a company's strategies, operations, and endeavours. "Effective corporate governance ensures that long-term strategic objectives and plans are established, and that the proper management and management structure are in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the corporation's integrity, reputation, and accountability to its relevant constituencies." Corporate governance is more than just a matter of regulatory compliance; in fact, it enables the organisation to be more effective and profitable through improvement of decision-making skills.

The concept of corporate governance, as we know it today, didn't exist back then. It has evolved through the years with time and advancements in corporations. The development of corporate governance can be traced through various theories like Agency theory, Stewardship theory and Stakeholder theory.

Theories of Corporate Governance

Agency Theory

Michael Jensen and William Meckling in the year 1976 came up with the Agency theory in a successful attempt to develop the theory propounded by Alchian and Demsetz in the year 1972. The Jensen-Meckling theory of the agency is said to be the founding stone of the agency theory of corporate governance. The Jensen-Meckling theory defines the relationship of agency as "a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent." In legal terms, a person who has been legally authorised to act on behalf of another person or business, such as representing a client in negotiations and other contacts with third parties, is known as an agent. Thus, according to this theory, the principles of the corporation (shareholders) hire agents (directors) to run the corporation.

Now, the shareholders of a corporation are those who provide capital, control the firm's shares and exercise voting rights, and decide on the company's mission and ideals. The shareholders appoint the Board of Directors to act as their representatives/agents in the management and administration of the corporation. The link between the principal (shareholders) and its agents (management) in a firm is clarified by agency theory, in which the principal elects the board, which elects the management team to carry out frequent daily business decisions. According to the agency theory, shareholders expect agents to act and make decisions in the best interests of the principle. The agents, on the other hand, may not always make decisions that are best for the principals. This phenomenon can broadly be understood as an Agency problem wherein the core issue or problem is how to make sure that an agent acts in the best interest of the shareholder. These Agency problems often lead to Agency Costs. The agency theory provides one important feature of modern day corporations. The separation of ownership and control in the business is a major aspect of the agency theory. While on one hand shareholders who raise the capital of the corporation are given the status of owners of the corporation, the directors and managers on the other hand, are given with the task of managing and controlling the corporation. This separation between management and ownership not only brings in rewards and punishment, but the concept of accountability in the corporation also arises in order to correct the priorities of principles and agents.

Stewardship Theory

Stewardship Theory is defined by Davis, Schoorman & Donaldson as "a steward protects and maximizes shareholder wealth through firm performance, because by so doing, the steward's utility functions are maximized". According to this theory, the management of the corporation act as a steward for the corporation. Steward, here means a person who looks after the management, runs the corporation and is entrusted to do the same by the shareholders. This theory takes the approach that the board of directors and managers, acting as stewards, are more motivated to act in the best interests of the corporation rather than their own. Management is better to take place at the hands of the board of directors and managers as they have access to confidential information and are better aware about the company and thus would be able to take better informed decisions for the company.

The shareholders entrust the management of the company with directors and managers and they have been given a substantial autonomy to act for the long-term benefit of thee company. Stewardship Theory emphasises the role of senior management as stewards, integrating their aims as part of the organisation, rather than the perspective of individuality. Thus, we see no divergence of interest in Stewardship theory. The executives and managers act to make sure that the interest of the company is prioritized and that the returns to the shareholders are maximized at the same time. To ensure that this works, we frequently observe that while executives work to improve the organization's financial performance and shareholder returns, they are frequently incentivized by various mechanisms such as ESOS, ESPS, high bonuses, and compensations to ensure that the financial and cooperative relationship between the stewards and shareholders remains strong. This reduces the Agency costs that a company incurs due to the absence of divergence of interests of management and ownership. But, there are some limitations to the theory of Stewardship as well. What we see here is that this theory paints a very benevolent and kind role of stewards which sometimes may not be a reality. Another drawback as of the stewardship theory of corporate governance is that it takes into account only the interest of shareholders and employees and not the interest of other stakeholders in the company.

Stakeholders Theory

The stakeholder theory, which is attributed to Freeman (1984), has its basis on the fact that the corporation must develop and proliferate taking into consideration the interest of other interest groups besides the shareholders and management. Since the publication of Freeman's book, 'Strategic Management: A Stakeholder Approach (1984)', there has been a belief that businesses should endeavour to defend the interests of all stakeholders, not just shareholders. In this context, an interest group is defined as 'any group or individual who can affect or is affected by the achievement of the organization's objectives.' This implicitly means that the corporation should strive to develop not only itself but also make sure that the community and other stakeholders develop in socio-economic

aspects as well. Stakeholder theory argues that the stake holders in societies include organizational bodies, political groups, trade associations and unions, associated corporations, communities, the general public.
This theory not only ensures the proliferation of business in terms of finance and economy, but also helps it gain people's trust and consequently goodwill in the market. Stakeholder theory posits that the essence of business primarily lies in building relationships and creating value for all its stakeholders. With many features that make this theory compelling for the modern corporations, there are three key features of this theory. Firstly, managers and directors should, after recognising and monitoring all the legitimate stakeholders of the company, make a fair decision after taking interests of all those legitimate stakeholders into account. Secondly, the directors and managers should strive to avoid the divergence of interest between various stakeholders of the corporation and if there is any divergence of interest, they need to resolve it by effectively communicating with concerned stakeholders. Thirdly, managers and directors should strive to maintain a friendly and benevolent relationship between the management, shareholders and other stakeholders of the company. Many jurists believe that the stakeholder's theory is the laying theory of what we know today as the Corporate Social Responsibility. If we examine both the concepts on theory face value, we can conclusively say that one is the subset of the other given the nature of both the terms. Implicit in stakeholder theory is the notion that, it is advantageous for firms to engage in CSR activities that are seen by shareholders to be vital for the community. Thus, we can accurately assert that the stakeholder's theory helps corporations in tapping the potential CSR activities to engage in.

Phases of Development of CSR

The First phase: The main drivers of societal development, during this period, which lasted until the late 1800s, were the philanthropists and people who engaged themselves in charity. Religion, traditions, cultures, and family values were major influences on social activities throughout this time period. Richs businessmen and merchants spent some portion of their income towards building temples and religious institutions which were seen back then as an important aspect of the society. Along with the religious institutions, charity and philanthropy was also witnessed in education and healthcare sector where these rich merchants built schools, hospitals, educational and health institutions and also institutions of community development which served the society and helped it progress. They also helped people during famines and epidemics by opening up their granaries for the poor and hungry. With the arrival of colonial rule in 1850s, the approach towards social responsibility witnessed a change.

The Second Phase: The second phase of development of CSR ran parallel to the independence movement. Gandhiji's words on trusteeship, *"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"*. What Gandhiji indicated here is that he urged the industrialist to act towards overall development and the socio-economic building of the nation. Mahatma Gandhi labelled the Indian Companies as being 'temples of modern India.' Due to such motivation, there was an establishment of many trusts for building schools, colleges and many training and scientific institutions.

The Third Phase: The emergence of Public Sector Undertakings (PSUs) was seen in the third phase of development of CSR in India. As it was the period of post-independence, the public sector was given more importance than the private sector. The public sector was seen as the prime driver of development and it was contended that the main reason behind the establishment of PSUs was to ensure the equitable allocations of resources to all parts of the society. The period was described as an 'era of command and control' as there were stringent legal rules and regulations surrounding the activities of the private sector and there was a prevalence of licence raj which left the public sector the only sector which was supposed to be involved in contributing society. But, over the period of time, PSUs were over-burdened and there was a gradual shift in terms of expectations from the public sector to the private sector. As a result, legislation addressing corporate governance, labour, and environmental issues for private players was enacted.

The Fourth Phase: This is a phase where the development of CSR took place at a very rapid rate. It is in this phase that the private sector of the country changed its point of view towards CSR and started investing more resources in CSR. It was also because of the LPG reforms which the government of India introduced in India in 1991. The private sector was liberated and more incentivized towards building a sustainable surrounding beyond the company. As more industries were privatized in the process, more investments started coming in the CSR funds of the company. Due to globalization of the Indian market, more companies started investing in India and thereby CSR activities increased. However, because CSR was still regarded a moral obligation by companies, there was no explicit provision for it in the then-passed Companies Act 1956.
Recognizing the importance of having a comprehensive statutory framework for CSR, the Government of India, in the year 2013, brought up section 135 in the act.

Relevance of CSR in the Post-Pandemic Era

Since its declaration as a pandemic by WHO on 11th March 2020, the impact of COVID-19 pandemic on the world has been unprecedented. Almost every country was hit with the waves of the COVID-19 patients, the phases of lockdowns and curfews were becoming the new normal and hospitals being stormed with patients requiring critical care. As the nature of the virus was new and there was a lack of awareness among the people about the nature and the virus itself, the efforts of the governments to make people aware and cautious about the disease right from a metropolitan city to a rural village increased to a substantial level. The lack of vaccine in the initial phases of the pandemic also added to the turmoil. As a result of stringent lockdowns and janta curfews, the nations were closed down which had a negative impact on the economy. Shops and markets were shuttered, people's purchasing power fell, many individuals lost their jobs and livelihoods, and some even went bankrupt due to anxiety about the future of the enterprises. The impact of lockdowns and pandemic on Indian businesses was immensely negative with many small-scale industries either shutting down or merging with some bigger corporation to protect their existence. Low consumer demand, supply variations, and shutdown restrictions have impacted Indian businesses, forcing them to walk a tightrope between recovering production systems and keeping their staff safe while dealing with operational and financial challenges.

Due to these difficult times, many companies and scholars are of the view that it’s high time and that the government should scrap mandatory CSR for a certain class of companies. According to an official data report presented in Parliament, India Inc's CSR spending for FY 2020-21 dropped dramatically to Rs. 8,828.11 crore, compared to total spends of Rs. 20,150.27 crore in FY 2018-19 and Rs. 24,688.66 crore in FY 2019-20. The research also pointed out that, in contrast to the 22,531 companies that invested in CSR activities in FY2019-20, just 1,619 enterprises did so in FY2020-21. According to their opinion, they believe that the companies that have a strong hold on the market and are less vulnerable to the negative effects of COVID-19 are voluntarily contributing to the societal development of the society. Many companies are spending substantial amounts towards Environmental, Social and governance (ESG) practices themselves to mitigate the effect of COVID-19 on the general public and that mandatory CSR is a financial burden that these companies would have to carry even after the their operations and activities being restrictions imposed to alleviate the impacts of COVID-19.

But, there is a problem with this notion. If the corporations are not held socially responsible, it can lead to disasters. Cases like, M.C. Mehta v Union of India, Bhopal gas leak case or even the Visakhapatnam gas leak (also referred as Vizag gas leak case or L.G. Polymers gas leak case) of 2020 highlight the need of keeping checks and balances on operations and activities of corporations. Such cases also highlight the importance of keeping companies committed towards their societal responsibility. The pandemic has also had a positive impact on the methods of functioning of businesses. A lot of companies made it possible to meet with the raising demand of sanitizers, masks and other commodities that were essential to help people stay safe when the vaccines were still under development stages. The role of CSR after the pandemic will not only be subject to narrow spectrum issues, more issues would be added. Companies would be required to design a new algorithm to reimagine their roles in society, which would address issues such as company development, autonomous stakeholder integration, and shared strategic principles that generate a favourable return on investment. The spending in CSR would now range from issues like migrant crisis, malnutrition, vaccine awareness, eradication of illiteracy and poverty and many more socio-economics being added to its spectrum. The COVID-19 pandemic has affected track of achieving Sustainable Development Goals (SDGs) in the country. CSR can be an effective tool to bring the effort of attaining SDGs back on track. Government of India is duly issuing guidelines for the companies who spend a certain amount in CSR. Corporates, today are trying to strike a balance between the health care requirements of the country and their traditional focus on CSR. With many corporations contributing to the vaccination drive, we see that many other corporations have put in funds for development of vaccination.

Thus, we can say that corporates have adopted quickly to these changed modes of social responsibilities and activities, and it would be better for a society if corporates help the society progress and come out of this crisis.

Conclusion

The legal and societal importance of CSR will grow in the aftermath of the increase in COVID-19 patients and mutant viruses that pose a threat to the planet. COVID-19 pandemic has brought substantial changes in the mode of functioning of the companies and has helped companies learn to adapt to the new modes of functioning. The pandemic has also brought about unprecedented risks for the companies as they are mitigating the negative effect of the pandemic while maintaining the stakeholder value. It is important for the governments to make arrangements and be prepared for the threat posed by this virus. At the same time, it becomes the utmost responsibility of businesses to help the community sustain and the best way they can contribute to the society is by engaging in CSR activities. Rather than scrapping the mandatory CSR, efforts should be made to bring more companies in the ambit of CSR. Efforts should be made to help companies understand that CSR is not a financial burden anymore, but rather a string that holds society and the companies together.

The economy of India has been crippling after the hangover of the COVID-19 second wave of patients and lockdowns since the first wave of COVID-19 patients and throughout the second wave of COVID-19 patients.

What we need is some kind of an algorithm or mechanism which helps the Indian economy in getting back the pace of societal development to the pre-pandemic level. Any such algorithm or mechanism shall have business organizations as a very crucial and important aspect of sustainable growth and development of the economy as business organizations have helped the economy sustain throughout the pandemic. By making temporary, mobile hospitals to contributing in vaccination drives and from investing in various food and relief drives to spreading environmental and climate awareness, business organizations throughout India have validated their existence, flexibility and adaptability. All these notions go on to validate the interest of corporations in engaging in CSR activities. Every corporation who has helped society in some way or the other has engaged itself in CSR activity, though it does not fall within the preview of companies prescribed under section 135 of Companies Act, 2013. Through these facts, one can easily conclude that the concept of CSR has become an eternal essential element and source for a society to progress. The COVID- 19 has brought to our attention, the corporations' social and environmental participation, allowing for the first time to determine if CSR regulation is a feasible solution to social concerns and economic fairness in these difficult times and in the future. Thus, we conclusively can say that CSR has now become a very important aspect in terms of overall socio-economic development of India and its role would be very crucial in the post-pandemic recovery of the economy.

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